panostaja

WE ARE AN INVESTMENT COMPANY CREATING SUCCESS STORIES
THROUGH THE OWNERSHIP AND DEVELOPMENT OF FINNISH SMES

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ANNUAL REPORT 2011

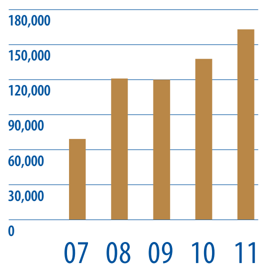
PANOSTAJA IS A FINANCIALLY SOUND, ENTERPRISE-BASED FINNISH INVESTEMENT COMPANY, WHICH CREATES VIBRANT COMPANIES AND CORPORATE ENTITIES. WE ACHIEVE THIS BY ACQUISITIONS AND DEVELOPMENT WORK.

TO A COMPANY WE HAVE ACQUIRED, WE BRING NEW, COMMITTED LEADERSHIP AS WELL AS BUSINESS MANAGEMENT AND STRATEGIC SKILLS. THE MAIN OBJECTIVE IS TO DEVELOP THE COMPANY TARGETED FOR INVESTMENT SO THAT IT BECOMES A MAJOR PLAYER IN ITS FIELD IN 5 TO 10 YEARS, AFTER WHICH IT WILL CONTINUE TO OPERATE INDEPENDENTLY. OUR OPERATIONS ARE GOVERNED BY THE VALUES OF PANOSTAJA'S PARENT COMPANY.

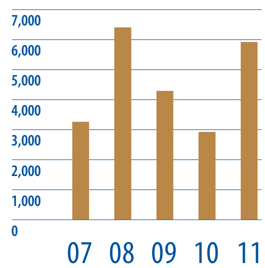
Content

Key figures

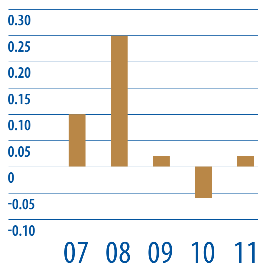
Net sales, EUR 1,000



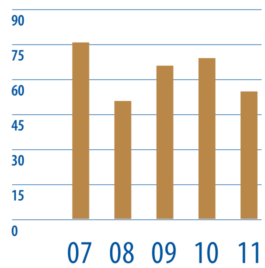
Operating profit, EUR 1,000



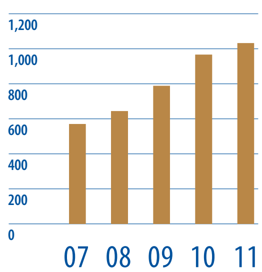
Earnings per share, EUR



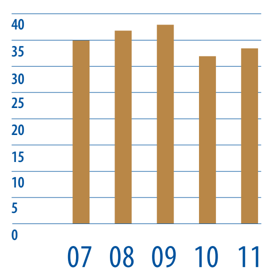
Market capitalization, MEUR



Average number of employees



Equity ratio, %



€1,000	2011	2010
Net sales	**163,247**	137,939
Operating profit	**5,927**	2,927
Profit before taxes	**3,144**	778
Profit from continuing operations	**2,617**	1,141
Loss from discontinued operations	**-401**	-4,346
Profit/loss for the financial year	**2,216**	-3,205
to shareholders in the parent company	**937**	-2,775
to minority	**1,279**	-430
Earnings per share, diluted, EUR	**0.02**	-0.06
Earnings per share, undiluted, EUR	**0.02**	-0.06
Equity per share, EUR	**0.65**	0.59
Capital repayment per share, EUR	1) **0.05**	
Divided per share, EUR		0.05
Equity ratio, %	**33.4**	31.3
Gross capital expenditure	**9.1**	15.7
Number of shares at end of financial period, 1,000	**51,733**	47,403
Average number of employees	**1,034**	967

1) Board's proposal to the AGM

Major events

- Net sales for the financial year was MEUR 163.2 (MEUR 137.9), growth 18%
- Operating profit MEUR 5.9 (MEUR 2.9), growth 103%
- Profit for the financial year was MEUR 2.2 (loss MEUR -3.2)
- Earnings per share (undiluted) 1.9 cents (-6.0 cents)
- Equity per share EUR 0.65 (EUR 0.59) and equity ratio 33.4% (31.3%)
- Panostaja Oyj's holding in Ecosir Group Oy dropped to below 50%
- Panostaja Oyj expanded the Digital Printing Services and Takoma business areas through corporate acquisitions.

- The Board of Directors proposes that no dividends be paid for the financial year. The Board also proposes to the Annual General Meeting that EUR 0.05 per share be paid as capital repayment.

- The Board also proposes that the Annual General Meeting authorize the Board of Directors to decide, at its discretion, on the potential distribution of assets to shareholders, should the company's financial status permit this, either as dividends from profit funds or as distribution of assets from the invested unrestricted equity fund. The maximum distribution of assets performed on the basis of this authorization totals no more than EUR 5,200,000.

This is how we work

ACQUISITION

- Majority shareholder status in Finnish SMEs
- Areas that are at the growth or reorganizational stage
- Capital invested from our own balance sheet

INTEGRATION

- An opportunity for relinquishment for an entrepreneur who has sold his or her business
- The enterprise purchased becomes a part of the Group by means of standardized processes
- The tools and systems required for the development and management of the company are supplied to the managing director
- The opportunity to strengthen commitment via ownership

DEVELOPMENT

- Overall arrangements for financing
- Active work and effort on the Board of Directors
- Creation and establishment of strategies
- Familiarity with the field
- Development of finances, marketing and management systems
- Growth through corporate acquisitions

RELINQUISHMENT

- To bring, as quickly as possible, the company to a state where it can function independently
- To exit and arrange for transfer to the new owner at the right time
- Intentional growth of shareholder value

Our investment criteria

- We are always the majority shareholder
- Various fields in the Finnish SME sector in a decentralized manner
- Net sales of corporate acquisition at MEUR 10–30
- Fields in which there is significant growth potential either via organic growth or corporate acquisitions
- SMEs that have healthy finances
    - Positive cash flow predicted
    - No reorganization targets
- SMEs that have the possibility to achieve a significant market position in their field

The total number of potential enterprises suitable suitable for acquisition is growing

- During the next 10 years, 50,000–60,000 SMEs will be at the retirement/generational transition stage
    - Approximately 1,000 businesses fulfill Panostaja's investor criteria

- A total of 2,500–3,000 corporate restructurings are carried out annually
    - According to Panostaja's assessment, there are about 100–150 potential SMEs each year.

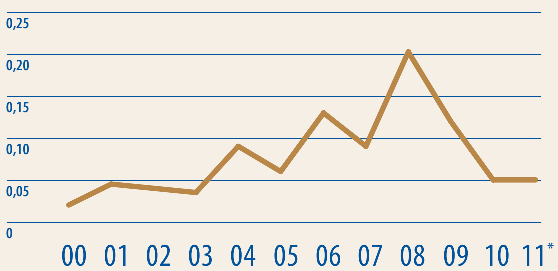
How our income is generated

ANNUAL EARNINGS BASED ON PROPRIETARY RIGHTS GENERATED FROM THE ANNUAL PROFITS OF GROUP COMPANIES. EXIT INCOME FROM THE REALIZATION OF CHANGE IN VALUE OCCURRING IN CONNECTION WITH DIVESTMENT.

Formation of profit, MEUR	*2007*	*2008*	*2009*	*2010*	*2011*
Group companies' annually accruing profit for the financial period	5.9	9.5	1.3	-3.2	2.3
Exit income	0	4.3	0	0	-0.1
its distribution					
to the shareholders of the parent company	4.3	12.7	0.7	-2.8	0.9
to the minority shareholders	1.6	1.1	0.6	-0.4	1.3

Our objective is intentional growth in shareholder value

Dividend and capital repayment history 2000–2010



*) Board's proposal

Financial indicators	*Goal*
Return on equity (ROE)	**22%**
Equity ratio include convertible loan	**40%**
Accumulative five-year target (2011–2015) earnings per share (EPS)	EUR **1.00**

Profit distribution policy

THE GOAL IS TO DISTRIBUTE AT LEAST HALF OF THE GROUP'S ANNUAL PROFIT, AS THE REPURCHASE OF SHARES, CAPITAL REPAYMENT AND/OR DIVIDENDS. THE OBJECTIVE IS TO PRESERVE THE EVENLY GROWING DIVIDEND FLOW, NEVERTHELESS TAKING THE GROUP'S REQUIRED INVESTMENTS FOR GROWTH INTO CONSIDERATION.

€1,000	*2007*	*2008**	*2009*	*2010*	*2011*
Dividend to shareholders in the parent company	3,970	5,569	5,534	2,560	0
Acquisition of the company's own shares	2,050	458	675	0	0
Capital repayment to shareholders in the parent company		3,081	0	0	2,557 **
Total	6,020	9,108	6,209	2,560	2,557
Profit/loss for the financial year (to shareholders in the parent company and to minority shareholders)	5,934	13,797	1,345	-3,205	2,216
Profit distribution percentage	101%	66%	462%	N/A	115%

*) During the 2008 financial year, capital return by Panostaja in the form of Takoma Oyj's shares, whose total value was MEUR 3.1, is taken into account in the calculation
**) Board's proposal

Once again, it is time to review the past and go through Panostaja's financial year which came to an end on October 31, 2011. In my opinion, a 12-month period is often too short to examine the development of business areas and our achievements, particularly those to do with business development. The fast measures aiming at boosting efficiency are evident in the financial figures reported quarterly, but far-reaching projects to develop shareholder value can only be seen in the longer term, and are sometimes only realized when a decision is made to divest a business area. It is, however, certainly good to stop for a moment and evaluate the year gone by.

Although the economic environment has been challenging over the past year, as far as I am concerned the year was mainly successful. At Group level, we were able to carry out projects which were strategically important for us. At the end of 2010, we decided that we wanted to refinance the subordinated loan issued in 2006. This meant a busy Christmas and New Year for the parent company's organization, but the project succeeded. We also got a major new institutional investor involved, when Finnish Industry Investment Ltd subscribed to our new convertible subordinated loan.

This round of financing was the first more extensive round at Group level, in which Panostaja's partially renewed management – our CFO Simo Mustila and I – entered into broader dialogue with the capital market. Personally, I found the process agreeable and once again my work offered the chance to meet new and skilled people, from whom you can always learn something new. The project also showed that competent partners not afraid of hard work are indispensable – thank you Danske Bank and Fondia.

For me, an important thing was the new commitment and incentive scheme implemented for Panostaja management at the beginning of the year. We held thorough discussions on the matter both within the Senior Management Team and at Board meetings, and I at least feel that the scheme is balanced, sufficiently challenging and also of considerable benefit to the company. The scheme offers the opportunity to management to receive extra income in the form of Panostaja shares, but even more important for me is the fact that now the entire Senior Management Team – together and separately – are real entrepreneurs. In the parent company now and before, we have been extremely interested in achieving the targets of the business areas and the targeted result of the whole Group. Now the achievement of targets will be even more interesting, as will the dividend yield of Panostaja shares. In my opinion, management commitment and incentive schemes based on direct share ownership ensure the harmonization of the interests of the management and shareholders alike. Indeed how could anyone be of a different opinion, when Panostaja's business areas have operated like that for 25 years already?

Most of my working hours are spent with people. I meet the management of our companies and at Board meetings the external Board members who are so important to us. I meet entrepreneurs who have forged long careers, and who are considering selling the company they have created. From time to time, I discuss with younger yet still experienced business managers who are considering entrepreneurship and managing directorship. My days are also filled with meetings with other important stakeholders: financiers, investors, owners and other partners. In November, we were again present at the Investment Fair in Helsinki, where I had many interesting conversations with our shareholders and people considering becoming shareholders. Throughout the year, I have had the chance in my work to meet interesting and skilled people – this is one of the best aspects of my daily work.

But there is another side to the coin. The managing directors of the business areas are becoming more familiar and communication is sometimes very close. As representatives of the main shareholder, I and my Senior Management Team must, however, also evaluate the objectives of the managing directors and how they are being achieved. And it is my responsibility to make decisions, if objectives are not being reached. In this respect, the past year has not been easy – I had to make a decision on changing the managing director of three companies. Two of these took place during the financial period and the change at Lämpö-Tukku after it had ended, in circumstances that highlighted the significance of trust as the heart of cooperation with an entrepreneur. In our own activities, we stress the honor, trust and openness of entrepreneurship. These difficult matters cannot be dealt with in any other way than in observance of these values. I think that a responsible owner bears his responsibility, particularly in the face of difficult decisions. I do not know whether I succeeded in acting in accordance with our values – however, I tried my best and usually that is enough.

During the year, we were able to take the operations of many business areas significantly forward. Thanks for this are due to our active managing directors and especially to the external Board members of the business areas, who bring fresh ideas for the development of business. Next year, we will be utilizing this network even better, because our experience of the first meeting of external Board members, Panostaja Alumni, was nothing but positive.

WE EMPHASIZED IN ALL OUR BUSINESS AREAS THAT IT IS IMPORTANT TO BE CLOSER TO ONE'S OWN CUSTOMERS AND TO BE GENUINELY INTERESTED IN THEM. THESE CHALLENGING TIMES MEAN THAT EACH PERSON MUST FOCUS ON DOING THE THINGS THAT HE OR SHE CAN INFLUENCE, AND ENSURE THAT THE WHOLE ORGANIZATION IS MOVING IN THE SAME DIRECTION.

When, after the summer in 2011, the general economic climate changed from positive to pessimistic in a manner reminiscent of late summer 2008, we emphasized in all our business areas that it is important to be closer to one's own customers and to be genuinely interested in them. These challenging times mean that each person must focus on doing the things that he or she can influence, and ensure that the whole organization is moving in the same direction. There have also been disappointments in the performance of our business areas, so observance of the said ideas becomes even more important when guiding these business areas to the right path in the financial period that has just begun.

Although the year was full of work for many of us, life should also involve things other than work. For my own part, I have tried to emphasize leisure time and the importance of good or at least moderate physical fitness in the maintenance of working ability. Another year has rolled by, and they do not usually do so without leaving their mark. My own objective last summer was to get back into triathlon, something I did when I was a student. I completed the half-distance triathlon at Joroinen in a time faster than I had been aiming for. I plan to do the same thing again next year. But it requires a lot: set a target, do things systematically, monitor development, correct mistakes, remember to rest and be ready to listen to yourself and to others. This also applies to quite many other things – management perhaps, bearing in mind that giving up is not an option.

The financial year which has already started sets challenges for all of us. In our last internal newsletter, I have personally promised not to further remind our personnel about quick change and the continuation of uncertainty in the economy. Uncertainty and rapid transitions are normal in the modern world – and a consistently certain and predictable world may currently be regarded as an exception. Success is achieved by those quick and flexible businesses that also dare, during these uncertain times, to see and implement the opportunities of the future. Here at Panostaja, this is what we wish to concentrate on in addition to realizing these possibilities together with our business areas.

I would like to express my thanks for the past year to all the staff in the Group, to all partners and greetings too to all shareholders. Hopefully we will see you at the Annual General Meeting.

Juha Sarsama
CEO

Stepping down, commitment, dedication and new beginnings

Entrepreneurship first

Panostaja began 2011 by introducing a new long-term incentive and commitment scheme for Group management early in the financial period. The arrangement superseded the old option scheme, setting a performance target for management which, when realized, will result in Panostaja's best five-year earnings per share (EPS) to date. The cumulative target up to 2015 has been set at €1.00. In Panostaja's history, the best five-year EPS so far has been €0.85.

In the words of CEO **Juha Sarsama**, in accordance with Panostaja's business concept each member of the Senior Management Team is now an entrepreneur, who also bears the entrepreneurial risk in his or her investment. The company has required the same from the managing directors of its subsidiaries.

"Ownership certainly sends a clear message about faith in one's own company," said the CEO at the start of 2011.

The combined holding of Juha Sarsama, CFO **Simo Mustila**, Development Director **Heikki Nuutila** and Investment Director **Tapio Tommila** made the management team the seventh largest owner of Panostaja with more than 2% of the shares and voting rights.

"Even before the introduction of this scheme, the Senior Management Team was already very committed, but the new scheme has had an impact on motivation and ensuring that things are done more purposefully in order to reach the long-term goals. The dividend yield on shares is also now more than ever the focus of the executive management," says Sarsama.

Strong ownership

A significant share issue and convertible subordinated loan were also timed to coincide with the start of Panostaja's 27th year of operation. Both were fully subscribed.

At the same time, Panostaja welcomed a new investor when government-owned Finnish Industry Investment Ltd added Panostaja's new convertible subordinated loan to its portfolio. According to Juha Sarsama, Finnish Industry Investment's and Panostaja's business concepts are very much in harmony; the core business of both being the promotion of Finnish business. For Panostaja, Finnish Industry Investment's involvement is strategically valuable and will strengthen growth. The hope for the creation of new Finnish success stories, and thereby the growth of shareholder value, is great. The hopes of the new partner are also high.

"We have faith in Panostaja's ability to continue creating successful businesses by participating actively in company development work," said **Heikki Vesterinen**, Investment Director at Finnish Industry Investment in February.

Through the share issue, Etera Mutual Pension Insurance Company and Fennia Mutual Insurance Company increased their holding by a total of 7 percentage units. Their combined ownership is now 14.9%. At the end of the financial period, Etera was Panostaja's third largest and Fennia the fourth largest shareholder after **Matti** and **Maija Koskenkorva**.

At the end of the 2011 financial period, Matti and Maija Koskenkorva and their children owned 28.7% of the shares in Panostaja, which makes Panostaja a rather unique company – Panostaja is a Finnish listed company with a so-called strong anchor shareholder; it can even be classed as a family business, something which is becoming rarer these days.

"The traits of a family business are evident in the fact that the will of the major shareholders is transmitted through the Board to company management, and once common policies have been agreed, the direction is clear. Fast decision-making is also easier in this environment, when the owners' will can, if necessary, be quickly established. The majority of shareholders are small investors. Therefore, transparency and equitability throughout the entire shareholder field is an absolute requirement in all decision-making and communication," summarizes Sarsama.

A new man at the top

The start of the new year was also a historic time in other respects. At the Annual General Meeting in January, Panostaja's founder, long-serving CEO and Chairman of the Board, Matti Koskenkorva stepped down from the Board.

"Stepping down was not difficult, because I have one hundred percent confidence in the company's organization, management and Board. I had made a clear plan and timetable for myself. Now it was time to go," says Koskenkorva.

Jukka Ala-Mello was appointed to continue Koskenkorva's work as Chairman of the Board.

"Matti's long-standing work as an entrepreneur and the history of the building of the company have naturally given Panostaja its own special face. We are different people and our approaches are somewhat different, which will certainly be evident in our methods. The change of watch was planned and prepared for over a long period, so nothing happened suddenly, and nothing came as a surprise during the course of the year," says Ala-Mello.

Confidence in the future

The unstable movements in the global economy maintained tension throughout the year. Since late summer, the thoughts of Juha Sarsama too turned towards thinking that uncertainty and rapid economic fluctuations have become a permanent state. Confidence in the future was nonetheless strong: "...the fourth quarter will also remain strong, and I don't yet see real signs of recession or downturn in the air. Growth will, however, certainly be slower than we thought at the start of the summer," he wrote then.

"The slow speed of political decision-making in the eurozone may also take things quickly in an adverse direction. After the summer, I communicated to all business areas that it is essential to monitor the situation, and particularly the situation with our own customers, very sensitively and, based on this, to focus on those decisions which are in our own hands."

"And we must remember that now is also a chance to raise the stakes if the market allows," says Sarsama at the end of the financial period.

Panostaja's strategy is to keep things simple. Understanding the needs of customers and utilizing the overwhelming strengths of our own company are the cornerstones of successful business. This is the foundation Panostaja will be setting itself on in 2012.

Stronger business areas

One of the financial period's most significant corporate transactions was the acquisition of Suomen Graafiset Palvelut as part of Kopijyvä, owned by the Panostaja Group. The introduction of offset printing at Kopijyvä, which has had a strong focus on digital printing during the past few years, was, first and foremost, a response to customer needs and strengthens Kopijyvä's aim of growing faster than the market in its sector as a full-service print house.

In similar fashion in early 2011, Flexim Security, seeking national growth in the security sector, expanded by acquiring Lahti-based Lukkohuolto Lempiäinen.

Engineering group Takoma took a significant step forward by purchasing Keminmaa-based TL-Tuotanto, which specializes in hydraulic and automation systems. According to Managing Director, **Kimmo Korhonen**, customers have been saying for a long time that they want to buy complete systems from Takoma rather than individual components. With this need in mind, Takoma invested about €5 million in a new factory at Akaa.

During the year, Panostaja divested its majority shareholding in environmental technology company Ecosir Group. Panostaja's holding decreased to 49.78%, rendering the subsidiary an associated company.

In the autumn, Panostaja announced that it was selling its Lämpö-Tukku business. The transaction was, however, cancelled before it could proceed because of errors that emerged in the inventory. The inventory differences totaled about €2 million. Of this, about €0.2 million was allocated to the financial period concluding at the end of October.

"The investigation into the inventory errors is still ongoing, but the first conclusions have already been made, and Lämpö-Tukku's managing director was changed at the beginning of November 2011. The operational power of the managing director of a subsidiary to take care of business in his or her own sector is part of Panostaja's business model. Such power always brings with it the responsibility for the operations. In the case of Lämpö-Tukku, this element of responsibility was implemented in an unfortunate way. All adversity must be learned from," believes Juha Sarsama, and adds that this case got the whole organization thinking in a new way about the meaning of control processes as part of business.

A new era for financial management

A report of mere numbers can easily leave people cold about company history. No company can function without people and some of these people are always inevitably part of the company's soul, in one way or other. This autumn was the end of an era at Panostaja, when Accounting Manager Riitta Jokela retired.

Riitta Jokela, who arrived at Panostaja in December 1985 when the company was but a year-old toddler, has witnessed the company develop to its present size. Interviewed just before she departed, Jokela laughed that she was part of the cultural history of Tampere factory work bought by Panostaja along with the Aaltonen shoe factory buildings and share portfolio.

"Surviving the difficult years was perhaps the best thing of all. It was great to see how the company's management were able to steer us away from reorganization, ahead of time even," says Jokela, summing up Panostaja's history in late summer, never once doubting that the future of the company would not be bright with new winds beginning to blow.

It was CFO Simo Mustila who fanned this new thinking within the Group's financial administration. With the aim of developing into the best Finnish listed company in its class in the near future, the expertise of the financial management team and the deep understanding of the nature of a listed company are vitally important.

At the Panostaja Group financial management event, Mustila emphasized the importance of a modern financial management culture. Financial management that merely looks at numbers cannot reach the strategies of business management, neither can it give the CEO the support that it could or that is needed. In real financial management, the focus is on the future and Panostaja's Group management will continue to stress this. The power of the Panostaja Group lies in difference, which requires considerably much.

"Anticipation can be created through being able to understand, and to use, information received from the movements in the financial sector as well as possible. It helps to take corrective action quickly and to improve forecastability, which is extremely important for a listed company," said Mustila at a meeting in the spring.

A different kind of year

FOR MATTI KOSKENKORVA

Leaving the Board of Directors of any listed company means placing oneself one-hundred-percent in the role of a shareholder, when one's position as insider and decision-maker comes to an end. The change is a significant one. As CEO and Chairman of the Board, I monitored the company's activities on a daily basis. Today I only follow the success of Panostaja through stock exchange bulletins. It is considerably different to wait for the publication of an interim report than to be the person actually preparing it.

Panostaja's business idea is unique. In today's world, there is a social need for it. The older age groups are retiring, and they must ensure the continuity of their company, one way or another. The Panostaja concept suits this stage excellently.

Furthermore, in the role of the anchor shareholder, I feel that the make-up of the Senior Management Team and Board of Directors is the best possible, as far as age structure and ability are concerned. I believe that Panostaja's 27 years have been just the beginning for this profitably growing company.

I first spent eight years as Panostaja's COO, then exactly ten years as CEO, and finally eight years as Chairman of the Board. I decided years ago that, when I would reach the age of 63, I would assume the role of a shareholder at the following Annual General Meeting. This way, I carried out my own generational change independently and methodically.

I recommend this method to all ageing owners and company directors. In my opinion, it is better methodically to pass responsibility to the younger generation than to drift along at random. In the role of a shareholder, I can follow what the young people are up to, and perhaps help them if they need it.

I have been an entrepreneur for more than 36 years. The first company that I was involved in owning was established in August 1975. The first company of which I was a majority owner was Perusyhtymä Oy (now YIT Corporation). Being an entrepreneur and assuming limited risk at that time proved to be a good concept and, from it, we got the idea for the Panostaja operating model. Panostaja was founded in December 1984.

Entrepreneurship is challenging. By limiting the risks, entrepreneurship with the majority owner can be meaningful and motivating, without being too stressful. By operating so, it is possible to make a significant profit from your entrepreneurship, without risking all the assets.

Panostaja has already become a more profitable, larger and more successful company that I dared dream of. On the other hand I believe that, based on 27 years of ground work, it will in future be good to build an even more significant Group for shareholders and employees.

It is always difficult to comment on one's own achievements. Serving as CEO in the 1990s during the recession was challenging, as was the threat of bankruptcy. We overcame the difficulties, however, and emerged as a healthy company in the end.

I dare say that Panostaja taught me almost everything about entrepreneurship, cooperation, stakeholder groups… The support of my own family and good friends was indispensable, particularly during the difficult years.

In retrospect, things could have been done differently, but Panostaja has been an excellent company for its employees and shareholders. In accordance with the Limited Companies Act, the objective is to achieve return on equity. In this, Panostaja has exceeded expectations, so I believe there is reason to be satisfied with the results achieved.

As the anchor shareholder, I will continue to monitor Panostaja through stock exchange bulletins. At Annual General Meetings, the election of the Board of Directors is always the most important thing for shareholders. I am also a member of the Board of the Etera Mutual Pension Insurance Company, on the supervisory board of the Fennia Mutual Insurance Company, and I support several other companies.

The growth potential for the Panostaja concept is almost limitless. Panostaja has a skilled organization and Board motivated by an entrepreneurial spirit. Panostaja is on a good profitable path to growth. On this basis, I predict a good future for Panostaja, both in the short- and long-term.

Matti Koskenkorva

Growth by building on reputation

Development of company value is one of the most important tasks of the Board of Directors and management. It is also strongly in the interests of the shareholders. The reputation strategy should be introduced into the annual cycle of Boards and management teams, and its development should be monitored at all times. Success feeds success!

The positive success of an enterprise and favorably advancing share price are partly the result of successful efforts made to further improve the company's reputation. On the other hand, they also serve to strengthen reputation. Eighty percent of success is the result of human management. These matters are ultimately rather easy, though they can frequently be considerable in number.

In large companies too, building a brand name is all too often regarded too narrowly – as a tactical issue, and sometimes only in the form of determining its visual image. Questions of branding may even have no presence on the Boards' and management teams' agendas.

The replacement of brändi ('brand name') in Finnish by the Finnish word for reputation ('maine') has helped to spur wider discussion in Finland of the right matters to talk about with corporate management and the shareholders. Reputation covers all experiences, encounters with customers, and the mental images about the enterprise. At its simplest, reputation is synonymous with mental images and experiences.

Building a reputation proceeds from the business strategy of the company and a genuine, authentic story. Research indicates that the world's most successful companies share the ability to keep the promises they make to their customers as well as actually doing what they promise. The bigger the company in question, the more challenging this is.

For example, it is usual that new business operations are purchased by growing corporations in the form of dozens of firms, all boasting different names. The promise made to the customer begins to blur and lack precision – which in turn renders fulfilling the promise made by the company difficult. The reputation of the enterprise suffers – as does the value of its shares. In order to avoid damage, the company's Board of Directors and management must clarify the customer promise in good time. Mental image targets must be derived from the business strategy and the complicated nomenclature must be clarified.

Building a reputation is frequently based on choosing to actively eliminate certain matters. It is a different issue to prioritizing – which is based on selecting the same matters and positioning them in the order of priority. When clarifying the customer promise, the company or group of companies must frequently surrender those matters it has regarded as important. This is psychologically demanding. Managing reputation is often change management, where the team effort between the Boards and management is absolutely crucial.

Even the best of reputation strategies are not enough if every staff member does not stand behind it. Since the customer promise and mental image targets steer the staff's work, they should be in harmony with the company's values.

Take the values of the ten largest companies operating in the Nordic countries. They are largely identical. They have many elements connected with their way to work which do not separate these companies from their competitors. In addition to such values, these enterprises have mental image targets through which differentiation is sought. Values and mental image targets should be synonymous with each other. What is most essential is to locate a customer promise that is touching and moving as well as the related measurable mental image targets.

Mental image targets that support serving the customer should not total more than three or four – what is also fundamental here is clarity. The mental images offered to the customer should appeal to reason and emotion alike.

Any company has three ways to influence mental images: through its own, procured and deserved visibility. They are like three siblings. The company may impact the mental images of customers to a certain extent through its own communications, advertising, shops, maintenance outlets and customer encounters; but what is more important is the fact that the company also deserves the publicity and reputation it has.

Rapid dissemination of information and added transparency have further increased the significance of a sense of responsibility in the operations of companies. The sense of responsibility on the part of a company is also becoming increasingly comprehensive, extending to, for example, the subcontractor chain in high-risk nations. Although the elimination of all possible risks is impossible, it is necessary to be able to prepare, at least, for the greatest risks materializing.

