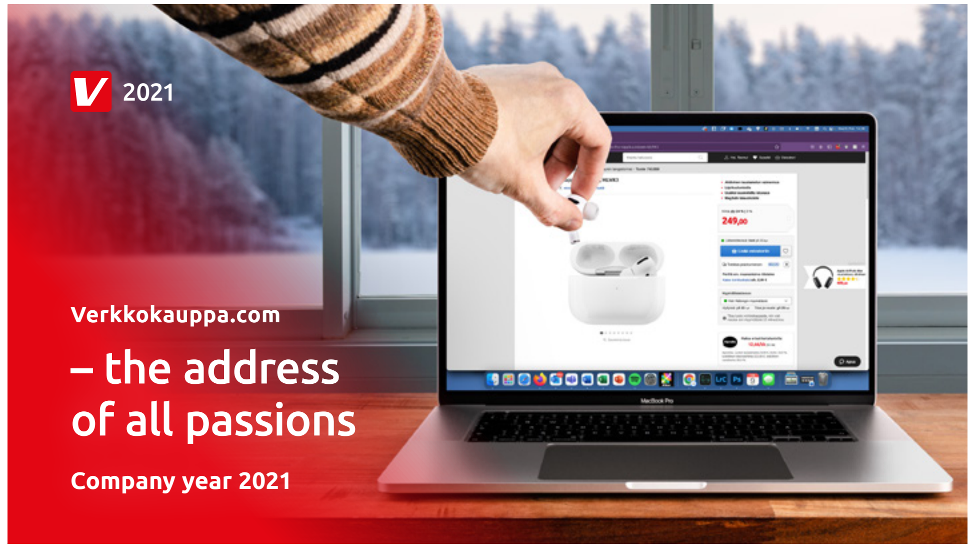
2021

Verkkokauppa.com Oyj

Report of the Board of Directors and Financial Statements 2021

Verkkokauppa.com's Annual reporting 2021

Verkkokauppa.com has published four separate reports, which together form the company's Annual reporting for 2021. The reports are available in Finnish and English, and the reporting components are the Company brochure, Report of the Board of Directors and the Financial Statements, Statement of non-financial information, and Corporate Governance statement including the Remuneration report. The Statement of non-financial information is about company's sustainability work and its progress during 2021. Reports can be read and downloaded on the Verkkokauppa.com website as separate pdf files.



Report of the Board of Directors and Financial Statements 2021

Report of the Board of Directors

Fiscal year 2021 in brief

The year 2021 provided some exceptional circumstances due to the coronavirus pandemic. Verkkokauppa.com's revenue grew by 3.8 percent from previous year, totaling 574.5 million euros (553.6). This growth was driven in particular by corporate sales, which increased by 19 percent, year-on-year. The pandemic further boosted consumer preference for online shopping, and online sales increased by 13.5 percent to previous year. Operating profit increased by 0.7 million euros, totaling 20.3 million euros (19.6), representing 3.5 percent of revenue (3.5%). Comparable operating profit was 20.3 million euros (20.4) and profit for the period 15.1 million euros (14.6). In the comparison period, 0.8 million euros of costs relating to the stock listing process impacted comparability.

Revenue and profitability development

In 2021, Verkkokauppa.com's revenue grew by 3.8 percent year on year, totaling 574.5 million euros (553.6).

The proceeds from consumer financing were 4.3 million euros (3.6) including both interest income and fee income. The credit loss allowance was 0.8 million euros (1.1) at the end of December.

Personnel costs increased in January–December by 2.8 percent to 36.6 million euros (35.6). The increase came mainly from IT as well as from purchasing and assortment handling functions. During the reporting period, other operating expenses increased slightly to 30.3 million euros (28.8).

In 2021, operating profit increased by 0.7 million euros, totaling 20.3 million euros (19.6), representing 3.5 percent of revenue (3.5%). Comparable operating profit was 20.3 million euros (20.4) and profit for the period 15.1 million euros (14.6). In the comparison period, 0.8 million euros of costs relating to the stock listing process impacted comparability.

Earnings per share were 0.34 euros (0.33) in January–December.

Key events during the fiscal year

On 12 February 2021 Verkkokauppa.com announced its refined strategy for the period 2021–2025. There are more about the strategy in “Company strategy and financial targets” section.

On 23 April 2021 Verkkokauppa.com announced its investment to build a world-class automated urban logistics hub in Jätkäsaari, Helsinki

On 21 June 2021, the composition of the Shareholders' Nomination Board was announced comprising **Samuli Seppälä**, Founder of Verkkokauppa.com, representing himself; **Erkka Kohonen**, Senior Portfolio Manager, appointed by Varma Mutual Pension Insurance Company; **Jukka Järvelä**, Senior Portfolio Manager, Mandatum Asset Management, nominated by Mandatum Life Insurance Company Limited and **Arja Talma**, the Chair of the Board of Directors acting as an expert member.

On 29 September 2021 Verkkokauppa.com arranged a Capital Markets Day.

Operating environment

According to the market research institute GfK, the consumer electronics market grew only by 0.7 percent during year 2021 in Finland.

The COVID-19 pandemic affected people's lives throughout the year. Verkkokauppa.com benefited from the pandemic driven online shift in consumer behavior, which was reflected in an increase in online shopping. We believe that our customers' transition to online is permanent. On the other hand, as the pandemic intensified, stores were quieter and travel restrictions affected the export business. The epidemic caused general economic uncertainty in consumers, which contributed to a decline in private consumption. As the pandemic momentarily eased, consumption was directed to services such as restaurants or travel. The pandemic posed challenges to the efficiency of the production chain and logistics, e.g. component shortages and congestion in freight transport. However, we were able to prepare for this by optimizing inventory and sourcing. Economic growth slowed temporarily at the turn of the year, but GDP is expected to grow by 3.0 percent in 2022*.

*source: Economic survey from the Finland's Ministry of Finance, winter 2021: http://urn.fi/URN:ISBN:978-952-367-886-6

Finance and investments

Operating cash flow was 6.7 million euros (16.9). Operating cash flow was impacted by change in working capital. Drivers for change in working capital were mainly growth in inventories when mitigating possible availability shortages, preparing for high season sales and campaigns. Net finance costs were 1.3 (1.4) million euros.
The Company is solid. Liquid assets totaled EUR 20.9 (43.1) million. Interest-bearing liabilities totaled EUR 20.1 (21.9) million including lease liabilities. Interest-bearing net debts totaled EUR -0.8 (-21.2) million. Equity ratio was 21.4 percent (24.5%).

Investments totaled 4.9 million euros (1.4) in January–December 2021. The majority of investments were directed to the Jätkäsaari automation warehouse project. During the reporting period the company capitalized 0.4 million euros (0.6) in salary costs. In January-December, a dividend of EUR 20.1 million (9.6) in total was distributed to shareholders.

Verkkokauppa.com has revolving credit facilities totaling 20 million euros, which have not been utilized.

Financial key figures

	2021	2020	2019
Revenue, MEUR	575	554	504
Opertaing profit, %	3.5%	3.5%	2.2%
Comparable operating profit, %	3.5%	3.7%	2.2%
Equity ratio, %	21.4%	24.5%	23.4%
Gearing, %	-2.2%	-52.2%	-52.1%
Investments, MEUR	4.9	1.4	1.2
Cash flow from the operations, as stated in the cash flow statement, MEUR	6.7	16.9	9.7
Personnel at the end of the period	825	818	758

Personnel

During the reporting period, the number of employees increased, and the total number of employees was 825 (818) at the end of December 2021. This includes both full- and part-time employees.

During 2021, Verkkokauppa.com has focused on developing the competence of personnel, e.g. through supervisor coaching and work community coaching, as well as purposeful improvement of the employer image to attract and engage the right competencies in our work community. The company has invested in the overall well-being of personnel, e.g. occupational safety and the annual well-being survey and the measures related to surveys' results.

Non-financial information statement

Verkkokauppa.com reports on corporate responsibility matters in compliance with legislation on the reporting of non-financial information. The information in this statement has not been verified by a third party. The figures presented in the financial statement and repeated there have been audited. Report can be read and downloaded on the Verkkokauppa.com website.

Information presented in the notes to the financial statements

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

Share trading and shares

Verkkokauppa.com share (VERK) in Nasdaq Helsinki stock exchange in 2021:

No. of shared traded	Share of no. of total shares, %	Total value, EUR million	Last, EUR	High, EUR	Low, EUR	Average, EUR
20,923,735	46.4	170.9	7.13	10.34	6.61	8.17

Verkkokauppa.com Market Capitalization and Shareholders

	31 December 2021
Market capitalization (excl. own shares), EUR million	319.0
Number of shareholders	18,811
Nominee registrations and direct foreign shareholders, %	11.6
Households, %	53.2
Financial and insurance corporations, %	16.3
Other Finnish investors, %	18.8

At the end of the year, the company's largest shareholders were **Samuli Seppälä** (35.4%), Varma Mutual Pension Insurance Company (8.6%), Mandatum Life Insurance Company Limited (4.9%), Ilmarinen Mutual Pension Insurance Company (4.8%) and Nordea Small Cap Fund (3.1%).

On 31 December 2021, the share capital was EUR 100,000 and the total number of shares in the company was 45,065,130 including 323,397 treasury shares held by the company. The treasury shares have no voting rights, and no dividend is paid on them. The treasury shares accounted for 0.72% of all shares. In January-December 2021, the company transferred a total of 29,501 treasury shares as part of the remuneration of Board members and key employees.

The Board holds a valid authorization to issue a maximum of 4,506,513 shares in a share issue by one or several decisions (share issue authorization of 2021). The Board utilized its share issue authorization solely for transferring shares as part of the remuneration of Board members.

More information on Verkkokauppa.com shares and shareholders as well as management shareholdings on the company can be found on investor website.

Flagging notifications

On 22 July 2021, Verkkokauppa.com received a notification in accordance with the Chapter 9, Section 10 of the Finnish Securities Market Act. The notification of major holding was triggered by an option agreement concluded on 21 July 2021 between Rite Ventures Finland AB, a company ultimately controlled by **Christoffer Häggblom**, and **Samuli Seppälä** regarding Verkkokauppa.com's shares, under which Rite has the right to buy a total of 4,400,000 shares of Verkkokauppa.com from **Samuli Seppälä**. The call option is valid until 20 April 2022. As a result of the agreement **Christoffer Häggblom**'s indirect holding of Verkkokauppa.com's shares and votes through financial instruments exceeded the 5 percent threshold and the holding of shares and votes, both direct and indirect, together with the indirect holding through financial instruments exceeded the 10 percent threshold.

Capital markets day

On 29 September 2021, Verkkokauppa.com hosted its first Capital Markets Day in the company's history. During the event, company management presented the road toward a revenue of one billion euros, strategy execution and how the company is capitalizing on the shift to online by leveraging its most exciting assortment as well as company's own technology backbone. In addition, for the first time, CO_2 emissions from Verkkokauppa.com's own activities were disclosed, in which a significant downward trend was seen thanks to energy efficiency measures and transition to renewable energy. A recording of the event and presentation materials are available on the company's investor website.

Long-term incentive plans

Verkkokauppa.com has two share-based incentive plans for the CEO and members of the Management Team, the Matching Share Plan 2018–2020 and the Performance Matching Share Plan 2020–2022. For more detailed information on the share-based incentive plans, see *Note 7.12*.

In March, the Board of Directors of Verkkokauppa.com resolved on a directed share issue without consideration of the payment of share rewards in the first matching period of the Matching Share Plan 2018–2020. The resolution was based on the authorization granted by the Annual General Meeting held on 31 March 2020. In the directed share issue without consideration, a total of 15,000 treasury shares were transferred to five key employees on 2 March 2021.

No new shares will be issued in connection with the payment of the share rewards and therefore the resolution has no diluting effect. On 31 December 2021, Verkkokauppa.com Oyj held 323,397 treasury shares.

Board authorizations

The Annual General Meeting held on 25 March 2021 authorized the Board of Directors to decide on the repurchase of a maximum of 4 506 513 shares of the company.

The Board was authorized to decide upon a share issue, or the issue of shares owned by the company. This authorization is for maximum of 4,506,513 shares. The Board was authorized to decide upon all the conditions of the share isse.

Verkkokauppa.com also exercised its share issue authorizations during the financial year 2021 to transfer a total of 29,501 shares to Board members as part of Board remuneration. The authorization will be valid until the next Annual General Meeting, however no longer than 30 June 2022.

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

Verkkokauppa.com's management team

On 24 August 2021, Verkkokauppa.com announced that the company was strengthening its management team to support strategy implementation and business development. **Jyrki Tulokas** was appointed Chief Technology Officer of Verkkokauppa.com. **Kalle Koutajoki**, Verkkokauppa.com's Chief Sales Officer, was appointed to the new position of Chief Strategy and Development Officer. **Pekka Litmanen** was appointed as Chief Experience Officer (CXO). **Henrik Weckström**, CTO, moved to a new role within the company.