The destruction of a company's good reputation can be a matter of moments, as social media and the Internet intensify the rapidity of information distribution and receipt, multiplying the opportunities on the part of customers and people in general to exert an impact. A good example from 2010 is BP and its slow reaction to the massive oil catastrophe on the coast of the U.S.

Tarja Pääkkönen

Tarja Pääkkönen is a partner and member of the Board of Directors of the Boardman company, which specializes in the development of working on corporate boards and in business management. A Doctor of Technology, Tarja Pääkkönen completed her doctoral thesis in the field of business strategies. She has also studied international marketing and has held management positions in innumerable assignments domestically and abroad. Since the spring of 2011, Ms Pääkkönen has been a member of the Board of Directors of Flexim Security.

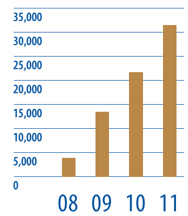
Business-area key figures

Digital Printing Services Kopijyvä Oy

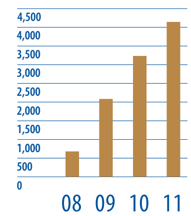
€1,000	2008*	2009	2010	2011
Net sales	3,938	13,508	21,741	31,529
Operating profit	683	2,088	3,237	4,148
Personnel	131	192	256	325
Holdings				65.80%

*6 months

Net sales, €1,000



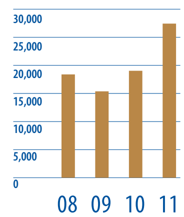
Operating profit, €1,000



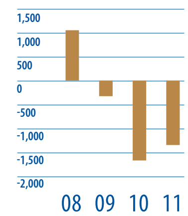
Takoma Oyj

€1,000	2008	2009	2010	2011
Net sales	18,397	15,408	19,060	27,451
Operating profit	1,059	-328	-1,675	-1,353
Personnel	86	82	168	190
Holdings				65.10%

Net sales, €1,000



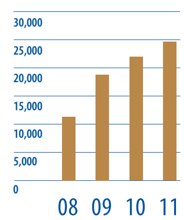
Operating profit, €1,000



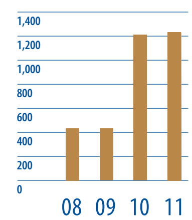
Safety Flexim Security Oy

€1,000	2008	2009	2010	2011
Net sales	11,304	18,796	21,944	24,635
Operating profit	434	431	1207	1,231
Personnel	84	146	151	188
Holdings				70%

Net sales, €1,000



Operating profit, €1,000

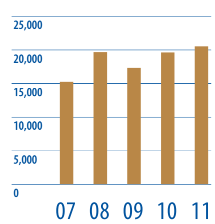


HEPAC Wholesale Lämpö-Tukku Oy

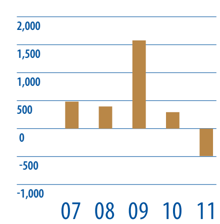
€1,000	2007	2008	2009*	2010	2011
Net sales	15,281	19,692	17,347	19,604	20,529
Operating profit	478	392	1,569	292	-490
Personnel	31	38	38	37	37
Holdings					63.30%

* Includes a sales profit from property sales of EUR 1.4 million

Net sales, €1,000



Operating profit, €1,000

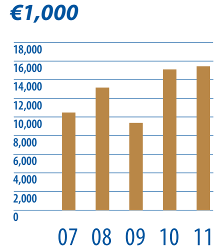


Value-added Logistics Vindea Oy

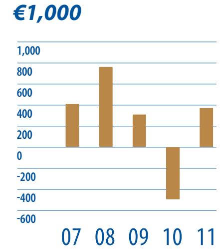
€1,000	2007	2008	2009*	2010	2011
Net sales	10,491	13,153	9,384	15,115	15,442
Operating profit	410	762	309	-499	371
Personnel	86	105	175	123	131
Holdings					70%

* Includes a sales profit from property sales of EUR 0.7 million

Net sales, €1,000



Operating profit, €1,000

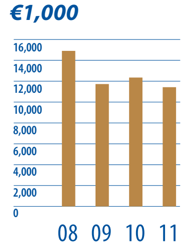


Fittings Suomen Helakeskus Oy

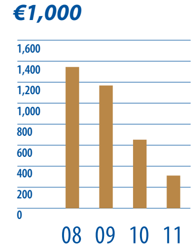
€1,000	2008	2009*	2010	2011
Net sales	14,874	11,708	12,321	11,401
Operating profit	1,342	1,165	652	311
Personnel	49	34	32	32
Holdings				100%

* Includes a sales profit from property sales of EUR 0.1 million

Net sales, €1,000



Operating profit, €1,000

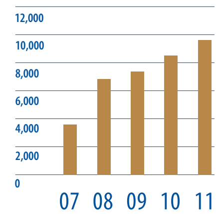


Spare Parts for Motor Vehicles
KL-Varaosat Oy

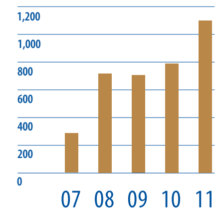
€1,000	2007*	2008	2009	2010	2011
Net sales	3,580	6,795	7,347	8,487	9,598
Operating profit	289	726	714	801	1,115
Personnel	26	28	30	31	35
Holdings					75%

*6 months

Net sales, €1,000



Operating profit, €1,000

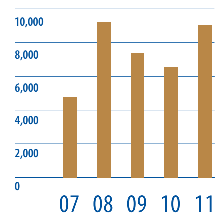


Heat Treatment
Heatmasters Oy

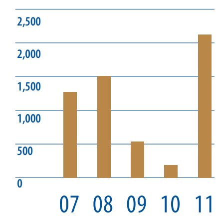
€1,000	2007*	2008	2009	2010	2011
Net sales	4,760	9,246	7,426	6,591	9,037
Operating profit	1,268	1,508	536	192	2,123
Personnel	58	56	66	64	64
Holdings					80%

*6 months

Net sales, €1,000



Operating profit, €1,000

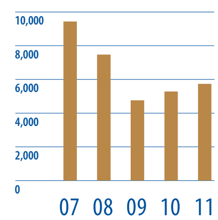


Carpentry Industry
Matti-Ovi Oy

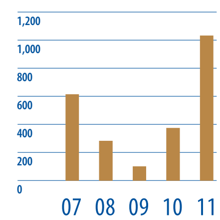
€1,000	2007	2008	2009*	2010	2011
Net sales	9,472	7,502	4,784	5,309	5,766
Operating profit	615	285	103	377	1,034
Personnel	82	59	41	35	32
Holdings					70%

* Includes a sales profit from property sales of EUR 0.1 million

Net sales, €1,000



Operating profit, €1,000

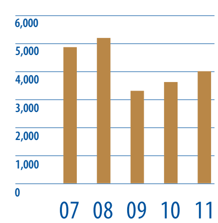


Supports
Toimex Oy

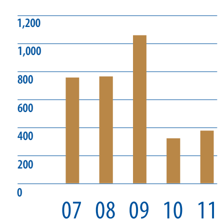
€1,000	2007	2008	2009*	2010	2011
Net sales	4,860	5,189	3,301	3,615	4,005
Operating profit	756	764	1,058	322	377
Personnel	17	17	16	16	16
Holdings					70.40%

* Includes a sales profit from property sales of EUR 0.8 million

Net sales, €1,000



Operating profit, €1,000

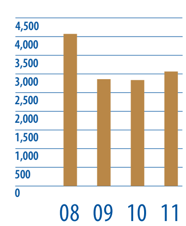


Fasteners
Suomen Kiinnikekeskus Oy

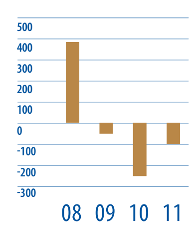
€1,000	2008	2009*	2010	2011
Net sales	4,075	2,865	2,839	3,067
Operating profit	383	-52	-253	-101
Personnel	30	26	24	25
Holdings				90%

* Includes a sales profit from property sales of EUR 0.1 million

Net sales, €1,000



Operating profit, €1,000

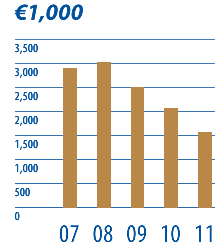


Technochemical
Alfa-Kem Oy

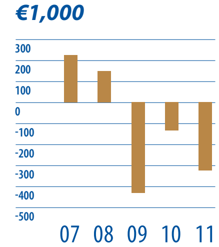
€1,000	2007	2008	2009*	2010	2011
Net sales	2,895	3,017	2,498	2,071	1,566
Operating profit	223	148	-430	-133	-324
Personnel	41	24	21	14	12
Holdings					100%

*) Includes a consolidated goodwill write-down of EUR 0.5 million

Net sales, €1,000



Operating profit, €1,000



FLEXIM SECURITY'S BUSINESS IS WELL CHARACTERIZED BY THE STATEMENT "KULJE HUOLETTA," OR GO WITH AN EASY MIND. THE ACCESS CONTROL AND OTHER SECURITY SYSTEMS DEVELOPED BY THE COMPANY ARE INVISIBLY PRESENT IN MAJOR SHOPPING CENTERS, FOR EXAMPLE.

Security means

fluency and an easy mind


Flexim Security's Managing Director Jukka Laakso.

Managing Director **Jukka Laakso** sees the built environment through the eyes of a professional.

"New buildings are no longer closed but open, just like shopping centers. Smooth everyday life means trouble-free operation in these environments, without fearing risks or threats, as we perhaps used to think."

Flexim Security has now grown into a united company developing at a very rapid pace. Many significant customer relationships provide a sound basis for the future. Access control and clocking-in systems have opened the doors for Flexim to many new customer sectors and international markets.

"We have significantly improved the door user interface. It is now more user-friendly, incorporates new technology and transmits more information to the user than ever before. We have created a completely new approach to access control and thereby to security thinking. The system structure is flexible, meaning that millions of readers and users, for example, can be linked to the system architecture. Nonetheless, one company can still take care of everything from installation to maintenance and service," says Laakso.

Flexim Security has succeeded in taking its place as a domestic supplier in an internationally competitive market. This position has been clearly strengthened in shopping centers, industry and the public sector. For Finnish companies and organizations,

Finnishness is a significant part of safety. Flexim has also constantly been able to provide its customers with something new, and to make its systems easy to use. In that way, it has been possible to meet customer expectations. The company is also one of the most sought-after employers in its field in Finland.

The key indicator of any business is naturally money. For Flexim Security, this is also showing such strong development that Laakso admits that even his wildest expectations have been exceeded: the company's net sales in 2005 were less than MEUR 6, whilst 2011 almost broke the MEUR 25 barrier. Now Laakso's goal is to make the company the clear market leader in its sector by 2015. On the Managing Director's list of requirements are also the field's most satisfied customers, the most profitable company, the most sought-after employer, and naturally the position of leading developer of security technology.

"So we have a little over a thousand days to reach our targets. On the other hand, the people at Flexim believe in this, and I believe in them," laughs Laakso.

So far, half of Flexim Security's growth has occurred organically and half through corporate acquisitions. The 12% organic growth in the financial year is strong, since the average for the sector totals 3%. In the new financial year, Laakso expects the organic growth figure to rise to 20%.

Flexim's business is 90% domestic. Through public-sector customer relationships, activities in Russia and Europe have begun. Finland's nearby regions and the Far East are constantly being monitored, as the sector's markets are growing there. The Baltic market is small.

"As soon as we start working online, geographical borders lose their significance."

Wanted:
A reliable partner

New business opportunities for the security business are opening up through social transition. According to views expressed by senior police officers, the transfer of security services that have traditionally been part of police operations to security firms, for example, are to be expected. New fields of business are also being created in order to safeguard information and money flows. Outsourcing is evident today.

"The private and public sectors are cutting their costs. The number of people responsible for security in these organizations is constantly decreasing. In order for them to survive from day to day, they must seek partners. And because of this fact, an increasing amount of work is moving from customers to service providers," says Managing Director **Jukka Laakso** about the development of the sector.

What is significant from a point of view of competitiveness is how well the players can raise the level of technology of their security and other related services. The traditional district and local security is beginning to require the aid of technology to develop.

"Human labor is pretty expensive and perhaps technology cannot completely replace it, but it can be used to make work more efficient. In the future, security guards will most probably get help from different systems, which will provide more information than the eye can see. In the years to come, service centers will also inevitably develop. As functions move online, a different type of surveillance will be required to what we have so far been used to."

In addition to the combining of human senses and technology, security services are also being challenged by the vulnerability of the web; the foundation of the safeguarding of information flows lies in the detection and prevention of online attacks.

"Traditionally the security sector is seen as rather conservative, so we have to try to be something else. We should have our own way of operating and then we can achieve a lot. We will also make the most of being Finnish. All our competitors are more or less multinational. It is difficult to enter the business because it is based not only on technology but first and foremost on trust. Repairing a damaged reputation costs money. Reputation is 'face'. Therefore we have to be good at what we do. Therein lies the core," says Jukka Laakso.

Energetic cooperation

*Helsingin Energia is a typical example of how all door-related maintenance and development is being outsourced, to Flexim Security in this case. All in all, it is no longer just a question of locking and door automation but also of security technology. At Helsingin Energia, security technology cuts through everyday life. Trust is the key factor in such a partnership, says **Mats Fagerström**, Security Manager at Helsingin Energia.*

"We only give our partners the key once we think on the same level and can exchange opinions like a married couple. Nobody is ever the only one who is right. We have to move forward through compromise. This decides who is worth trusting as a partner. We operate 24/7, so we expect to receive service in the same way. Our partners should also be able to work on our premises without hurting themselves. This too requires the exchange of much confidential information."

Fagerström questions the internationalization of companies in the security business. Through it, there is a danger that decision-making concerning Finland's security will move abroad.

"We want to play using domestic players. In the Helsinki Metropolitan Area alone, we influence the lives of more than half a million people. The government and the hub of economic life are also here."

In addition to the long-term service agreement concluded with Helsingin Energia, Flexim Security takes care of the access control and clocking-in system for the City of Turku, among other customers.

*"Without any shadow of doubt, it is one of the most significant security-related contracts in Finland. The system represents the largest-scale access control and clocking-in system and the most advanced data security solutions," says Managing Director **Jukka Laakso**.*

Initially, the total number of system users is about 25,000.

The long-term service agreement concluded with Metso is also very considerable. It covers almost all Metso's sites and encompasses thousands of people.

WITHOUT ANY SHADOW OF DOUBT, IT IS ONE OF THE MOST SIGNIFICANT SECURITY-RELATED CONTRACTS IN FINLAND. THE SYSTEM REPRESENTS THE LARGEST-SCALE ACCESS CONTROL AND CLOCKING-IN SYSTEM AND THE MOST ADVANCED DATA SECURITY SOLUTIONS.

New investments the base for growth

KIMMO KORHONEN, MANAGING DIRECTOR OF ENGINEERING COMPANY TAKOMA, WALKS ALONG THE UNFINISHED CORRIDORS OF THE NEW HYDRAULIC CYLINDER PLANT IN AKAA. THIS INVESTMENT, OF NEARLY €5 MILLION, WILL GUARANTEE THAT THE GROUP WILL GROW SIGNIFICANTLY, HE BELIEVES.

The cylinder plant based in Lielahti in Tampere will be moving into the premises. The old premises limited growth and the development of productivity suffered. Thanks to the new facilities, the hydraulics business can now be doubled. The company has also acquired Keminmaa-based TL-Tuotanto, which specializes in hydraulic and automation systems. The price of the deal was €0.8 million.

Kimmo Korhonen says that for a long time now customers have been saying that, rather than individual components, they want to buy total systems from Takoma.

"TL-Tuotanto was a suitable target. What we got was expertise in total hydraulic systems and automation, and now we can offer a comprehensive service in the design, manufacture and installation of total systems."

With the new investments, Takoma is strengthening its competitive position.

"We can operate more extensively, develop ourselves and offer our customers systems in which energy efficiency is better, for example."

Specialized in the manufacture of power transmission components, total hydraulic

systems and components and the machining of demanding work pieces, Takoma's customer projects and deliveries are increasingly focusing outside the eurozone. As a final destination for components delivered by Takoma, China has recently become a key market.

The company's net sales have increased significantly over the previous financial period. Korhonen is satisfied with the order book already secured for the new financial year, the importance of which is increasing as the global economy fluctuates.

Productivity through Jätkäsaari

A focus on total solutions for buildings has given Ecosir Group some buoyancy in environmental technology unprecedented in the history of the company to date. According to Managing Director **Mauri Leponen**, the equipping of the new Verkkokauppa.com megastore at Jätkäsaari in Helsinki with a recycling and energy waste collection and transfer system is just one example that strengthens Ecosir's position as a designer and leading supplier of progressive building systems.

The megastore, which covers an area of 20,000 sqm, generates an enormous quantity of packaging waste every day. Ecosir's collection system extends to every floor of the store. There are many feeding points, thanks to which recyclable waste no longer needs to be transported over long distances. Waste fed into the shaft ends up at the bottom where it is crushed, packaged and transported away for recycling.

"This is the largest round shaft that we have so far built, and to our knowledge it might just be the biggest in Finland. For our professionally-skilled staff, the project has been extremely challenging and interesting. We are very proud of this and of our expertise!"

It has been necessary to make the system so that it can be connected to the City of Helsinki's pipeline transportation system being built in Jätkäsaari, which covers the entire commercial and residential area.

The focus of Ecosir Group on project-based business has brought the company closer to the core of construction. Ecosir's top fields are hospitals, nursing homes and shopping centers. Systems that must be designed based on their application require close cooperation with architects and designers at the early stages of construction, so that the construction company can save in its overall costs as a result of the heights of floors and structural solutions, for example.

This way of operating has been profitable for Ecosir. The order book has quadrupled in size within a year and profitability has improved significantly. Growth is being targeted both in Finland and abroad.

Ecosir's system is already present in almost all major hospitals, nursing homes and shopping centers, which generate large amounts of solid, recyclable or bio-waste. In that way, the staff are free to carry out their professional productive work.

Professional kitchen equipment supplier Metos is one of the new partners of Ecosir Group. Metos, the largest manufacturer of food service centers and professional kitchens in the Nordic countries, offers a bio-collection system designed for kitchens by Ecosir, which can collect bio-waste in a closed container, untouched by human hands and free of bacteria and viruses.

KOPIJYVÄ'S MANAGING DIRECTOR HEIMO VIINANEN CONFESSES THAT HE IS NOW SATISFIED TO SAY THAT, THREE YEARS AGO, HE WOULD NOT HAVE DARED TO PREDICT THAT THE COMPANY WOULD MORE THAN TREBLE IN SIZE BY THIS TIME. THE GROWTH OF THE COMPANY HAS BEEN FAST AND WELL-MANAGED. IT HAS PROGRESSED AS NEEDED. THE PURCHASE OF SUOMEN GRAAFISET PALVELUT REINSTITUTING OFFSET PRINTING ALONG WITH DIGITAL IS A GOOD EXAMPLE OF THIS DEVELOPMENT.

Step *back in time spells progress*

The acquisition of the Kuopio-based company was a significant decision in the history of Kopijyvä. As early as the late 1980s, the company was concentrating purely on digital printing and had given up its traditional offset equipment. Now, however, the restoration of traditional offset technology is justified.

"Our customer base has become extensive, and our customers want us to provide all press and printing services, from business cards to brochures and from trade fair products to large posters. Because it has been sensible to do part of this work using offset technology, we have been purchasing the services from a subcontractor. Due to the growth in the customer base, the share of subcontracting grew so large that buying our own offset print house became the right thing to do," says **Heimo Viinanen**.

This solution also helps the customer. Viinanen says that, at Kopijyvä, they now talk only of print products. There is no need to burden the customer with technical details, when Kopijyvä chooses the most suitable printing technology for each particular order.

This solution supports Kopijyvä as the markets become increasingly concentrated. Traditional printing is being done by fewer and fewer players, whilst the use of digital technology continues to proliferate. Any company that can offer all services in the graphics technology sector will be highly competitive. Kopijyvä can. Concerning market shares, Viinanen can say that, because the growth in Kopijyvä's net sales is greater than the growth from corporate acquisitions, the company must have gained market share.

"There are no actual statistics. We know that the sector is not growing, but that Kopijyvä has grown. This means that we have gained market share from our competitors. The almost MEUR 10 growth in net sales in the financial period just ended has not resulted from corporate acquisitions alone – some of it has been organic. The competitive situation ensures that prices in the sector do not rise, if anything the opposite, so Kopijyvä must have gained market share," says Viinanen explaining recent developments.

Heimo Viinanen sticks to his goal of achieving growth for Kopijyvä faster than what is the case with the market for the sector. He knows that reaching that goal will require success in sales, production and service. The professional skill and attitude of the staff thus play an important role.

"In my view in the graphics technology field, the companies that survive will be those with which customers find it easy to do business. For us, this requires our own process to be completely cost-effective, and our ordering systems must be easy for the customer to use. If we do not improve our own operations for the good of the customer, then we will be facing difficulties. The reason for our existence is to ensure that our customer's business goes well.

Printing services are often support services for the customer, not a central part of their business. According to Viinanen, in order to succeed in helping the customer a print house should know where the customer needs the product it orders. Added value is created from the fact that the print house can build an efficient total service from printing to mailing around its product. Here, Kopijyvä also seems to have succeeded as the level of customer satisfaction is very high. More than 500 customers responded to a customer survey carried out last spring and, of them, more than 90% said they would recommend Kopijyvä and its services.

Picture: Tuomas Harve

Picture: Tuomas Harve

The internet, the customer's hotline

Kopijyvä's selection as the turnkey supplier for printing services for Hansel, the central procurement unit of the Finnish Government, has increased its number of customer significantly. The service is being used by the various departments and ministries, the Finnish Slot Machine Association (RAY) and Finnish Customs, among others. The contract covers covers the period up to 2014.

*Managing Director **Heimo Viinanen** considers the Hansel contract to be a kind of development threshold; it raised the company's operations to a whole new level, of which there is reason to be proud.*

The acquisition of Suomen Graafiset Palvelut increased the number of Kopijyvä's employees to over the 300 mark. In the autumn, the company also merged with Kopijyvä.

"Thanks to the transaction, the Kuopio unit now employs 60 people. And a new office building has been completed. It is probably Finland's largest print unit outside the capital region," says Viinanen.

Kopijyvä has also strengthened its microfilming and recording services. The entire share capital of Microtieto Suomi was bought by Kopijyvä in the summer.

"The order book in recording services has started to be so good that operations should be expanded. Through the acquisition, our services were also improved in this respect."

At the end of 2011, the Kopijyvä Group operates in ten cities, so it can be considered a national player.

The internet complements the availability of services. KopiWeb is an automated ordering and management system for print products. SokoPro has proven to be a welcome tool for customers in the management of construction projects. The latest service is Mylly, through which the ordering of print products is even easier and faster than before.

"Our web-based service is growing all the time. We already have hundreds of contract customers using our online services and the number is constantly increasing."

New distribution – a new beginning

DURING HIS FIRST YEAR, ALFA-KEM'S MANAGING DIRECTOR VELI-HEIKKI SAARI FOCUSED ALMOST ALL HIS ATTENTION ON CREATING A NEW OPERATING CULTURE FOR THE COMPANY THAT HE LEADS. THIS WORK BORE FRUIT. THE DISTRIBUTION CONTRACTS COVERING THE WHOLE COUNTRY MEET THE NEEDS OF BOTH THE CONSUMER AND PROFESSIONAL MARKETS. THE INDUSTRY'S PRIVATE LABEL BRANDS ARE NOW ALSO EXPANDING ALFA-KEM'S RANGE.

Holding on to special products

"There is certainly a demand for special products. It is a particular world of its own and we are skilled in it. Through such special expertise, we also intend to increase our net sales," says Managing Director **Ari Suomalainen**.

Over the course of the year, the net sales of Suomen Kiinnikekeskus developed favorably. According to Suomalainen, net sales could have increased further without a barrier that presented itself in the path of development: a lack of new sales staff.

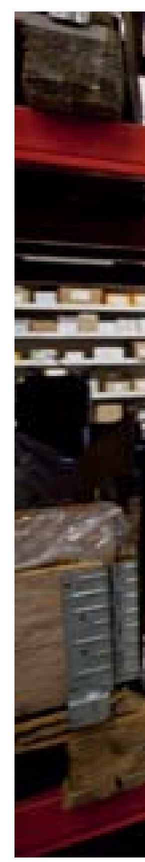
"The sector is largely based on additional sales secured during sales visits. A good salesperson will help the customer to spot deficiencies in their range before the products run out. There is work in this field, but for some reason technical sales work doesn't seem to interest people at the moment."

Success in the fasteners business depends on loyal customers, looking after them and managing stocks. No great net sales can be accumulated from individual products, unless the range of 23,000 items in the warehouse meets the needs of even the most surprising situations. Orders must be responded to immediately, which reflects the growing impatience of society.

A new sales management system introduced during the financial period supports warehouse management and thereby the channeling of in-house activities and customer service. Its main benefit is the information about sales, the range of products in stock and purchases, which is rapidly available. For the benefit of customers, the system is being further developed by building a direct online ordering system.

Of the net sales of Suomen Kiinnikekeskus, more than half comes from the technology industry, so the movements of the world economy are of great interest to the Managing Director. The clientele is clearly divided into two: the successful ones and those who perish. The largest successful companies have also had to reduce the number of their subcontractors or the services they buy from them. For Suomen Kiinnikekeskus operating in this environment, belonging to the Panostaja Group is a clear advantage. According to Suomalainen, the greatest impact on negotiating partners is made by the size of the Group's work force: more than one thousand people.

"In a certain way, this information is important to our larger customers. It provides a more solid base for negotiations."



Saari says that he himself is amazed how fast the world around has changed, and now the old distribution model for technochemical products developed by the company is no longer fit for purpose.

"Therefore we had to completely dismantle the old and build the new, which is based on sourcing-company contracts managed from here, and on a parallel entrepreneur-based model based on local representation and service created," **Veli-Heikki Saari** says.

Alfa-Kem's way of operating extends the company's service chain all the way to the customer's customer; that is to say, wherever Alfa-Kem's product is used – in industry, in food establishments and in cleaning services.

"We ensure that the product works and that people know how to use it correctly."

According to Saari, cooperation with sourcing companies has started well. The distribution network launched during the financial year will immediately be expanded at New Year with a new nationwide distribution channel.

The work has been hard but profitable, even though dismantling the old system has eaten into Alfa-Kem's net sales. Veli-Heikki Saari sees the creation of the new model as an investment, which will positively influence the company's profitability. The 2012 financial year has, however, already been budgeted to a satisfactory level, and the company should be able to continue on a good level as far as profit is concerned.

"That's how we have planned it. The transition may of course happen more quickly. We have already gained some major contracts. And development is also somewhat dependent on courage," says Saari, analyzing the final moments of 2011.

Alfa-Kem's aim is to launch two to three new formulae every year. One example of the results of its own product development work is a solvent which, when used correctly, places no stress on the environment but works like a fertilizer, while being as effective as Alfa-Kem products based on previous solvents.

Without the appropriate certificates, operating in the field of technochemicals is impossible. As an extension to the existing ISO 9001 quality system and ISO 14001 environmental system, Alfa-Kem is applying for the Swan symbol, which highlights the Finnish origin of products and services.

Although Alfa-Kem's operations are not particularly dependent on the state of the economy, Saari says that the company must find its own strong path for growth.

"Whatever the state of the economy, you cannot compromise on cleanliness. Legislation also sets its own requirements. The food safety unit is preparing changes to regulations under the Food Act, which are intended to make the monitoring of food premises more risk-based than at present. We can, for example, help our customers with this. The basis of successful service is to remember what benefit the customer can gain from me, and not what I can gain from the customer," says Saari.

IN THE FASTENERS BUSINESS, SPECIALIZATION IS BECOMING INCREASINGLY SIGNIFICANT. SUOMEN KIINNIKEKESKUS'S SPECIAL PRODUCTS COVER NEARLY 10% OF THE COMPANY'S NET SALES. IF NECESSARY, YOU CAN GET, SAY, GILDED SAFETY SCREWS ENGRAVED WITH YOUR NAME THAT OPEN WITH YOUR OWN SPECIAL KEY FROM KIINNIKEKESKUS – THE PRODUCT IS NOT QUITE AN EVERYDAY SALES ARTICLE, BUT IT IS A GOOD INDICATION OF THE POSSIBILITIES OF THE SECTOR.

Business as usual: a fruitful year in heat treatment

"This year, we introduced some changes to the Group structure. Ownership arrangements were all mixed up. By moving the subsidiaries under Heatmasters Group, everything became clearer, Group governance works and the management is better," says **Juha Saarikunnas**.

In all the solutions, the starting point has been to get the basic things right. The most significant target has been the Polish Sosnowiec unit, whose runners have been cut back nicely over the year. Now the unit has been straightened out and is achieving a good result.

Poland has taught a great deal. Saarikunnas explains what happened; the unit's management had forgotten the importance of basic business, so the organization had to be reorganized. The new Managing Director, Marcin Skurczynski, demonstrated his ability by quickly taking control of the service business. The results have impressed Saarikunnas, as the financial year budgeted to make no profit at all has turned out well.

"The personnel appointments proved to be correct. Now we have a good local team in Poland who can operate in that business environment and know what we expect of them. The change was instigated by us, and Sales Manager Jukka Sirviö, who is in charge of subsidiaries, was closely involved in building the new organization. It is of absolute importance that we monitor the change ourselves, but actual business cannot be done under Finnish management. The reins must be held by local people, who know the local culture. Language too is another major factor in successful business."

Getting the Polish unit back on track and productive is an enlightening thing both for Heatmasters Group and for Panostaja Group; the Cone Made management system built into Panostaja Group proved to be an excellent tool. Saarikunnas praises the usefulness of the system, especially in terms of project monitoring. When completed reports were fresh in the system for all to read, information travelled in real time and unaltered to all members of the Heatmasters Board of Directors. In that way, all those initiated in the matter were able to get quickly on the same wavelength, and then things were processed smoothly.

Saarikunnas considers the Polish unit to be significant for the whole Group, because of the expertise that it has. Now that business is once again a profitable and efficient part of Heatmasters Group, it will be easy to use the unit's employees at such places as the Olkiluoto nuclear power plant site.

"Olkiluoto is a big thing for us. We have been able to work there for several clients and thereby to adapt what we have been doing."

There is a big need for steel heat treatment and welding at similar locations elsewhere; Saarikunnas is looking forward to further modernization work at Swedish nuclear power plants, among others, as well as the start of the tendering for the Fennovoima nuclear power plant in Finland.

MANAGING DIRECTOR JUHA SAARIKUNNAS HAS SPENT ALL YEAR STEADILY WORKING TOWARDS A STRONG RESULT FOR HEATMASTERS GROUP. THE SUCCESS OF THE COMPANY OPERATING IN A NARROW SECTOR, SPECIALIZING IN HEAT TREATMENT OF METALS AND THE EQUIPMENT THAT THIS NEEDS, HAS REQUIRED CARE AND PRECISION. AT TIMES, THE MANAGING DIRECTOR MUST ALSO SAY 'NO'.

Heatmasters and the ability to say 'no'

During the year, Managing Director **Juha Saarikunnas** was also forced to say 'no'. In retrospect, this has proven to be a wise policy.

"Sometimes, you have to be able to refuse projects, even the largest ones. It is not always wise to go after the biggest orders and volumes at a ridiculous price. For us, a steady approach has brought a good end-result and kept risk levels low. What's more, when everyone does their job well, and no adversity is encountered, each company can achieve a good result."

Saarikunnas says that over the year Heatmasters has refused some large projects. These later proved to be projects that did not proceed as planned.

"Refusing can seem contradictory, but a steady approach brings a better result than if half of the company's capacity was suddenly tied up in one project, which then can't be sustained. You must be careful about where you commit your company's resources. This is realism and making good use of your own experience."

Heatmasters Group consists of companies in five different countries specialized in heat treatment. The Heatmasters Oy subsidiary has focused on the design and manufacture of heat treatment equipment. 70% of its production is exported. As far as the whole Group is concerned, one-third of business is export.

"The secret of the Group is its expertise. Both the service business and machinery trade have gone well. Expertise is becoming more and more important now that the customer base seems to be splitting up. The large engineering companies too have succumbed to the chaos in the global economy, even before they had a chance to get their heads above water after the last plunge."

Heatmasters Group is strengthening its own position in the market by divesting its associated companies in different parts of the world. And when the Group concentrates on its productive business, this means Eastern Europe, the Baltic region and the domestic market. Underway is also the construction of an international distribution network for machinery trade and the development of the related service activities.

It is easy to have faith in such a strategy as, in 2011, the net sales of Heatmasters Group increased by a full 30% more than had been budgeted. This meant exceeding the MEUR 9 mark.

A streamlined future

As a supplier of heat treatment solutions, Heatmasters Group intends to be a pioneer, not only in treatment itself but also in its machinery and equipment. Usually, the improvement in profitability starts from very practical issues. Here it means the usability of machines and equipment.

"Good equipment too can always be improved, when looking ten years ahead," observes Managing Director Juha Saarikunnas, justifying his cooperation with Design Foundation Finland.

The basis of the modernization of the mobile heat treatment machine is to make a heavy and rather clumsy device more agile and easy-to-use in different situations and places. For example, the transportability and usability of the device in tight spots can be improved by fine-tuning the dimensions and, for example, by checking the efficiency of the lifting lugs. Saarikunnas has given this work to design professionals.

In ten years, the world around will change greatly if it continues at its present pace. Technology is part of the world and will develop along with it. In practice, this may mean for heat treatment equipment new efficiency requirements, eco-friendliness, the chance to combine it with new systems, versatility… All this is part of good design.

"The importance of any design project quickly exceeds that of passing trends. Design certainly brings a competitive edge which would otherwise be difficult to achieve even in traditional fields of industry," says Saarikunnas.

DESIGN AGENT JORMA LEHTONEN:

Industrial revolution with design!

Finland is a place that has not yet managed to unite technology with people-centered expertise; Nokia Finland has not yet yielded to the fascination of the Apple world. Small companies in particular have not woken up to understanding good usability, let alone appearance and aesthetics. Design is at its best when users do not even notice it is there, freely enjoying the appealing product that bends to his or her will.

There are some 260,000 companies in Finland that design could help. Only one in ten, however, see design as something important to product development. Ten percent, what a small number! Design Foundation Finland was founded by Finnish industry and works to promote Finnish design. Panostaja is also a founding member. The foundation believes that the message is best conveyed from one business to another.

The foundation is involved in the product development project for Heatmasters' mobile heat treatment machine. The device in question had the appearance of a 150-kilo refrigerator on wheels. The existing technology is still good, but the machine's usability and efficiency affect how long it will sell. The company wants this device to be in demand now and in 20 years' time.

When designers get to brainstorm with the company's product development team right from the start, the process develops to be a strong one. Through user interviews, the boundaries of cosmetic surgery were quickly established. The product had to undergo a sort of liposuction, fitness program and power coaching regime – a more nimble device is easier to use in a confined space and, at the same time, it is more cost-effective and pleasant for the user.

What, then, prevents the wider use of these self-evident means of sales promotion? It might be that designers have not marketed themselves successfully. Is a gallery a more sophisticated setting than an industrial hall? On the other hand, Finnish design culture still reflects a 1950s spirit by emphasizing applied arts and the world of applied art objects, even though we have wonderful examples of industrial design. If we were living in the Renaissance period, science and art would gladly shake hands and party till the morning, creating new inventions one after the other!

Why could design not be used in traditional Finnish smokestack industry? Ever since the 1960s, this country has supported the development of the technology industry. The same kind of support is now required for design. In the United States, this was understood as early as in the 1990s, when the first studies on the significance of design as a factor in competitiveness were published; design is the most significant competitive advantage for a company.

It is, however, no longer worth talking about merely design; a finished product is teamwork, affected by marketing, technology, design and whatever special expertise may be required. What we are talking about now is design thinking.

Even if an engineer's tour de force is to develop as complex a user interface as possible for any device, will the amazement by the public be sufficient to make such a complexity a sales success? The creation of a successful commercial technological product requires human-centered perception. Technology and business will then follow along behind. Technology should serve people, not the other way round.

Arolainen instilling the spirit of success in his company

MANAGING DIRECTOR JOUNI AROLAINEN'S AIM IS A VINDEA WITH A STRONG COMPANY CULTURE BASED ON THE CREATION OF NEW SERVICES. THE SECRET OF GOOD BUSINESS LIES IN THE ABILITY TO UNDERSTAND THE CUSTOMER'S BUSINESS AND NEEDS AND THE ABILITY TO MEET THESE NEEDS. THIS REQUIRES THE FUNCTIONS AND CULTURE OF ONE'S OWN COMPANY TO BE IN GOOD ORDER.

"Being Managing Director has not changed my view of Vindea. With the responsibility of leadership, I have now been able to carry things out. I want to build this into a company that looks like me, as that is the job of a managing director," says **Jouni Arolainen**, and justifies it by saying that added value for management can be created from the persona of the director, if it is used. He describes his management method as being tough but fair.

To the question what sort of a company Vindea will become under Arolainen's leadership, he replies:

"Customer-oriented, service-oriented and good-humored. Productive."

Arolainen, who assumed the position of Managing Director in March, has begun to create a team of winners in the spirit of the successful Finnish ice-hockey team, whose strength lies in pulling together. Eight sites operating in seven locations should have a common Vindea culture so strong that the company's way of operating is automatically clear to all staff.

"It should be self-evident that we produce quality and that our deliveries are reliable and punctual. When that is the case, we then have time to think of different way of operating, expanding and developing our own business. And during the course of the year, we have been working hard for this," he explains.

"In traditional industry, meetings with the customer have not been given the value they deserve, with companies concentrating merely on producing their own product or service. In order for customer meetings and service to rise to a whole new level as far as the entire work force is concerned, more broad-minded thinking is required."

Arolainen turns his message round to a new angle: a new operating culture is needed, so that engineering logistics and industrial packing

would include services that others have not yet thought of providing. If so far a customer's product has not been refined by Vindea, in future it might very well be done.

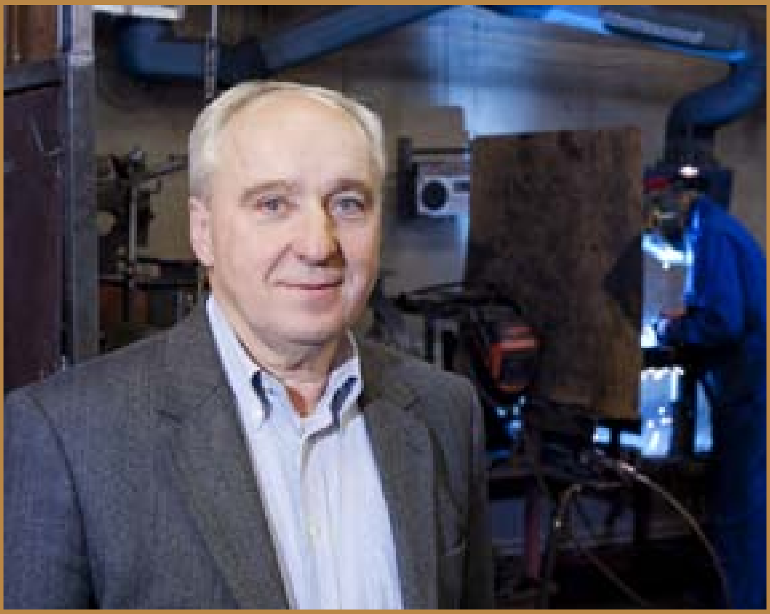
"I feel that I have also succeeded in my job this year. Everyone is pulling together now. And this shows in the smoothness of operations."

Vindea's year ended with a considerable improvement in profitability, although Arolainen says he is a little disappointed with development. Expectations were higher. He reverts to ice-hockey terminology: hunger feeds a better result.

The production of added value in industrial logistics services is a relatively new thing and, as the founder and owner of the former CLO Pakkaukset, Arolainen knows that needs time to take root. Now that the merger of CLO and the old Vallog is complete, the new Vindea is mature and ready to meet the needs of the market.

THE HEPAC PIPE SUPPORTS MANUFACTURED BY TOIMEX HAVE A STRONG POSITION IN TECHNICAL WHOLESALE TRADE. THE COMPANY'S SHARE OF THE DOMESTIC WHOLESALE SUPPORT MARKET HAS BEEN EXCELLENT FOR A LONG TIME.

Master of wholesale



According to Managing Director **Kalervo Pentti**, keeping hold of this share requires constant effort year in year out. Toimex has, however, gained the reputation of a reliable partner and an established position amongst wholesalers.

"The key to success in the wholesale trade is having a wide range of products on the shelf. Manufacturers selected as partners should be able to guarantee product availability and their own operations in the service chain. Shelves must never be empty."

Toimex's net sales increased the growth begun in the previous financial period, although it remains far from the peak year of 2008. Pentti is, however, satisfied as they are moving in the right direction and there has been enough work in production for all 17 employees.

Toimex exports its supports to Russia, the Baltic countries and Scandinavia. Export to Norway has been going particularly well. In other areas, construction continues to suffer. Pentti reckons that export will help Toimex's development in the coming years.

Kalervo Pentti believes that development in 2012 will be similar to the year just gone by.

"The number of buildings to be completed this winter is at a good level. In construction, we are still a long way from the peak year of 2008 and, with those experiences in mind, we certainly have enough production capacity. Of course if unemployment rises very high, it will immediately stop the building of new houses, which will then affect us too."

SERVANT OF TWO MAKES

FOCUSING ON THE SPARE PARTS TRADE FOR JUST TWO MAKES OF CAR IS A SKILL THAT KL-VARAOSAT HAS MASTERED. ALTHOUGH THE COMPANY IS A SMALL PLAYER IN THE WORLD OF WHOLESALE TRADE, SPECIALIZATION HAS MADE IT POSSIBLE TO ESTABLISH ITS OWN WAY OF OPERATING.

Sales of original Mercedes-Benz and BMW spare parts have picked up. One reason for this is surely the import of these makes by private persons. In recent years, the import of used cars has increased by thousands of vehicles every year. Mercedes-Benz and BMW are the most popular makes for private import.

The streamlining of parts deliveries, the growth in electronic commerce and the acquisition of new customers have also increased trade. Managing Director **Jarkko Iso-Eskeli** is satisfied with the net sales, which outstripped expectations, rising from MEUR 8.4 the previous year to MEUR 9.6 this year.

"This is explained by the fact that we really did have the right products in stock. Our inventories have naturally increased, which has also clearly improved our delivery capacity. One salesman is constantly out in the field, and has brought in new customers. New repair shops have also been established."

The seemingly irrational specialization in such a narrow market segment is based on expertise. Iso-Eskeli goes out of his way to stress this. Trust follows expertise.

"The customers know that they can trust us. Trust is the cornerstone of our activities and a strong foundation. We have learned this by experience. Our own knowledge must also be updated. New models of cars are being launched all the time. Keeping up-to-date is a professional skill."

Of the net sales, 80% is from the repair shops, the rest from

private car owners. These proportions have remained the same for a long time, even though the engines of newer vehicles are rapidly becoming more electronic and complex. There is, however, always something that the motorist himself can do for his ‘wheels’.

Competition seems to be intensifying, chiefly between repair shops. This requires a balanced approach to parts pricing and trying to make purchases through such means as yearly contracts.

“We also offer our customer repair shops a transport service, but the reception has been pretty up-and-down. In this industry, mechanics often like to go and fetch the things they need themselves. That’s what they’ve always done.”

In the spring, the Tampere outlet will move from Koivistonkylä into considerably larger premises at Nekala. The move will enable an increase in the sale of consumer products.

“Of course there is room for improvement in everything. Soon we will move into facilities where warehouse management in particular should be easier and more efficient. We will also be able to increase the stock of products in the warehouse and rationalize their locations. And this will be reflected in our service.”

KL-Varaosat has learned its trade over a 30-year history. The operating environment is changing rapidly, so, as Iso-Eskeli has it, the company must be able to be sensitive to such changes.

BY ANY STANDARDS, SUOMEN HELAKESKUS'S PREMISES LOOK DAZZLING, SO THEY WILL CERTAINLY DO THEIR PART IN HELPING THE COMPANY SUCCEED, SAYS BRAND NEW MANAGING DIRECTOR HANNU RANTANEN. THE 40 YEAR-OLD COMPANY ALSO HAS PLENTY OF EXPERTISE SO, IN THE EYES OF THE MANAGING DIRECTOR, HELAKESKUS HAS ALL THE PREREQUISITES TO BE DYNAMIC AND PROGRESSIVE, AND IT IS THIS DEVELOPMENT THAT HE INTENDS TO DO HIS BEST TO FEED.

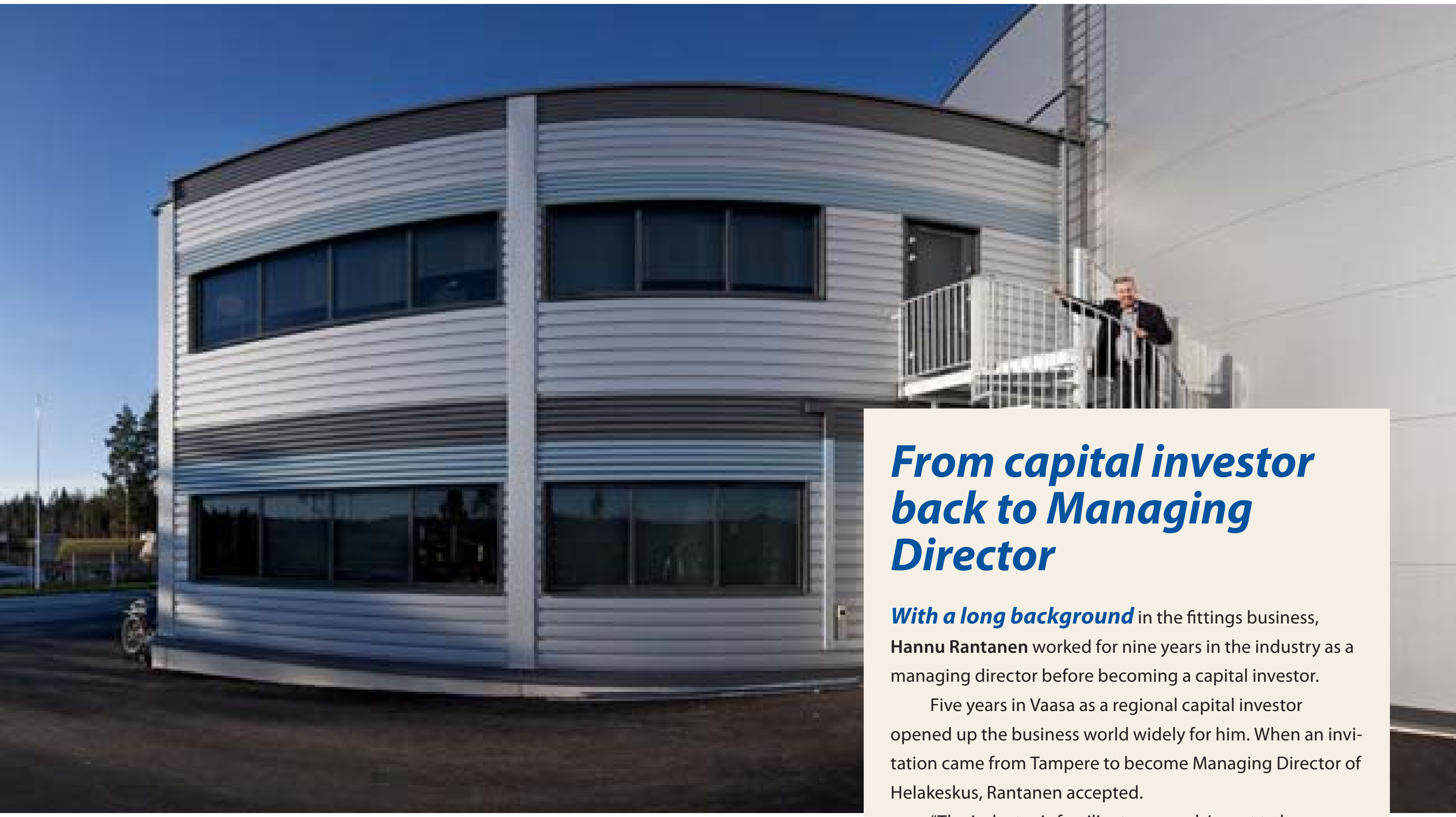
Through traditions towards change

From **Hannu Rantanen**'s thoughts emerges the idea that the market can be developed by changing one's own ideas and ways of operating. The fittings business has traditionally been a very conservative sector, but customer behavior is strongly signaling the necessity of change. Rantanen refers to the tremendous popularity of interior decoration programs, which mirrors people's interest in decorating their homes.

"We should feed this interest by offering new and alternative things. After all, those in the field are all product-centered companies. The consumer should thus see our products, their functionality and design. Because our customers are furniture factories and manufacturers, we should be able to build for them a service concept which in turn serves their customers. It doesn't matter how well we serve our own customers, if our product doesn't meet the expectations and requirements of home builders, we won't achieve anything."

The Managing Director has faith in the professional skill and outlook of his fittings company. If he could strengthen something, he would introduce into his team people who can sniff out the upcoming trends and find new products that customers need.

The product range of Suomen Helakeskus, which specializes in fittings for the building joinery and furniture industries, consists



mainly of building technology products such as hinges, metal boxes, fixture products and window and door fittings. The range of products attracting Rantanen's attention now, interior and functional products such as handles, light fittings, legs, cabinet doors, basins, mechanisms and storage solutions, covers more than 40% of the company's range. Products related to interior decoration already account for one quarter of net sales.

"With these products, looks are everything. And this is an interesting area," notes Rantanen.

According to Rantanen, all store managers should seriously follow the values and actions of young people. Young people are the clientele of tomorrow. They live in the bounty of abundance, so you should be sensitive to changing a product range that stresses individuality. Mass sales must make way for piece sales, and the significance of finding the right target groups will grow.

As far as business is concerned, the year gone by has not met expectations; the merger concluded and move to new premises have consumed resources.

In Rantanen's words, the fittings business is simple and basic. Results are created by professional skill and hard work. And when people feel that they are doing the right work, they work hard. An enthusiastic work force can achieve much. Rantanen says that the creation of an upward trend results from working on a human level and enthusiastically with clear objectives in mind.

"I focus on what I can do, and believe that the company will succeed if I do the right things."

From capital investor back to Managing Director

With a long background in the fittings business, **Hannu Rantanen** worked for nine years in the industry as a managing director before becoming a capital investor.

Five years in Vaasa as a regional capital investor opened up the business world widely for him. When an invitation came from Tampere to become Managing Director of Helakeskus, Rantanen accepted.

"The industry is familiar to me and, I want to be nearer to people than what I felt was the case as a capital investor. I have, however, had the chance to work in quite a few positions: a foreman, product designer, sales and marketing manager, airline managing director and owner of a furniture factory. I've also been able to try out ownership, capital investment, the financial market... so in that way I've seen things from many angles."

Rantanen sees the future as increasingly cyclical.

"Before, we talked of recession and downturn. Now that's just a fact of life; sometimes business is brisk, sometimes there are problems in the economy, sometimes elsewhere. Everyone must just get used to this."

"Another clear trend is an emphasis on individuality. The target groups must be identified, meaning that you have to be flexible, versatile and sensitive in all ways. That's where our challenges lie, and also in the need to be dynamic."

According to Rantanen, it is now time for Helakeskus to invest increasingly in the outside world. There is a clear growth objective. Growth must be targeted both organically and through corporate acquisitions.

"The field is fragmented, but Helakeskus is quite a big player actually. Around us are many small players, so there will certainly be some reorganization. The company has the desire, but must not bite off more than it can chew."

PART OF THE STORY OF FINNISH WOOD

MÄKISEN PUUTYÖLIIKE, FOUNDED IN 1911 BY MAURITZ MÄKINEN, IS THE OLDEST COMPANY IN THE PANOSTAJA GROUP. TODAY IT IS KNOWN AS MATTI-OVI. MATTI-OVI HAS BEEN PART OF THE GROUP SINCE 1985, FROM THE EARLY DAYS OF PANOSTAJA.

Matti-Ovi's Managing Director Tapani Harjunen.


MATTI-OVI
100 VUOTTA MASSIIVIPUUOVIA

Europe is full of family businesses with a long history which never forget their roots. In these companies, the new is always built based on the old. The same philosophy lives in Matti-Ovi. To Managing Director **Tapani Harjunen** it is clear that the end-result is always better when the foundation is solid. Matti-Ovi's expertise and way of operating stem from its strong roots. There is great power in the whole work force's internalizing the company's values.

The company is still located where Mäkisen Puutyöliike was originally established, in Laitila. The identity attached to the name consists of Finnishness and products that stand the test of time.

"Our identity has been well preserved," says Harjunen, and goes on to say that it is the company's soul, the significance of which is accentuated in a changing world. The soul is the foundation of the brand, so cherishing the soul is the number one thing in the company.

Matti-Ovi's name is known widely, not only in Finland but also in many other places in Europe and in Russia. Early in the 2000s, the company was branded with the name 'Matti' but it was a short-lived experiment.

"About halfway through the decade, we reverted to our respected name of 'Matti-Ovi.' Without this recognition of our identity, we would now be pretty much in the same situation as many others, who lost their well-known trademarks after they internationalized. What they also lost was the image of quality. The name Matti-Ovi sets obligations for us; when we launch a new product onto the market, it must meet the expectations of our customers in terms of quality and design from the very first moment."

Mäkisen Puutyöliike changed its name to the typically Finnish 'Matti-Ovi' in the late 1970s, when the company began the industrial production of panel doors for the German market. The market leadership in Finland for solid timber doors is based on a strong identity and solutions made on the terms of that identity. The positive image that customers have of Matti-Ovi's operations, its own efficient warehousing and logistics and its recognizable design together form the cornerstones of the market-leading position.

Harjunen values competition; competing products spur him on to do his own work better.

Harjunen is proud of his company's design; it is modern yet combines traditional values. Changes taking place in the range of models are carefully considered and take place at the pace required by the market. Interior designers and architects are often the prime engines for this, and major trade fairs, especially in Germany, also provide new impetus.

As an industrial player, Matti-Ovi has not yet engaged in individual unique production. This is changing, however, when in the new financial period Harjunen will start to look into the tailoring of dimensioned doors and the painting of interior doors in special colors.

Thanks to its strong foundations, Matti-Ovi has succeeded in gaining market share over the years. The company has done particularly well on the domestic market. Profitability has improved; the greatest factors in this improvement have been sales volumes which have clearly grown and more efficient operations. When feedback from consumers is positive, it becomes easy for distributors and dealers to add Matti-Ovi to their range. At the same time, cooperation with house-builders is also being constantly strengthened for the same reason.

Export business has also perked up, most of it going to Norway. Export to Russia has increased over the financial period thanks to the success of major customers there. Swedish export has increased, and Matti-Ovi still sees plenty of opportunities for growth there.

Wood in shape

Matti-Ovi's skill in producing results stems from structural changes in the organization. Since these changes, employees have had clear tasks, aims and a desire to get things done. They are fully committed to the name of Matti-Ovi. The company has many employees who have been working there for decades.

Special ways of operating have been developed for production. The starting point has not merely been the traditional working practices in wood processing. Additional stimulus has also been sought in the robot technology used in the metal industry, for example. Through this approach, modifications have been instituted at Matti-Ovi, which are part of the company's innovative way of operating.

A Finnish worker takes responsibility for any given task. This can be seen in Matti-Ovi as self-guidance. Managing Director Tapani Harjunen considers such flexibility to be an unconditional requirement.

"We can work efficiently in other ways too, but then we usually lose the flexibility. Self-guidance is the key to efficiency and flexibility. It also considerably increases people's job satisfaction and ability to cope at work."

Another advantage for the company is its raw material; Finnish wood does not have to be transported from afar. All wood-based waste generated in the factory is recycled. This being the case, Matti-Ovi is also partially self-sufficient in energy. It generates heat for its own needs from waste wood. The rest is sold either as raw materials for pellets or for heating for greenhouses producing Finnish tomatoes and cucumbers.

"From Finnish wood we make the energy required to make a Finnish door," explains Harjunen.

Flexible as needed

The response by Lämpö-Tukku, an importer and wholesaler of HEPAC products, to intensifying competition has been to increase the flexibility and speed of its service. Builders have received the products they have ordered direct to their sites, specially delivered by Lämpö-Tukku in the batches requested. The range of products in stock has thus been kept sufficiently wide.

In order to further strengthen the service and its versatility, the company has prepared an online service for its customers.

Lämpo-Tukku's year was rocked by the almost total standstill of construction in early 2011. The severe frost of that winter and the freezing of renovation grants took a large slice out of the company's net sales, and it has so far been unable to successfully rectify the situation during the summer and autumn. Up until a year ago, Lämpö-Tukku's growth in net sales had been greater than the average growth for the sector.

In the past year, the Tampere region, which is strongly growing as a market, has been rather flat as far as construction is concerned, and the same can be said for Lämpö-Tukku's result there. In the Seinäjoki region and northern Finland, however, net sales exceeded what had been budgeted. Business remained briskest in the Helsinki Metropolitan area.

Lämpö-Tukku's Managing Director was changed at the end of 2011, when a significant inventory difference was discovered in stocks. The difference was revealed as preparations were being made to sell the company. Now the company is moving forward with new vigor and ideas.

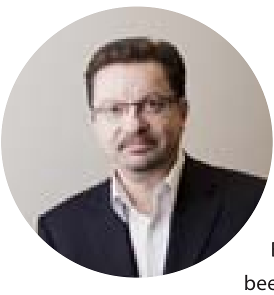
"We have a skilled work force and are very familiar with the needs of our demanding customers. We will continue to develop our internal efficiency, product range and service in order to reduce overall costs for our customers," promises new Managing Director **Martti Niemi**.

STAKEHOLDER GROUPS HAVE OFTEN ASKED HOW 13 BUSINESS AREAS CAN BE EFFICIENTLY RUN BY SUCH A SMALL PARENT COMPANY ORGANIZATION AS PANOSTAJA HAS. THROUGH A GOOD MANAGEMENT SYSTEM AND SKILLED MANAGERS, OPENNESS AND DEXTERITY, SAYS DEVELOPMENT DIRECTOR HEIKKI NUUTILA.

EFFECTIVE MANAGEMENT TOOLS ENABLE FLEXIBLE AND SPEEDY REACTION IN TODAY'S FINANCIAL CHAOS, AS DOES A COMMITTED, COMPLEMENTARY AND CRITICAL GROUP MANAGEMENT TEAM THAT PULLS TOGETHER.