As a result of these appointments, the Verkkokauppa.com Management Team will comprise the following members as of 11 October 2021:

Panu Porkka, CEO
Mikko Forsell, CFO
Miika Heinonen, Logistics Director
Vesa Järveläinen, Commercial Director
Kalle Koutajoki, Chief Strategy and Development Officer
Pekka Litmanen, Chief Experience Officer
Seppo Niemelä, Marketing and Communications Director
Saara Tikkanen, HR Director
Jyrki Tulokas, Chief Technology Officer

Company strategy and financial targets

On 12 February 2021, the company announced its updated strategy and long-term (2021–2025) financial targets. In line with the refined strategy, Verkkokauppa.com is aiming for a revenue of EUR one billion and a comparable operating profit (EBIT) margin of 5 percent by the end of 2025. At the same time, Verkkokauppa.com continues its dividend policy, according to which the company pays an increasing dividend to its owners on a quarterly basis. We regularly report on the progress and performance of the strategy in relation to the strategic goals.

Verkkokauppa.com's vision is to remain a pioneer in e-commerce for decades to come through continuous innovation and development.

Board of Directors

On 4 January 2021 **Mikael Hagman** resigned from Verkkokauppa.com's Board of Directors.

In accordance with the proposal of the Shareholders' nomination committee, the number of Board members was confirmed as seven. **Christoffer Häggblom**, **Kai Seikku**, **Samuli Seppälä** and **Arja Talma** were re-elected for the next term. Additionally, **Mikko Kärkkäinen**,

Frida Ridderstolpe and **Johan Ryding** were elected as new members for the next term.

At the Board of Directors' constitutive meeting held after the Annual General Meeting, **Arja Talma** was elected as Chairperson of the Board of Directors of Verkkokauppa.com Oyj and **Christoffer Häggblom** as Vice Chairperson of the Board.

Board members **Kai Seikku** (Chairperson), **Arja Talma** (Vice Chairperson) and **Christoffer Häggblom** were elected as members of the Audit Committee. Board members **Christoffer Häggblom** (Chairperson), **Kai Seikku** and **Arja Talma** were elected as members of the Remuneration Committee.

Annual general meeting 2021

The Annual General Meeting was held in Helsinki on 25 March 2021. The financial statements for the year 2020 were approved, the Remuneration Report was considered, and the Board members and CEO were discharged from liability with respect to the financial year 2020. It was resolved to pay a dividend of 0.056 euros per share and an additional dividend of 0.22 euros per share (i.e., in total a dividend of 0.276 euros per share). Dividends to be paid by the company total 12,345,341.17 euros.

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

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

Dividend

On 25 March 2021, Verkkokauppa.com's Annual General Meeting resolved to pay a dividend of 0.056 euros per share and an additional dividend of 0.22 euros per share. In total, the dividend payment was 0.276 euros per share (12,345,341.17 euros in total). The dividend payment date was 7 April 2021.

The Annual General Meeting authorized the Board of Directors to decide at its discretion the distribution of dividends not exceeding 0.174 euro per share to be paid in three instalments during 2021.

The Board resolved on 23 April 2021 to pay a dividend of 0.057 euros per share, on 16 July 2021 to pay 0.058 euros per share, and on 22 October 2021 to pay 0.059 euros per share. Following the distribution of dividends resolved on 22 October 2021, the Company does not have any valid authorizations for distribution of dividends.

Corporate governance statement and remuneration reports

Verkkokauppa.com publishes a separate corporate governance statement and remuneration report for 2021 in accordance with the recommendations of the Finnish Corporate Governance Code. The report also covers other key areas of governance. The documents will be available on Verkkokauppa.com's website.

Most significant risks and uncertainties

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

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

Changes and increasing complexity in legislation may require significant changes in operations and may result in additional costs. Noncompliance with laws may result in fines or claims for damages. The company's reputation, brand awareness and trust among consumers are a competitive advantage – negative publicity related to, for example, regulation or the product safety or sustainability of the Company's own brands could have adverse financial impacts on the company. In addition, Verkkokauppa.com aims to produce and publish reliable and timely financial information to the market. There is a risk that the company's reporting might fail to meet the requirements. A prolonged business disruption or poor profitability could impact the company's liquidity or financial position. Restrictions caused by the pandemic and, for example, remote working have increased the consumption of goods instead of services. This distribution may level off once the pandemic situation calms down.

The aforementioned risks and uncertainties may affect the company's operations, financial position and performance positively or negatively. The company's Board of Directors has approved a risk management operating model for the company based on the ISO 31000 standard. The risks are managed and governed in accordance with the company's risk management policy.

Events after the reporting period

Verkkokauppa.com acquires e-ville.com online store

On 9 February 2022, Verkkokauppa.com announced the acquisition of e-ville.com online store. The acquisition supports Verkkokauppa.com's strategy to strengthen and expand its assortment in own brands. The purchase price amounts to approximately EUR 5.3 million, of which EUR 3.3 million will be paid in cash and EUR 2.0 million in new shares to be issued in a directed share issue to the seller at closing. The parties have also agreed to additional purchase price installments of up to approximately EUR 6.7 million payable solely if the combined sales of own brand products exceeds set target levels during 2022, 2023 and/or 2024. The total aggregate purchase price can amount to EUR 12.0 million at the maximum.

The transaction will close in the beginning of April 2022 and the acquired business operations will be consolidated into Verkkokauppa.com's figures from the beginning of the second quarter of 2022. E-ville's operations are estimated to have a positive impact of EUR 5–8 million on Verkkokauppa.com's revenue in 2022.

Board proposal for profit distribution

The company's distributable funds on 31 December 2021 were EUR 35,080,298.13.

The Board of Directors proposes to the Annual General Meeting that Verkkokauppa.com Oyj's profit of EUR 15,093,137.88 for the financial year be transferred to the retained earnings account. The Board of Directors proposes to the Annual General Meeting that a total dividend of EUR 0.246 per share be paid for the financial year 2021, divided into a dividend of EUR 0,060 per share to be paid in accordance with the Annual General meeting. In addition to that, to authorize the Board of Directors to decide at its discretion the distribution of quarterly dividend in total not exceeding EUR 0.186 per share. The proposal is based on the company's result in 2021 and its liquidity position.

Verkkokauppa.com continues its dividend policy, according to which the company pays an increasing dividend to its owners on a quarterly basis.

Long-term financial targets

With the refined strategy, Verkkokauppa.com aims for a revenue of one billion euro and a comparable operating profit (EBIT) margin of 5 percent by the end of 2025. At the same time, Verkkokauppa.com will continue its policy of distributing a quarterly growing dividend to shareholders.

Business outlook

Verkkokauppa.com's business operations are estimated to develop positively. The company believes that it will benefit from online shift and succeed in further growing its market share in the chosen categories. The strong balance sheet enables the company to continue expanding its operations in accordance with its strategy.

The company has benefited from the shifting consumer behavior accelerated by the COVID-19 pandemic, as sales in the online channel have shown growth. The company estimates that the increasing shift of customers to online sales is permanent.

The effects of the COVID-19 pandemic will gradually begin to ease. As travel opens up, we expect to see a reopening of export business. At the same time it's possible that consumers may direct their spending towards services and travelling. We estimate that many side effects caused by the pandemic, such as component shortages, may still have an impact on the availability of some products through 2022. The resurgence of the pandemic could lead to uncertainty in household confidence in the economy and this could have an impact on consumer purchasing behavior.

The economic growth in the early part of the year will be slower impacted by pandemic related restrictions*. We estimate that this may have an impact on consumers behavior and demand during first half. In addition to the pandemic, it's more difficult to estimate the outlook and predict the demand due to uncertainties related to overall economic development, inflation, availability of products and geopolitical situation.

Financial guidance for 2022

The company expects revenue to be between EUR 590–640 million (EUR 574.5 million) and comparable operating profit to be between EUR 19–25 million (EUR 20.3 million) in 2022.

*source: Economic survey from the Finland's Ministry of Finance, winter 2021: http://urn.fi/URN:ISBN:978-952-367-886-6

Distribution of shareholders at 31 December 2021

Size of shareholding, shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1 - 100	9,640	51.2	374,378	0.8
101 - 500	6,219	33.1	1,572,646	3.5
501 - 1 000	1,615	8.6	1,246,336	2.8
1 001 - 5 000	1,124	6.0	2,286,015	5.1
5 001 - 10 000	107	0.6	794,015	1.8
10 001 - 50 000	76	0.4	1,445,772	3.2
50 001 - 100 000	6	0.0	368,724	0.8
100 001 - 500 000	12	0.1	3,148,029	7.0
500 001 -	12	0.1	33,829,215	75.1
Total	**18,811**	**100.0**	**45,065,130**	**100.0**
Nominee registered	9		5,204,934	11.55

Shareholder breakdown by sector at 31 December 2021

	Number of shareholders	% of shareholders	Number of shares	% of shares
Private corporates	487	2.6	2,105,124	4.7
Financial and insurance institutions	34	0.2	9,922,037	22.0
Public entities	6	0.0	6,047,359	13.4
Non-profit organizations	59	0.3	325,944	0.7
Households	18,178	96.6	23,992,928	53.2
Non-Finnish shareholders	47	0.3	2,671,738	5.9
Total	**18,811**	**100.0**	**45,065,130**	**100.0**

Major shareholders at 31 December 2021

Shareholder	Number of shares	% of shares
Seppälä Sam Samuli	15,957,000	35.41
Keskinäinen Työeläkevakuutusyhtiö Varma	3,865,932	8.58
Mandatum Henkivakuutusosakeyhtiö	2,194,311	4.87
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	2,174,309	4.82
Nordea Nordic Small Cap Fund	1,411,669	3.13
Sijoitusrahasto Evli Suomi Pienyhtiöt	1,280,000	2.84
Skogberg Ville Johannes	634,266	1.41
Danske Invest Finnish Equity Fund	610,000	1.35
Keskinäinen Vakuutusyhtiö Kaleva	566,475	1.26
Op-Suomi Pienyhtiöt	485,603	1.08
10 biggest shareholders, total	29,179,565	64.75
Other shareholders	15,885,565	35.25
Total	**45,065,130**	**100.0**

Alternative performance measurement

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

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

Alternative performance measures do not substitute the IFRS key ratios.

Key performance indicators

Financial key figures

	2021	2020	2019
Revenue, thousand euros	574,514	553,636	504,113
Gross profit, thousand euros	91,191	88,413	73,874
Gross margin, %	15.9%	16.0%	14.7%
EBITDA, thousand euros	25,279	24,593	16,330
EBITDA, %	4.4%	4.4%	3.2%
Operating profit, thousand euros	20,296	19,583	11,290
Operating profit, %	3.5 %	3.5 %	2.2 %
Comparable operating profit, thousand euros	20,296	20,390	11,290
Comparable operating profit, %	3.5%	3.7%	2.2%
Profit for the period, thousand euros	15,093	14,622	7,810
Equity ratio, %	21.4%	24.5%	23.4%
Gearing, %	-2.2%	-52.2%	-52.1%
Personnel at the end of the period	825	818	758

Share performance indicators

	2021	2020	2019
Basic earnings per share, EUR	0.34	0.33	0.17
Diluted earnings per share, EUR	0.33	0.32	0.17
Number of issued shares	45,065,130	45,065,130	45,065,130
Number of treasury shares	323,397	352,898	81,296
Weighted average number of shares outstandaing	44,731,007	44,906,590	44,983,834
Dilutes weighted average number of shares outstandaing	45,204,923	45,544,173	45,042,007
Equity per share, EUR	0.79	0.90	0.81
Dividend per share, EUR*	0.246	0.450	0.21
Payout ratio, %	73%	138%	123%
Effective dividend yield, %	3.5%	6.3%	6.1%
Price per earnings ratio (P/E ratio)	21.13	21.87	20.31
Lowest share price	6.61	2.49	2.85
Highest share price	10.34	7.90	4.46
Average share price	8.17	4.95	3.67
Period end share price	7.13	7.12	3.53
Market value of the shares at period end, MEUR	321.3	320.9	159.1
The number of traded shares	20,923,735	26,714,366	6,813,481
Traded shares of all shares, %	46.4%	59.3%	15.1%

* 2021: Board of directors' proposal including dividend payment authorization

Formulas for key ratios

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

Reconciliation of alternative key ratios

EUR thousand	2021	2020
Operating profit	20,296	19,583
- advisory costs related to transfer to official list of Nasdaq Helsinki	-	807
Comparable operating profit	20,296	20,390

Financial Statements 2021

1 Income statement

EUR thousand	Note	2021	2020
Revenue	7.2	**574,514**	**553,636**
Other operating income	7.3	922	558
Materials and services	7.4	-483,323	-465,222
Employee benefit expenses	7.5	-36,570	-35,560
Depreciation and amortization	7.7	-4,983	-5,010
Other operating expenses	7.8	-30,263	-28,818
Operating profit		**20,296**	**19,583**
Finance income	7.9	6	11
Finance costs	7.9	-1,352	-1,423
Profit before income taxes		**18,949**	**18,171**
Income taxes	7.10,7.16	-3,856	-3,550
Profit for the financial year		**15,093**	**14,622**
Profit for the financial year attributable to			
Equity holders of the company		15,093	14,622
Earnings per share calculated from the profit attributable to equity holders			
Earnings per share, basic (EUR)	7.11	0.34	0.33
Earnings per share, diluted (EUR)	7.11	0.33	0.32

2 Statement of comprehensive income

EUR thousand	Note	2021	2020
Profit for the financial year		**15,093**	**14,622**
Comprehensive income for the financial year		**15,093**	**14,622**
Comprehensive income for the financial year attributable to			
Equity holders of the company		15,093	14,622

The notes are an integral part of these financial statements.