When changes in economy challenge

Panostaja responds



Effective management is a key competitive advantage of a successful company. At Panostaja, this benefit has been built to last. A management system with all its modern tools and a management model are what are needed these days. Business plans of the old type are history. They have been replaced with an online management desktop tailored for Panostaja, through which the managers of the business areas and members of the Boards obtain the information they require rapidly.

The different systems create a foundation for management, even though in the final analysis management is an interpersonal activity. A common language is specified through agreed operating practices, and the use of tools requires independent and disciplined work from those involved. According to **Heikki Nuutila**, the power of management is ultimately created through effective senior management teamwork as, in a constantly changing business environment, nobody can control everything alone.

Panostaja's management model has four areas, in which the traditional yearly cycle is needed to define the rhythm of the company, such as the scheduling of Board meetings, budgeting and strategic work. It is not a question of a cycle closed from year to year, but a continual timeline stretching between years that stratifies such things as preparation for decision-making, responsibilities and project monitoring. The perception of the company's annual rhythm as a timeline helps us to see operations in the long term and as a developing entity superseding the old.

"The annual cycle guides management, and is its backbone. At its core is work by the Board, which is based on good administrative practice. The different Boards of the Panostaja Group have been strengthened over the past few years by external professional Board members, who bring their own professional expertise to decision-making and thereby provide us with a better outlook," says Heikki Nuutila about the first layer of the Group's management model.

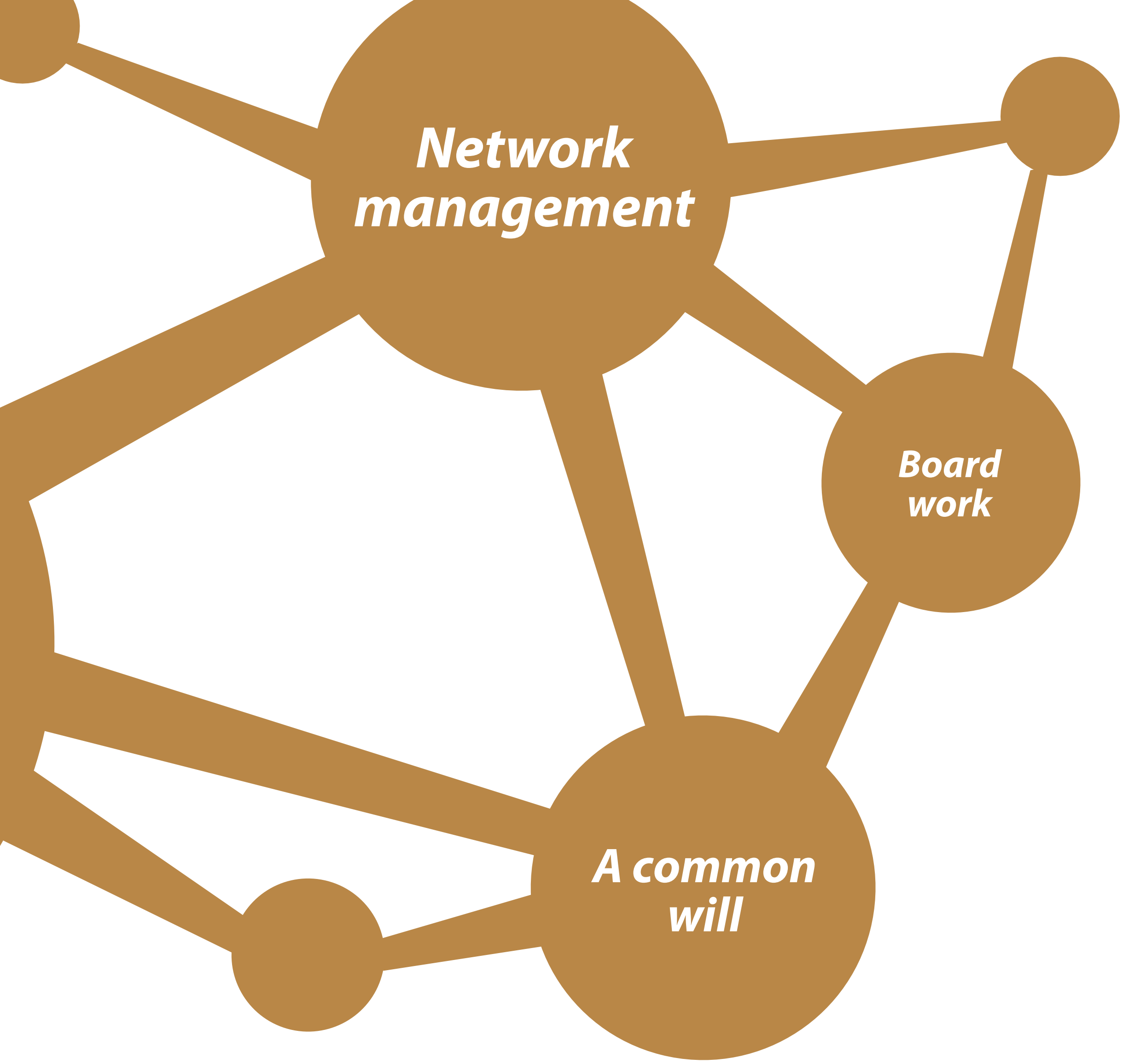
Efficient parent company core processes are the second cornerstone of the management model. Their development creates added value for the managing directors of the different business segments.

The division of labor between Group management is also part of the core processes. Development Director Nuutila is currently in charge of the development of the management system especially. Investment Director **Tapio Tommila**'s responsibilities include the acquisition of new business segments or complementary acquisitions for present business areas. The process responsibility of CFO **Simo Mustila** is the development and streamlining of corporate takeovers. Divestments completed under the leadership of CEO **Juha Sarsama** reap the harvest.

"With all this, we support the positive development of shareholder value for the listed company. At the end of the day, the purpose of any listed company is to make money for its shareholders," sums up Nuutila.

The distribution of the roles and responsibilities of Panostaja and its subsidiaries is the third element of management.

"When roles and responsibilities are clear, we do not intrude into each other's territory. Naturally it must be possible to bring up different matters for discussion at the interface between territories. Open discussion takes things forward, so the connection should be open. This does not mean that Panostaja should provide Group companies with all the wisdom they need; on the contrary, operational responsibility and daily management belongs unambiguously to the managing directors of the business areas. Their job is to bring to their Boards matters that they consider important, and to prepare strategic operational directions. The Boards'



job is then to make the strategic decisions," says Nuutila describing the interface between Panostaja's business areas.

When Board work is active and dynamic, it gives the opportunity to also react to the most rapid business changes and global events.

The fourth element of the management model is strategic planning and management. Planning and monitoring taking place online enables a real-time 'helicopter perspective' for management throughout the Group. People can react quickly to changes and deviations. The business-area managing directors and their senior management teams have at their disposal their own corresponding planning and monitoring environments.

On the desktop strongly based on visual perception are the strategic models of the business areas, the most important projects, a wad of analysis tools and monitoring and management aids for operational work. The Group's external professional Board members are also entitled to use the desktop.

"The greatest challenge is always strategic policy-making. The good and efficient performance of strategic projects is enabled through the said management desktop. Sometimes, however, it happens that projects are put second to daily activities. This is human, but not very desirable," remarks Nuutila.

The most significant change in comparison to traditional strategic management is, inevitably, a change in perspective. The monitoring of business areas is boosted all the way to Group level, when both past and future plans can be checked from the desktop. The managing director also gets support from his tool, the strength of which is based on the richness of the views of many people and on speedy utilization.

"A new management challenge can of course stem from this. Managers should dare, desire and be able to share information. The tool enables this, but the change in management culture is great, so the matter is not quite so simple," says Nuutila.

The world is now living through a watershed that will completely reform business. Nuutila is of the opinion that past events have already revolutionized business planning, management and ways of thinking through the needs of the customer; people are irrevocably moving strongly away from product-centeredness towards service business. Business must also be able to station itself as part of a networked world where people work together in the name of a common interest.

"Such a change is not easy for everyone. The purpose is to find means by which we can meet today's challenges, since we can no longer see the direction of development as easily as we could before. People and business concepts must be sensitive to all kinds of change, even if we are not living in a truly chaotic world yet. But we can no longer operate alone. There must be efficient tools which can help us to adapt and to seek out new opportunities. We must have people nearby and networks which can help. We must be able to collect information and utilize it for the good of the company," says Nuutila, listing the guidelines by which Panostaja can survive the current global tumult.

Panostaja Oyj Report on the Management and Control System

Compliance with the Finnish Corporate Governance Code 2010

In its operations and the organization of its administration, Panostaja Oyj complies with the Finnish Corporate Governance Code (2010). The Code is available at the website maintained by the Securities Market Association at www.cgfinland.fi.

Annual General Meeting

Panostaja Oyj's highest decision-making body is the Annual General Meeting. Every year, the Annual General Meeting confirms the Company's financial statement, decides on the dividends to be paid and on the granting of discharge from liability of the members of the Board and the CEO, and on the election of the members of the Board and auditors and the fees to be paid to them. The Annual General Meeting is convened by the Board of Directors. In accordance with the Articles of Association, the Annual General Meeting must be held every year by the end of April. The invitation to the Annual General Meeting must be published on the company's website at the earliest two (2) months and no later than three (3) weeks prior to the Meeting, but at least nine (9) days before the record date of the Annual General Meeting. The Board of Directors may also, at its discretion, announce the Annual General Meeting in one or more newspapers. The Annual General Meeting must be attended by the CEO, the Chairman of the Board and any person being nominated as a Board member for the first time, unless there are compelling reasons for his/her absence.

Board of Directors

According to the Articles of Association of Panostaja Oyj, the Board of Directors must comprise at least three and no more than six ordinary members. In the financial year 2011, the Board comprised six members. The members of the Board are elected by the Annual General Meeting. A Board member's term of office expires at the end of the Annual General Meeting following the election.

In 2011, the Board convened 16 times. The average rate of participation at Board meetings over the period was 96%.

The Board elects a Chairman and possible Deputy Chairman from amongst its members. The Board has prepared written rules of procedure for its activities. The Board deals not only with tasks referred to in law and in the Articles of Association, but also matters important and far-reaching from the point of view of the company and Group, such as long-term strategic objectives, the budgets of companies belonging to the Group as part of the Group budget, essential Group investments, essential operational expansions or contractions and significant corporate and business transactions. Every year, the Board evaluates its activities and working methods. The Board does not have separate committees, and so is responsible for the functions of the Audit Committee as defined in the Finnish Corporate Governance Code.

Of the six members of the company's Board, six are independent of the company and five are significant shareholders in the company.

At the Annual General Meeting held on January 27, 2011, the following were elected to the Board:

- **Jukka Ala-Mello**, born 1963, Chairman of the Board since 2011, Board member since 2006, M.Sc (Econ. and Bus. Adm.) and member of the Finnish Institute of Authorised Public Accountants, Director of Kone Corporation and Secretary to the Board, previous work experience: Shareholder in PricewaterhouseCoopers Oy 1995–2006, Finnish Institute of Authorised Public Accountants-approved auditor 1993–2006, and auditor 1987–1990, and Financial Manager at Panostaja Oyj 1990–1993, other positions of trust: Board member and Managing Director at Security Trading Oy and Holding Manutas Oy, Chairman of the Board at OWH-Yhtiöt Oy and Board member at Oy Hacklin Ltd. Independent of the company and significant shareholders.
- **Hannu Martikainen**, born 1943, Board member since 2007, rakennusneuvos (Finnish honorary title), previous work experience: Managing Director of Parma Oy, other positions of trust: Board member of Muotolevy Oy. Independent of the company and significant shareholders.
- **Hannu Tarkkonen**, born 1950, Board member since 2006, Vocational Qualification in Business and Administration, Managing Director of Etera Mutual Pension Insurance Company, previous work experience: Investment Director at Etera 1997–2005, Deputy Managing Director at Etera Mutual Pension Insurance Company 2005–2010, other positions of trust: Member of the supervisory board of Raisio Oyj and the Mortgage Society of Finland. Independent of the company.
- **Satu Eskelinen**, born 1961, Board member since 2010, M.Sc. (Eng.), Director of the Tampere Area and Business Services at Technopolis Oyj, previous work experience: Director of the Consulting and Technology Unit at Solteq Oyj, Regional Director at Elisa Oyj, Marketing Director and Managing Director of Soon Com Oy, other positions of trust: Board member of Tampereen Lääkärikeskus Oy. Independent of the company and significant shareholders.
- **Eero Eriksson**, born 1963, Board member since 2011, M. Pol. Sc., Deputy Managing Director of Fennia, previous work experience: Investment Director of Fennia Group since 2002, Investment Director of Fennia Mutual Insurance Company, Investment Director of Eläke-Fennia 1998–2001, Investment Director of Merita Life Insurance Oy, Bank Manager of Union Bank of

Finland, other positions of trust: Board member of Fennia Asset Management Ltd, deputy Board member of Fennia Life, Chairman of the Board of Fennia Property Group, Member of the Investment Committee of the Diabetes Research Foundation, member of the Asset Management Committee of Oulun Diakonissalaitoksen säätiö foundation. Independent of the company and significant shareholders.

- **Mikko Koskenkorva** born 1982, Board member since 2011, graduate of upper secondary school, IT Project Manager for Pajakulma Oy; other positions of trust: Board member of Johtopanostus Oy and Rollock Oy. Independent of the company and significant shareholders.

The organizing meeting of the Board elected Jukka Ala-Mello as Chairman. No Deputy Chairman was elected.

CEO

The Board appoints the CEO. The CEO is Juha Sarsama LLM (b. 1965, CEO since 2007, LLM, M.S.M. Boston University in Brussels; previous work experience: Managing Director of OpusCapita Oy, Administrative Director Saarioinen Oy, Financial Director OpusCapita Oyj). The CEO controls the day-to-day running of the company in accordance with the Board's instructions and regulations. The CEO acts as Head of the managing directors of the business areas and the members of the parent company's Senior Management Team members. The CEO prepares and presents to the Board for decision long-term strategic objectives, the budgets of the companies owned by the Group as part of the Group's budget, the Group's essential investments, essential expansions or contractions of business operations as well as major corporate and business acquisitions.

Organization of Business Activities

In the financial year 2011, Panostaja Oyj's Senior Management Team comprised CEO Juha Sarsama, CFO Simo Mustila, Investment Director Tapio Tommila and Development Director Heikki Nuutila. The Senior Management Team is chaired by the CEO and meets regularly. In addition to his statutory responsibilities, the CEO is accountable for the organization of Panostaja Oyj's activities, the management system and development thereof of the entire Group, as well as preparation and presentation of matters to the company's Board of Directors. The CFO is responsible for the financial reporting process and the risk management process as well as their development. The Investment Director is responsible for the corporate acquisition process and the related analysis and valuation process. The Development Director is responsible for the Group's management system and its development and for the Group's development projects as well as supporting business areas in their own development projects.

The Senior Management Team operates under the auspices of the CEO and is responsible for the development of Panostaja Oyj's processes. The Senior Management Team prepares measures related to the development of the shareholder value of the business areas as well as Group-wide development projects and the Group's strategy.

Panostaja Group's operational business activities take place in business areas (subgroups or divisions) that are defined in accordance with their industry. The share and option ownership of the Senior Management Team is explained on the Company's website www.panostaja.fi. Each division's board of directors consists of the managing director of the business area as well as two members from Panostaja Oyj's Senior Management Team, one as chairman of the division's board, and, in most business areas, at least one external expert. Operational decisions concerning the business areas are made in each division.

Main Features of the Internal Control and Risk Management Linked to the Financial Reporting Process

The 'financial reporting process' means functions which produce financial information for use in company management, as well as financial information to be published in accordance with laws, standards and other regulations applicable to the company. The internal control that is linked to the financial reporting process aims to ensure that Panostaja Group's operations are successful and that decision-making is based on reliable information and adequate business risk identification. All twelve business areas have their own financial management body, and the parent company also has a separate financial administration organization operating under the auspices of the Group CFO. The business areas use several different accounting and financial reporting information systems. The Group's financial reporting is handled by one centrally administered information system. The business areas are responsible for producing information for the Group reporting system.

All the company's business areas prepare their own budgets, which are accepted by the board of the business area in question. The parent company's budget and the business areas' budgets are combined to form a budget for Panostaja Oyj. Throughout the financial year, the business areas report monthly to the parent company according to a reporting timetable that is agreed upon beforehand. Monthly reporting and the related analyses and comparisons are an essential part of the guidance and supervision carried out with the help of financial reporting. After each quarter, the business areas update their end-of-year forecast as necessary. Panostaja Oyj does not have a separate internal audit organization. The parent company's financial management organization regularly monitors and controls reporting by the business areas as well as deficiencies observed in the reporting and, where necessary, will either carry out its own internal audit or have a separate one carried out by external experts. The parent company's financial management organization is responsible for the definition of uniform accounting and reporting principles and guidelines, for the constant development of the reporting system as well as the training of the business areas' financial management organization. Development and training should take into account the internal control requirements.

Auditing

The auditors elected by the AGM are responsible for the statutory auditing of the companies belonging to the Panostaja Group.

In 2011, Eero Suomela APA and Authorised Public Accountants PricewaterhouseCoopers Oy operated as auditors in the parent company and the Group.

As required by law, the auditors issue an audit report for the company's shareholders together with the financial statement. In dealing with the financial statement, Panostaja Oyj's Board receives an explanation of the implementation of the audit and its findings from the responsible public accountant. If necessary, the auditors participate in Board meetings and otherwise report to the Board. In 2011, the fees paid to PricewaterhouseCoopers for the statutory audit were €81,000, and €27,000 for other services.

Insider Management

Panostaja Group complies with the provisions of the Securities Markets Act regarding insider announcements, the maintaining of an insider register and a company-specific insider register, as well as the Insiders' Guide approved by NASDAQ OMX Helsinki Oy.

Panostaja Oyj's public insiders include the members of the Board, CEO, Senior Management Team and auditors. The Company's permanent insiders are the parent company's entire staff and their partners who, based on co-operation, are considered to be part of the permanent inner circle, but their holdings are not public. Significant projects are marked on the insider register for each project. Panostaja Oyj's public insider register can be seen in Euroclear Finland Oy's NetSire service and on the company's own website under "Investors" (then "Administration", and finally "Inner circle").

Communication

Panostaja's objective is for all market-related parties to have correct, up-to-date and adequate information about the company. Panostaja's website publishes information concerning the company's management and control system, and stock exchange bulletins, as soon as the information has been made public and other key investor information.

Panostaja applies the so-called "quiet period" principle of two weeks before the publishing of results. During this period, company representatives do not comment on market prospects.

Risk Management

Panostaja Oyj's risk management objective is to ensure business continuity and to support Panostaja, the business areas owned by it and the defined objectives and strategies for achieving this objective.

Risk is classified by such factors that may endanger or impede Panostaja or the business areas owned by it from achieving strategic objectives or business continuity, or that may otherwise cause significant consequences for Panostaja, its owners, business areas, personnel or other stakeholder groups. The more significant risks and uncertainties that have come to the attention of the company's Board have been described in the Annual Report.

Risk management is an integral part of the general authority and good governance of the Board and the CEO, in accordance with the Limited Liability Companies Act, as well as the planning and management of Panostaja's business operations.

At Panostaja, risk management is based on risk identification, assessment and reporting. Risk identification, assessment and reporting at Group level are the responsibility of the parent company's CEO, and the responsibility for the business areas rests on the managing director of the business area in question. All material risks are reported to the Board of Directors of the Group's parent company.

Panostaja uses a uniform model to identify Group and business area risks. Risk identification, assessment and reporting for each business area enables the creation and maintenance of effective risk management measures.

Risks are identified and assessed based on their likelihood, severity, possible development trend and manageability.

Risk analyses and assessments are carried out as self-assessments and a summary of them is processed and approved by the Board of each business area. Risks are also charted and processed together with the risk management services of an accident insurance company. Based on these analyses and assessments, decisions are made on risk management development projects, which can be implemented on a Group-wide scale or for an individual business area.

Panostaja classifies the key risks into four main categories: strategic, operational, financial and non-life risks.

Panostaja's Board is responsible for the company's risk management and monitors its implementation. The Board approves the company's risk-management policies.

Panostaja's CEO and the Senior Management Team are responsible for determining the principles of risk management and their adoption and for ensuring that risk management is properly organized. They are also responsible for ensuring that risks are taken into account in the company's planning processes and that they are reported to the Board in an adequate and proper manner. They are also responsible for the development of risk management and the constant evaluation of the abilities of business area management in the risk management area, through their work with the Boards.

The managing directors of the business units and the Board are responsible for risk identification, assessment and management, and for implementing and reporting measures for the development of risk management in their respective areas of responsibility, in accordance with Panostaja guidelines.

Panostaja's CFO is responsible for risk management strategy and reporting at Group level. Financial risks are reported regularly to Panostaja's Board.

Panostaja's Development Director is responsible for the practical execution and control in the business areas based on the Group business model and risk management policy.

Each employee is responsible for the identification of risks either related to his/her own work or that he/she otherwise observes, as well as for reporting these to a superior.

Remuneration

The AGM confirms the Board's salaries annually. The 2011 Annual General Meeting confirmed the following salaries for Board members: the Chairman of the Board is paid €40,000 per year, and every other member of the Board €20,000 per year.

Approximately 40% of the salary paid to a Board member is paid as company shares based on an authorization to the Board for a share issue, if the Board member on the day of the AGM does not own more than one per cent of the company's total shares. If, on the day of the AGM, the Board member owns more than one per cent of the company's total shares, the salary is paid fully in cash. During the financial year 2011, a total of 37,608 company shares were paid as salary to the Board members.

The Board members do not belong to Panostaja's remuneration system, neither are they employed by the company.

The CEO's salary and other benefits are determined by the Board. The CEO has a written CEO's contract and the pay is fixed according to this. The CEO's retirement pension is determined in accordance with the Employees Pensions Act (TyEL). In accordance with the CEO's contract, the period of notice is six (6) months and the severance pay is equal to twelve (12) months' salary. In the 2011 financial period, the CEO's earnings and other benefits amounted to €183,137.40. The CEO is not a Board member. The share and option ownership of the CEO is explained on the Company's website www.panostaja.fi.

The CEO and the members of the Senior Management Team are involved in a share bonus system. The company's management owns shares directly and through influential organizations. The Board of Panostaja Oyj decides on the principles of the remuneration system for the CEO and members of the Senior Management Team. The salaries of the Senior Management Team are fixed and the pension is determined according to the Employees Pensions Act. The Board decided on December 16, 2010 on a new long-term incentive and commitment scheme for the members of the Senior Management Team. In January 2011, Panostaja sold 623,561 of the company's own shares to the members of the Senior Management Team, and the latter acquired a total of 950,000 Panostaja shares for personal ownership or for the ownership of a company where they have a controlling interest. The said 950,000 shares is specified as the maximum quantity in the company's ownership system.

The management's share ownership within the incentive and commitment-scheme is distributed as follows:

Pravia Oy (Juha Sarsama)	350,000 shares
Artaksan Oy (Simo Mustila)	200,000 shares
Heikki Nuutila	200,000 shares
Comito Oy (Tapio Tommila)	200,000 shares
Total	950,000 shares

The members of the Senior Management Team have partly financed their investments themselves and partly through company loans, and they carry genuine corporate risk with respect to the investment they have made in the system. In order to enable the acquisition of the shares and as part of the system, Panostaja's Board decided to grant an interest-bearing loan in the amount of €1,250,000 maximum to the Senior Management Team members or to the companies in which they have a controlling interest. The management raised an interest-bearing loan in the total amount of €1,207,127.84 to finance the acquisition.

Members of the Senior Management Team participating in the system during 2011–2015 may be granted a maximum of 237,500 Panostaja shares as a bonus on the basis of the achievement of set targets. A possible bonus may also be paid in cash to cover taxes and tax-like payments arising from the bonus. Members of the Senior Management Team are obliged not to sell shares received as a bonus for a period of 27 months after having received them.

This report is available on the company's website at www.panostaja.fi. The report is issued separately from the Annual Report.

Stock Exchange Bulletins

November

- November 22, 2010 Even the last quarter of Takoma negative, but Panostaja's profit outlook unchanged

December

- December 2, 2010 Invitation to Panostaja Oyj's press conference
- December 15, 2010 Panostaja's Board approves 330,000 new share subscriptions
- December 16, 2010 Panostaja Group financial statement bulletin November 1, 2009–October 31, 2010
- December 16, 2010 Panostaja arranges a share issue and an offering of convertible subordinated loan
- December 16, 2010 Panostaja Oyj's management invests in Company shares as part of a long-termincentive and commitment scheme
- December 16, 2010 Panostaja strengthens its digital printing services business area with purchase of Suomen Graafiset Palvelut Oy Ltd
- December 16, 2010 Notification on a change in holdings under chapter 2, section 10 of the securities markets act
- December 17, 2010 Paying Panostaja Oyj board members' fees in the form of shares held by the Company
- December 21, 2010 Invitation to annual general meeting
- December 21, 2010 Result of Panostaja's share Issue
- December 21, 2010 Notification on a change in holdings under chapter 2, section 10 of the securities markets act
- December 23, 2010 Panostaja Oyj's 330,000 new shares registered
- December 23, 2010 Notification on a change in holdings under chapter 2, section 10 of the securities markets act

January

- January 5, 2011 Panostaja Group annual report 2010 published
- January 11, 2011 Panostaja Oyj's 4,000,000 new shares registered
- January 11, 2011 Notification on a change in holdings under chapter 2, section 10 of the securities markets act
- January 25, 2011 Proposal on the Members of the Board to Panostaja's Annual General Meeting of January 27, 2011
- January 25, 2011 Panostaja Oyj's Management invests in Company shares as part of long-term incentive and commitment scheme
- January 27, 2011 Panostaja Oyj's Annual General Meeting, January 27, 2011

February

- February 1, 2011 Panostaja Oyj's convertible subordinated loan 2011
- February 8, 2011 Panostaja Oyj has bought back units of the convertible subordinated loan 2006
- February 17, 2011 Invitation to Panostaja Oyj's press conference
- February 18, 2011 Panostaja's listing prospectus for convertible subordinated loan 2011 approved by the Finnish financial supervisory authority

March

- March 9, 2011 Panostaja Group Interim Report, November 1, 2010-January 31, 2011
- March 10, 2011 Paying Panostaja Oyj Board Members' fees in the form of shares held by the Company
- March 30, 2011 nomination in Panostaja - Jouni Arolainen becomes managing director at Vindea

April

- April 29, 2011 Panostaja Oyj's share of ownership in ecosir group decreases below 50 percent

May

- May 25, 2011 Invitation to Panostaja Oyj's press conference

June

- June 8, 2011 Panostaja Group interim report november 1, 2010-april 30, 2011
- June 9, 2011 Paying Panostaja Oyj Board Members' fees in the form of shares held by the Company
- June 22, 2011 Helsinki Administrative Court gave its ruling concerning the taxation of the sales profit from Panostaja Oyj's fixed asset shares

August

- August 25, 2011 Invitation to Panostaja Oyj's press conference
- August 26, 2011 Ari Suomalainen to become shareholder in Suomen Kiinnikekeskus Oy

September

- September 6, 2011 Nomination in Panostaja - Hannu Rantanen becomes managing director at Suomen Helakeskus
- September 7, 2011 Panostaja Group interim report november 1, 2010-July 31, 2011
- September 8, 2011 Paying Panostaja Oyj Board members' fees in the form of shares held by the Company
- September 19, 2011 Panostaja Oyj has sold Lämpö-Tukku Oy's business Operations to Cordes & Graefe Kg. Panostaja Oyj adjusts its result management.
- September 23, 2011 Panostaja Oyj's financial information release dates and Annual General Meeting

October

- October 3, 2011 the Business purchase between Panostaja Oyj's subsidiary Lämpö-Tukku Oy and Cordes & Graefe KG will not be closed

Information for shareholders

Share information

Market	NASDAQ OMX Helsinki Oy
ISIN	FI0009800379
Trading ID	PNA1V (OMX)
List	OMXH Small Cap
Number of shares	51,733,110

Panostaja's shares are registered in a book-entry system maintained by Euroclear Finland Oy.

Annual General Meeting

Panostaja Oyj's Annual General Meeting will be held on Tuesday January 31, 2012 at 1:00 pm at Technopolis Yliopistonrinne, Häggman Auditorium, Kalevantie 2, Tampere. We have published the invitation to the Annual General Meeting on December 15, 2011.

The right to participate in the Annual General Meeting rests with those shareholders who are entered as shareholders in the company's shareholder list maintained by Euroclear Finland Oy no later than January 19, 2012.

A shareholder whose shares are nominee-registered and who wishes to participate in the Annual General Meeting must register for temporary entry in the company's shareholder list no later than January 26, 2012 by 16:00 pm. A requirement of registration is that, based on the same shares, the shareholder is entitled to be entered in the company's shareholder list on the record date of the Annual General Meeting, January 19, 2012. The registration of a nominee-registered shareholder for temporary entry in the company's shareholder list will be deemed to be equivalent to registering for the Annual General Meeting.

A shareholder who wishes to participate in the Annual General Meeting must register with the company in writing in advance no later than January 26, 2012 by 16:00 am to the address Sari Tapiola/Panostaja Oyj, PO Box 783, 33101 Tampere, by telephone to Sari Tapiola, tel. +358 10 2173 211, or by e-mail to yhtiokokous@panostaja.fi. The letters of registration and powers of attorney must have arrived before the end of the registration period to the address Panostaja Oyj, Sari Tapiola, PL 783, 33101 Tampere.

Dividend payment and capital repayment

The Board of Directors proposes that no dividends be paid for the financial year. The Board also proposes to the Annual General Meeting that €0.05 per share be paid as capital repayment from the invested unrestricted equity fund. The capital repayment will be made to those shareholders who on the record date of the capital repayment, February 3, 2012, are recorded in the company's shareholder list maintained by Euroclear Finland Oy. The Board of Directors proposes that the capital repayment be made on February 10, 2012.

The Board also proposes that the Annual General Meeting authorize the Board of Directors to decide, at its discretion, on the possible distribution of assets to shareholders, should the company's financial status permit this, either as dividends from profit funds or as distribution of assets from the invested unrestricted equity fund. The maximum distribution of assets performed on the basis of this authorization totals no more than €5,200,000.

It is proposed that the authorization include the right of the Board to decide on all other terms and conditions relating to the said asset distribution.

It is also proposed that the authorization remain valid until the next Annual General Meeting.

The Board of Directors has decided that the capital repayment would not endanger the company's solvency.

Important dates concerning the Annual General Meeting

Annual General Meeting record date	January 19, 2012
Registration for Annual General Meeting ends	January 26, 2012
Annual General Meeting	January 31, 2012
Capital repayment record date	February 3, 2012
Capital repayment payment date	February 10, 2012

Interim reports

The Panostaja Group will publish three interim reports in the financial year November 1, 2011–October 31, 2012, as follows.

The interim report for the period November 1, 2011–January 31, 2012 will be published on March 7, 2012

The interim report for the period November 1, 2011–April 30, 2012 will be published on June 6, 2012

The interim report for the period November 1, 2011–July 31, 2012 will be published on September 5, 2012

The interim reports, annual report and bulletins are available after publishing on the company website www.panostaja.fi.

Two weeks before the publishing of the annual report and interim reports, the company keeps a so-called quiet period, during which it does not comment on the financial situation or market outlook, nor does it meet with capital market representatives.

Juha Sarsama, b.1965

Managing Director since 2007
Master of Law, M.S.M (Boston University Brussels)
Previous work experience: Managing Director OpusCapita Oy, Administrative Director Saarioinen Oy, Financial Director OpusCapita Oyj
Other positions of trust: member of the board of Tampere Chamber of Commerce

Simo Mustila, b.1967

Financial Director since 2010
M.Sc. (Econ. and Bus. Adm.), MBA
Previous work experience: F&I manager of Delta Motor Group Oy, Vice President of Corporate Finance and Administration of the DNA Group
Other positions of trust: Member of the Finance Committee of the Tampere Chamber of Commerce

Heikki Nuutila, b. 1958

Development Director since 2008
Master of Social Sciences
Previous work experience: Managing Director Tutor Partners Oy, Director Hermia Yrityskehitys Oy, Director Andersen Corporate Finance
Other positions of trust: -

Tapio Tommila, b. 1978

Investment Director since 2008
M.Sc. (Econ. and Bus. Adm.)
Previous work experience: Deloitte Corporate Finance Oy, PricewaterhouseCoopers Oy
Other positions of trust: -

Jukka Ala-Mello, b. 1963

Chairman of the Board since 2011, Board member since 2006
M.Sc. (Econ. and Bus. Adm.), KHT (Authorised Public Accountant), KONE Oyj's Director
Previous work experience: PricewaterhouseCoopers Oy's shareholder 1995–2006, KHT auditor 1993–2006 and auditor 1987–1990 and Panostaja Oyj's Financial Manager 1990–1993
Other positions of trust: Board member and Managing Director at Security Trading Oy and Holding Manutas Oy and Chairman of the Board at OWH-Yhtiöt Oy
Independent member

Eero Eriksson, b. 1963

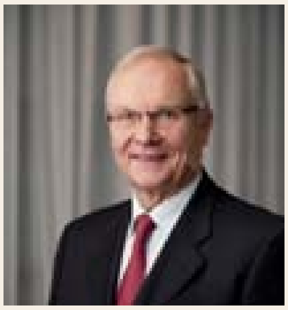
Board member since 2011
Master of Political Science. Deputy Managing Director of mutual pension insurance company Fennia
Previous work experience: Investment Director of Pension Fennia 2002-2008, mutual pension insurance company Fennia 2002–2003 and Fennia Life 1998–2001
Other positions of trust: Chairman of the Board of Fennia Property Group, Member of the Investment Committee of the Diabetes Research Foundation
Independent of the Company

Satu Eskelinen, b. 1961

Board member since 2010
M.Sc. (Eng.), Vice President of Technopolis Oyj in charge of the Group´s Tampere operations and Corporate Services
Previous work experience: Director of Consulting and Technology Unit of Solteq Plc, Regional Director of Elisa Corporation and Marketing Director and Managing Director of Soon Com Ltd
Other positions of trust: Tampereen Lääkärikeskus Oy 's Board
Independent member

Mikko Koskenkorva, b. 1982

Board member since 2011
Graduate of upper secondary school, IT Project Manager of Pajakulma Oy
Previous work experience: Sales work with Expert ASA Oy 2003–2008
Other positions of trust: Board member of Johtopanostus Oy and Rollock Oy
Independent of the Company



Hannu Martikainen, b. 1943

Board member since 2007
Construction Counsellor
Previous work experience: Parma Oy: Managing Director
Other positions of trust: Muotolevy Oy's board
Independent member

Hannu Tarkkonen, b. 1950

Board member since 2006
Vocational Qualification in Business and Administration, managing director of mutual pension insurance company Etera
Previous work experience: Etera, Investment Director 1997–2005 and Deputy Managing Director 2005–2010
Other positions of trust: Raisio Oyj, Board member; Hypoteekkiyhdistys, Board member

Why invest in shares?

Over a short period of time, share prices may vary greatly as the moods of investors change. Recently, the atmosphere has been churning from one extreme to the other on account of the European debt crisis.

In the long term, psychology gives way to economic facts. The proceeds from shares and their dividends are usually several percentage points higher than the growth in GDP. This is how it should be, as companies grow faster than their national economies, and mainly leading companies are selected for the stock exchange.

A well-diversified share portfolio has been an excellent long-term investment alternative. The annual gross return, including dividends, for shares quoted in Helsinki averaged a full 12% between 1990 and 2010. These returns were very good, as the annual rate of inflation remained below 2%.

A share purchase made at the wrong time causes bad feeling and weakens the gross return on an investment. On the other hand, the importance of timing diminishes in the long term. Share prices cannot be forecast and errors in timing avoided. Investors in shares therefore need a cool head and an ability to control their nerves. But what else do they need?

The answer is clear: patience, patience and more patience. Too often, investors will sell their shares in disappointment, if the price has not rocketed within a few months of their purchase. It is worth remembering, however, that the correction of a any pricing error may roll on for years. If you have analyzed carefully, it is worth waiting for the crop to mature.

Researchers have noted that investors do not act rationally but constantly repeat the same errors of behavior. The best known of these is the 'lemming' phenomenon. By being aware of errors, they can be avoided and, at best, taken advantage of.

A skilful investor also needs to have an analytical brain. Share prices may be linked, for example, to financial results and a profit forecast, to a dividend forecast and to a company's own book assets. The balance sheet must not be too full of liabilities. Of the key figures, in my opinion the most useful is the dividend yield as, according to financial theory, a share's correct value is the discounted present value of cash flows, or dividends, to be accrued from receivables resulting from the share. The value of any share soars more quickly in those companies which can increase the dividend income for their shareholders more rapidly.

It is always worth reading up on a company's business, status of ownership, policy on distribution of profits and the ability of its management staff. I myself value knowing who the owners of a company actually are. It is reassuring to know that you are in the same boat with major shareholders who are people. Many institutions such as funds, organizations, pension institutions and foundations are regrettably often merely passive shareholders.

Shares in small companies are not traded very actively on the stock exchange. The liquidity risk is therefore greater than usual. To counterbalance this risk, the returns from these small cap shares have been seen to be greater than returns from blue chip shares that trade briskly. For a private investor, small stock exchange turnover is scarcely a problem. It is advisable for small investors to invest in high-quality small cap companies, because the absence of major investors means pricing that is more reasonable than with other shares.

Panostaja is included in the share portfolio of the writer of this article. The company's business is interesting and the company is a good payer of dividends. According to a calculation in the 'Onnistu osakemarkkinoilla' book, the annual gross return on Panostaja shares was as great as 26% over the period February 28, 2002–June 30, 2011. There has been absolutely no need to regret investing in the company's shares.

Kim Lindström

Kim Lindström is a long-time investor and investment writer. In November 2011, a 420-page work by Lindström and his son, Tom, "Onnistu osakemarkkinoilla" (How To Succeed in the Stock Market), was published by Talentum.

Why invest in Panostaja?

WE ARE A LOW-RISK COMPANY, AS WE INVEST IN A DIVERSE RANGE OF UNLISTED FINNISH SMES, WHICH HAVE HIGH EARNINGS EXPECTATIONS.

WE COMBINE THE BEST PRACTICES OF A LISTED COMPANY WITH THE FINANCIAL AND MANAGEMENT SYSTEMS OF A FINNISH SME.

OUR GOAL IS GOOD RETURNS FOR SHAREHOLDERS.

Design and layout: Villivisio Oy
Text: Anne Karppinen
Pictures: Emil Bobyrev
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Panostaja Oyj

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panostaja

WE ARE AN INVESTMENT COMPANY CREATING SUCCESS STORIES
THROUGH THE OWNERSHIP AND DEVELOPMENT OF FINNISH SMES

• • •

FINANCIAL STATEMENTS 2011

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The Group's economic development

Panostaja Group's net sales were MEUR 163.2 (MEUR 137.9) at the end of the period under review. Export amounted to MEUR 13.8, or 8.4%, of the net sales. Corporate acquisitions realized during the previous financial period affected the MEUR 25.3 increase in net sales by MEUR 15.2. The growth in the Group's net sales resulted, particularly, from the corporate acquisitions realized during the previous financial period, from the operative development of the digital printing services, and from the recovery of the engineering industry.

Of the Group's twelve segments engaged in business, ten exceeded the net sales for the previous financial period. Two segments fell short of the levels of the previous financial period. Correspondingly, nine segments showed an increase and three a decrease in operating profit from the previous period.

The Group's operating profit for the full review period was MEUR 5.9 (MEUR 2.9). The MEUR 3.0 increase in operating profit was primarily the result of growth in net sales and of corporate acquisitions realized over the previous financial period. The effect of the acquisitions on the growth in operating profit, with the expenses of acquisitions included, was MEUR 1.1. The operating profit margin was 3.6% (2.1%).

The loss from discontinued operations was MEUR -0.4. Ecosir Group Oy separated from the Group in April 2011. For the reference year, the net sales of the entire previous financial period on discontinued operations stood at MEUR 2.6, while the operating loss was MEUR -4.5, and the loss for the financial period totaled MEUR -4.3. The Group's income statement does not include a figure indicating the profit/loss from discontinued operations for the reference year 2010. Instead, the loss (MEUR -4.3) is separately listed in the consolidated income statement in the row 'Earnings from Discontinued Operations'.

Before separating the discontinued operations from continuing operations in the income statement, the Group's net sales for the full financial period were MEUR 140.5, while the operating loss stood at MEUR -1.6, and the loss before taxes was MEUR -4.0.

The net financing expenses of the Group for the review period were approximately MEUR -3.0 (MEUR -2.4). The financial position and liquidity of Panostaja Group remained good. In the period under review, the financial expenses were burdened by the interest costs of repurchased shares of a subordinated loan, which amounted to MEUR -0.7. During the financial year, the Group employed an average of 1,034 (967) people. At the end of the financial period, the Group employed 1,097 persons.

On September 19, 2011, Panostaja announced the sale of its Lämpö-Tukku Oy business to Cordes & Graefe KG's new Finnish subsidiary. The intention was to complete the transaction on October 3, 2011. However, on October 3, 2011, Panostaja reported that the sale was cancelled due to errors detected in the inventory of the stock completed prior to the realization of the sale. The total value of the errors was approx. MEUR 2.

A write-down of MEUR 2.2 related to the stocks of Lämpö-Tukku was made in the financial statements, MEUR 1.9 of which was allocated to previous financial periods, and MEUR 0.2 to the period ending on October 31, 2011. Of the allocation made to previous periods, MEUR 1.4 was entered in retained earnings and MEUR 0.5 in deferred tax assets. In the release on November 9, 2011, Panostaja reported that it was continuing the investigation of the reasons resulting in the inventory difference and would provide information about them in more detail if necessary.

In the preliminary ruling on the capital repayment in respect of Takoma Oyj shares in spring 2008, the Tax Office for Major Corporations decided on the basis of an overall assessment that Panostaja was a capital investor within the meaning of Section 6, Subsection 1, Item 1 of the Finnish Business Tax Act. For capital investors, capital gains from fixed asset shares are considered taxable income.

Due to the said preliminary ruling, the Tax Office for Major Corporations, in its taxation by direct assessment in 2007, regarded Panostaja Oyj as a capital investor in the aforementioned sense and taxed the company's certain capital gains from fixed asset shares. Panostaja Oyj submitted a claim for adjustment over the 2007 taxation to the Board of Adjustment claiming that the capital gain from fixed asset shares should be exempt from tax. The Board of Adjustment denied Panostaja Oyj's claim in August 2009. Panostaja Oyj appealed the decision to the Administrative Court of Helsinki.

In June, Panostaja Oyj was informed that the Administrative Court of Helsinki had rejected the appeal. The Administrative Court considers Panostaja Oyj a capital investor within the meaning of the Finnish Business Tax Act. Panostaja Oyj has applied to the Supreme Administrative Court for the right to appeal the decision.

Panostaja Oyj

The net sales of the parent company Panostaja Oyj amounted to MEUR 0.06 (MEUR 0.05).

The operating loss was MEUR -6.9 (MEUR -2.6). The parent company's loss before appropriations and taxes was MEUR -6.9 (MEUR -2.1). The parent company's loss in the financial period was MEUR -6.9 (MEUR -2.1).

Group structure

In December 2010, Panostaja Oyj's subsidiary Digiprint Finland Oy purchased the entire share capital of Suomen Graafiset Palvelut Oy Ltd, which offers print products and services. The net sales of Suomen Graafiset Palvelut Oy Ltd during the financial year ending in April 2010 totaled MEUR 3.2, and the company employed 30 people. The company's domicile is Kuopio and it has an office in Helsinki.

On June 21, 2011, Digiprint Finland Oy's subsidiary Kopijyvä Oy purchased the entire share capital of Microtieto Suomi Oy. Through the acquisition, Kopijyvä strengthened its market share in the field of microfilming and microprinting. The company operates in Espoo and employs five people.

At the end of April, the acting management and other shareholders of Ecosir Group Oy purchased EcoSir Group Oy shares held by Panostaja Oyj to an extent that Panostaja Oyj's holding in the company was reduced to 49.78%, whereby Ecosir Group Oy is no longer a subsidiary of Panostaja Oyj. In conjunction with the transaction, Panostaja Oyj made an investment of approx. MEUR 2.5 in Ecosir Group Oy's invested unrestricted equity fund. The investment was carried out by converting MEUR 2.4 of Panostaja Oyj's receivables and partially by means of a new investment. The arrangement did not significantly affect Panostaja Group's profit/loss. After the transaction, Panostaja Oyj's receivables from Ecosir Group Oy total MEUR 2.2. The terms of the receivables match those of subordinated loans. In future, Panostaja Oyj will report Ecosir Group Oy as an associated company. After the transaction, the acquisition cost of associated company shares in Panostaja Oyj's balance sheet is at MEUR 0.2.

In June, Takoma Oyj's subsidiary Takoma System Oy purchased the business operations of TL-Tuotanto Oy, a Keminmaa-based company specializing in hydraulics and automation systems, for a price of approx. MEUR 0.8. The net sales of TL-Tuotanto Oy during the financial year ending in December 2010 totaled MEUR 3.4, and the company employed approx. 25 people.

During the financial period, Panostaja Group's group structure was simplified by merging eight companies into the Group's other companies. Suomen Puunjalostus Oy merged into Panostaja Oyj during the financial year.

Panostaja Group's business segments

The business operations of Panostaja Group are reported in thirteen segments: Safety, Digital Printing Services, HEPAC Wholesale, Takoma, Value-added Logistics, Fittings, Spare Parts for Motor Vehicles, Heat Treatment, Carpentry Industry, Supports, Fasteners, Technochemical and Other (parent company). The segments were formed because they produce products and services that differ from each other.

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

Safety

Flexim Security Oy is a specialist in security technology and services, locking, door automation and access control products and solutions. The company has offices in Helsinki, Tampere, Turku, Pori, Seinäjoki, Lahti, Jyväskylä and Oulu. Flexim Security Oy is part of Flexim Group, in which Panostaja's holding is 70%. The Group's Managing Director is Jukka Laakso.

Net sales in the Safety segment grew by MEUR 2.7. Net sales increased from MEUR 21.9 to MEUR 24.6, with operating profit remaining at MEUR 1.2. A corporate acquisition took place in the segment during the period under review: the Group purchased the business operations of the Lahti-based Lukkohuolto Lempiäinen Oy. The development of net sales and operating profit in the reference year was slightly affected by the harmonization of the different businesses of the segment, and during the financial period that ended the segment was able to concentrate on its customer relationships. This had a positive effect on the growth of net sales. The development of the range of products and services realized in the period had a negative impact on the result for the period. At the end of the financial period, the segment employed 188 (151) persons.

Digital Printing Services

Kopijyvä Oy is one of Finland's largest companies offering digital printing services. The company's services include copying, printing, CAD drawing, digital printing, scanning, SokoPro project bank and delivery services. The company has offices in the regions of Central, East and West Finland and the Helsinki metropolitan area. It also operates in Tallinn and St. Petersburg. Kopijyvä Oy is part of Digiprint Finland Group, in which Panostaja's holding is 65.8%. The company's Managing Director is Heimo Viinanen.

Net sales in the Digital Printing Services segment grew by MEUR 9.8. Net sales in the Digital Printing Services segment grew from MEUR 21.7 to MEUR 31.5 and operating profit from MEUR 3.2 to MEUR 4.1. In addition to the development of operative functions, the acquisition of Domus Print Oy in the previous financial period and the acquisition of Suomen Graafiset Palvelut Oy on December 16, 2010 had a positive impact on net sales and operating profit. A corporate acquisition took place in the segment during the period under review, in which the entire shareholding in Microtieto Suomi Oy was purchased. During the financial period, two mergers were implemented in the segment when both Domus Print Oy and Suomen Graafiset Palvelut Oy were merged with Kopijyvä Oy. At the end of the financial period, the segment employed 325 (256) persons.

HEPAC Wholesale

Lämpö-Tukku Oy specializes in HEPAC wholesale operations. Lämpö-Tukku Oy is part of Eurotermo Holding Group, in which Panostaja's holding is 63.3%. Lämpö-Tukku has offices in Helsinki, Espoo, Seinäjoki, Vantaa and Tampere. Since November 9, 2011, S. Martti Niemi has acted as the Eurotermo Holding Group's fixed-term Managing Director. Before him, during the financial period of 2011, the Managing Director was Jouko Tyrkkö whose employment contract was terminated the same day that Niemi was appointed.

Net sales in the HEPAC Wholesale segment grew from MEUR 19.6 to MEUR 20.5 and operating profit fell from MEUR 0.3 to MEUR -0.5. An error amounting to more than MEUR 2 was found in the stock inventory of Lämpö-Tukku during the financial period. A write-down of MEUR 2.2 related to the stocks in the company was made in the financial statement, MEUR 1.9 of which was allocated to previous financial periods and MEUR 0.2 to the period ending on October 31, 2011. Good sales towards the end of the year balanced the weaker performance in the early part of the year. Towards year-end, market uncertainty was particularly reflected in office construction, with renovation and the construction of new buildings remaining on a good level. At the end of the financial period, the segment employed 37 (37) persons.

Takoma

Takoma Group includes four engineering industry companies: Tampereen Laatukoneistus Oy, Hervannan Koneistus Oy, Takoma Gears Oy and Takoma Systems Oy. During the financial period, Takoma Systems Oy purchased the business operations of TL-Tuotanto Oy, a Keminmaa-based company specializing in hydraulics and automation systems. Its parent company is Takoma Oyj, in which Panostaja has a 65.1% holding. The Managing Director of all these companies is Kimmo Korhonen.

Net sales in the Takoma segment grew by MEUR 8.4. Net sales increased from MEUR 19.1 to MEUR 27.5, with operating loss decreasing from MEUR -1.7 to MEUR -1.4. The growth in net sales was nearly entirely caused by Takoma Gears Oy, which was acquired during the previous financial period. The bankruptcy petition of Moventas Oy and the business reorganization of its subsidiaries Moventas Wind Oy and Moventas Santasalo Oy had a negative impact of MEUR 0.2 on Takoma's result for the financial period. Takoma issued profit warnings three times during the year. The uncertainty that began in the segment's market environment in summer 2011 was evident at the end of the financial year mainly as strong postponements in customer deliveries, not so much in a weakening of the order book. The segment's customer deliveries during the financial period concentrated more than earlier on Asia and other developing economies. At the end of the financial period, the segment employed 190 (168) persons.

Value-added Logistics

Vindea Oy is an enterprise specialized in value-added logistics services for the Finnish metal industry and it also offers component manufacture services for the engineering industry. Vindea Oy is part of Vindea Group, in which Panostaja's holding is 70%. In March 2011, Jouni Arolainen was appointed the Group's Managing Director. Before the new assignment, Arolainen worked as the Group's Deputy Managing Director. As a result of the Managing Director change, Panostaja's holding in Vindea Group increased from 66.1% to 70%.

Net sales in the Value-added Logistics segment increased from MEUR 15.1 to MEUR 15.4, while the operating loss of MEUR -0.5 improved to an operating profit of MEUR 0.4. The volumes of customers in the technology industry clearly increased during the period under review. The positive development of operating profit was also affected by the streamlining of operations. At the end of the financial period, the segment employed 131 (123) persons.

Fittings

Suomen Helakeskus Oy is a major wholesale dealer concentrating on construction and furniture fittings and it is part of Suomen Helasto Group. Panostaja has a 100% holding in Suomen Helasto Group. The company operates in Seinäjoki. Hannu Rantanen was appointed the Group's Managing Director on September 6, 2011.

Net sales in the Fittings segment declined from MEUR 12.3 to MEUR 11.4, and the MEUR 0.7 operating profit dropped to MEUR 0.3. Uncertainty prevailing in the market has affected operations in the segment and customer demand has been low throughout the period. At the end of the financial period, the segment employed 32 (32) persons.

Spare Parts for Motor Vehicles

KL-Varaosat Oy is an importer, wholesale dealer and retailer of original spare parts and supplies for Mercedes Benz and BMW cars. It operates in Tampere, Jyväskylä and Rovaniemi. KL-Varaosat Oy is part of KL Parts Group, in which Panostaja's holding is 75%. The company's Managing Director is Jarkko Iso-Eskeli. At the end of the financial period, the segment employed 35 (31) persons.

Net sales in the Spare Parts for Motor Vehicles segment grew from MEUR 8.5 to MEUR 9.6 and operating profit increased from MEUR 0.8 to MEUR 1.1. The demand for original spare parts has remained good for the entire review period. Operations have been boosted by the expansion of the electronic ordering system. The system has also quantitatively increased the sales of spare parts.

Heat Treatment

Heatmasters Group offers heat treatment services for metals in Finland and internationally, and produces, develops and markets heat treatment technology. Heatmasters Group includes two companies engaging in business operations in Finland – Lahden Lämpökäsittely Oy and Heatmasters Oy – operating in Lahti and Kouvola. The Group has subsidiaries in Poland and Sweden. Heatmasters Group is a subsidiary in which Panostaja has an 80% holding. The Managing Director of all Heatmasters Group companies is Juha Saarikunnas.

During the period under review, net sales in the Heat Treatment segment grew by MEUR 2.4, while operating profit increased by MEUR 1.9. Net sales rose from MEUR 6.6 to MEUR 9.0, and operating profit increased from MEUR 0.2 to MEUR 2.1. The growth in net sales and operating profit was particularly affected by increased demand for service functions, by investments in new equipment and by repair investments in the technology industry. At the end of the financial period, the segment employed 64 (64) persons.

Carpentry Industry

As its main product, Matti-Ovi Oy manufactures and markets solid wood interior doors. The company's office is in Laitila. During the financial period, Suomen Puunjalostus Oy, which was the segment's parent company, was merged with Panostaja Oyj. In addition, four Puuporras companies were merged with Matti-Ovi Oy. Puuporras business operations were sold during the previous financial year as an asset sale. Matti-Ovi Oy's Managing Director is Tapani Harjunen. Panostaja's holding in Matti-Ovi Oy is 70%.

Net sales in the Carpentry Industry segment increased from MEUR 5.3 to MEUR 5.8. Operating profit grew from MEUR 0.4 to MEUR 1.0. The increasingly strong market position of the segment's Matti-Ovi brand and the company's precise operations were evident in the strong growth in demand in the market. Growth in operating profit was also impacted by the streamlining of operations. At the end of the financial period, the segment employed 35 (32) persons.

Supports

Toimex Oy works in the HEPAC field, manufacturing and selling supports. Kannake Group's parent company is Kannake Oy, and the company engaging in actual business operations is Toimex Oy. The company's offices are located in Tampere and Helsinki. Panostaja's holding is 70.4%. The company's Managing Director is Kalervo Pentti.

Net sales in the Supports segment increased from MEUR 3.6 to MEUR 4.0. Operating profit grew from MEUR 0.3 to MEUR 0.4. The segment's market recovered as building volumes clearly increased in the second half of the year under review compared to the first half. At the end of the financial period, the segment employed 16 (16) persons.

Fasteners

Suomen Kiinnikekeskus Oy is a supply shop in the fastener field. The company has offices in Helsinki, Tampere and Pori. Suomen Kiinnikekeskus Oy is part of Kiinnikekeskus Services Group. The Group's Managing Director is Ari Suomalainen. Suomalainen was invited to become a shareholder in the company in August when Panostaja Oyj's holding in the Group was reduced from 100% to 90%.

Net sales in the Fasteners segment increased from MEUR 2.8 to MEUR 3.1. Operating loss decreased from MEUR -0.3 to MEUR -0.1. Customer demand in the segment has remained low, but despite this and increasing competition, the segment has succeeded in improving its profitability. At the end of the financial period, the segment employed 25 (24) persons.

Technochemical

Oy Alfa-Kem Ab manufactures and markets industrial chemicals, cleaning agents and various agents for institutional kitchens. The company operates in Lahti and is part of Annektor Group. Panostaja's holding in the Group is 100%.

The company's Managing Director is Veli-Heikki Saari.

Net sales in the Technochemical segment declined from MEUR 2.1 to MEUR 1.6. Operating loss grew from MEUR -0.1 to MEUR -0.3. Customer demand did not increase as expected. At the end of the financial period, the segment employed 12 (14) persons.

Other Business Operations

The Other Business Operations segment is composed of the parent company Panostaja Oyj. Group eliminations are reported in the section 'Eliminations'.

There were no significant changes in the net sales of the Other segment. Ecosir Group Oy separated from the Group in April. In the future, the parent company will report Ecosir Group Oy as an associated company. In the period under review, two associated companies, Ecosir Group Oy and PE Kiinteistörahasto I Ky, issued reports to the parent company.

Financing

The Group's liquid assets were MEUR 14.6 (MEUR 11.3). The Group's equity ratio was 33.4% (31.3 %) and interest-bearing net liabilities totaled MEUR 47.2 (MEUR 51.8).

During the review period, the Group reorganized its financing loans in several segments. The value of the reorganized loans amounts to approx. MEUR 13.

The Group's liquidity is good. Cash flow from business operations in the period under review was MEUR +4.4 (MEUR +1.3). During the financial period, Panostaja Oyj repurchased shares of the 2006 convertible subordinated loan at a value of MEUR 11.6. In the period under review, the cash flow was burdened by the interest costs of the repurchased shares of a subordinated loan, which amounted to MEUR -0.7.

The Board of Directors approved new 2011 convertible subordinated loan issues totaling MEUR 15.0. The convertible subordinated loan is divided into equity and liabilities. The equity component is calculated by determining the difference between the monetary amount obtained through the loan issue and the fair value of the loan. The equity component of the 2011 convertible subordinated loan, EUR 598,000, has been entered into the invested unrestricted equity fund.

At the end of the review period, Panostaja Oyj's convertible subordinated loan amounted to MEUR 20.6 of the net liabilities (MEUR 17.2 at the beginning of the period).

The return on equity was 5.0% (-7.0%). The return on investment was 5.6% (-1.0%).

Investments and development expenses

The Group's gross capital expenditure in the review period was approximately MEUR 9.1 (MEUR 15.7). The Group's largest single investments were the acquisition of Suomen Graafiset Palvelut Oy Ltd and TL-Tuotanto Oy, as well as the purchase of Takoma's new production facilities in Akaa. The procurement of the facilities in Akaa was financed with a redemption agreement signed with the City of Akaa.

During the financial period, MEUR 0.1 of development expenses were activated. The proportion of activated development expenses of the Group's net sales was 0.1%.

Risks

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

The Group's twelve business areas function in different branches of industry. The target is to make sure that the Group's financial performance is not substantially dependent on the development and results of a single business area but, depending on the market conditions and as the business area grows, its significance for the Group is emphasized, which may mean that the risk is substantial. The Group's financial performance and development are not normally dependent on a single customer, but losing one or more important customers may have financial consequences for the results and development of a single business area.