3 Statement of financial position

EUR thousand	Note	31 Dec 2021	31 Dec 2020
Non-current assets			
Intangible assets	7.13	1,364	835
Property, plant and equipment	7.14	5,214	2,222
Right-of-use assets	7.15	15,776	17,347
Equity investments	7.22.2	266	266
Deferred tax assets	7.16	1,289	1,349
Trade receivables	7.17	3,817	3,201
Other non-current receivables		425	425
Non-current assets, total		**28,151**	**25,646**
Current assets			
Inventories	7.18	87,803	75,384
Trade receivables	7.17	23,124	18,650
Other receivables	7.17	3,699	1,462
Accrued income	7.17	8,627	9,446
Cash and cash equivalents	7.19	20,917	43,099
Current assets, total		**144,170**	**148,041**
Total assets		**172,321**	**173,687**

EUR thousand	Note	31 Dec 2021	31 Dec 2020
Equity			
Share capital		100	100
Treasury shares		-1,611	-2,206
Invested unrestricted equity fund		25,938	25,816
Retained earnings		-3,838	2,217
Profit for the financial year		15,093	14,622
Total equity	7.20	**35,683**	**40,549**
Non-current liabilities			
Lease liabilities	7.15	16,105	18,045
Provisions	7.24	896	766
Non-current liabilities, total		**17,001**	**18,811**
Current liabilities			
Lease liabilities	7.15	4,034	3,883
Advance payments received		5,761	8,475
Trade payables		77,609	70,171
Other current liabilities	7.23	10,718	12,296
Accrued liabilities	7.23	19,778	18,039
Income tax liabilities		1,738	1,463
Current liabilities, total		**119,638**	**114,327**
Total liabilities		**136,639**	**133,138**
Total equity and liabilities		**172,321**	**173,687**

The notes are an integral part of these financial statements.

4 Statement of cash flows

EUR thousand	Note	2021	2020
Cash flow from operating activities			
Profit before income taxes		18,949	18,171
Adjustments			
Depreciation and impairment	7.7	4,983	5,010
Finance income and costs	7.9	1,347	1,384
Other adjustments		299	458
Cash flow before change in working capital		25,578	25,025
Change in working capital			
Increase (-)/decrease (+) in non-current non-interest-bearing trade receivables		-615	-1,309
Increase (-)/decrease (+) in trade and other receivables		-5,892	-4,371
Increase (-)/decrease (+) in inventories		-12,419	-8,682
Increase (+)/decrease (-) in current liabilities		4,885	9,576
Cash flow before financial items and taxes		11,537	20,239
Interest paid		-155	-66
Interest received		5	5
Interest of lease liabilities		-1,198	-1,323
Income tax paid		-3,521	-1,970
Cash flow from operating activities		**6,668**	**16,884**
Cash flow from investing activities			
Purchases of property, plant and equipment		-3,951	-769
Purchases of intangible assets		-903	-587
Cash flow from investing activities		**-4,854**	**-1,356**
Cash flow from financing activities			
Increase (+)/decrease (-) in lease liabilities		-3,868	-3,821
Dividends paid		-20,129	-9,597
Acquisition of treasury shares		-	-1,505
Cash flow from financing activities		**-23,996**	**-14,923**
Increase (+)/decrease (-) in cash and cash equivalents		**-22,182**	**604**
Cash and cash equivalents at beginning of financial year		43,099	42,495
Cash and cash equivalents at end of financial year	7.19	20,917	43,099

The notes are an integral part of these financial statements.

5 Statement of changes in equity

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

EUR thousand	Note	A	B	C	D	E	F
Equity 1 Jan 2021		**100**	**-2,206**	**25,816**	**0**	**16,839**	**40,549**
Profit for the financial year		-	-	-	-	15,093	**15,093**
Changes in fair values of equity investments		-	-	-	-	-	0
Comprehensive income for the financial year, total		**-**	**-**	**-**	**-**	**15,093**	**15,093**
Dividend distribution	7.20	-	-	-	-	-20,129	**-20,129**
Acquisition of treasury shares		-	-	-	-	-	**0**
Disposal of treasury shares – Board fees		-	535	122	-	-535	**122**
Share-based incentives	7.12	-	60	-	-	-13	**47**
Transactions with owners, total		**-**	**595**	**122**	**-**	**-20,677**	**-19,960**
Equity 31 Dec 2021		**100**	**-1,611**	**25,938**	**0**	**11,255**	**35,683**
Equity 1 Jan 2020		**100**	**-701**	**25,707**	**0**	**11,457**	**36,563**
Profit for the financial year		-	-	-	-	14,622	14,622
Changes in fair values of equity investments		-	-	-	-	-	0
Comprehensive income for the financial year, total		**-**	**-**	**-**	**-**	**14,622**	**14,622**
Dividend distribution	7.20	-	-	-	-	-9,597	**-9,597**
Acquisition of treasury shares		-	-1,505	-	-	-	**-1,505**
Disposal of treasury shares — Board fees		-	-	109	-	-	**109**
Share-based incentives	7.12	-	-	-	-	358	**358**
Transactions with owners, total		**-**	**-1,505**	**109**	**-**	**-9,239**	**-10,635**
Equity 31 Dec 2020		**100**	**-2,206**	**25,816**	**0**	**16,839**	**40,549**

6 Accounting policies

To improve the readability and understandability of the financial statements, Verkkokauppa.com Oyj presents some of the accounting policies as part of these notes, highlighted in gray text boxes. The accounting policies repeat the text of the standard if the Company considers it necessary in order to understand the application of said policies.

6.1 Basic information on the Company

Verkkokauppa.com Oyj is the best-known and most-visited Finnish online retailer in the country. Verkkokauppa.com Oyj is a public limited company, the shares of which are quoted on the official list of Nasdaq Helsinki. The business identity code of the Company is 1456344-5 and it is domiciled in Helsinki, Finland. The registered address of its head office is Tyynenmerenkatu 11, 00220 Helsinki, Finland.

The Board of Directors of the Company approved these financial statements for publication at its meeting on 1 March 2022. In accordance with the Finnish Corporate Act, shareholders have the right to approve or reject the financial statements at the Annual General Meeting held after the publication of the financial statements. It is also possible to decide upon changes to the financial statements at the Annual General Meeting.

6.2 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations (SIC and IFRIC) adopted for use in the EU on 31 December 2021. The notes to the financial statements comply with Finnish accounting and corporate legislation that supplements IFRS.

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

The financial statements are presented in euros, which is the company's functional and presentation currency. Transactions denominated in foreign currencies are converted into the functional currency at the exchange rates prevailing on the dates of the transactions. Receivables and liabilities denominated in foreign currencies are converted at the exchange rates prevailing on the balance sheet date. Exchange rate differences arising from operating activities are recognized as adjustments to purchases and exchange rate differences in cash and cash equivalents are recognized in financing income and expenses.

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

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

The preparation of financial statements in accordance with IFRS requires management to exercise judgment related to the selection and application of accounting policies.

In addition, management must make forward-looking accounting estimates and assumptions that may affect the amounts of assets, liabilities, income and expenses recognized during the reporting period. The actuals may differ from said estimated amounts. The Company has taken into account the possible impact of the COVID-19 pandemic on its financial reporting.

Since the outbreak of the COVID-19 pandemic, the Company has launched several initiatives with the aim of ensuring business continuity and staff safety. The Company is monitoring and reporting on the COVID-19 situation on a frequent basis. The COVID-19 pandemic has been a constantly evolving situation and its impact on economic developments, consumer demand and consumer purchasing behavior, business sales and wholesale trade has been difficult to assess. Since March 2020, the company has monitored its financial customers' payment behavior and the development of account receivables on a daily basis, and has managed credit limits and potential credit losses. No significant changes in customer payment behavior have been observed. In addition, the COVID-19 pandemic has not had a significant impact on the inventory revenue period or the write-down of inventories. There have been no significant changes in the Company's leases or payment terms as a result of the COVID-19 pandemic that would have affected the company's right-of-use assets or their lease liabilities. The current strong cash position and unused revolving credit facilities (EUR 20 million) will secure business continuity even under these exceptional circumstances.

Management judgment related to the choice and application of accounting policies

Management is required to make judgment-based decisions relating to the selection and application of IFRS accounting policies. This relates in particular to cases where IFRS contain alternate methods of recognition, measurement and/or presentation. The following entail significant judgment:

Segment reporting

The management of Verkkokauppa.com Oyj has exercised judgment in applying the consolidation criteria to combine the operating segments into a single reportable segment. Customers are the same in all operating segments that offer the same goods and services under the same terms in one main market, i.e. Finland. At the core of the Company's business model is a strong integration of webstore and retail stores, joint support functions serving the entire business as well as the volume benefits enabled by centralized business.

Key factors of uncertainty related to estimates

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

Measurement of leases

The amount of the lease liabilities and the right-of-use assets to be recognized in the balance sheet is significantly affected by the discount rate used in calculating their present values and by the inclusion of options to extend the lease. The management of the Company has taken into account the Company's business model in relation to physical trading locations in an ever-changing business environment when assessing the likelihood of extension options being exercised. The management has taken into consideration the changes in the financial position of the Company when defining the risk premium of the company-specific discount rate.

Measurement of inventories

A significant part of the Company's balance sheet is inventories consisting of goods intended for sale. Inventories bear the risk of the recoverable amount being below cost. To assess the risk, the management of the Company regularly monitors the item turnover rates and compares the sale price with the inventory value. A write-down is recognized if the sale price of an item at the reporting date is lower than its cost in the balance sheet. In addition, the Company separately recognizes write-down for older items according to the inventory dates.

Risk of credit losses of company-financed Apuraha consumer financing service receivables

The Company offers Apuraha financing to its customers. These receivables involve a risk of credit loss. The Company recognizes expected credit losses using the provision matrix model. The provision matrix is described in more detail in the note on *Financial risk management 7.22.3.* The sufficiency of credit loss percentages is monitored regularly. The assessment of the expected level of credit losses and the sufficiency of credit loss rates is based on changes in customer payment behavior and the level of actual credit losses.

Rebates related to inventory

The amount and timing of inventory-related rebates are subject to uncertainty. The realization of contractual targets creates uncertainty in the amount of the purchase credit to be recognized. Management regularly assesses the amount of target purchase credits to be recognized by monitoring both actual purchase volumes and potential rebates. In case the contract period extends beyond the balance sheet date, the amount to be amortized includes management estimates.

Provisions

The Company recognizes provisions related to the following items: product warranties and third-year warranties. Estimates are made as to the likelihood and amount of the provisions being realized. The management of the Company regularly assesses the amount of costs incurred based on historical actuals.

6.4 Effects of IFRS standards that become effective during or after the financial year

No IFRS amendments, IFRIC interpretations, or annual improvement or amendment to IFRS issued on or after 1 January 2021 have had a material impact on the 2021 financial statements.

In addition, no IFRS that come into effect later and would affect the result, financial position or notes of Verkkokauppa.com Oyj were known at the balance sheet date.

7 Notes to the financial statements

7.1 Segment reporting

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

Verkkokauppa.com Oyj has one reportable segment. All the aggregated operating segments share similar characteristics. Customers are the same in all operating segments that offer the same goods and services under the same terms in one main market, i.e. Finland. At the core of the Company's business model is a strong integration of webstore and retail stores, joint support functions serving the entire business as well as the volume benefits enabled by centralized business.

Due to the large number of customers and the nature of the business, sales to a single customer did not exceed 10 percent of total revenue in 2021 nor in 2020. The total revenue of the Company is mainly generated in one geographical area, Finland.

7.2 Revenue from contracts with customers

Revenue streams

The revenue streams of the Company consist of the sale of goods and services. The product range consists of more than 80,000 products from 26 main product areas that the company sells to consumers through its own webstore and four retail stores in Finland. The services offered for sale by the Company include installation and maintenance services, subscriptions and visibility sales. The customers of Verkkokauppa.com Oyj are both consumers and businesses.

Revenue recognition from sale of goods

The sale of goods to the customer through the retail stores is recognized as revenue upon handover of the good when control is transferred. If the customer has chosen delivery, the sale is recognized when the customer assumes control of the goods.

The transaction price for sale of goods consists of the list price of the goods, the variable consideration for the right of return and the transportation fee where the customer has chosen delivery. In relation to the right of return, the company uses the expected value method to calculate the return of products within 32 days of the right of return, and recognizes the refund liability (included in accrued liabilities) and the asset (included in accrued income) related to the returned goods.

Verkkokauppa.com Oyj offers its customers various payment methods, the most important of which is Apuraha customer financing. However, regardless of the method of payment, the price of the good is always the same. By paying through the Apuraha service, the customer is granted the ability to pay for their purchase in installments and Verkkokauppa.com Oyj receives interest on the capital loaned. In addition to Verkkokauppa.com Oyj, a third party may also act as the financier. Since the end of 2020, customers have also been offered a supplier credit purchase financing solution, which is supplied by Salus Group Oy.

In cases where the customer chooses Apuraha as the payment method and a third party acts as the financier, the revenue from the financing of the customer is treated as a variable element of the transaction price. The management of the Company considers that the estimate of this variable consideration is limited. If the revenue from customer financing were recognized at the time of the transfer of control, a significant reversal of sales revenue could potentially occur. Thus, Verkkokauppa.com Oyj recognizes the revenue from customer financing on a monthly basis according to the actuals.