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

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

The risks connected to the Group's staff may influence the Group's and its business areas' development and financial performance if we are unsuccessful in the recruitment of key persons and other employees.

If we are unsuccessful in managing them, risks concerning the environment may affect the Group's and its business areas' development and financial performance. The Group complies with the legislation concerning environmental issues and takes the responsibilities they bring into account especially carefully and in all its operations strives to observe the principles of sustainable development. The Group has no knowledge of any significant risks concerning environmental issues.

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

Risks concerning corporate acquisitions may affect the Group's and its business areas' development and financial performance if we are unsuccessful in managing them. The Group also aims to grow through corporate acquisitions. The goodwill connected to corporate acquisitions, which has been entered in the Group's balance sheet, amounts to MEUR 36.5. Since adopting IFRS reporting, goodwill is no longer written off annually on a regular basis but, instead of depreciations, an impairment test is performed at least annually, or when there are indications of amortization. Values are normally checked during the second half of the year in connection with the budgeting process. If prolonged, an international investment recession may lead to the changing of the forecasts that are the basis of some business areas' goodwill testing. Such a change might make goodwill write-downs necessary.

Official regulations may affect the Group's and business areas' development and financial performance. Amendments to regulations are followed carefully within the Group and the different business areas, and efforts are made to react to them in advance if possible.

Board of directors and Annual General Meetings

Panostaja Oyj's Annual General Meeting was held on January 27, 2011 in Tampere. Jukka Ala-Mello, Satu Eskelinen, Hannu Martikainen and Hannu Tarkkonen were re-elected to Panostaja Oyj's Board of Directors. Mikko Koskenkorva and Eero Eriksson were elected to the Board as new members. In the Board's organizing meeting held immediately after the General Meeting, Jukka Ala-Mello was elected Chairman of the Board. A Vice Chairman was not chosen. Authorized Public Accountant Eero Suomela and Authorized Public Accountants PricewaterhouseCoopers Oy were selected as general chartered accountants, with Authorized Public Accountant Janne Rajalahti as the responsible public accountant. The General Meeting approved the closing of the November 1, 2009–October 31, 2010 accounts as well as the proposal by the Board to transfer the profit of the financial period to the profit funds and that dividends would be distributed at a rate of EUR 0.05 per share. The record date for dividends paid was February 1, 2011, with the payment date being February 8, 2011. In addition, the Annual Meeting authorized the Board to decide, at its discretion, on the potential distribution of assets to shareholders, the company's financial status permitting, either as dividends from profit funds or as distribution of assets from the invested unrestricted equity fund. On the basis of this authorization, the maximum distribution of assets performed totals no more than four million euros (EUR 4,000,000). The authorization includes the right of the Board to decide on all other terms and conditions relating to the said asset distribution. The authorization will remain valid until the next Annual General Meeting. In addition, the Annual General Meeting granted exemption from liability to the members of the Board and to the CEO. It was decided at the Annual Meeting that the Chairman of the Board be paid EUR 40,000 as an annual compensation for the term that begins at the end of the Meeting and ends at the end of the 2012 Annual General Meeting, and that the other members of the Board be paid an annual compensation of EUR 20,000. It was further resolved at the Annual General Meeting that approx. 40% of the compensation remitted to the members of the Board be paid on the basis of the share issue authorization given to the Board, by issuing company shares to each Board member if the Board member does not own more than one percent of the company's shares on the date of the General Meeting. If the holding of a Board member on the date of the General Meeting is over one percent of all company shares, the compensation will be paid in full in monetary form.

The Annual Meeting also approved the proposal by the Board to revise Section 8 of the company's Articles of Association to be as follows: Section 8 - Invitation to the Annual General Meeting and participation therein

The invitation to the Annual General Meeting must be published on the Company's website at the earliest two (2) months and no later than three (3) weeks prior to the Meeting, as well as at least nine days before the record date of the General Meeting. The Board of Directors may also, at its discretion, announce the Annual General Meeting in one or more newspapers.

In order to be able to participate in the General Meeting, the shareholder must register with the company no later than the day stated in the invitation to the meeting, which may be no earlier than ten (10) days prior to the General Meeting." In addition, the Annual General Meeting resolved to cancel the authorization concerning the acquisition of the company's own shares given at the General Meeting of January 27, 2010, and authorized the Board of Directors to decide on the acquisition of the company's own shares so that the company's own shares will be acquired in one or several installments and, on the basis of the authorization, a total maximum of 4,700,000 of the company's own shares may be acquired. By virtue of the authorization, the company's own shares may be obtained using unrestricted equity only.

The company's own shares may be acquired deviating from the shareholders' proportion of holding, in public trade organized by NASDAQ OMX Helsinki Oy, at the prevailing market price. In acquiring shares, the rules of NASDAQ OMX Helsinki Oy and Euroclear Finland Oy are to be observed.

The authorization shall be valid for 18 months from the issue.

The Board of Directors has not used the authorization granted by the Annual General Meeting to acquire the company's own shares during the review period.

The General Meeting also resolved to authorize the Board of Directors to decide on a share issue as well as on the granting of rights of option and other special rights providing entitlement to shares. The total number of shares issued on the basis of the authorization may not exceed 30,000,000. The provision of share issues and rights of option as well as that of other rights providing entitlement to shares may take place deviating from the shareholders' pre-emptive right to subscription (directed issue).

The authorization issued at the General Meeting on December 18, 2007 to decide on share issues and the provision of special rights providing entitlement to shares is cancelled by this authorization. The authorization shall remain valid until January 27, 2016.

Share capital

At the close of the period under review, Panostaja Oyj's share capital was EUR 5,568,681.60. The total number of shares is 51,733,110.

The total number of shares held by the company at the end of the review period was 601,875 individual shares (at beginning of review period: 1,262,504). The company's own shares corresponded to 1.2% of the number of shares and votes at the end of the entire review period.

In accordance with the decisions by the General Meeting on January 27, 2010 and by the Board, Panostaja Oyj relinquished a total of 6,777 individual shares as meeting compensation to the members of the Board on December 17, 2010. As per the decisions of the General Meeting on January 27, 2011 and by the Board, a total of 9,373 shares were issued on March 10, 2011, followed by a total of 9,913 shares on June 9, 2011, and a total of 11,005 shares on September 8, 2011.

In total, 330,000 new share subscriptions were approved by the Board on December 15, 2010. They are based on the option rights given to the company management in 2006. The share subscriptions were made with the A options of the 2006 option scheme. The new shares were registered in the Trade Register on December 23, 2010. Of the share subscription price, EUR 0.12 was registered in the share capital, in accordance with the terms and conditions of the option scheme, and the remaining part in the invested unrestricted equity fund.

On December 16, 2010, the Board of Directors decided, by virtue of the authorization given at the Annual General Meeting on December 18, 2007, on an issue of shares in which the company offered, deviating from the shareholders' pre-emptive right to subscription, a maximum of 4,000,000 new company shares for registration by domestic institutional investors. On December 21, 2010, the Board approved the subscriptions made during the issue of shares. The issue of shares subscription price was EUR 1.45 per share, and the overall yield of the share issue before sales commissions and costs was EUR 5,800,000. The new shares were registered in the Trade Register on January 11, 2011.

As a result of the subscriptions in the issue of shares and with the A options of the 2006 option scheme, the total number of company shares increased to 51,733,110.

Share price development and share ownership

Panostaja Oyj's share price fluctuated between EUR 0.97 and EUR 1.51 during the period under review. In the period under review, the exchange of shares totaled 3,841,477 individual shares, which represents 7.7% of the share capital. The October share closing rate was EUR 1.06. The market value of the company's share capital at the end of October was MEUR 54.8 and the company had 3,826 shareholders (4,050).

Equity convertible subordinated loans

Panostaja Oyj bought back a total of EUR 12,288,658 (with interest accrued included) of shares of the 2006 convertible subordinated loan. The transactions were completed on February 7, 2011. The loan shares were bought back at a rate of 100%, with interest up to the date of the transaction added. The amount bought back by the company corresponds to 54.5% of the original total nominal value of the convertible subordinated loan maturing in 2012.

The transaction is connected with the capital arrangement announced on December 16, 2010, of which the company has previously carried out a share issue of 4,000,000 shares and the 2011 issue of a new convertible subordinated loan valued at MEUR 15. The transaction was completed to improve the maturity schedule of the company's non-current liabilities. The loan shares were nullified on February 28, 2011.

After this, EUR 5,631,250 from the 2006 convertible subordinated loan remains (EUR 17,212,500 at the beginning of the financial period). Each EUR 106,250 share of the 2006 convertible subordinated loan entitles the holder to exchange the share for 62,500 company shares.

The Board exercised the authorization it received at the General Meeting on December 18, 2007 to take out a subordinated loan from domestic institutional investors. The Board approved a total of EUR 15,000,000 in subscriptions for the 2011 convertible subordinated loan, and the 2011 loan became fully subscribed. The interest rate for the loan is 6.5%, and the loan period is February 7, 2011–April 1, 2016. The original share exchange rate is EUR 2.20, and the loan shares can be exchanged for no more than 6,818,181 company shares. The share exchange rate will be entered into the company's invested unrestricted equity fund.

Trade on the 300 loan shares of the convertible subordinated loan began on the NASDAQ OMX Helsinki stock exchange on February 23, 2011. The Financial Supervisory Authority approved the proposal for the public trade of the convertible subordinated loan shares on February 18, 2011.

At the end of the review period, the total sum of Panostaja Oyj's subordinated loans stood at EUR 20,631,250.

Board's proposal to the Annual General Meeting

The Board of Directors proposes that no dividends be paid for the financial year. The Board also proposes to the Annual General Meeting that EUR 0.05 per share be paid as capital repayment from the invested unrestricted equity fund. The capital repayment will be made to those shareholders who on the record date of the repayment, February 3, 2012, are recorded in the company's shareholder list maintained by Euroclear Finland Oy. The Board of Directors proposes that the repayment of capital be made on February 10, 2012.

The Board also proposes that the Annual General Meeting authorize the Board of Directors to decide, at its discretion, on the potential distribution of assets to shareholders, should the company's financial status permit this, either as dividends from profit funds or as distribution of assets from the invested unrestricted equity fund. The maximum distribution of assets performed on the basis of this authorization totals no more than EUR 5,200,000.

It is proposed that the authorization include the right of the Board to decide on all other terms and conditions relating to the said asset distribution.

It is also proposed that the authorization remain valid until the next Annual General Meeting. The Board has estimated that the capital repayment will not endanger the Company's solvency.

Panostaja Oyj's Annual General Meeting will be held on January 31, 2012 in Tampere.

Events after the review period

On November 9, 2011, Panostaja reported that Managing Director of Lämpö-Tukku, Jouko Tyrkkö, would immediately be relieved of his duties and that his employment contract would be terminated. On the same day, S. Martti Niemi M.Sc.(Econ.) was appointed Lämpö-Tukku Managing Director. He is first assuming the position under a fixed-term contract.

In the same release on November 9, 2011, Panostaja reported that it was continuing the investigation of the reasons resulting in the inventory difference and would provide information about them in more detail if necessary.

Prospects for the next financial year

In accordance with its business strategy, Panostaja Group will focus on increasing shareholder value in the business areas owned by the Group. The development of shareholder value will be constantly monitored as part of a changing operating environment, and decisions on the development or divestment of business segments will be made with the maximization of shareholder value in mind. Active development of shareholder value, the effective allocation of capital and financial opportunities create a solid foundation for significant operational expansion. The need for ownership arrangements in SMEs will enable both expansion into new business areas and growth in existing ones.

Economic trend expectations in the fields of existing business areas are strongly tied to the prospects of customer enterprises. The current economic trend expectations are uncertain, and the growth forecast has generally been cut due to the credit crisis in the eurozone and decelerated economic growth. In the various business areas of Panostaja Group, the prospects still vary from cautiously positive to neutral. The market still provides sufficient opportunities for corporate acquisitions, and Panostaja Group aims to implement its growth strategy by means of controlled acquisitions. In addition, the divestment of certain business areas is being considered in order to release capital for new projects. It is expected that the Group's net sales will increase further and its operating profit will improve in 2012.

Consolidated income statement, IFRS

EUR 1,000	Note	1 Nov. 2010–31 Oct. 2011	1 Nov. 2009–31 Oct. 2010
Net sales		**163,247**	137,939
Other operating income	8	**905**	1,900
Materials and services		**79,734**	69,671
Staff expenses	10	**46,788**	39,859
Depreciations, amortizations and impairment	11	**5,200**	4,575
Other operating expenses	12	**26,503**	22,807
Operating profit/loss		**5,927**	2,927
Financial income	13	**623**	360
Financial expenses	14	**-3,611**	-2,733
Share of associated company profits	9	**205**	224
Profit before taxes		**3,144**	778
Taxes on income	15	**-527**	363
Profit/loss from continuing operations		**2,617**	1,141
Loss from discontinued operations	7	**-401**	-4,346
Profit/loss for the financial period		**2,216**	-3,205
Attributable to			
Shareholders of the parent company		**937**	-2,775
Minority shareholders		**1,279**	-430
Earnings per share as calculated from the profits attributable to parent company shareholders:			
Earnings per share from continuing operations, EUR	16		
Undiluted		**0.027**	0.034
Diluted		**0.027**	0.034
Earnings per share from discontinued operations	16		
Undiluted		**-0.008**	-0.094
Diluted		**-0.008**	-0.094
Earnings per share on continuing and discontinued operations	16		
Undiluted		**0.019**	-0.060
Diluted		**0.019**	-0.060
Extensive consolidated income statement			
Profit/loss for the period		**2,216**	-3,205
Items of the extensive income statement			
Translation differences		**-135**	80
Extensive profit/loss for the period		**2,081**	-3,125
Attributable to			
Shareholders of the parent company		**802**	-2,695
Minority shareholders		**1,279**	-430

The notes constitute an essential part of the financial statements

Consolidated balance sheet, IFRS

EUR 1,000	Note	31 Oct. 2011	31 Oct. 2010
ASSETS			
Non-current assets			
Goodwill	17	**36,529**	39,256
Other intangible assets	17	**5,049**	5,641
Property, plant and equipment	18	**20,061**	16,406
Interests in associates	19	**2,740**	2,387
Other non-current assets	20	**8,271**	4,397
Deferred tax assets	21	**4,826**	4,344
Non-current assets total		**77,476**	72,431
Current assets			
Stocks	22	**24,005**	22,156
Trade and other receivables	23	**26,171**	24,760
Tax assets based on taxable income for the period		**136**	224
Short-term investments	24		833
Cash and cash equivalents	25	**14,643**	10,438
Current assets total		**64,955**	58,411
Assets in total		**142,431**	130,842
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders			
Share capital	26	**5,569**	5,529
Share premium account	26	**4,646**	4,646
Translation difference		**-169**	-56
Invested unrestricted equity fund	26	**19,023**	11,574
Retained earnings		**4,047**	5,598
Total		**33,116**	27,291
Minority shareholders' interest		**14,270**	13,401
Equity total		**47,386**	40,692
Non-current liabilities			
Deferred tax liabilities	21	**1,520**	1,693
Equity convertible subordinated loan	28	**14,264**	16,999
Financial liabilities	28	**32,679**	32,573
Non-current liabilities total		**48,463**	51,265
Current liabilities			
Equity convertible subordinated loan	28	**5,631**	0
Current financial liabilities	28	**13,761**	14,416
Trade payables and other liabilities	29	**26,920**	24,108
Provisions	30	**270**	361
Current liabilities total		**46,582**	38,885
Liabilities total		**95,045**	90,150
Equity and liabilities in total		**142,431**	130,842

Consolidated cash flow statement, IFRS

EUR 1,000	Note	2011	2010
Business operations			
Profit/loss for the financial period		**2,617**	1,141
Adjustments:			
Depreciations	11	**5,200**	4,575
Financial income and costs	13,14	**2,988**	2,371
Share of associated company profits	9	**-205**	-224
Taxes	15	**527**	-363
Sales profits and losses from property, plant and equipment	8,12	**-80**	-24
Other earnings and expenses with no payment attached		**-53**	131
Operating cash flow before change in working capital		**10,994**	7,607
Change in working capital			
Change in non-interest-bearing receivables		**-3,843**	-147
Change in non-interest-bearing liabilities		**2,366**	-975
Change in stocks		**-1,202**	1,399
Change in working capital		**-2,679**	277
Operating cash flow before financial items and taxes		**8,315**	7,884
Financial items and taxes			
Interest paid		**-3,252**	-2,658
Interest received		**644**	368
Taxes paid		**-1,122**	-2,184
Financial items and taxes		**-3,730**	-4,474
Operating cash flow for functions sold		**-231**	-2,146
Net cash flow from (used in) operations		**4,354**	1,264
Investments			
Investments in intangible and tangible assets		**-4,013**	-3,726
Sales of intangible and tangible assets		**360**	935
Acquisition of subsidiaries with time-of-acquisition liquid assets deducted	6	**-1,995**	-11,966
Sale of subsidiaries with time-of-sale liquid assets deducted	7	**408**	0
Sale of associated companies		**34**	191
Capital gains from sales of other shares		**3**	155
Loans receivable repaid		**-1,579**	-126
Investment cash flow for functions sold			204
Net cash flow from (used in) investments		**-6,782**	-14,333
Finance			
Share issue		**6,053**	0
Loans drawn		**19,437**	10,899
Loans repaid		**-17,743**	-8,461
Acquisition of own shares		**0**	0
Disposal of own shares		**942**	38
Dividends paid		**-2,853**	-5,868
Financing cash flow for functions sold			-586
Net cash flow from (used in) financing		**5,836**	-3,978
Change in liquid assets		**3,408**	-17,047
Liquid assets at the beginning of the period		**11,271**	28,300
Effect of exchange rates		**-36**	18
Liquid assets at the end of the period		**14,643**	11,271

The notes constitute an essential part of the financial statements

Consolidated statement of changes in equity, IFRS

EUR 1,000	Note	Share capital	Share premium account	Invested unrestricted equity fund	Translation differences	Profit funds	Minority shareholders' interest	Total
Equity on November 1, 2009		5,529	4,646	11,876	-123	14,792	14,560	51,280
Cost of share-based payments	35			17				17
Profit for the financial period						-2,775	-430	-3,205
Profit and costs recorded during the financial period, total				17		-2,775	-430	-3,188
Dividend distribution	26					-5534	-367	-5,901
Acquisition of own shares	26							0
Disposal of own shares	26			38				38
Translation differences					66	14		80
Share issue	26			-425				-425
HEPAC Wholesale inventory difference adjustment	22					-899	-521	-1,420
Changes in minority interests							160	160
Other changes				68				68
Other changes in equity, total		0	0	-319	66	-6,419	-728	-7,400
Equity on October 31, 2010		5,529	4,646	11,574	-57	5,598	13,402	40,692
Equity on November 1, 2010		5,529	4,646	11,574	-57	5,598	13,402	40,692
Profit for the financial period						937	1,279	2,216
Profit and costs recorded during the financial period, total						937	1,279	2,216
Equity component of convertible subordinated loan	28			481				481
Dividend distribution	26					-2,555	-265	-2,820
Acquisition of own shares	26							0
Disposal of own shares	26,35			942				942
Translation differences					-112	-23		-135
Share issue	26			5,738				5,738
Share subscription	26	40		276				316
Reward scheme	35			12				12
Changes in minority interests						90	-146	-56
Other changes in equity, total		40	0	7,449	-112	-2,488	-411	4,478
Equity on October 31, 2011		5,569	4,646	19,023	-169	4,047	14,270	47,386

Notes to the consolidated financial statements

1. Basic information about the company

Panostaja Oyj, together with its subsidiaries, (hereinafter referred to as "Panostaja" or "the Group") form a conglomerate whose primary market is Finland. The Group currently operates in twelve business areas. The parent company Panostaja Oyj invests in Finnish SMEs primarily through corporate acquisitions.

Panostaja Oyj is a Finnish public corporation operating under the legislation of the Finnish state. The company's shares have been quoted publicly since 1989. Its shares are quoted on the NASDAQ OMX Helsinki stock exchange. The company's registered office is in Tampere and the address of its head office is Postitorvenkatu 16, 33840 Tampere. A copy of its consolidated financial statements is available at this address. In its meeting on December 14, 2011, Panostaja Oyj's Board of Directors approved these consolidated financial statements for publishing. According to the Finnish Companies Act, the shareholders have the opportunity to approve or reject the financial statements at the Annual General Meeting held after its publication on January 31, 2012. The AGM also has the opportunity to decide on implementing changes to the financial statements.

2. Accounting principles for the financial statements

Accounting principles

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the IAS and IFRS standards, as well as the SIC and IFRIC interpretations, valid on October 31, 2011 have been observed. The International Financial Reporting Standards refer to the standards approved for application in the EU and the interpretations given on them in the Finnish Accounting Act and the provisions based on it in accordance with the procedure enacted in EU Regulation No 1606/2002. The notes to the consolidated financial statements also comply with the requirements of the Finnish legislation on accounting and corporations which complement the IFRSs.

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

Subsidiaries

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

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

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

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

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

Associated companies

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

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

Segment reporting

The Group's segment reporting is based on its business segments. Reports on these business segments are prepared in a manner in line with the internal reporting submitted to the highest operational decision-maker.

Foreign currency items

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

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

Net sales and recognition principles

In presenting net sales, indirect taxes and reductions have been subtracted from sales revenue.

Revenue is recorded on the basis of the fair value of a received consideration or one to be received. Recognition takes place when the goods or service produced is transferred.

Operating profit/loss

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

Taxes on income

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

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

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

Non-current asset items held for sale and discontinued operations

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

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

Goodwill and other intangible assets

The goodwill arising from the integration of operations taking place after November 1, 2009 is recorded in the amount that makes the combined amount of the consideration given, minority shareholders' interest in procured item, and the proportion owned previously exceed the acquired net assets.

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

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

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

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

The standard times for planned depreciations of intangible assets:

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

Property, plant and equipment

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

The estimated financial useful lives are as follows:

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

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

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

Rental agreements

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

Rental agreements where the lessor carries a significant share of the risks and rewards integral to ownership are classified as other rental agreements. Rents are recognized in the income statement as equal-sized items over the lease term.

Amortization of tangible and intangible assets

At each balance sheet closing date, the Group assesses whether there are indications that the carrying amount of an asset item may not be recoverable. If such indications exist, the recoverable amount of the asset item in question will be measured. In addition, the recoverable amount will be estimated annually from the following asset items whether there are indications of amortization or not: goodwill, intangible assets of indefinite financial useful lives, and in-process intangible assets. The impairment need is examined at the level of cash-generating units.

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

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

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

Government allowances

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

Allowances are recognized in the form of smaller depreciations during the service life of the asset item.

Stocks

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

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

Financial derivatives

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

Financial assets and liabilities

Financial assets

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

Financial assets are not recognized in the balance sheet after the rights to the cash flows of the investment have ceased or been transferred to another party and the Group has transferred a substantial part of the risks and rewards involved in ownership to another party.

All financial assets recognized at fair value through profit and loss are financial assets held for the purpose of trade. The asset items in this group are current assets, except when they mature over a period longer than 12 months. The financial assets recognized at fair value through profit and loss are initially recorded at fair value. Profit and loss resulting from changes in fair value are presented in the income statement in the financial period during which they have arisen.

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

Saleable liquid assets are investments not belonging to the group of derivative assets. They are either specifically classified to be in this group or they have not been classified to belong to any group. They are current assets, unless the management intends to keep the investment in question for a period of longer than 12 months from the balance sheet date. Changes to the fair value of saleable liquid assets are recognized in other items of the extensive income and presented in the fair value fund contained in the equity item Retained earnings, with the tax effects taken into consideration. Unlisted securities whose fair value cannot be reliably determined are recognized in the acquisition value in the balance sheet.

The changes accrued in fair value are transferred from equity through profit and loss and recognized as an adjustment resulting from classification changes when the investment is sold or its value has decreased to such an extent that an impairment loss must be recorded on the investment.

Cash and cash equivalents

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

Amortization of financial assets

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

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

Financial liabilities

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

The fair value of a convertible bond loan's debt component is determined using the market rate of interest of a corresponding loan without right of exchange. This amount is presented as a liability up to the amount based on the allocated acquisition cost until its validity expires when an exchange is performed or when the loan matures. The remainder is allocated to the right of exchange. It is recognized in equity less tax affects.

Convertible bond loans are divided into equity and liabilities. The loan's liability component is initially recognized in the amount that has been determined using the market rate of interest of a corresponding loan on the date of issue. The equity component is initially recognized as the difference between the fair value of the entire loan and the fair value of the liability component. After the initial recognition, the liability component of the convertible bond loan is valued in the allocated acquisition cost using the effective interest method. The loan's equity component is not revalued after the original recognition, except in cases where it is exchanged for shares or its validity expires.

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

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

Pension liabilities

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

Share-based payments

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

Provisions

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

Since November 1, 2010, the Group has applied the following new and amended standards and interpretations which have been significant in terms of the consolidated financial statements:

- Improvements to IFRSs (May 2010), (principally valid for financial years beginning on July 1, 2010 or later). The small and less urgent amendments to the standards made through the Annual Improvements procedure are collected together and implemented all at once, once a year. The changes part of the project apply to a total of 7 standards. The effects of the changes vary by standard, but they have not had a significant impact on the consolidated financial statements.

Since November 1, 2010, the Group has applied the following new and amended standards and interpretations which have not been significant in terms of the consolidated financial statements:

- Amendment to IFRS 1 "First Time Adoption of IFRSs" – "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" (valid for financial years beginning on July 1, 2010 or later).
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (valid for financial years beginning on July 1, 2010 or later).
- Amendment to IAS 32, Financial Instruments: Presentation – Classification of Issued Rights (valid for financial years beginning on February 1, 2010 or later

3. Management of financing risks

Financing risks

Due to its operations, the Group is exposed to a number of financing risks. The purpose of the Group's risk management activities is to minimize the harmful effects of changes in the financing market on the Group's result. The main financing risks are interest rate risk, credit risk and liquidity risk. The general principles of the Group's risk management are approved by the Board of Directors, and their implementation in practice is decided upon by the parent company together with the subsidiaries.

Currency risk

The Group mainly operates in the eurozone and is thus only slightly exposed to currency risks generated by changes in exchange rates.

Interest rate risk

The Group's income and operating cash flows are mainly independent of the fluctuation of market interest rates. The Group's interest rate risk mainly consists of taking out loans, which have been spread into variable-rate and fixed-rate loans. At the end of the financial period, variable-rate loans totalled EUR 46,325,000 (EUR 46,919,000) and fixed-rate loans EUR 19,895,000 (EUR 16,999,000).

Some of the Group's subsidiaries use interest rate swaps, which protect EUR 24.2 million of the variable-rate loans. The Group does not apply hedge accounting.

Credit risk sensitivity analysis

The following table illustrates how a reasonably possible change in the interest rates, with the other variables remaining constant, will affect the Group's result due to the changed interest costs of variable-rate loans.

EUR 1,000	1 percentage point higher Income statement	1 percentage point lower Income statement
Effect of interest rate change		
2011	**-490**	**490**
2010	-473	473

Credit risk

Credit risk is managed at Group level, except for the risk related to trade receivables. Group companies check the creditworthiness of customers upon the establishment of customer relationship. To minimize credit risk, the companies aim to receive sufficient security when the customer's creditworthiness so requires. With its most significant customers, the Group has well-established long-term business relations. The Group has no significant credit risk concentration.

The credit risk related to the Group's liquid assets and derivative agreements is low, since such financial agreements are only entered into with banks with a good creditworthiness in accordance with the Group's risk management principles.

Liquidity risk

The Group constantly assesses and monitors the amount of funding required by the business operations in order to ensure that the Group has a sufficient amount of liquid assets to fund the operations and repay loans maturing. The Group aims to ensure the availability and flexibility of funding by applying sufficient credit limits and by acquiring the funding from several investors and through various forms of funding. At the time of closing the accounts, the Group's undrawn credit limits amounted to EUR 1,569,000.

The Group's key loan covenants are reported to investors every six months. If the Group violates the loan covenant terms, the creditor may demand quicker repayment of the loans. The management regularly monitors the fulfillment of the loan covenant terms. The parent company has issued guarantees to creditors on behalf of the subsidiaries as guarantees for their debts (Note 34 to the financial statements).

By virtue of the authorization given at the Annual General Meeting on December 18, 2007, the Board of Directors decided to offer a convertible subordinated loan for registration by domestic institutional investors in 2011, deviating from the shareholders' preemptive right to subscription.

The convertible subordinated loan offered amounted to EUR 15,000,000, and the entire sum was subscribed. A fixed annual interest of 6.5% will be paid on the loan capital. The loan period is February 7, 2011–April 1, 2016. The loan will be repaid in a single installment, provided that the conditions for repayment are met.

Capital management

The Group's capital management efforts aim to secure the normal prerequisites for business operations and to increase the share value in the long term. The capital structure is influenced by means of dividend distribution, acquisition of the company's own shares, capital repayments and share issues. No external capital requirements are applied to the Group.

The development of the Group's capital structure is monitored through the equity ratio and gearing ratio. The Group's equity ratio was 33.4% (31.3%) and gearing ratio 99.6% (127.3%).

EUR 1,000	2011	2010
Interest-bearing financial liabilities	**66,220**	63,918
Interest-bearing receivables	**4,400**	827
Cash and cash equivalents	**14,643**	11,271
Net liabilities	**47,177**	51,820
Equity total	**47,386**	40,692
Gearing ratio	**99.6**	127.3

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

Any estimates prepared and discretion exercised are founded on previous experience and other factors, such as presumptions about future events. The estimates prepared and discretion applied are examined on a regular basis. Below is a description of the most important areas in which estimates and discretion have been applied.

Valuation of acquired assets at fair value

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

Impairment tests

Annually, the Group tests the potential amortization of goodwill and of the value of those intangible assets that have indefinite financial useful lives. The amount recoverable by cash-generating units is based on calculations of service value. Formulating these calculations requires the use of estimates. Although the presumptions applied in accordance with the management's vision are appropriate, the estimated recoverable amounts may differ significantly from those materializing in the future (Note 18 to the Financial Statements).

Valuation of stocks

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

5. Segment information

The business operations of Panostaja Group are reported in thirteen segments: Safety, Digital Printing Services, HEPAC Wholesale, Takoma, Value-added Logistics, Fittings, Spare Parts for Motor Vehicles, Heat Treatment, Carpentry Industry, Supports, Fasteners, Technochemical and Other. These reported segments have been formed because they produce products and services that differ from each other. The transactions between segments have taken place on normal commercial terms and conditions.

The business segments are reported in a manner consistent with the internal reporting submitted to senior operational decision-makers. Senior operational decision-making is represented by the Senior Management Team of the Panostaja Group.

Business segments

- The profit in the Safety segment is from safety-related technology and services.
- The profit in the Digital Printing Services segment is mainly derived from the sales of digital printing services.
- The profit in the HEPAC Wholesale segment is from HEPAC wholesale.
- The profit in the Takoma segment is from the engineering business of Takoma Oyj.
- The profit in the Value-added Logistics segment is from manufacturing and logistics services for the metal industry.
- The profit in the Fittings segment is from construction and furniture fittings wholesale.
- The profit in the Spare Parts for Motor Vehicles segment is from the import, wholesale and distribution of original spare parts and accessories for cars.
- The profit in the Heat Treatment segment is from metal heat treatment services, and from the development, manufacture and marketing of machinery and equipment needed in metal heat treatment.
- The profit in the Carpentry Industry segment is from the manufacturing of carpentry products.
- The profit in the Supports segment is from the import, manufacture and wholesale of supports needed in the HEPAC sector.
- The profit in the Fasteners segment is from the sales of and services to do with fasteners and related products.
- The profit in the Technochemical segment is from the development, manufacture and marketing of industrial chemicals intended for professional use.
- The Other segment reports the business of the Group's parent company, including its associated companies and non-allocated items.

Business segments 2011

EUR 1,000	Net sales total	Internal net sales	External net sales	Depre-ciations, amortiza-tions and impairment	Operating profit/loss	Financial income and expenses	Share of associated company profits	Taxes on income	Profit/ loss from continuing operations	Assets	Liabilities	Personnel at the end of the period
Safety	24,635	243	24,392	-671	1,231					17,023	15,086	188
Digital Printing Services	31,529	58	31,471	-1,063	4,148		-5			25,671	12,477	325
HEPAC Wholesale	20,529	1	20,528	-136	-490					8,700	9,080	37
Takoma	27,451		27,451	-2,156	-1,353					33,553	17,184	190
Value-added Logistics	15,442	0	15,442	-225	371					7,101	4,254	131
Fittings	11,401	182	11,219	-135	311					10,656	8,413	32
Spare Parts for Motor Vehicles	9,598		9,598	-115	1,115					4,614	4,546	35
Heat Treatment	9,037		9,037	-298	2,123					7,095	3,277	64
Carpentry Industry	5,766		5,766	-205	1,034					2,638	2,219	32
Supports	4,005	178	3,827	-38	377					1,976	375	16
Fasteners	3,067	111	2,956	-24	-101					2,224	2,178	25
Technochemical	1,566	6	1,560	-57	-324					1,835	6,303	12
Other	57	57	0	-77	-6,587		210			31,852	22,160	10
Eliminations		-836			4,072					-12,507	-12,507	
Group in total	**164,083**		**163,247**	**-5,200**	**5,927**	**-2,988**	**205**	**-527**	**2,616**	**142,431**	**95,045**	**1,097**

Business segments 2010

EUR 1,000	Net sales total	Internal net sales	External net sales	Depre-ciations, amortiza-tions and impairment	Operating profit/loss	Financial income and expenses	Share of associated company profits	Taxes on income	Profit/ loss from continuing operations	Assets	Liabilities	Personnel at the end of the period
Safety	21,944	240	21,704	-611	1,207					17,387	15,901	151
Digital Printing Services	21,742	36	21,706	-1,212	3,237		-60			22,778	11,867	256
HEPAC Wholesale	19,604	3	19,601	-139	292					8,296	8,009	37
Takoma	19,060		19,060	-1,578	-1,675					30,190	12,481	168
Value-added Logistics	15,115	2	15,113	-169	-499					7,194	4,638	123
Fittings	12,321	145	12,176	-86	652					11,273	8,933	32
Spare Parts for Motor Vehicles	8,487		8,487	-109	801					4,565	5,070	31
Heat Treatment	6,591		6,591	-333	192					6,146	3,530	64
Carpentry Industry	5,309		5,309	-140	377					3,581	4,566	35
Supports	3,615	217	3,398	-44	322					3,164	571	16
Fasteners	2,839	107	2,732	-25	-253					2,359	2,157	24
Technochemical	2,071	9	2,062	-49	-133					1,921	5,999	14
Environmental Technology										3,822	5,559	9
Other	55	55		-80	-1,593		284			25,790	18,493	10
Eliminations		-814								-17,624	-17,624	
Group in total	138,753		137,939	-4,575	2,927	-2,373	224	363	1,141	130,842	90,150	970

6. Acquired businesses

Acquisitions in the financial year 2011

Subsidiary acquisitions

On December 16, 2010, Panostaja Oyj's subsidiary Digiprint Finland Oy bought the entire shareholding of Suomen Graafiset Palvelut Oy Ltd, which provides printing services.

The purchase price was MEUR 1.7 and it was paid entirely in cash.

The Group entered a total of EUR 0.06 million in fees related to advisory services, valuation services and other services. These fees are included under Other Business Costs in the income statement.

The values of acquired assets and assumed liabilities at the time of acquisition were as follows:

	Note	MEUR
Property, plant and equipment	18	**0.7**
Stocks	22	**0.1**
Trade and other receivables	23	**0.4**
Cash and cash equivalents	24,25	**1.5**
Assets in total		**2.8**
Financial liabilities	28	**-0.4**
Other liabilities	29	**-0.6**
Liabilities total		**-1.0**
Net assets		**1.7**

No goodwill resulted from the acquisition.

Consideration given	MEUR
Consideration given	**1.7**
Identifiable net assets of the acquired item	**-1.7**
Difference	**0.0**

The net sales of MEUR 3.8 and operating profit of MEUR 0.5 of Suomen Graafiset Palvelut Oy in the 11- month period are included in the consolidated income statement for the financial period. Suomen Graafiset Palvelut Oy merged with Kopijyvä Oy on October 31, 2011.

On June 21, 2011, Digiprint Finland Oy's subsidiary Kopijyvä Oy bought the entire stock of Microtieto Suomi Oy, which provides recording services.

The purchase price was MEUR 0.2 and it was paid entirely in cash.

	Note	MEUR
Trade and other receivables	23	**0.1**
Cash and cash equivalents	24,25	**0.0**
Assets in total		**0.1**
Liabilities total		**0.0**
Net assets		**0.1**

Consideration given	MEUR
Consideration given	**0.2**
Identifiable net assets of acquired item	**-0.1**
Difference	**0.1**

The Group allocated MEUR 0.1 of the purchase price to machinery and equipment and, in particular, to the stock of leasing machinery, which was transferred to the company's ownership after the completion of the transaction.

Microtieto Suomi Oy's net sales of MEUR 0.1 and operating loss of MEUR -0.1 for the 4-month period are included in the consolidated income statement for the period.

The net sales of the Digiprint Finland Group in 2011 would have been MEUR 32.1 and operating profit MEUR 4.2, if the acquisition of business operations carried out during the financial period had been combined with the consolidated financial statement from the beginning of the 2011 financial year.

The total cash flow effect of the Digiprint Finland Group:

Cash flow statement	MEUR
Purchase price paid as cash	**1.9**
Cash and cash equivalents of the acquired subsidiary	**-1.5**
Direct costs of acquisition	**0.1**
Cash flow effect	**0.5**

Corporate acquisitions

In June 2011, Takoma Oyj's subsidiary Takoma Systems Oy bought Keminmaa-based TL-Tuotanto Oy, which specializes in hydraulic and automation systems for a purchase price of MEUR 0.8.

The external assets of the business, including the company's premises, trade receivables and some of the liabilities owned by the company remained with the seller in the transaction. The transaction was financed using available assets of the Takoma Group.

As a result of the deal, the business of the Takoma Group expanded to cover the planning and deliveries of total hydraulic systems, and the control automation that they require. Customers using such hydraulics are increasingly focusing in the acquisition of total systems rather than the purchase of individual hydraulic components. Through the purchase of TL-Tuotanto, the Takoma Group can now offer its customers a considerably more extensive range of total deliveries than before. Typical deliveries of TL-Tuotanto have been hydraulic and control systems for the process industry, power plants and port ramps.

Consideration given	MEUR
Consideration given, EUR	
Cash	**0.8**
Total acquisition cost	**0.8**

The Takoma Group entered MEUR 0.1 related to Capital Transfer Tax liabilities and corporate-acquisition advisory and valuation fees under Other Business Costs.

The values of acquired assets and assumed liabilities at the time of acquisition were as follows:

	Note	Values registered in the merger	Book values before merger (IFRS)
Property, plant and equipment	18	**0.7**	0.7
Intangible assets	17	**0.2**	0.2
Stocks	22	**0.4**	0.4
Trade and other receivables	23	**0.0**	0.0
Assets in total		1.3	1.3
Financial liabilities	28	-0.3	-0.3
Other liabilities	29	-0.2	-0.2
Liabilities total		-0.5	-0.5
Net assets		0.8	0.8

Of the acquisition cost, the Group allocated MEUR 0.2 to Other Intangible Assets (logic software). A fair value allocation of MEUR 0.05 was made to stocks.

Formation of goodwill in the acquisition:

	MEUR
Consideration given	0.8
Identifiable net assets of acquired item	-0.8
Goodwill	0

No goodwill resulted from the acquisition. The allocation of the purchase price is final at the time of the closing of the books.

Purchase price paid as cash	0.8
Cash and cash equivalents of the acquired business	0
Cash flow effect	0.8

Acquisitions in the financial year 2010

Subsidiary acquisition

On June 3, 2010, Panostaja Oyj's subsidiary Digiprint Finland Oy bought from Karhukopio Oy 37.5% of the stock of Domus Print Oy, which provides printing services. Digiprint Finland Oy previously owned 37.5% of the stock of Domus Print Oy. As a result of the deal, the Panostaja Group's holding in Domus Print Oy increased to 75% and the company changed from being an associated company to a subsidiary. Risto Jalo, Managing Director of Domus Print Oy, owns 25% of the company. As a result of the transaction, Panostaja expanded its digital printing services business area.

The purchase price was MEUR 0.6 and it was paid entirely in cash.

The Group recorded a total of MEUR 0.01 in fees related to advisory services, valuation services and other services. These fees are included under Other Business Costs in the income statement.

The values of acquired assets and assumed liabilities at the time of acquisition were as follows:

	Note	Values recorded, MEUR
Property, plant and equipment	18	0.25
Intangible assets	17	0.74
Customer contracts and related customer relations (inc. in Immaterial Rights)	17	0.07
Investments	20	0.02
Stocks	22	0.18
Trade and other receivables	23	1.00
Cash and cash equivalents	24,25	0.03
Assets in total		2.27
Deferred tax liabilities	21	–0.02
Financial liabilities	28	–1.54
Other liabilities	29	–0.93
Liabilities total		–2.49
Net assets		-0.22

Of the purchase price, the Group allocated MEUR 0.07 to customer contracts and related customer relations.

Formation of goodwill in the acquisition:

	MEUR
Consideration given	0.6
Share of minority shareholders based on the relative share of identifiable net assets	0.4
Previous holding assessed at fair value	0.6
Identifiable net assets of acquired item	-0.2
Goodwill	1.4

The valuation at fair value of the previously owned 37.5% share at the moment of acquisition resulted in a profit of MEUR 0.3, which was recorded in the extensive consolidated income statement under Other Business Yields.

The acquisition resulted in goodwill of MEUR 1.4, which is based on the expected synergy benefits from the acquisition of Domus Print Oy. According to the management's estimate, the goodwill particularly concerns benefits related to the shared sales and marketing network, Group contracts and the streamlining of logistics activities. The goodwill entered is not tax deductible.

The net sales of MEUR 2.5 and operating profit of MEUR 0.1 of Domus Print Oy in the 5-month period are included in the extensive consolidated income statement for 2010. The net sales of the Digiprint Finland Group in 2010 would have been MEUR 24.4 and operating profit MEUR 3.3, if the acquisition of business operations carried out during the financial period had been combined with the consolidated financial statement from the beginning of the 2010 financial year.

Acquisition of the shares of minority shareholders

On September 28, 2010, Panostaja's subsidiary Digiprint Finland Oy acquired an additional 25% of the stock of Domus Print Oy from Risto Jalo, giving Panostaja 100% of the stock in the company. The transaction was carried out through a share issue in which Risto Jalo subscribed to MEUR 0.4 of shares in Digiprint Finland Oy. The fair value of Domus Print Oy shares at the moment of acquisition was EUR 7,272.72 per share, based on an evaluation carried out by the parties to the transaction.

Cash flow statement	MEUR
Purchase price paid as cash	0.6
Cash and cash equivalents of the acquired subsidiary	-0.1
Cash flow effect	0.5

Subsidiary acquisition

On March 31, 2010, Takoma Oyj acquired the entire stock of power-transmission component manufacturer Moventas Parkano Oy from Moventas Oy. The name of the company was then changed to Takoma Gears Oy.

Takoma Gears is specialized in the delivery of large induction-hardened gearwheels, gear clutches and gear rims that require special precision. The deal strengthened Takoma's customer base and enabled the provision of a more extensive range of components for customers. The company's main customer segments are equipment manufacturers in the shipbuilding, offshore, process and energy industries.

The debt-free value of the transaction was MEUR 10.95. The purchase price paid for the company's stock was MEUR 4.71, on top of which Takoma assumed the company's liabilities of MEUR 6.24.

Consideration given	MEUR
Cash	4.7
Total acquisition cost	4.7

The Group entered MEUR 0.12 related to Capital Transfer Tax liabilities and corporate-acquisition advisory and valuation fees under Other Business Costs in the income statement.

The values of acquired assets and assumed liabilities at the times of acquisition were as follows:

MEUR	Note	Values recorded, MEUR	Book values before merger (IFRS)
Property, plant and equipment	18	**5.18**	5.18
Intangible assets	17	**0.02**	0.02
Customer contracts and related customer relations (inc. in Other Intangible Assets)	17	**0.65**	
Stocks		**3.46**	3.3
Trade and other receivables		**1.65**	1.65
Cash and cash equivalents		**0.06**	0.06
Assets in total		**11.02**	10.2
Deferred tax liabilities	21	**–0.25**	-0.03
Financial liabilities	28	**–6.30**	-6.30
Conditional liabilities	28	**–0.08**	-0.08
Other liabilities	29	**–2.57**	-2.57
Liabilities total		**–9.21**	-8.98
Net assets		**1.81**	1.18

Of the purchase price, the Group allocated MEUR 0.2 to stocks and MEUR 0.65 to the order book and customer contracts.

Formation of goodwill in the acquisition:

	MEUR
Consideration given	4.7
Identifiable net assets of acquired item	-1.8
Goodwill	2.9

The acquisition resulted in goodwill of MEUR 2.90, comprising the expected synergy benefits and professionally-skilled work force from the acquisition of Takoma Gears Oy. According to the management's estimate, about half of the goodwill concerns the expanded customer base resulting from the acquisition, which provides the chance to expand the offering to customers across the Group. The other half of the goodwill concerns the company's technological expertise and ability, which is based on skilled CNC machinists, gear engineers and heat treatment specialists. Business profit expectations, other shared purchases and administrative synergies are also part of the remaining goodwill.

The allocation of the purchase price of Takoma Gears Oy is final at the time of the closing of the books. The goodwill entered is not tax deductible.

Takoma Gears Oy's net sales of MEUR 7.43 and operating profit of MEUR 0.05 in the 7-month period are included in the consolidated income statement for the financial period. The net sales of the Group in 2010 would have been MEUR 24.79 and operating loss MEUR 1.38, if the acquisition of business operations during the financial period had been combined with the consolidated financial statement from the beginning of the 2010 financial year.

Cash flow statement	MEUR
Purchase price paid as cash	4.7
Cash and cash equivalents of the acquired subsidiary	-0.1
Direct costs of acquisition	0.1
Cash flow effect	4.7

7. Disposal of subsidiaries and business operations

Disposal of subsidiaries

On April 29, 2011, Panostaja Oyj sold shares in the parent company of the Environmental Technology segment, Ecosir Group Oy, to the acting management and other shareholders of the Ecosir Group. Panostaja Oyj's shareholding was reduced to 49%. As of May 1, 2011, Panostaja Oyj reports Ecosir Group Oy as an associated company. After the transaction, the acquisition cost of associated company shares in Panostaja Oyj's balance sheet is at MEUR 0.2.

In conjunction with the change in shareholding, Panostaja Oyj made an investment of approx. MEUR 2.5 in Ecosir Group Oy's invested unrestricted equity fund. The investment was carried out by converting MEUR 2.4 of Panostaja Oyj's receivables and partially by means of a new investment. After the transaction, Panostaja Oyj's receivables from Ecosir Group total MEUR 2.2. The terms of the receivables match those of subordinated loans.

In the Group's financial statement, the result of the Environmental Technology segment is presented in the section 'Result from

Discontinued Operations' in the financial periods ending on October 31, 2011 and October 31, 2010.

The result of sold businesses, profit resulting from its divestment and the share of cash flows were as follows:

MEUR Result of the Environmental Technology segment	Nov. 1, 2010– Apr. 29, 2011	Nov.1, 2009– Oct. 31, 2010
Earnings	**0.5**	2.7
Costs	**-0.7**	-7.4
Profit before taxes	**-0.3**	-4.7
Taxes	**0.0**	0.4
Profit after taxes	**-0.3**	-4.3
Sales loss	**-0.1**	
Profit from discontinued operations	**-0.4**	-4.3

Cash flows of the Environmental Technology segment		
Business cash flow	**-0.1**	-2.1
Investment cash flow	**0.0**	0.2
Funding cash flow	**0.1**	-0.6
Total cash flows	**0.0**	-2.5

The effect of the sale of the Environmental Technology segment on the financial position of the Group:	April 29, 2011
Property, plant and equipment	0.1
Intangible assets	2.1
Other assets	1.4
Cash and cash equivalents	0.1
Sold liabilities	-3.1
Net assets	0.6
Sales loss	-0.1
Minority interest	-0.2
Acquisition cost of shares in associated companies	-0.2
Total	-0.5
Consideration in total	**0.1**
Consideration received as cash	0.1
Cash and cash equivalents from divested unit	-0.1
Net cash flow from corporate divestments	**0.0**

Financial period 2010

Panostaja Oyj did not sell any subsidiaries or business operations in 2010.

8. Other operating income

EUR 1,000	2011	2010
Sales profits from tangible assets	**136**	332
Insurance indemnities	**31**	4
Other income	**738**	1,564
Total	**905**	1,900

9. Share of associated company profits

Information about the Group's associated companies is provided in Note 19, Investments in associated companies.

10. Staff expenses

EUR 1,000	2011	2010
Salaries and compensation	**38,046**	32,463
Share-based payments		17
Pension costs – payment-based arrangements	**6,701**	5,661
Other indirect employee costs	**2,041**	1,718
Total	**46,788**	39,859

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

Information about employee benefits to members of management regarded as insiders is provided in Note 35, Insider transactions. Information about share-based payments granted is provided in Note 27, Share-based payments.

On average during the financial period, the Group employed 1,034 (967) staff. At the end of the period, the number of personnel was 1,097 (970).

11. Depreciations, amortizations and impairment

EUR 1,000	2011	2010
Depreciations by asset group:		
Property, plant and equipment		
Buildings and structures	**121**	27
Machinery and equipment	**3,519**	3,174
Other tangible assets	**27**	30
Intangible assets		
Development costs	**132**	131
Intangible rights	**1,082**	904
Other capitalized long-term expenditure	**319**	309
Total	**5,200**	4,575

12. Other operating expenses

EUR 1,000	2011	2010
Sales losses from tangible and intangible assets	**39**	269
Rental costs	**6,761**	6,062
Marketing costs	**1,341**	780
Information management costs	**1,650**	945
Specialist service costs	**884**	593
Other variable operating expenses	**5,267**	3,866
Other expense items	**10,561**	10,292
Total	**26,503**	22,807

13. Financial income

EUR 1,000	2011	2010
Dividend income from held-for-sale investments	**4**	16
Foreign exchange gains	**10**	4
Financial income from participating interest companies	**311**	7
Interest earned	**298**	333
Total	**623**	360

14. Financial expenses

EUR 1,000	2011	2010
Foreign exchange losses	**24**	9
Value changes from financial assets recognized at fair value through profit and loss	**267**	260
Interest costs	**3,320**	2,464
Total	**3,611**	2,733

Financial expenses include value changes from interest derivatives recognized at fair value through profit and loss. Hedge accounting is not applied to interest rate swaps.

Some of the Group's subsidiaries use interest rate swaps to protect variable-rate loans.

Interest rate swaps are described in more detail in Note 3, Management of financing risks.

15. Taxes on income

EUR 1,000	2011	2010
Tax based on taxable income for the period	**-2,084**	-1,323
Taxes from previous financial periods	**40**	31
Deferred taxes	**1,517**	1,655
Income taxes in total	**-527**	363

Reconciliation statement of the tax expense in the income statement and taxes calculated at the Group's domestic tax rate (2010 and 2011: 26%):

Profit before taxes	**3,144**	778
Income tax at the Finnish tax rate on the Group's profit before taxes	**-817**	-202
Non-taxable income	**1,186**	239
Non-deductible expenses	**-1,146**	47
Unregistered deferred tax assets from tax losses	**157**	190
Share of associated company profits	**53**	58
Taxes from previous financial periods	**40**	31
Taxes in the income statement	**-527**	363

16. Earnings per share

Undiluted earnings per share are calculated by dividing the profit for the financial period attributable to the parent company's shareholders by the weighted average number of shares outstanding during the period. In calculating the earnings per share adjusted by the dilution effect, the diluting factors taken into account are the parent company's convertible subordinated loan and share options. Share options have a dilution effect when their subscription price is lower than the fair value of the share. The dilution effect is the number of shares that must be issued gratuitously because the Group would not be able to issue the same number of shares at fair value with the assets received from the use of options. The fair value of the share is based on the average price of shares during the financial period. In the 2011 financial period and the 2010 reference period, options had no dilution effect as their subscription price was lower than the average fair value of shares. As regards the convertible subordinated loan, the shares have been considered convertable from the date they were entered in the Trade Register. The result for the period has been adjusted by the interest costs less the tax effect of the convertible subordinated loan.

EUR 1,000	2011	2010
Profit for the financial period attributable to the parent company's owners (EUR 1,000),	**937**	-2,775
continuing operations	**1,338**	1571
discontinued operations	**-401**	-4,346
Convertible subordinated loan interest	**948**	828
Profit/loss for the financial period for calculating the earnings per share adjusted by the dilution effect	**1,885**	-1,947
Number of shares at the end of the period	**51,733**	47,403
of which held by the company	**602**	1,263
Weighted average number of shares outstanding 1,000	**50,128**	46,127
Conversion of convertible subordinated loan into shares, 1,000	**10,130**	10,125
Diluted weighted average of shares outstanding	**60,258**	56,252
Earnings per share as calculated from the profits attributable to parent company shareholders:		
Earnings per share from continuing operations, EUR		
Undiluted	**0.027**	0.034
Diluted	**0.027**	0.034
Earnings per share from discontinued operations		
Undiluted	**-0.008**	-0.094
Diluted	**-0.008**	-0.094
Earnings per share on continuing and discontinued operations		
Undiluted	**0.019**	-0.060
Diluted	**0.019**	-0.060

17. Intangible assets

EUR 1,000	Goodwill	Intangible rights	Development costs	Other intangible assets	Total
Acquisition cost on November 1, 2010	**40,986**	**4,890**	**1,964**	**2,675**	**50,515**
Additions		**138**	**101**	**355**	**594**
Effect of corporate acquisition		**13**			**13**
Effect of corporate sale	**-2,044**	**-51**	**-74**	**-65**	**-2,234**
Asset deal	**45**	**207**			**252**
Rate differences				**-1**	**-1**
Transfer between balance sheet groups				**-26**	**-26**
Cancellation of additional purchase price	**-728**				**-728**
Acquisition cost on October 31, 2011	**38,259**	**5,197**	**1,991**	**2,938**	**48,385**
Accrued depreciations, amortizations and impairment on November 1, 2010	**-1,730**	**-1,907**	**-208**	**-1,773**	**-5,618**
Depreciations during the financial period		**-1,082**	**-132**	**-319**	**-1,533**
Effect of corporate sale		**57**	**25**	**48**	**130**
Transfers between balance sheet groups				**214**	**214**
Accrued depreciations, amortizations and impairment on October 31, 2011	**-1,730**	**-2,932**	**-315**	**-1,830**	**-6,807**
Book value on October 31, 2011	**36,529**	**2,265**	**1,676**	**1,108**	**41,578**
Acquisition cost on November 1, 2009	36,685	3,808	1,882	2,152	44,527
Additions		48	82	540	670
Effect of corporate acquisition	5,062	773		28	5,863
Effect of corporate sale		-7			-7
Deductions				-4	-4
Asset deal	-761				-761
Rate differences				2	2
Transfers between balance sheet groups		268		-43	225
Acquisition cost on October 31, 2010	40,986	4,890	1,964	2,675	50,515
Accrued depreciations, amortizations and impairment on November 1, 2009	-271	-958	-56	-1,470	-2,755
Depreciations during the financial period		-906	-148	-335	-1,389
Amortizations and impairment during the financial period	-1,459				-1,459
Transfers between balance sheet groups		-38		36	-2
Other changes		-5	-4	-4	-13
Accrued depreciations, amortizations and impairment on October 31, 2010	-1,730	-1,907	-208	-1,773	-5,618
Book value on October 31, 2010	39,256	2,983	1,756	902	44,897

Goodwill Impairment Test

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

MEUR	2011	2010
Technochemical (Alfa-Kem)	**1.1**	1.1
Safety (Flexim Security)	**5.2**	5.9
Heat Treatment (Heatmasters Group)	**0.3**	0.3
Digital Printing Services (Kopijyvä)	**12.1**	12.1
Spare Parts for Motor Vehicles (KL-Varaosat)	**1.9**	1.9
Fittings (Suomen Helasto)	**5.6**	5.6
Fasteners (Suomen Kiinnikekeskus)	**0.6**	0.6
Takoma (Takoma)	**6.6**	6.6
Value-added Logistics (Vindea)	**3.1**	3.1
Environmental Technology (Ecosir Group)		2.0
Total	**36.5**	39.2

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

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

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

Technochemical 11.4% (11.4%), Safety 9.1% (9.1%), Heat Treatment 11.6% (11.5%), Digital Printing Services 11.0% (10.9%), Spare Parts for Motor Vehicles 10.5% (10.5%), Fittings 9.1% (9.2%), Fasteners 9.4% (9.2%), Takoma 13.2% (13.3%) and Value-added Logistics 11.6% (11.5%).

The service value that is in accordance with the test of the company's units that have been analyzed through continuous testing has been greater than their book value. Only Takoma was found to be sensitive in goodwill impairment tests. In other units yielding a cash flow, reasonable alterations to the key presumptions used in the calculations do not result in the asset items' book value exceeding the recoverable amount accruable from them.

A 1.5 percentage point growth of the discount rate would lead to a total of MEUR 0.3 write-down in Takoma. Respectively, a 1.5 percentage point decline in the operating margin ratio would mean a MEUR 1.0 write-down of goodwill. Changes in the market outlooks, international finances and interest rates of Takoma's customer segments are reflected in growth and profitability forecasts and the risks and yield requirement connected to them. The profitability levels of the forecasts are based on the budget for 2012 which has been compiled by the management and approved by the Board and on the forecasts for 2013–2014. To improve profitability, the management has drawn up an action plan, and the Board monitors its realization on a monthly basis. The plan mainly consists of the cost-efficiency measures of the production facilities and raising their productivity and utilization degree, the exploitation of the more extensive supply of customers brought about by the purchases of the business operations of TL-Tuotanto Oy in Keminmaa in summer 2011 and the new production facilities in Akaa enabling the utilization of a more extensive range offered to customers, centralizing purchases, and renewing the structure of customer pricing.