In the case that Verkkokauppa.com Oyj finances a customer, the income from the financing component is recognized accordingly on a monthly basis according to the actual performance. Verkkokauppa.com sells all its overdue receivables on a "continuous trade" basis, where all receivables overdue for more than 60 days are sold to third parties. This reduces the risk of company receivables.

The contracts with customers of Verkkokauppa.com Oyj do not contain any separate performance obligations that are to be recognized as income in different periods. The product warranties offered by the Company, third-year warranty and own-brand warranties are treated as assurance-type warranties because they do not render additional service to the customer. Assurance-type warranties are recognized as provisions. Detailed principles can be found in the note on *Provisions 7.24.*

Revenue recognition of sale of services

Revenue from the sale of customer contracts for installation and maintenance services is recognized when the service is performed. The duration of rendering services is short and the duration of the services is usually defined in hours. Revenue from visibility sales is mainly recognized by the company over time, based on the passage of time. The time-based method of determining the degree of fulfillment is equivalent to an input. The customer will benefit from the visibility during the service. The transaction price of service sales contracts does not contain variable elements but mainly consists of fixed prices. A customer contract receivable is recognized if the billing for visibility services is less than the revenue recognized on an accrual basis. An asset based on a customer agreement is presented as part of accrued income in the balance sheet.

Gift cards

Verkkokauppa.com sells gift cards in the amount chosen by the customer. When a gift card is sold, a gift card liability is recorded. When the gift card is redeemed, sales revenue is recognized. Unredeemed gift cards are recognized as revenue when they expire. Gift cards are valid for one year from the date of purchase.

Presentation of revenue

Verkkokauppa.com Oyj presents in its net sales the sales revenue from customer contracts, net of indirect taxes. Verkkokauppa.com Oyj is the principal for the products and services it sells, except for subscriptions sold on behalf of telecommunications operators, in which case Verkkokauppa.com acts as agent and presents the commission portion in the revenue.

The management of Verkkokauppa.com Oyj has exercised judgment in classifying company-financed Apuraha customer funding revenue as revenue rather than financial income. The interpretation of the management of the Company is that offering customer financing is an integral part of the Company's business and business model.

The visibility the Company sells in-store, online and in various advertising media is presented as part of revenue, as it is part of the business model of Verkkokauppa.com Oyj and its ordinary business. To the extent that the consideration received is linked to the purchase volume of Verkkokauppa.com Oyj, the consideration received for visibility is mainly presented as purchase adjustments.

Disaggregation of revenue

The Company's revenue consists of revenue from the sale of customer contracts. Other types of income are specified in the notes on *Other operating income 7.3* and *Finance income and costs 7.9*. The Company's entire revenue is generated in its functional currency, the euro, and in one main market area, Finland.

Timing of satisfying performance obligations

Revenue recognized at one point in time relates to the sale of goods. For services, the Company mainly recognizes revenue over time

EUR thousand	2021	2020
At a point in time	569,424	549,062
Over time	5,090	4,574
Revenue, total	**574,514**	**553,636**

Revenue by external customer location

EUR thousand	2021	2020
Finland	534,954	506,185
Rest of the world	39,560	47,451
Revenue by external customer location	**574,514**	**553,636**

Income recognized from customer financing

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

The following table shows the income from company-funded Apuraha client financing recognized during the financial year, broken down into interest income recognized using the effective interest rate method and other income. Other income consists of other fees.

EUR thousand	2021	2020
Interest income recognized using effective interest rate method	2,778	2,034
Other income from company-financed customer financing	1,540	1,558
Income from company-funded Apuraha, total	**4,318**	**3,592**

Contract assets and liabilities

EUR thousand	31 Dec 2021	31 Dec 2020
Contract assets	1,807	1,685
Contract liabilities	2,128	2,248

The contractual assets relate to uninvoiced but already rendered services at the balance sheet date as well as assets related to the right of return. The contractual assets related to services already rendered are transferred to trade receivables when they are invoiced. The invoicing interval depends on the customer contract. On average, the invoicing frequency is three months. There have been no significant changes in contractual assets between the reporting periods.

Contract liabilities include the gift card liability and a repayment liability related to the right of return. Verkkokauppa.com gift cards are valid for one year from the date of purchase. Unredeemed gift cards are recognized as revenue when they expire. Verkkokauppa.com offers a 32-day right of return. The refund liability linked to the right of return is canceled at the end of the refund period. Contract liabilities have decreased in respect of refund liability due to a reduction in the relative amount of repayments.

During the financial year 2021, the amount recognized as revenue at the beginning of the period, included in the contract liabilities, was EUR 1,480 thousand (1,101).

7.3 Other operating income

In other operating income, the Company presents rental income, capital gains and other income that is not directly related to the Company's ordinary business operations.

Lease income is related to the sublease of right-of-use asset items. The related accounting policies are described in more detail in the note on *Leases 7.15.*

EUR thousand	2021	2020
Lease income from subleasing right-of-use assets	530	413
Other income	392	145
Other operating income, total	**922**	**558**

7.4 Materials and services

EUR thousand	2021	2020
Purchases during the financial year	494,566	473,082
Change in inventories	-12,419	-8,682
External services	1,177	822
Materials and services, total	**483,323**	**465,222**

7.5 Employee benefits

Obligations related to short-term employee benefits
Short-term employee benefits include wages, including benefits in kind and annual leave pay payable within 12 months. Short-term employee benefits are recognized for work performed up to the balance sheet date under other liabilities and are measured at the amount expected to be paid when the liabilities are settled.

Pension obligations
The pension plan of Verkkokauppa.com Oyj is a defined contribution plan. Contributions to defined contribution pension schemes are paid to pension insurance companies, after which the Company no longer has any other payment obligations. Contributions to defined contribution pension plans are recognized as an expense in the income statement for the financial year to which they relate.

EUR thousand	2021	2020
Wages and salaries	29,285	28,856
Pension expenses – defined contribution plans	4,921	4,402
Share-based payments	198	357
Other personnel-related expenses	1,051	955
Voluntary employee benefits	1,538	1,340
Total employee benefits before capitalization	**36,994**	**35,909**
Capitalized employee benefits for the financial year		
Wages and salaries	-353	-296
Pension expenses – defined contribution plans	-58	-44
Other personnel-related expenses	-12	-9
Capitalized employee benefits for the financial year	**-423**	**-350**
Total employee benefits	**36,570**	**35,560**

Capitalized employee benefits are mainly related to the development of the Company's enterprise resource planning system, which is described in more detail in note *7.13 Intangible assets*, and to the logistics automation of the Jätkäsaari warehouse.

	2021	2020
Number of employees at the end of the financial year	825	818

The number of employees includes both full-time and part-time employees. The amount does not include temporary agency workers.

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

Share-based payment is described in more detail in *Share-based payments 7.12* in the notes to the financial statements.

7.6 Remuneration of key management personnel

Key management personnel include the members of the Board of Directors, the president and CEO, and the members of the Executive Board.

The Board's Remuneration Committee prepares a frame of reference for the remuneration, fees and other benefits of the president and CEO and the Executive Committee, and the Board of Directors decides on the CEO's remuneration and other benefits. The Chairman of the Board of Directors approves the remuneration and other benefits of the Executive Board, which is subordinate to the president and CEO.

Remuneration of the CEO and the management team

Short-term employee benefits
The short-term employee benefits of the president and CEO consist of a fixed salary and benefits in kind (such as a company car and phone) and an incentive bonus for achieving financial and operational objectives. The short-term employee benefits of the Management Team consist of basic salary and benefits in kind (such as a company car and phone), and an incentive bonus for achieving financial and operational objectives.

The short-term compensation scheme consists of an annual bonus program with performance criteria (incentive bonus). The performance criteria and the determination of the remuneration are decided annually by the Board based on the proposal of the Remuneration Committee. The 2021 performance criteria were based on 25% of 2021 revenue and 75% of the Company's comparable operating profit. In addition, the Board of Directors may, at its discretion, decide to pay other lump sums (bonus).

Post-employment benefits

The CEO or members of the Management Team do not have any post-employment benefits.

Benefits payable in the event of termination

The notice period of the president and CEO is 12 months. If the company terminates the CEO, the CEO will receive compensation corresponding to a fixed salary of six months, pursuant to the CEO agreement. As a rule, the notice period for other members of the Management Team is six months and the corresponding compensation for certain persons corresponds, as a rule, to six months' salary at the time of termination of contract.

Share-based incentives

The company has two separate share-based incentive schemes for the CEO and the Management Team, the Matching Share Plan 2018–2020 and the Performance Matching Share Plan 2020–2022. The plans are designed to align the objectives of shareholders and management to increase the long-term value of the Company, to encourage management to invest personally in the Company's shares, to engage executives in the Company and to provide them with a competitive remuneration package based on the acquisition, earning and accumulation of the Company's shares.

The programs are described in more detail in the note on *Share-based payments 7.12*

The following table shows the remuneration of the president and CEO and the Executive Committee, as well as the shareholdings and holdings as a percentage of the total share capital. The amounts presented are performance-based. The share-based payments are based on an estimate of their realization at the end of the year. The performance share-based payment includes the cost effect on the financial year, regardless of the time of the share transfer.

Management remuneration

2021

EUR thousand	Panu Porkka, CEO	Management Team	2021, total
Short-term employee benefits			
Fixed basic salaries and fringe benefits	442	1,247	**1,688**
Incentive bonus	120	241	**361**
Statutory pension	92	245	**337**
Share-based payments			
Share-based payments	60	164	**224**
Total	**714**	**1,897**	**2,611**
Shareholding, pcs	90,000	183,922	**273,922**
% of shares	0.20%	0.41%	**0.61%**

2020

EUR thousand	Panu Porkka, CEO	Management Team	2021, total
Short-term employee benefits			
Fixed basic salaries and fringe benefits	454	1,215	**1,669**
Incentive bonus	-	-	**0**
Statutory pension	69	186	**255**
Share-based payments			
Share-based payments	102	256	**357**
Total	**625**	**1,657**	**2,282**
Shareholding, pcs	85,000	234,038	**319,038**
% of shares	0.19%	0.52%	**0.71%**

Remuneration of the Board of Directors

The Annual General Meeting of Verkkokauppa.com Oyj elects the members of the Board of Directors annually and decides on their remuneration. The term of office of the members shall run until the close of the next Annual General Meeting. The members of the Board of Directors are not members of the share-based remuneration scheme, nor are they employed by Verkkokauppa.com Oyj.

The remuneration of the members of the Board of Directors consists of annual fees paid on the basis of their membership of the Board of Directors and committee fees paid either as an annual fee or as meetings fees. The fees vary depending on the member's role as Chair or Member of the Board or Committee. In addition, the members of the Board of Directors are reimbursed for reasonable actual travel and accommodation expenses and other possible costs related to Board and Committee work.

The Annual General Meeting of Verkkokauppa.com Oyj decided on 25 March 2021 that half of the annual remuneration of the members of the Board will be paid in shares of the Company after each quarterly announcement and the remaining part of the annual remuneration will be paid in cash, which will cover the taxes arising from the remuneration. During the financial year 2021, the company transferred 14,501 (25,318) treasury shares for the payment of the fees. Shares issued as fees do not have any restrictions on ownership or disposal.

The following table shows the total remuneration of the Board of Directors. The amounts presented are performance-based.

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EUR thousand	2021	2020
Board members, 31 Dec 2021		
Arja Talma, Chair of the Board	77	45
Christoffer Häggblom, Vice Chair of the Board, Chair of the Remuneration Committee	76	84
Kai Seikku, Chairman of the Audit Committee	52	51
Samuli Seppälä	36	45
Mikko Kärkkäinen (member since 25 Mar 2021)	26	-
Frida Ridderstolpe (member since 25 Mar 2021)	26	-
Johan Ryding (member since 25 Mar 2021)	26	-
Robert Burén (member until 25 Mar 2021)	10	35
Mikael Hagman (member until 4 Jan 2021)	1	35
Remuneration of the Board of Directors, total	**331**	**295**

The following tables show the shareholdings and holdings of the Board of Directors.

Shareholding, pcs	2021	2020
Arja Talma, Chair of the Board	15,290	11,612
Christoffer Häggblom, Vice Chair of the Board, Chair of the Remuneration Committee	26,669	23,228
Kai Seikku, Chairman of the Audit Committee	146,564	144,498
Samuli Seppälä	15,957,000	18,288,342
Mikko Kärkkäinen (member since 25 Mar 2021)	1,098	-
Frida Ridderstolpe (member since 25 Mar 2021)	1,098	-
Johan Ryding (member since 25 Mar 2021)	608	-
Robert Burén (member until 25 Mar 2021)	-	17,612
Mikael Hagman (member until 4 Jan 2021)	-	14,724
Number of shares, total	**16,148,327**	**18,500,016**

% of shares	2021	2020
Arja Talma, Chair of the Board	0.03%	0.03%
Christoffer Häggblom, Vice Chair of the Board, Chair of the Remuneration Committee	0.06%	0.05%
Kai Seikku, Chairman of the Audit Committee	0.33%	0.32%
Samuli Seppälä	35.41%	40.58%
Mikko Kärkkäinen (member since 25 Mar 2021)	0.00%	-
Frida Ridderstolpe (member since 25 Mar 2021)	0.00%	-
Johan Ryding (member since 25 Mar 2021)	0.00%	-
Robert Burén (member until 25 Mar 2021)	-	0.04%
Mikael Hagman (member until 4 Jan 2021)	-	0.03%
% of shares, total	**35.83%**	**41.05%**

7.7 Depreciation and amortization

EUR thousand	2021	2020
Intangible assets		
Development costs	283	321
Other intangible assets	93	23
Amortization of intangible assets, total	**375**	**344**
Property, plant and equipment		
Machinery and equipment	823	755
Other tangible assets	136	129
Depreciation of tangible assets, total	**959**	**884**
Right-of-use assets		
Premises and facilities	3,577	3,594
Machinery and equipment	72	189
Depreciation of right-of-use assets, total	**3,650**	**3,783**
Depreciation and amortization, total	**4,983**	**5,010**

7.8 Other operating expenses

EUR thousand	2021	2020
Premises maintenance and operation costs	6,305	5,203
Financial transactions expenses	2,246	2,246
Marketing	8,389	7,988
Administrative services	10,298	8,563
Other expenses	3,024	4,818
Other operating expenses, total	**30,263**	**28,818**

Auditor fees

EUR thousand	2021	2020
Statutory audit	104	92
Other services	-	214
Auditor fees, total	**104**	**307**

The audit firm selected by the Annual General Meeting is PricewaterhouseCoopers Oy. Other non-audit services provided by PricewaterhouseCoopers Oy in 2020 consisted mainly of consultancy services related to the Company's listing on the main stock exchange.

7.9 Finance income and expenses

Finance income

EUR thousand	2021	2020
Interest income	5	11
Finance income, total	**6**	**11**

Finance costs

EUR thousand	2021	2020
Lease liability interest	1,198	1,323
Other interest costs	30	19
Other finance costs	45	47
Exchange rate differences on cash and cash equivalents	79	33
Finance costs, total	**1,352**	**1,423**

In addition to financial income and costs, exchange rate differences have been recognized as adjustments to purchases for the financial year.

7.10 Income taxes

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

Income taxes in the income statement

EUR thousand	2021	2020
Current taxes	3,796	3,712
Change in deferred taxes	60	-162
Income taxes, total	**3,856**	**3,550**

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

The company has no pending tax disputes.

Reconciliation of the effective tax rate

EUR thousand	2021	2020
Profit before income taxes	18,949	18,171
Taxes calculated at the Finnish tax rate, 20,0%	3,790	3,634
Effect of tax-exempt income and non-deductible expenses	66	-85
Income taxes recognized in the income statement, total	**3,856**	**3,550**

The Finnish corporate tax rate was 20 percent in the financial statements for the financial years 2021 and 2020.

Taxes related to other comprehensive income items

2021

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

2020

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

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

7.11 Earnings per share

Basic earnings per share are calculated by dividing the result for the financial year attributable to the shareholders by the weighted average number of shares outstanding during the financial year. For the calculation of diluted earnings per share, the weighted average number of shares takes into account the dilutive effect of all potentially dilutive shares.

	2021	2020
Earnings per share, basic		
Profit for the year attributable to shareholders, EUR thousand	15,093	14,622
Weighted average number of outstanding shares, pcs	44,731,007	44,906,590
Basic earnings per share, EUR	**0.34**	**0.33**

	2021	2020
Earnings per share, diluted		
Profit for the year attributable to shareholders, EUR thousand	15,093	14,622
Potentially dilutive shares of share-based incentive plan, pcs	473,916	637,583
Diluted weighted average number of outstanding shares, pcs	45,204,923	45,544,173
Diluted earnings per share, EUR	**0.33**	**0.32**

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

7.12 Share-based payments

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

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

Information on the share-based incentive plan

The Company has two separate share-based incentive plans for the CEO and members of the Management Team, the Matching Share Plan 2018–2020 and the Performance Matching Share Plan 2020–2022. The plans are designed to align the objectives of shareholders and management to increase the long-term value of the Company, to encourage management to invest personally in the Company's shares, to engage executives in the Company and to provide them with a competitive remuneration package based on the acquisition, earning and accumulation of the Company's shares.

Matching Share Plan 2018–2020

Under the Matching Share Plan 2018–2020, a person may earn an additional number of shares, as determined by the Board of Directors, based on their investment in Verkkokauppa.com Oyj shares. The Matching Share Plan has two commitment periods: 2018–2020 and 2019–2021. The fees to be paid for the commitment period 2018–2020 correspond to the value of a maximum of 50,000 Verkkokauppa.com Oyj shares and for the commitment period 2019–2021 to the value of a maximum of 45,000 Verkkokauppa.com Oyj shares, including the proportion payable in cash.

In March 2021, the Board of Directors decided on a directed free share issue in order to pay the share rewards under the Matching Share Plan 2018–2020 for the first commitment period 2018–2020. On 2 March 2021, a total of 15,000 treasury shares were transferred to five key personnel in accordance with the terms of the plan. In addition, part of the remuneration was paid in cash to cover taxes and parafiscal charges incurred by the participant in connection with the remuneration. No new shares were issued at the time of payment of the share premium and the decision, therefore, had no dilutive effect.

Performance Matching Share Plan 2020–2022

Under the Performance Matching Share Plan 2020–2022, a person can earn additional shares based on their investment in Verkkokauppa.com Oyj shares and the Total Shareholder Return (TSR) of the share. The Performance Matching Share Plan includes one earnings period covering the calendar years 2020–2022. The reward to be paid to the participant shall be determined by the achievement of the TSR target levels set by the Board of Directors. A maximum of three additional performance-based matching shares will be paid as a reward for each allocated share. Participation and remuneration are subject to the condition that the participant will allocate freely transferable company shares held by it to the program or acquire company shares up to an amount determined by the Board of Directors. The payment of the premium shall also be based on the duration of the participant's employment or service at the time of payment of the premium. As a general rule, the premium shall not be paid if the employment or service of the participant ends before the payment of the premium.

The program covers seven people, the Managing Director and six members of the Management Team. The participant is entitled to receive gross shares on the basis of the plan, but receives a net amount of shares after the withholding of the advance. The company will retain some of the shares in order to pay appropriate withholding tax to the tax authorities. The rewards payable under the plan are estimated to be equivalent to the value of approximately 540,000 Verkkokauppa.com Oyj shares (gross amount).

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

2020–2022 Plan	
Grant date	7 Feb 2020
Vesting start date	1 Jan 2023
Vesting conditions	Share ownership and employment
Payment method	Shares and cash
Share price at grant date, EUR	3.60
Fair value of share at grant date, EUR*	4.19
Estimated number of participants at end of vesting period, %	100%
Estimate change in shares associated with the plan, %	2%
Number of plan participants	7

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

Effect of share-based payments on the operating result

EUR thousand	2021	2020
Expenses related to share-based payments in the income statement	198	357
Total	**198**	**357**

Effect of share-based payments on the balance sheet

EUR thousand	2021	2020
Recognized in equity	506	550
Total	**506**	**550**

7.13 Intangible assets

Intangible assets of Verkkokauppa.com Oyj consist of capitalized development costs and other intangible assets.

An intangible asset is recognized when its cost can be measured reliably and it is probable that the economic benefits associated with the asset will flow to the company. The residual values and the useful lives of the assets shall be reviewed at least at the end of each financial year and adjusted, if necessary, to reflect changes in the expectations of economic benefits. The Company has no intangible assets with an indefinite useful life and no interest costs related to the acquisition of assets that have been capitalized as part of the cost of acquisition.

Annual impairment tests are carried out on intangible assets that are not yet ready for use. In addition, on every balance sheet date, the management of the Company assesses whether there is any evidence of impairment regarding other intangible assets. In case such evidence is present, an estimate is made of the recoverable amount of the asset, which is the fair value of the asset less costs of disposal or a higher value in use. In many cases, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment is recognized in the income statement. The recognized impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount of the asset. Cancellation is up to the amount that would have been assigned to the asset’s carrying amount less depreciation if no impairment loss had been recognized in previous years.

Research and development expenditure

Research and development costs are expensed in the accounting period in which they are incurred, except for development costs that meet the criteria for capitalization. Development expenditure is capitalized as an intangible asset when it can be demonstrated how the development project will generate probable economic benefits and the expenditure incurred during the development phase can be measured reliably. Capitalized development costs are presented as a separate item and amortized over their useful life. Development expenditure previously expensed is not capitalized in subsequent periods.

The Company has a self-developed enterprise resource planning (ERP) system, the development costs of which are capitalized by the Company to the extent that the capitalization criteria are deemed to be met. The direct costs of production have been capitalized as acquisition costs. Capitalized development costs are amortized on a straight-line basis over their useful life. The estimated economic impact of capitalized development expenditure is three years.

Other intangible assets

Other intangible assets are recorded in the balance sheet at their original cost and amortized on a straight-line basis over their useful lives. The economic life of intangible assets has been estimated at five years. The intangible assets of the Company consist mainly of intangible rights, IT software and licenses.

EUR thousand	Development costs	Other intangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2021	2,896	1,268	348	**4,511**
Increases	350	509	45	**903**
Disposals	-	-	-	**0**
Transfers between items	-	-	-	**0**
Cost 31 Dec 2021	3,246	1,777	392	**5,415**
Accumulated amortization and impairment 1 Jan 2021	-2,461	-1,215	-	**-3,676**
Accumulated amortization on disposals	-	-	-	**0**
Transfers between items	-	-	-	**0**
Amortization for the financial year	-283	-93	-	**-375**
Accumulated amortization and impairment 31 Dec 2021	-2,743	-1,308	-	**-4,051**
Carrying amount 1 Jan 2021	**435**	**53**	**348**	**835**
Carrying amount 31 Dec 2021	**502**	**469**	**392**	**1,364**

EUR thousand	Development costs	Other intangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2020	2,650	1,268	6	**3,924**
Increases	246	-	348	**593**
Disposals	-	-	-6	**-6**
Transfers between items	-	-	-	**0**
Cost 31 Dec 2020	2,896	1,268	348	**4,511**
Accumulated amortization and impairment 1 Jan 2020	-2 140	-1,193	-	**-3,332**
Accumulated amortization on disposals	-	-	-	**0**
Transfers between items	-	-	-	**0**
Amortization for the financial year	-321	-23	-	**-344**
Accumulated amortization and impairment 31 Dec 2020	-2,461	-1,215	-	**-3,676**
Carrying amount 1 Jan 2020	**510**	**75**	**6**	**592**
Carrying amount 31 Dec 2020	**435**	**53**	**348**	**835**

Capitalized development costs relate to the development of new features of the Company's ERP system.

The company has no investment commitments in relation to intangible assets.

7.14 Tangible assets

The tangible assets of Verkkokauppa.com Oyj include land, servers, other office and warehouse equipment and devices, as well as basic improvements to rental premises.

Tangible assets have been valued in the balance sheet at the original cost less depreciation and impairment. Tangible assets are depreciated on a straight-line basis over the useful life of the asset from the moment the asset is put into use. Real estate is not subject to depreciation. The estimated useful lives of tangible assets are as follows:

Machinery and equipment	3–10 years
Other tangible assets	5–10 years

The residual values and the useful lives of the assets shall be reviewed at least at the end of each financial year and adjusted, if necessary, to reflect changes in the expectations of economic benefits.

Normal maintenance and repair costs are recognized in the income statement as an expense at the time they are incurred. Significant improvements or additional investments are capitalized as part of the cost of the asset and amortized over the remaining useful life of the capital asset if it is probable that future economic benefits associated with the asset will flow to the company. Gains on sales from the write-offs and disposals of tangible assets are presented in other operating income in the income statement, and losses in other operating expenses in the income statement. The Company has no interest expenses related to the acquisition of assets that would have been capitalized as part of the cost of acquisition.

The same principles apply to the assessment of impairment as for intangible assets. The principles are described as part of the notes on intangible assets.

EUR thousand	Land	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2021	2	7,323	2,792	75	**10,191**
Increases	-	1,394	220	2,337	**3,951**
Disposals	-	-	-	-	**0**
Transfers between items	-	-	-	-	**0**
Cost 31 Dec 2021	2	8,717	3,012	2,412	**14,142**
Accumulated amortization 1 Jan 2021	-	-5,640	-2,330	-	**-7,970**
Accumulated amortization on disposals	-	-	-	-	**0**
Transfers between items	-	-	-	-	**0**
Amortization for the financial year	-	-823	-136	-	**-959**
Accumulated amortization 31 Dec 2021	-	-6,463	-2,465	-	**-8,928**
Carrying amount 1 Jan 2021	**2**	**1,683**	**462**	**75**	**2,222**
Carrying amount 31 Dec 2021	**2**	**2,254**	**546**	**2,412**	**5,214**

EUR thousand	Land	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2020	2	6,720	2,745	-	**9,467**
Increases	-	598	47	80	**725**
Disposals	-	-	-	-	**0**
Transfers between items	-	5	-	-5	**0**
Cost 31 Dec 2020	2	7,323	2,792	75	**10,191**
Accumulated amortization 1 Jan 2020	-	-4,885	-2,200	-	**-7,086**
Accumulated amortization on disposals	-	-	-	-	**0**
Transfers between items	-	-	-	-	**0**
Amortization for the financial year	-	-755	-129	-	**-884**
Accumulated amortization 31 Dec 2020	-	-5,640	-2,330	-	**-7,970**
Carrying amount 1 Jan 2020	**2**	**1,834**	**545**	**0**	**2,381**
Carrying amount 31 Dec 2020	**2**	**1,683**	**462**	**75**	**2,222**

The company has no investment commitments in relation to tangible assets.

7.15 Leases

Leases wherein the Company is the lessee

Recognition of leases

At the time the contract was entered into, the Company will assess whether the contract is a lease or whether the contract contains a lease element. The Company recognizes a right-of-use asset and a lease liability at the inception of the lease, except for leases with a short lease term (less than 12 months) and leases with a low value. Rental costs for short-term and low-value leases are recognized in the income statement under other operating expenses on a straight-line basis over the term of the lease.

Measurement and recognition of lease liability

The lease liability is measured at the present value of the lease payments not paid at the commencement date of the contract. The lease payments are discounted at the interest rate implicit in the lease if that interest rate can be easily determined. If the interest rate cannot be easily determined, the interest rate of the Company's incremental borrowing rate shall be used.

The lease agreement for the Jätkäsaari real estate, which covers approximately 79% of the balance sheet of the lease liabilities, has used the interest rate implicit in the lease contract. In other lease agreements, the interest rate of the Company's incremental borrowing rate has been used as the discount rate. The changes in the Company's financing position have been taken into consideration in determining the incremental borrowing rate in determining the risk premium. Discount rates vary between 1.3% and 7.0%.

The lease payments included in the value of the lease liability at the commencement date consist of fixed payments less available incentives related to lease contracts, variable rent based on index, purchase option exercise prices (when reasonably certain), amounts of residual value guarantees and penalties for termination of lease contracts, if the lease term has taken into account that the lessee exercises the option to terminate the lease.

There are no termination options in the leases of Verkkokauppa.com Oyj that have been taken into account in the calculation. Lease contracts with purchase options are related to machinery and equipment and are not significant.

The lease liability is measured at amortized cost using the effective interest method. Revaluation of the lease liability shall be carried out if there is a change in the lease term, the use of the purchase option becomes or ceases to be reasonably certain, the index used to calculate variable lease payments changes or if there is a change in the expected payments on the basis of residual value guarantees. The discount rate to be used for the revaluation depends on the nature of the change.

The payments for all the leases of the Company real estate and facilities are linked to the cost-of-living index. The Company will make revaluations of its lease liability and the right-of-use asset when the index changes.

In those contracts where the lease component and the non-lease component must be separated, the distinction is made on the basis of relative stand-alone selling prices. The Company has office space leases in which the lease component is separated from the service component. The stand-alone price is based on the estimated levels of capital rents for the region in question.

The lease term used to calculate the lease liability is the period during which the lease is non-cancelable, plus the period of the renewal or termination option if it is reasonably certain that the lessee will exercise the renewal option or not exercise the termination option. The Company has extension options related to its real estate. These are not taken into account in the lease term. The decision on extension options is made on a commercial basis when the lessor is to be informed of the use of the extension option. The management of the Company has taken into consideration the business model of the Company and the agility expected in it in relation to the physical market place in an ever-changing business environment when assessing the probability of the realization of extension options.

Measurement of right-of-use assets

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

The Company has not recognized the initial direct costs in its leases. The amounts of restoration costs are estimated to be immaterial given the nature of the business and no provision has been recognized for them.

The Company measures the right-of-use assets in accordance with the cost model. Under the cost model, a right-of-use asset is measured at cost less accumulated depreciation and adjusted for the remeasurement of the lease liability. The right-of-use assets are depreciated on a straight-line basis over the useful life of the asset from the moment the asset is put into service In case the lease term is shorter than the useful life, depreciations are done over the lease term. The estimated depreciation periods are as follows:

Machinery and equipment	4–7 years
Real estate and premises	2–15 years

Subleases

The Company has short-term sublease agreements, which are recognized as income on a straight-line basis over the lease term. Lease income is presented in other operating income in the income statement. These sublease agreements are not material.

Description of the Company's lease portfolio

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

The lease agreements include several short options for future extension. The leases are not linked to revenue but to the cost-of-living index and are, therefore, taken into account in the calculation of the lease liability. The leases do not include residual value guarantees or purchase options.

The Company's current car leasing contracts represent a marginal proportion of the lease portfolio.

Right-of-use assets

EUR thousand	Premises and facilities	Machinery and equipment	Total
Cost 1 Jan 2021	33,181	1,671	**34,852**
Increases	1,202	-	**1,202**
Disposals	-	-9	**-9**
Increase/decrease due to remeasurement	887	-	**887**
Cost 31 Dec 2021	35,269	1,662	**36,931**
Accumulated amortization 1 Jan 2021	-15,961	-1,544	**-17,505**
Accumulated amortization on disposals	-	-	**-**
Amortization for the financial year	-3,577	-72	**-3,650**
Accumulated amortization 31 Dec 2021	-19,538	-1,616	**-21,154**
Carrying amount 1 Jan 2021	**17,220**	**127**	**17,347**
Carrying amount 31 Dec 2021	**15,731**	**45**	**15,776**

EUR thousand	Premises and facilities	Machinery and equipment	Total
Cost 1 Jan 2020	30,810	1,759	**32,569**
Increases	2,173	48	**2,221**
Disposals	-	-139	**-139**
Increase/decrease due to remeasurement	198	3	**201**
Cost 31 Dec 2020	33,181	1,671	**34,852**
Accumulated amortization 1 Jan 2020	-12,367	-1,432	**-13,799**
Accumulated amortization on disposals	-	77	**77**
Amortization for the financial year	-3,594	-189	**-3,783**
Accumulated amortization 31 Dec 2020	-15,961	-1,544	**-17,505**
Carrying amount 1 Jan 2020	**18,443**	**327**	**18,770**
Carrying amount 31 Dec 2020	**17,220**	**127**	**17,347**

The remeasurements carried out in 2021 and 2020 relate to index increases in lease contracts and to renegotiated leases.

Lease liabilities

Maturity analysis, contractual undiscounted cash flows

EUR thousand	31 Dec 2021	31 Dec 2020
Less than one year	5,055	4,958
From one to five years	18,048	20,686
Over five years	-	261
Undiscounted lease liabilities, total	**23,103**	**25,906**

Lease liabilities in the balance sheet

EUR thousand	31 Dec 2021	31 Dec 2020
Current lease liabilities	4,034	3,883
Non-current lease liabilities	16,105	18,045
Lease liabilities, total	**20,139**	**21,928**

Items recognized in the income statement

EUR thousand	2021	2020
Depreciations on right-of-use assets	3,650	3,783
Interest on lease liabilities	1,198	1,323
Lease income from subleasing right-of-use assets	530	413
Expenses related to leases of low-value assets	57	55

Items recognized in the cash flow statement

EUR thousand	2021	2020
Total cash outflow for leases	-5,065	-5,144

7.16 Deferred tax assets and liabilities

The deferred tax is calculated from the temporary differences between the carrying amount and the tax base, using either the tax rate in force at the balance sheet date or a known tax rate that will come into force at a later date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilized.

Change in deferred tax assets

EUR thousand	1 Jan 2021	Recognized through profit or loss	Recognized in equity	31 Dec 2021
Leases	898	-46	-	851
Inventories	90	12	-	102
Share-based payments	110	-9	-	101
Provisions	153	26	-	179
Unused tax depreciation	99	-43	-	56
Deferred tax assets, total	**1,350**	**-60**	**0**	**1,289**

EUR thousand	1 Jan 2020	Recognized through profit or loss	Recognized in equity	31 Dec 2020
Leases	914	-16	-	898
Inventories	88	2	-	90
Share-based payments	39	71	-	110
Provisions	154	-2	-	153
Unused tax depreciation	-	99	-	99
Deferred tax assets, total	**1,194**	**155**	**0**	**1,349**

Change in deferred tax liabilities

EUR thousand	1 Jan 2021	Recognized through profit or loss	Recognized in equity	31 Dec 2021
Depreciation difference	0	-	-	0
Deferred tax liabilities, total	**0**	**-**	**-**	**0**

EUR thousand	1 Jan 2020	Recognized through profit or loss	Recognized in equity	31 Dec 2020
Depreciation difference	7	-7	-	0
Deferred tax liabilities, total	**7**	**-7**	**-**	**0**

7.17 Trade receivables and other receivables

Trade receivables are receivables arising from goods or services sold to customers in the ordinary course of business. Other receivables are contract assets, other accrued income and financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables and other receivables are classified as current assets if customer payment in respect of them is expected within one year. Otherwise, they are presented as non-current assets. Non-current trade receivables are receivables related to Apuraha funding and in current trade receivables they represent approximately 62% (2020; approximately 65%) of the balance sheet value of current trade receivables.

The principles relating to impairment are explained in the note on *Financial risk management.7.22.3*

Changes in the contractual assets are explained in the note on *Revenue from contracts with customers 7.2.*

EUR thousand	31 Dec 2021	31 Dec 2020
Non-current		
Trade receivables	3,817	3,201
Other non-current receivables	425	425
Non-current receivables, total	**4,241**	**3,626**
Current		
Trade receivables	23,124	18,650
Contract assets	1,807	1,685
Other accrued income	6,820	7,761
Other receivables	3,699	1,462
Current receivables, total	**35,450**	**29,558**
Non-current and current receivables, total	**39,692**	**33,184**

Aging analysis of trade receivables

	31 Dec 2021		31 Dec 2020	
EUR thousand	Trade receivables	Loss allowance	Trade receivables	Loss allowance
Not due	22,771	229	17,964	656
Past due 1–60 days	4,629	280	4 878	357
Past due 61–120 days	135	87	84	61
Past due over 121 days	233	233	49	49
Total	**27,769**	**829**	**22,975**	**1,123**

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

EUR thousand	2021	2020
Opening bad debt allowance at 1 January	1,123	559
Increase in bad debt allowance recognized in profit or loss during year	354	2,184
Receivables written of during the year as uncollectible	-1,081	-1,189
Unused amount reversed	433	-432
Closing bad debt allowance at 31 December	**829**	**1,123**

During the financial period, the Company recognized net credit losses on trade receivables totaling EUR 806 (1,670) thousand. Verkkokauppa.com sells all its overdue receivables on a “continuous trade” basis, where all receivables overdue for more than 60 days and financed by the Company itself are sold to third parties. This reduces the Company’s accounts receivable risk.

7.18 Inventory

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

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

The cost of inventory is determined using the first-in, first-out (FIFO) method. The cost includes direct costs incurred in connection with the acquisition, net of rebates.

The revenue rate of products and the possible reduction of the net realizable value below cost are regularly assessed and, if necessary, an impairment of inventories is recorded. In addition, the Company separately recognizes write-down for older items according to the inventory dates.

EUR thousand	31 Dec 2021	31 Dec 2020
Goods	87,803	75,384
Total	**87,803**	**75,384**

The company has recorded a total of EUR 1.6 (1.8) million in inventories. The entries have adjusted the book value of the inventory to reflect its actual net realizable value.

7.19 Cash and cash equivalents

Cash and cash equivalents consist of cash assets and balances on bank accounts. Cash and cash equivalents belong to the category of financial assets measured at amortized cost. No impairment is recognized on cash and cash equivalents, as the cash is held with well-rated Nordic banks and the related impairment is considered immaterial.

EUR thousand	31 Dec 2021	31 Dec 2020
Cash in hand and at banks	20,917	43,099
Total	**20,917**	**43,099**

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

7.20 Equity

Treasury shares

The acquisition of treasury shares, together with the related costs, is presented as a deduction of equity.

Dividend distribution

The dividend proposed by the Board of Directors to the Annual General Meeting has not been deducted from equity, but instead is recognized on the basis of the decision of the Annual General Meeting.

Share capital and treasury shares

	Outstanding shares, pcs (1,000)	Number of treasury shares, pcs (1,000)	Number of shares, pcs (1,000)	Share capital carrying amount, EUR thousand
1 Jan 2021	**44,712**	**353**	**45,065**	**100**
Transfer of treasury shares, Board of Directors' remuneration	15	-15	-	-
Transfer of treasury shares, share-based incentive scheme	15	-15	-	-
31 Dec 2021	**44,742**	**323**	**45,065**	**100**

	Outstanding shares, pcs (1 000)	Number of treasury shares, pcs (1 000)	Number of shares, pcs (1 000)	Share capital carrying amount, EUR thousand
1 Jan 2020	44,984	81	45,065	100
Acquisition of treasury shares	-297	297	-	-
Transfer of treasury shares, Board of Directors' remuneration	25	-25	-	-
31 Dec 2020	44,712	353	45,065	100

Verkkokauppa.com Oyj has one share class. The share has no nominal value. Each share entitles its holder to one vote at the Annual General Meeting. All issued shares have been fully paid out. At the end of the financial year 2021, the share capital of Verkkokauppa.com Oyj was EUR 100,000 and the number of shares was 45,065,130 including 323,397 (352,898) treasury shares held by the Company. During the financial year, the Company did not acquire any treasury shares (compared to the acquisition of 296,920 treasury shares in 2020).

Fair value reserve

The fair value reserve is a fund that is based on equity investments measured at fair value.

Invested unrestricted equity fund

The invested unrestricted equity fund includes the subscription price of the shares to the extent that they are not entered into share capital on the basis of a separate decision.

Capital management

The aim of the Company's capital management is to support the business through an optimal capital structure by ensuring normal operating conditions. The Company assesses the development and adequacy of its capital structure and equity ratio. Capital management aims to ensure cost-effectively the Company's operating conditions at a competitive level in all business cycles, adequate risk-bearing capacity and good debt management and dividend payment capacity. The objective of capital management is to increase shareholder value and achieve the best possible profit.

The Company has not applied for a credit rating from any external credit rating institution. Capital management is based on continuous monitoring of the objectives set by the Board and of the external financing and defined thresholds, as well as on the approval and implementation of balancing measures in case of any deviations. On the basis of the information it is provided, the Board of Directors evaluates the effects of any deviation and takes the necessary capital management decisions. The Company's net gearing target is defined and monitored as part of normal reporting. The ratio of net liabilities to equity is -2.2% (-52%) as one of the key indicators for the overall management of the balance sheet. The Company evaluates financing needs on a case-by-case basis considering the cyclical nature of business as well as potential business acquisitions.

At the end of the financial year 2021, the Company had revolving credit facilities totaling EUR 20 million that had not been utilized. The terms of the covenants are described in note *7.22.3 Financial risk management.*

EUR thousand	2021	2020
Net debt	778	21 171
Total shareholders' equity	35,683	40,549
Net debt to equity ratio	2.2%	52.2%

The ratio of net debt to equity remained negative (-2.2%). Both net debt and gross assets decreased during the financial year 2021.

Dividends

Dividends paid

2021

For the previous year	Date of payment	Dividend per share, EUR
	7 Apr 2021	0.276
	4 May 2021	0.057
	27 July 2021	0.058
	2 Nov 2021	0.059
Total dividends, EUR thousand		**20,129**

2020

For the previous year	Date of payment	Dividend per share, EUR
	9 Apr 2020	0.052
	6 May 2020	0.053
	4 Aug 2020	0.054
	3 Nov 2020	0.055
Total dividends, EUR thousand		**9,597**

Dividend proposed

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.246 per share be paid for the financial year 2021, with a dividend of EUR 0.060 per share paid in connection with the Annual General Meeting. In addition, the Board of Directors is authorized to decide on a total quarterly dividend of EUR 0.186 per share.

7.21 Cash flow information

Breakdown of net debt and net debt changes in the financial statements. The Company has no interest-bearing debt.

Net debt reconciliation

EUR thousand	2021	2020
Cash	20,917	43,099
Gross debt	-20,139	-21,928
Net debt	**778**	**21,171**

	Liabilities from financing activities		Other assets	
EUR thousand	**Leases**	**Total**	**Cash and cash equivalents**	**Total**
Net debt 1 Jan 2020	-23,434	-23,434	42,495	19,061
Cash flows	3,821	3,821	604	4,425
Acquisitions	2,221	2,221		2,221
Changes in index	-4,536	-4,536		-4,536
Net debt 31 Dec 2020	**-21,928**	**-21,928**	**43,099**	**21,171**
Cash flows	3,868	3,868	-22,182	-18,315
Acquisitions	1,202	1,202		1,202
Changes in index	-3,280	-3,280		-3,280
Net debt 31 Dec 2021	**-20,139**	**-20,139**	**20,917**	**778**

The Company's net debt as of 31 Dec 2021 was negative EUR 778 thousand.

7.22 Funding

Financial assets

The main financial assets of the Company are trade receivables and cash and cash equivalents.

Classification and measurement

On initial recognition, the Company classifies financial assets into the following measurement categories: financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income. Classification depends on the business model used to manage financial assets and contractual terms for cash flows. Financial assets are derecognized when the right to receive contractual cash flows has expired and the significant risks and rewards of ownership of the financial asset have been transferred outside of the Company.

Verkkokauppa.com Oyj has made an irrevocable decision to measure equity investments at fair value through other comprehensive income. Changes in fair value are recognized in other comprehensive income. Dividends are recognized in the profit and loss account under financial income. Changes in the fair value of equity investments are presented in other comprehensive income and are not subsequently reclassified to profit or loss when the investment is derecognized. Verkkokauppa.com Oyj records changes in fair value in the fair value reserve of equity, from which they are transferred to retained earnings upon sale.

Financial assets measured at amortized cost are items that are held to collect contractual cash flows and whose cash flows are solely payments of principal and interest. This category includes trade and other receivables of Verkkokauppa.com Oyj, which consist of non-current lease insurance receivables. Trade receivables are initially recognized in the transaction price if they do not contain a significant financing component. Other receivables in the group are initially recognized at fair value plus transaction costs and measured at amortized cost using the effective interest method. A gain or loss on a financial asset measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Impairment losses on trade and other receivables are recognized in the income statement under other operating expenses.

Impairment of financial assets

Impairment is described in more detail in the note on *Financial risk management 7.22.3.*

Financial liabilities

The financial liabilities of the Company are trade payables and lease liabilities. The recognition and measurement principles of these are described in the respective notes related to them, *Other current liabilities and accrued liabilities 7.23* and *Leases 7.15.*

The company has no external interest-bearing liabilities.

Financial guarantee contracts

A financial guarantee contract is an agreement that obliges the guarantor to make certain payments to compensate the holder for a loss incurred when a specified debtor fails to make payment when it is due under the original or amended terms of a debt instrument.

The Company has had two guarantee agreements with financial institutions that acted as financiers for the Apuraha consumer financing service. Under the guarantee agreement, the financier and Verkkokauppa.com Oyj together share a jointly agreed portion of the income and credit losses incurred. The Company no longer has a receivable in the balance sheet because the receivable ceases to exist once the money has been received from the financing company. The guarantee risk associated with the guarantee contract is described in more detail in the note on *7.22.3 Financial risk management.*

Impairment of financial guarantee contracts

The Company recognizes an expected credit loss from the financial guarantee contract. The impairments are described in more detail in the note on *7.22.3 Financial risk management.*

7.22.1 Financial assets and liabilities by measurement category

31 Dec 2021 EUR thousand	Recognized at fair value through other comprehensive income	At amortized cost	Lease liabilities	Carrying amount
Non-current financial assets				
Equity investments (level 3)	266	-	-	266
Trade and other receivables*	-	4,241	-	4,241
Non-current financial assets, total	**266**	**4,241**	**-**	**4,508**
Current financial assets				
Trade receivables	-	23,124	-	23,124
Cash and cash equivalents	-	20,917	-	20,917
Current financial assets, total	**-**	**44,041**	**-**	**44,041**
Financial assets by measurement category, total	**266**	**48,282**	**-**	**48,549**
Non-current financial liabilities				
Lease liabilities (level 2)	-	-	16,105	16,105
Non-current financial liabilities, total	**-**	**-**	**16,105**	**16,105**
Current financial liabilities				
Lease liabilities (level 2)	-	-	4,034	4,034
Trade payables	-	77,609	-	77,609
Current financial liabilities, total	**-**	**77,609**	**4,034**	**81,644**
Financial liabilities by measurement category, total	**-**	**77,609**	**20,139**	**97,749**

31 Dec 2020 EUR thousand	Recognized at fair value through other compre-hensive income	At amortized cost	Lease liabilities	Carrying amount
Non-current financial assets				
Equity investments (level 3)	266	-	-	**266**
Trade and other receivables*	-	3,626	-	**3,626**
Non-current financial assets, total	**266**	**3,626**	**-**	**3,892**
Current financial assets				
Trade receivables	-	18,650	-	**18,650**
Cash and cash equivalents	-	43,099	-	**43,099**
Current financial assets, total	**-**	**61,750**	**-**	**61,750**
Financial assets by measurement category, total	**266**	**65,375**	**0**	**65,642**
Non-current financial liabilities				
Lease liabilities (level 2)	-	-	18,045	**18,045**
Non-current financial liabilities, total	**-**	**-**	**18,045**	**18,045**
Current financial liabilities				
Lease liabilities (level 2)	-	-	3,883	**3,883**
Trade payables	-	70,171	-	**70,171**
Current financial liabilities, total	**-**	**70,171**	**3,883**	**74,054**
Financial liabilities by measurement category, total	**0**	**70,171**	**21,928**	**92,099**

Level 2 includes interest-bearing liabilities and derivatives and level 3 investments in unquoted shares and funds.

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

There have been no transfers between valuation groups during the financial year or in the comparison year. The balance sheet values of trade receivables and other receivables classified as financial assets are substantially equivalent to their fair values.

7.22.2 Information on equity investments

The Company has equity investments classified as fair value through other comprehensive income. The Company has irrevocably classified these investments in this category because they are considered strategic from a business perspective.

Determining fair values

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

Level 2: Financial instruments are not traded on active and liquid markets, but their fair values can be calculated on the basis of market data.

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

	31 Dec 2021		31 Dec 2020	
EUR thousand	Level 2	Level 3	Level 2	Level 3
Financial assets				
Equity investments	-	266	-	266
Total	**0**	**266**	**0**	**266**

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

The equity investments in level 3 include unquoted shares. The fair value is estimated for the shares and, if necessary, the change in fair value is recognized. No change in fair value has been recognized on the basis of an estimate. There have been no changes in fair value levels during the financial year or the comparison year.

Level 3 reconciliation statement

EUR thousand	2021	2020
Equity investments		
Carrying amount 1 Jan	266	266
Increases	-	-
Disposals	-	-
Carrying amount 31 Dec	**266**	**266**

7.22.3 Financial risk management

General information

In its business operations, Verkkokauppa.com Oyj is exposed to financial risks, mainly consisting of securing funding, liquidity, credit, counterparty and foreign exchange rate risks. The objective of managing these risks is to reduce the uncertainty that changes in financial markets may cause in earnings, cash flows and value. Financial risks are managed as part of the Company's risk management process. Verkkokauppa.com Oyj does not have a separate treasury function; instead, the CFO is responsible regarding the Company's funding, management of liquidity, relations with financiers and funding risks. The Audit Committee monitors the development of the Company's funding situation. The Company does not have a separately approved financial policy.

Funding and liquidity risk

The Company seeks to secure access to finance and sufficient liquidity. A business that generates positive cash flow and a solid management of net working capital enable an optimal capital structure, availability of funding and no net debt. The Company continuously assesses and monitors the amount of financing required for the business in order to provide the Company with sufficient liquid assets to finance its operations and to pay outstanding payables. In accordance with normal seasonal fluctuations, cash flow and payables peak at the turn of the year and are at their lowest at the end of the second quarter.

The company has no interest-bearing liability. According to the maturity analysis, the most significant part of the liabilities is due upfront within one year. Trade payables are always due within less than one year because they have short payment terms. The maturities of the lease liabilities depend on the contract and are due in equal installments over the term of the contract. However, a significant part of the lease liabilities will be due within less than five years. The maturity and maximum liability of the financial guarantee contracts depend on the creditworthiness of the customer and the percentage of the allocation applicable to the financial guarantee contract. The maturity is distributed among several counterparties. The maximum period of credit granted to a single customer is three years.

Contractual cash flows based of financial liabilities and financial guarantee contracts

31 Dec 2021

EUR thousand	<1 year	1–5 years	>5 years	Total
Lease liabilities	5,055	18,048	-	**23,103**
Trade payables	77,609	-	-	**77,609**
Total	**82,664**	**18,048**	**0**	**100,712**

31 Dec 2020

EUR thousand	<1 year	1–5 years	>5 years	Total
Lease liabilities	4,958	20,686	261	**25,906**
Trade payables	70,171	-	-	**70,171**
Total	**75,129**	**20,686**	**261**	**96,077**

The balance sheet contains liquid assets of 12%. The Company diversifies the risk of financing (counterparty risk) by entering into various binding revolving credit facilities with large Nordic banks with solid ratings. By varying the amounts as well as the term of the revolving credit facilities, the Company manages the counterparty and maturity risk. It is also Company policy to maximize the use of cash discounts in the current interest environment.

At the end of the financial year 2021, the Company's liquidity reserve consisted of liquid funds. At the end of the financial year, liquid funds amounted to EUR 20,917 (43,099) thousand. The funds were distributed among various bank accounts and were immediately available for withdrawal.

Verkkokauppa.com announced on 1 July 2019 that it had agreed on revolving credit facilities (RCF) totaling EUR 20 million. Of these, EUR 15 million are for three years and EUR 5 million for five years. Ordinary covenants are applied to the conditions of committed revolving credit facilities (among others, equity ratio and interest-bearing net liabilities in relation to the EBITDA). The equity ratio is always above 25% and the ratio of net liabilities to operating profit does not exceed 3.3. According to the agreement, financial covenants are calculated in accordance with the accounting principles applied by the Company in preparing its financial statements for 2017 (Finnish Accounting Standards, FAS). The company has changed its accounting principles by adopting IFRS accounting standards. The Company undertakes to provide the lender with a statement of the differences between the accounting principles used in the calculation of the financial covenants (FAS) and the Company's official or half-yearly financial statements (IFRS).

At the balance sheet date, the company has unused committed revolving credit totaling EUR 20 million. The Company has been able to meet the conditions of the covenants.

Credit and counterparty risk

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

The Company's main credit risk consists of trade receivables from company-funded Apuraha consumer financing and ordinary trade receivables from companies. The open position is larger and longer for company-financed Apuraha receivables than for conventional corporate trade receivables. As a result, the credit risk of a company-financed Apuraha is greater than that of a conventional corporate trade receivable. The rotation of trade receivables is also faster for corporate trade receivables. The Company has defined a credit policy for customer receivables with the aim of increasing profitable sales in advance, identifying and managing credit risks. The credit policy dictates the minimum principles of Verkkokauppa.com Oyj's credit sales and debt recovery. The credit risk is determined by the Credit Committee of the Company.

The Company has credit policies in place for its own customer financing, which describe the principles of risk-taking and risk management. Furthermore, the Company has credit rules that define, among other things, the principles of making credit-granting decisions, the amount of credit limits and the measurement principles of trade receivables. The Board of Directors regularly monitors the development of customer financing. The Credit Committee is responsible for reporting on the financial risks to the Board. The risk of customer-financing receivables is not concentrated but consists of a large amount of receivables with a maximum capital of EUR 3,000. To minimize the credit risk, the customer's credit report and any credit history are checked before a credit-granting decision is made.

Verkkokauppa.com sells all its overdue receivables on a "continuous trade" basis, where all receivables overdue for more than 60 days are sold to third parties. This reduces the risk of company receivables. The credit loss allowance related to trade receivables decreased to EUR 0.8 (1.1) million.

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

Impairment

The most significant financial assets of the Company subject to the expected credit loss model required by IFRS 9 are cash and cash equivalents, traditional trade receivables from companies and the receivables from the company-financed Apuraha consumer financing service. In addition, it is necessary to apply the impairment model to the financial guarantee contracts. The Company's cash and cash equivalents are deposited in accounts with solid Nordic banks and are consequently not recognized for impairment. In addition to the aforementioned financial assets, the contract assets are subject to impairment. The management of the Company monitors the development of counterparty risk.

The Company recognizes a lifetime expected credit loss on trade receivables using a simplified method (matrix model). The model based on expected credit losses is anticipative, and the expected portion of credit losses is based on the amounts of historical credit losses. The historical credit loss percentage is adjusted when necessary, taking into account the macroeconomic impact on customers' ability to pay. The expected credit losses over the entire life of the receivable are calculated by multiplying the gross value of the trade receivables with the expected loss portion in all maturity classes. In addition, at each reporting date, the Company assesses whether there is further evidence of impairment of an asset, for instance due to insolvency. In these cases, the Company recognizes the impairment immediately. Impairment losses are recognized in other operating expenses in the income statement. Recoverable credit losses are recognized in other operating expenses in the income statement.

The Company has defined different matrix models for standard trade receivables from corporates and for company-financed Apuraha consumer financing service receivables due to their different risk characteristics. The clients of the company-financed Apuraha consumer financing service are individuals.

To determine the credit default rates for individual customers in the company-financed Apuraha consumer financing service, the customers' historical payment behavior, the aging of receivables and their development were examined. The percentages of credit losses are regularly updated based on historical credit losses and the 12-month rolling model. The maximum exposure to credit risk corresponds to the total amount of trade receivables. The Company has not received any guarantees regarding trade receivables. Expected credit losses are recognized as reducing trade receivables.

During the financial year 2021, the company dissolved its impairment reservations made in 2020 on trade receivables (EUR 311 thousand) and consumer account receivables (EUR 150 thousand) based on changes in the market caused by the COVID-19 pandemic.

When determining the credit loss rates for corporate customers, the customer's historical payment behavior, the aging of receivables and their development were examined.

Changes in expected credit losses are recognized in other operating expenses in the income statement. The total net credit losses recognized in 2021 amounted to EUR 806 (1,670) thousand.

Foreign exchange rate risk

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

The currency risk of Verkkokauppa.com Oyj arises mainly from the purchase of goods, as the company has purchasing activities in several different currencies. However, the management of the Company does not consider the foreign exchange rate risk to be significant, as most purchases are made in euros. In respect of purchases made in foreign currencies, trade payables in the balance sheet are exposed to foreign exchange rate risk. In addition, the Company has advance payments in foreign currency in the balance sheet, with short open positions.

Foreign exchange risk is managed from a commercial point of view through rapid inventory turnover and by seeking to transfer possible exchange rate changes into sales prices or by changing supplier. The Company does not hedge against foreign exchange rate risk. Revenue is not exposed to foreign exchange rate risk, as all revenue is generated in euros.

The company has a currency account in US dollars (USD). The foreign exchange rate risk on the foreign currency account relates to exchange differences arising from the conversion of cash and cash equivalents at the closing rate. Exchange rate differences in cash and cash equivalents are presented in Note 7.9 Financial income and expenses.

At the end of the financial year 2021, the amount of currency-denominated open trade payables amounted to EUR 209 (91) thousand. Exchange rate differences in accounts payable were irrelevant in 2021 and the comparison year.

7.23 Other current liabilities and accrued liabilitiest

EUR thousand	31 Dec 2021	31 Dec 2020
Contract liabilities	2,128	2,248
Accrued personnel expenses	7,302	8,404
Other accrued liabilities	12,476	9,636
Withholding tax liability	994	1,087
VAT liability	7,596	8,960
Other current liabilities and accrued liabilities, total	**30,496**	**30,335**

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

7.24 Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision represents the best estimate of the management with regard to the expenditure required to settle the obligation at the end of the reporting period. At each balance sheet date, the management assesses the amount of the provisions and updates them to reflect the best estimate at the balance sheet date. Changes in provisions are recognized in the income statement in the same line item where the original provision was recognized. Provisions have not been discounted due to the minor effect of such discounting.

The provisions recognized by the Company relate to the Company's own product guarantees and the third-year warranty.

A warranty reserve is recognized at the time of sale of a product based on management's estimate of the product degradation rate, which is based on historical experience. A provision for expected credit losses is recognized based on historical actuals. The profit-sharing model adopts the expected credit loss model according to IFRS 9, the principles of which are described in more detail in the note on *7.22.3 Financial risk management.*

EUR thousand	2021	2020
Provisions 1 Jan	766	660
Increases in provisions	134	107
Decreases in provisions	-5	-
Reversal of unused provisions	-	-
Provisions 31 Dec	**896**	**766**

7.25 Transactions with related parties

Verkkokauppa.com Oyj's related parties are considered to include the members of the Board of Directors and the CEO of Verkkokauppa.com Oyj and other members of the Management Team of Verkkokauppa.com Oyj, close family members of the aforementioned persons and controlling entities of the aforementioned persons. Transactions with related parties have been carried out under normal commercial terms.

Transactions with related parties

EUR thousand	2021	2020
Sales of goods and services		
To key management personnel and their related parties	86	77
Purchases of goods and services		
From key management personnel and their related parties	-	1

EUR thousand	31 Dec 2021	31 Dec 2020
Closing balances from purchases/sales of goods/services		
Trade receivables from key management personnel and their related parties	-	9
Trade payables to key management personnel and their related parties	-	-

7.26 Guarantees and commitments

EUR thousand	31 Dec 2021	31 Dec 2020
Collateral given for own commitments		
Guarantees	3,463	3,082
Other commitments and contingent liabilities	9	8

7.27 Subsequent events

On 9 February 2022, Verkkokauppa.com announced the acquisition of e-ville.com online store. The acquisition supports Verkkokauppa.com's strategy to strengthen and expand its assortment in own brands. The purchase price amounts to approximately EUR 5.3 million, of which EUR 3.3 million will be paid in cash and EUR 2.0 million in new shares to be issued in a directed share issue to the seller at closing. The parties have also agreed to additional purchase price installments of up to approximately EUR 6.7 million payable solely if the combined sales of own brand products exceeds set target levels during 2022, 2023 and/or 2024. The total aggregate purchase price can amount to EUR 12.0 million at the maximum.

The transaction will close in the beginning of April 2022 and the acquired business operations will be consolidated into Verkkokauppa.com's figures from the beginning of the second quarter of 2022. E-ville's operations are estimated to have a positive impact of EUR 5–8 million on Verkkokauppa.com's revenue in 2022.

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

Helsinki, 1 March 2022

Arja Talma
Chair of the Board

Christoffer Häggblom
Vice Chair of the Board

Kai Seikku
Board member

Samuli Seppälä
Board member

Frida Ridderstolpe
Board member

Johan Ryding
Board member

Mikko Kärkkäinen
Board member

Panu Porkka
Managing Director

Auditor’s Report (Translation of the Finnish Original)

To the Annual General Meeting of Verkkokauppa.com Oyj

Report on the Audit of the Financial Statements

Opinion

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

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

What we have audited

We have audited the financial statements of Verkkokauppa.com Oyj (business identity code 1456344-5) for the year ended 31 December 2021. The financial statements comprise:

- balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies

Basis for Opinion

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

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

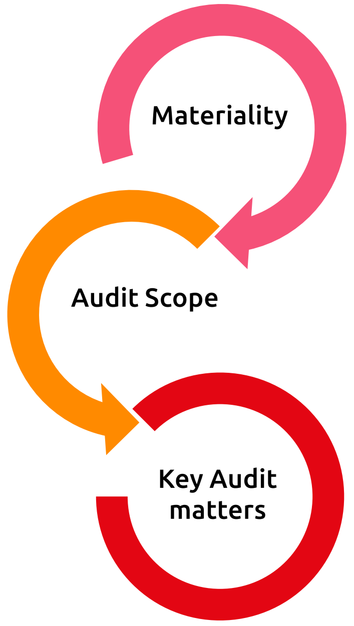
Independence

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

To the best of our knowledge and belief, the non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 7.8 to the Financial Statements.

Our Audit Approach

Overview



- Overall materiality: € 4.6 million
- Audit scope: The audit scope includes Verkkokauppa.com Oyj
- Timing of revenue recognition
- Valuation of inventories

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall materiality	EUR 4.6 million
How we determined it	0.8% of the company´s net sales
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is the benchmark against which the performance of the company is most commonly measured by users. We chose 0.8% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our audit scope

We tailored the scope of our audit, taking into account the industry in which the company operates, and the accounting processes and controls.

Verkkokauppa.com Oyj does not have any subsidiaries and, thus, it does not prepare consolidated accounts. Our audit scope includes Verkkokauppa.com Oyj.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit	How our audit addressed the key audit matter
Timing of revenue recognition *Refer to note 7.2 of the financial statements* The company´s revenue, EUR 575 million, consist of sale of goods and services. The transaction price of sale of goods consists of the list price of the goods, the variable consideration related to the right to return, as well as the transportation fee. The sale of goods is recognized when the customer assumes control of the goods. When a customer is paying using Apuraha financing, the company recognizes the revenue from customer financing on a monthly basis according to the actuals. The transaction price for service contracts with customers consists mainly of fixed prices. The company recognizes revenue from service contracts with customers when the service has been rendered or over time. Verkkokauppa.com´s revenue comprise a large amount of transactions and revenue is a significant item in the financial statements. Management exercises judgement e.g. when defining the variable consideration related to sale of goods. Given the factors described above, we have considered timing of revenue recognition to be a key audit matter.	Our audit procedures included test of controls related to timing of revenue recognition and test of details procedures. Our test of details included e.g. the following procedures: • We gained an understanding of the nature of the revenue streams and different contractual terms used. • We assessed the Company's accounting policies over revenue recognition. • We compared the accounting treatment of a sample of sales transactions and variable consideration to the terms of underlying contracts. • We tested a sample of sales transactions against incoming cash. • We tested a sample of sales invoices recorded in December 2021 and January 2022 to evaluate that revenue had been recognised in the right period. • We compared selected accounts receivable balances against payments received after the period end.
Valuation of inventories *Refer to note 7.18 of the financial statements* Inventories form a significant part of the company's assets, amounting to EUR 87.8 million as of 31 December 2021. Inventories are measured at the lower of cost and net realizable value. The cost of inventory is assigned by using the FIFO (first-in, first-out) method. The cost contains direct costs of purchase less rebates. The goods inventory turnover and possible reduction in the net realizable value below cost is assessed regularly and a write-down of inventories is recognized when necessary. In addition, the company recognizes a write-down of aged products, based on days in stock. Inventories are a significant item in the financial statements. Management exercises judgement and applies assumptions when estimating the need for an obsolescence provision. Given the factors described above, we have considered valuation of inventories to be a key audit matter.	Our audit procedures included test of controls and test of details procedures related to valuation of inventories. Our test of details included e.g. the following procedures: • We assessed the adequacy of the obsolescence provision and checked adherence to the company's accounting policy. • We compared, on a sample basis, the value of inventory items against purchase invoices and sales invoices to ensure that inventory items are measured at the lower of cost and net realizable value. • For a sample of warehouses, we attended the physical stock-take counting or reconciled third party confirmations with the accounting records

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the financial statements.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 15 March 2016. Our appointment represents a total period of uninterrupted engagement of 6 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

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

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

In our opinion

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

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

Helsinki 1 March 2022
PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant (KHT)

Verkkokauppa.com

empowers its customers to follow their passion by providing a wide product assortment of around 80,000 products. Verkkokauppa.com Oyj serves its retail and corporate customers through its webstore, megastores, 24h kiosk and network of collection points as well as fast deliveries and various services. As Finland's most popular and most visited domestic online retailer, its deliveries cover around 75 percent of the Finnish population within the next day. The Company has four megastores: in Oulu, Pirkkala, Raisio, and Helsinki, where its headquarters is also located. Verkkokauppa.com employs more than 750 people and its shares are listed on the Nasdaq Helsinki stock exchange with the ticker VERK.

Verkkokauppa.com PROBABLY ALWAYS CHEAPER

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