Key presumptions of the impairment tests of Takoma's financial periods 2011 and 2010	2011	2010
Growth of net sales p.a. forecasts for 3 years	**8,–29%**	15–48%
WACC (after taxes)	**10.48%**	10.55%
Discount rate (WACC before taxes)	**13.22%**	13.25%
Long-term growth	**2%**	2%
Operating profit margin, weighted average for the forecast period	**10.3%**	8.9%
Goodwill, EUR 1,000	**6,597**	6,597
Book value, EUR 1,000	**30,153**	25,716
Result of the impairment test, EUR 1,000	**2,697**	1,047
(recoverable amount vs. book value)	**Exceeds**	Exceeds

In the reference year, increasing the discount rate by one percentage point would have led to a total of MEUR 0.9 write-down of goodwill in Takoma. A decline of one percentage point in the operating margin ratio would not have made a write-down necessary in the company. In other units yielding a cash flow, reasonable alterations to the key presumptions used in the calculations did not result in the asset items' book value exceeding the recoverable amount accruable from them.

18. Property, plant and equipment

EUR 1,000	Land areas	Buildings	Machinery and equipment	Other Property	Advance payments plant and equipment	Total
Acquisition cost on November 1, 2010	**194**	**7,344**	**29,983**	**265**	**650**	**38,436**
Additions		**3,216**	**1,730**	**74**	**1,499**	**6,519**
Effect of corporate acquisition			**1,370**	**1**		**1,371**
Effect of corporate sale			**-188**			**-188**
Deductions			**-222**			**-222**
Transfers between balance sheet groups		**50**	**1,249**	**-2**	**-1,271**	**26**
Rate differences	**-1**	**-6**	**-122**			**-129**
Other changes			**-386**			**-386**
Acquisition cost on October 31, 2011	**193**	**10,604**	**33,414**	**338**	**878**	**45,427**
Accrued depreciations, amortizations and impairment on November 1, 2010	**-179**	**-7,190**	**-14,488**	**-174**		**-22,031**
Depreciations during the financial period		**-121**	**-3,519**	**-28**		**-3,668**
Effect of corporate sale			**207**			**207**
Deductions			**-100**			
Transfers between balance sheet groups			**-214**			**-214**
Rate differences		**4**	**50**			**54**
Other changes			**386**			
Accrued depreciations, amortizations and impairment on October 31, 2011	**-179**	**-7,307**	**-17,678**	**-202**	**0**	**-25,652**
Book value on October 31, 2011	**14**	**3,297**	**15,736**	**136**	**878**	**20,061**
Acquisition cost on November 1, 2009	215	7,340	21,359	247	486	29,646
Additions			3,412	6	938	4,356
Effect of corporate acquisition			5,446	1		5,447
Effect of corporate sale						0
Deductions	-14		-557		-43	-614
Asset deal	-8		-201			-209
Transfers between balance sheet groups			900	8	-693	215
Rate differences	1	4	73			78
Other changes			-449	3	-38	
Acquisition cost on October 31, 2010	194	7,344	29,983	265	650	38,436
Accrued depreciations, amortizations and impairment on November 1, 2009	-179	-7,162	-11,034	-131		-18,506
Depreciations during the financial period		-27	-3,279	-30		-3,336
Transfer to non-current asset items classified as held for sale						0
Effect of corporate sale						0
Effect of corporate acquisition						0
Asset deal			-250			
Rate differences		-1	-19			-20
Transfers between balance sheet groups			94	-13		81
Accrued depreciations, amortizations and impairment on October 31, 2010	-179	-7,190	-14,488	-174		-22,031
Book value on October 31, 2010	15	154	15,495	91	650	16,405

19. Investments in associates

EUR 1,000	2011	2010
Book value on November 1	**2,387**	2,835
Share of profit/loss for the financial period	**205**	224
Additions	**200**	0
Deductions	**-52**	-672
Book value on October 31	**2,740**	2,387

Associated company	Domicile	Holding	Assets	Equity	Liabilities	Net sales	Profit/loss
October 31, 2011							
Keski-Suomen Painotuote Oy	Äänekoski, Finland	**22,5%**	**595**	**109**	**486**	**1,134**	**28**
As Koopia Kolm	Tallinn, Estonia	**50,0%**	**1,344**	**291**	**1,053**	**879**	**-22**
PE Kiinteistörahasto I Ky	Helsinki, Finland	**27,1%**	**31,017**	**13,618**	**17,399**	**2,847**	**1,337**
Ecosir Group Oy	Tampere, Finland	**49,8%**	**2 738**	**-510**	**3 248**	**703**	**-544**

Keski-Suomen Painotuote Oy and As Koopia Kolm are associated companies of Kopijyvä Oy. The figures reported for the companies here have been annualized on the basis of their profit reporting for January 1–September 30, 2011.

PE Kiinteistörahasto I Ky is an associated company of which Panostaja Oyj owns 27.1%. Established in connection with the Group's real estate deal on October 23, 2009, the company is a real estate fund investing in logistics and production facilities. The fund's first financial period ended on December 31, 2010. The figures reported for the company here have been annualized on the basis of its profit reporting for January 1–September 30, 2011.

Ecosir Group Oy is an associated company of which Panostaja Oyj owns 49.78%. In April 2011, Panostaja sold Ecosir Group shares to the acting management and other shareholders of Ecosir to an extent that reduced Panostaja's holding in the company to below 50%. Panostaja has been reporting Ecosir as an associated company since May 2011, for a period of 6 months. Itemization of the profit/loss of associated companies covers the entire financial period's net sales of EUR 703,000 and loss of EUR -544,000.

20. Other non-current assets

EUR 1,000	2011	2010
Loans receivable	**3,964**	3,500
Held-for-sale investments	**280**	270
Other receivables	**4,027**	627
Total	**8,271**	4,397
Held-for-sale investments		
Investments in unquoted shares:		
At the beginning of the period on November 1	**270**	251
Additions caused by consolidation of operations	**14**	118
Additions	**0**	5
Deductions	**-4**	-104
At the end of the period on October 31	**280**	270

Held-for-sale investments are all investments in unquoted shares. They have been valued at acquisition price, since their fair values are not reliably available.

In other receivables, Panostaja Oyj has receivables from the associated company Ecosir Group Oy totaling EUR 2.3 million and from the Group's Senior Management Team amounting to EUR 1.2 million in relation to the reward scheme. In addition, loans receivable for Takoma Group have increased by EUR 0.4 million during the financial period. The reward scheme is described in more detail in Note 35, Insider transactions.

21. Deferred tax assets and liabilities

Changes in deferred taxes during the 2011 financial period:

EUR 1,000	November 1, 2010	Entered in the income statement	Acquired operations	Discontinued operations	Adjustment from previous periods	October 31, 2011
Deferred tax assets:						
HEPAC Wholesale inventory adjustment	**473**					**473**
Losses confirmed in taxation and to be confirmed	**3,550**	**1,487**		**-868**		**4,169**
Other temporary differences	**321**	**-35**			**-102**	**184**
Total	**4,344**	**1,452**	**0**	**-868**	**-102**	**4,826**
Deferred tax liabilities:						
Property, plant and equipment and intangible assets	**1,485**	**-68**				**1,417**
Other temporary differences	**208**	**3**			**-108**	**103**
Total	**1,693**	**-65**	**0**	**0**	**-108**	**1,520**
Deferred tax, net	**2,651**	**1,517**	**0**	**-868**	**6**	**3,306**

Changes in deferred taxes during the 2011 financial period:

EUR 1,000	November 1, 2009	Entered in the income statement	Acquired operations	Discontinued operations	Adjustment from previous periods	October 31, 2010
Deferred tax assets:						
HEPAC Wholesale inventory adjustment					473	473
Losses confirmed in taxation and to be confirmed	1,695	1,855	-30			3,550
Other temporary differences	407	-86	0			321
Total	2,102	1,769	-30	0	0	4,344
Deferred tax liabilities:						
Property, plant and equipment and intangible assets	1,482	-277	280			1,485
Other temporary differences	248	-40				208
Total	1,730	-317	280	0	0	1,693
Deferred tax, net	372	2,086	-310	0	0	2,651

On October 31, 2011, the Group had EUR 11.3 million in confirmed losses for which deferred tax assets have not been recorded, since the Group is unlikely to accrue taxable income against which the losses could be utilized before the expiry of the losses. The unused tax losses will expire in 2017–2020.

22. Stocks

EUR 1,000	2011	2010
Materials and accessories	**13,663**	13,513
Unfinished products	**5,211**	3,655
Finished products and goods	**5,131**	4,988
Total	**24,005**	22,156

A write-down totaling EUR 2,246,000 has been made in the Group's stocks. Errors found in the HEPAC Wholesale inventory amounted to EUR 2,056,000 of the write-down. EUR 1,918,000 of the HEPAC Wholesale write-down was allocated to previous financial periods. Of this write-down, EUR 1,420,000 was allocated to retained earnings and EUR 498,000 to deferred tax assets. The adjustment was made for the 2010 financial period.

The error found in the inventory was not corrected through profit or loss in the income statement for the 2010 reference year, because the proportion of the error allocated to the 2010 financial period could not be determined in practice.

For the 2011 financial period, the Group recorded in total EUR 618,000 in expenses, which was used to reduce the book value of stocks to correspond to its net realizable value.

An amortization of EUR 143,000 was recorded for the 2010 financial period.

23. Trade and other receivables

EUR 1,000	2011	2010
Trade receivables	**23,232**	21,063
Loans receivable	**359**	297
Accrued income	**2,269**	2,813
Other receivables	**311**	587
Total	**26,171**	24,760

The book value of trade and other receivables corresponds to the maximum amount of credit risk related to them at the time of closing the accounts.

Age distribution of trade receivables

EUR 1,000	2011	2010
Undue	**19,042**	16,405
1–30 days overdue	**2,960**	3,004
31–180 days overdue	**632**	1,042
181–360 days overdue	**225**	361
More than a year overdue	**373**	251
Balance sheet value of trade receivables	**23,232**	21,063

The Group has recorded EUR 461,000 of impairment losses for trade receivables in the financial period. (EUR 189,000 in 2010)

Significant items included in accrued income

EUR 1,000	2011	2010
Salaries and social security contributions	**126**	113
Annual discounts	**671**	869
Advance payments	**433**	314
Other	**1039**	1517
Total	**2,269**	2,813

In integral parts, the balance sheet values of the receivables correspond to their fair values.

24. Short-term investments

EUR 1,000	2011	2010
Short-term investments	**0**	833
Total	**0**	833

Short-term investments consist of interest fund units.

25. Cash and cash equivalents

EUR 1,000	2011	2010
Cash and bank accounts	**14,643**	10,438
Total	**14,643**	10,438

26. Information on equity

	Number of shares at the end of the period 1,000 shares	Share capital EUR 1,000	Share premium account EUR 1,000	Invested unrestricted equity fund EUR 1,000	Total EUR 1,000
November 1, 2011	47,403	5,529	4,647	11,876	22,052
Cost of share-based payments				17	17
Disposal of own shares				38	38
Share issue				-425	-425
Other changes				68	68
October 31, 2010	47,403	5,529	4,647	11,574	21,750
Share issue	4,000			5,738	5,738
Share subscription	330	40		276	316
Disposal of own shares				942	942
Equity component of convertible subordinated loan				481	481
Reward scheme				12	12
October 31, 2011	**51,733**	**5,569**	**4,647**	**19,023**	**29,239**

At the end of the financial period, Panostaja Oyj's share capital was EUR 5,568,681.60, and the number of shares is 51,733,110.

As a result of a share issue and share subscription carried out in the 2011 financial period, the number of shares increased from 47,403,110 to 51,733,110. The share capital increased by EUR 39,600 as a result of the share subscription.

Share premium account

In the share premium account, the amount paid by shareholders in connection with share issues that exceeds the nominal value of the shares is recorded. The amounts entered in the share premium account are related to share issues carried out under the previous Companies Act (September 29, 1978/734), which was valid until August 31, 2006.

In cases where option rights were decided upon under the old Companies Act, payments received for option-based share subscriptions were entered in the share capital and share premium account in accordance with the terms and conditions of the arrangement.

Invested unrestricted equity fund

The invested unrestricted equity fund includes equity-like investments and the amount paid by shareholders in connection with share issues completed after the entry into force (September 1, 2006) of the new Companies Act (July 21, 2006/624) where it is not entered in the share capital by virtue of a separate decision.

Share issue

A share issue was carried out in the 2011 financial period where 4,000,000 new shares of the company were offered for subscription to domestic institutional investors, deviating from the shareholders' pre-emptive right to subscription. The share subscription price was EUR 1.45 per share. The overall yield of the share issue less sales commissions and costs was EUR 5,738,000, which was entered in the invested unrestricted equity fund.

Share subscription

A share subscription was carried out in the 2011 financial period based on the option rights granted to the company management in 2006. Of the share subscription price, EUR 0.12 was registered in the share capital, in accordance with the terms and conditions of the option scheme, and the remaining part in the invested unrestricted equity fund. A total of 330,000 new shares of the company were subscribed for in the share subscription.

Own shares

The acquisition price of shares purchased plus the transaction costs are presented as deduction from the invested unrestricted equity. Panostaja did not acquire its own shares during the 2011 financial period. At the end of the 2011 financial period, the company held 601,875 (1,262,504) of its own shares.

During the period under review, Panostaja sold 623,561 of its own shares to members of the Senior Management Team for EUR 896,000. In addition, the company awarded Board members a total of 37,068 shares as remuneration.

Dividends

For the 2010 financial period, dividends paid to shareholders of the parent company totaled EUR 2.56 million (EUR 0.05 per share) (dividends paid to minority shareholders of the subsidiaries amounted to EUR 0.27 million).

For the 2009 financial period, dividends paid to shareholders of the parent company totaled EUR 5.53 million (EUR 0.12 per share) (dividends paid to minority shareholders of the subsidiaries amounted to EUR 0.37 million).

27. Share-Based Payments

The Annual General Meeting of December 15, 2006 authorized the Board of Directors to decide on the issue of option rights to key company personnel as part of the key-personnel incentive scheme. The total number of share options is no more than 1,380,000, which entitle holders to subscribe to a maximum of 1,380,000 of the company's new Class B shares. The share options are divided into 460,000 Class 2006A options, 460,000 Class 2006B options and 460,000 Class 2006C options.

The exercise periods for the options are:

- from January 1, 2010 to December 31, 2011 for Class 2006A options,
- from January 1, 2011 to December 31, 2012 for Class 2006B options, and
- from January 1, 2012 to December 31, 2013 for Class 2006C options

The exercise prices of the share options are:

- the volume-weighted average share price on the Helsinki Stock Exchange over the period from November 1, 2006 to November 30, 2006 for Class 2006A options; however, no less than EUR 1.50,
- the volume-weighted average share price on the Helsinki Stock Exchange over the period from November 1, 2007 to November 30, 2007 for Class 2006B options; however, no less than EUR 2.45,
- the volume-weighted average share price on the Helsinki Stock Exchange over the period from November 1, 2008 to November 30, 2008 for Class 2006C options; however, no less than EUR 3.40.

In the event that the company distributes dividends or assets from the unrestricted equity fund, the exercise price of share-option subscribed shares will be reduced by the amount of the dividend decided, or the amount of the unrestricted equity distributable, after the beginning of the period for determination of the exercise price and before share subscription, on the dividend record date or the record date of the repayment of capital. By October 31, 2011, the company had distributed dividends and repayment of capital affecting the option scheme in an amount totaling 59.3 cents per share. The price of a share to be subscribed for under Class 2006A options was thus EUR 0.907 per share on the date of the closing of the books.

During the 2007 financial year, the Board of Directors exercised the authorization given to it and granted 460,000 Class 2006A options to key personnel within the company and to a subsidiary wholly owned by the company. In the financial year 2008, 80,000 of the Class 2006A shares owned by a subsidiary were conveyed to key personnel in the company.

In the financial year 2010, the Board decided that 2006B and 2006C options will not be granted

The following table provides basic data on Panostaja's share options and events during the financial year.

Number of options on October 31, 2011	2006A	2006B	2006C	Total
Granted	130,000	0	0	130,000

Share-based payments
Options

Basic information	2006A
Maximum number of options	460,000
Shares subscribed per option	1
Original subscription price, EUR	1.50
Dividend adjustment	Yes
Start of exercise period, date (release)	January 1, 2010
End of exercise period, date (expiry)	December 31, 2011

	2011		2010	
	Weighted average subscription price, EUR/share	Number of options	Weighted average subscription price, EUR/share	Number of options
At the beginning of the period	**1.50**	**460,000**	1.50	460,000
New options granted	**0.00**	**0**	0.00	0
Lost options	**0.00**	**0**	0.00	0
Exercised options	**1.50**	**330,000**	1.50	330,000
Expired options	**0.00**	**0**	0.00	0
At the end of the period	**1.50**	**130,000**	1.50	130,000
Exercisable options at the end of the period	**1.50**	**130,000**	1.50	130,000

The table above does not include dividends and capital repayments affecting the option scheme.

The table above does not include dividends and capital repayments affecting the option scheme.

A share subscription was carried out in the 2011 financial period based on the option rights granted to the company management in 2006. Of the share subscription price, EUR 0.12 was registered in the share capital, in accordance with the terms and conditions of the option scheme, and the remaining part in the invested unrestricted equity fund. The redemption price of the options was EUR 0.907 per share.

Determining fair value

A fair value is determined for options on their grant date and entered in staff expenses for the commitment period of the options. The grant date is the date on which the Board decided on granting options.

The fair value of options is determined using the Black–Scholes option pricing formula. Key assumptions used in determining the fair value of the 2006A options granted have been compiled in the table below.

Expected volatility has been determined on the basis of the actual price development of the parent company share, taking into account the remaining validity period of the options.

The fair value of these options totaled EUR 279,000, which was recorded as expenses during the 2007–2010 financial periods. In the 2011 financial period, the options no longer had a cost effect.

Key assumptions of the Black–Scholes formula	October 31, 2011
Number of options granted	130,000
Average share price on grant date	1.52
Subscription price	1.50
Interest	4.1%
Term to maturity, years	4.9
Volatility	42%
Returning options	0
Expected dividend yield [*)]	0
Weighted fair value per option, EUR	0.65
Fair value in total, EUR	84,500

[*)] Dividends paid are deducted from the subscription price, so the dividends need not be taken into consideration separately in calculating the fair value.

28. Financial liabilities

EUR 1,000	2011	2010
Non-current financial liabilities valued at allocated acquisition cost		
Loans from financial institutions	**29,181**	31,502
Convertible subordinated loan	**14,264**	16,999
Finance lease liabilities	**3,182**	815
Other loans	**316**	256
Total	**46,943**	49,572
Current financial liabilities valued at allocated acquisition cost		
Convertible subordinated loan	**5,631**	0
Installments for non-current loans	**10,390**	13,098
Loans from financial institutions	**2,678**	949
Finance lease liabilities	**693**	369
Total	**19,392**	14,416

The fair values of liabilities are listed in Note 32, Fair values of financial assets and liabilities.

The Group has both variable-rate and fixed-rate loans. The weighted average of interest rates on October 31, 2011, was 5.41% (October 31, 2010: 4.62%). Of the financial liabilities, EUR 19,895,000 are fixed-rate and the rest are variable-rate.

The interest-bearing non-current and current liabilities are in euros.

Arrangements concerning liabilities and breaches of contract in the Takoma Segment

During the financial year 2011, the Takoma Group met the covenant term for the equity ratio of its loans. The covenant term regulating the relation of net financing liabilities to the rolling 12-month operating margin was not met at review point 30 April or on closing the books on October 31, 2011, concerning one of the Group's loans, of MEUR 5.28. At both review points, the lender's consent was received in advance to the effect that the lender would not use its right of collection.

Within the Group, the amortization payment of the loan of MEUR 0.66 fell due on October 31, 2011 in accordance with the original amortization plan. This payment relates to a bank loan of MEUR 5.28 in book value. With the consent of the lender, the loan terms and conditions were changed so that amortization was postponed to fall due on December 31, 2011. As a result of the postponement of amortization, the lender increased the loan margin by 0.25 percentage points.

Equity convertible subordinated loans

Convertible subordinated loan 2006

By a decision of the Annual General Meeting in December 15, 2006, the company offered domestic institutional investors a convertible subordinated loan totaling EUR 21,250,000.00, of which the entire sum was registered.

The share exchange rate is EUR 1.70. The loan share exchange period started on July 1, 2007, and it will end on January 31, 2012. As a result of the exchanges, the company's share capital may increase by EUR 1,500,000.00 and the number of shares by 12,500,000.

The new shares entitle their holders to dividend for the first time for the financial period during which the exchange took place. Other shareholder rights will begin when the increase in share capital required by the exchange has been entered in the Trade Register.

Each promissory note of EUR 106,250.00 entitles its holder to exchange the loan share for 62,500 Panostaja shares.

During the 2011 financial period, Panostaja Oyj bought back a total of EUR 12,288,658 (with interest accrued included) of shares of the 2006 convertible subordinated loan. The transactions were completed on February 7, 2011. The loan shares were bought back at a rate of 100%, with interest up to the date of the transaction added. The amount bought back by the company corresponds to 54.5% of the original total nominal value of the convertible subordinated loan maturing in 2012.

At the end of the financial period, the remaining amount of the 2006 convertible subordinated loan was EUR 5,631,250 (EUR 17,212,500 at the end of the 2010 financial year). The 2006 convertible subordinated loan is presented in current liabilities as the loan will mature on March 1, 2012.

The proportion of shares exchanged on the basis of the convertible subordinated loan is 5.35% of the company's shares and votes.

The interest rate for the loan is 6.5%, and the loan period is January 15, 2007–March 1, 2012. The remaining loan will be repaid in a single installment on March 1, 2012, provided that the conditions for repayment specified in Chapter 5 of the Companies Act and the loan terms are met.

On the conditions specified in the loan terms, Panostaja is from January 1, 2008, entitled to repay the entire loan capital prematurely at a rate of 100%, with interest up to the date of payment added.

If the loan cannot be repaid on the due date, the unpaid loan capital will be subject to interest two (2) percentage points higher than the annual interest confirmed for the loan.

In the financial statements, the convertible subordinated loan is divided into equity and liabilities. The liability component of the loan has originally been entered in the balance sheet at fair value, which has been determined by using the market interest rate for an equivalent liability on the loan issue date. The equity component has been calculated by determining the difference between the monetary amount obtained through the loan issue and the fair value of the loan. The original equity component of the convertible subordinated loan was EUR 890,000.

Convertible subordinated loan 2011

By virtue of the authorization given at the Annual General Meeting on December 18, 2007, the Board of Directors decided to offer a convertible subordinated loan for registration for domestic institutional investors in 2011, deviating from the shareholders' preemptive right to subscription.

The convertible subordinated loan offered amounted to EUR 15,000,000, and the entire sum was registered. A fixed annual interest of 6.5% will be paid on the loan capital. The loan period is February 7, 2011–April 1, 2016. The loan will be repaid in a single installment, provided that the conditions for repayment are met.

The original share exchange rate is EUR 2.20. The loan share exchange period started on August 1, 2011, and will end on March 1, 2016. The share exchange rate will be entered into the company's invested unrestricted equity fund.

Each EUR 50,000 share of the loan entitles the holder to exchange the loan share for new Panostaja shares.

The number of shares issued on the basis of the right of exchange is determined by dividing the loan share by the exchange rate valid on the exchange date.

As a result of the exchanges, the number of company shares may increase by 6,818,181.

The proportion of shares exchanged on the basis of the convertible subordinated loan is 11.0% of the company's shares and votes.

The new shares will entitle their holders to dividends and other shareholders' rights after the shares have been entered in the Trade Register and combined with the company's existing shares.

On the conditions specified in the loan terms, Panostaja is from January 1, 2012, entitled to repay the entire loan capital prematurely at a rate of 100%, with interest up to the date of payment added.

If the loan cannot be repaid on the due date, the unpaid loan capital will be subject to interest two (2) percentage points higher than the annual interest confirmed for the loan.

The convertible subordinated loan is divided into equity and liabilities in the financial statements. The liabilitycomponent of the loan has originally been entered in the balance sheet at fair value, which has been determined by using the market interest rate for an equivalent liability on the loan issue date. The equity component has been calculated by determining the difference between the monetary amount obtained through the loan issue and the fair value of the loan. The original equity component of the convertible subordinated loan, EUR 598,000, has been entered in the invested unrestricted equity fund.

Maturity dates of non-current liabilities

Installments	Financial institution loans			Other loans
EUR 1,000	2011	2010	2011	2010
< 1 year	**10,390**	13,098		
1 – 2 years	**8,506**	6,610	**149**	17,088
2 – 3 years	**7,468**	6,797		
3 – 4 years	**5,613**	5,799		
4 – 5 years	**3,789**	6,260	**14,315**	
> 5 years	**3,805**	6,036	**116**	167

29. Trade payables and other liabilities

EUR 1,000	2011	2010
Trade payables	**11,427**	11,580
Accruals and deferred income	**10,495**	8,333
Other current liabilities	**4,998**	4,195
Total	**26,920**	24,108

Significant items included in accruals and deferred income		
Vacation pay and social security costs	**4,827**	4,336
Accrued wages and salaries	**1,354**	1,052
Accrued interest	**1,100**	831
Accrued taxes	**1,122**	287
Accrued employee pension	**373**	394
Other items	**1,719**	1,433
Total	**10,495**	8,333

30. Provisions

EUR 1,000	Provisions for guarantees given	Total
November 1, 2010	**361**	**361**
Additions to provisions	**59**	**59**
Effect of corporate sale	**-124**	**-124**
Provisions taken	**-26**	**-26**
October 31, 2011	**270**	**270**

	Provisions for guarantees given	Re-organization provisions	Total
November 1, 2009	258	39	297
Additions to provisions	121		121
Provisions taken	-18	-39	-57
October 31, 2011	361	0	361

	2011	2010
Non-current provisions	**59**	121
Current provisions	**-26**	-57
Total	**33**	64

Provisions for guarantees given

The Group provides a guarantee of 1–3 years for some of its products. Any defects detected in the products during the guarantee period will be repaired at the Group's expense or the customer will be given a similar new product. Provisions for guarantees given are recorded on the basis of an estimate of probable guarantee costs. Provisions for guarantees given are expected to be used within the next three years, with emphasis on the first 12 months, however.

31. Maturity dates of finance lease liabilities

EUR 1,000	2011	2010
Finance lease liabilities – total amount of minimum rent sums		
In one year	**793**	412
In over one year but within five years maximum	**2,592**	890
In over five years	**850**	
Total	**4,235**	1,302
Future financial expenses	**-359**	-118
Total amount of finance lease liabilities	**3,876**	1,184
Finance lease liabilities – current value of minimum rent sums		
In one year	**693**	369
In over one year but within five years maximum	**2,024**	815
In over five years	**1,159**	
Total	**3,876**	1,184

Property, plant and equipment include machinery and equipment acquired by means of finance lease agreements.

32. Fair values of financial assets and liabilities

2011 Balance sheet item EUR 1,000	Note	Financial assets and liabilities at fair value through profit and loss	Loans and other receivables	Held-for-sale investments	Financial liabilities valued at allocated acquisition cost	Book values of balance sheet items	Fair value
Non-current financial assets							
Other non-current assets	20		4,027	280		4,307	4,307
Current financial assets							
Trade and other receivables	23		23,902			23,902	23,902
Financial assets in total		0	27,929	280	0	28,209	28,209
Non-current liabilities							
Loans from financial institutions	28				29,181	29,181	29,181
Convertible subordinated loan	28				14,264	14,264	14,707
Other non-current liabilities	28				3,498	3,498	3,498
Current liabilities							
Convertible subordinated loan	28				5,631	5,631	5,678
Interest-bearing liabilities	28				13,761	13,761	13,761
Trade payables	29				11,427	11,427	11,427
Other liabilities	29				4,998	4,998	4,998
Financial liabilities in total		0	0	0	82,760	82,760	83,250

2010 Balance sheet item EUR 1,000	Note	Financial assets and liabilities at fair value through profit and loss	Loans and other receivables	Held-for-sale investments	Financial liabilities valued at allocated acquisition cost	Book values of balance sheet items	Fair value
Non-current financial assets							
Other non-current assets	20		627	270		897	897
Current financial assets							
Trade and other receivables	23		22,171			22,171	22,171
Short-term investments	25	833				833	833
Financial assets in total		833	22,798	270	0	23,901	23,901
Non-current liabilities							
Loans from financial institutions	28				31,502	31,502	31,502
Convertible subordinated loan	28				16,999	16,999	17,876
Other non-current liabilities	28				1,071	1,071	1,071
Current liabilities							
Interest-bearing liabilities	29				14,416	14,416	14,416
Trade payables	29				11,580	11,580	11,580
Other liabilities	29				4,556	4,556	4,556
Financial liabilities in total		0	0	0	80,124	80,124	81,001

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

	Fair values at year end		
Oct. 2011	Level 1	Level 2	Level 3
Held-for-sale investments			
Investments in unquoted shares			**280**
Total	**0**		**280**

31 Oct 2010	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss			
Short-term investments	833		
Held-for-sale investments			
Investments in unquoted shares			270
Total	833		270

Fair values on hierarchy level 1 are based on the quoted prices of fully similar asset items or liabilities on the active market.
Fair values on level 2 are based on input data other than the quoted prices included in level 1 but nevertheless on data either directly or indirectly attributable to the asset item or liability in question.
Fair values on level 3 are based on acquisition price, since their fair value cannot be reliably determined.

Held-for-sale investments

Held-for-sale investments are all investments in unquoted shares. They have been valued at acquisition price, since their fair values are not reliably available.

Non-current receivables

The book values of non-current receivables correspond to the maximum credit risk on the balance sheet date.

Trade and other receivables

The original book value of trade and other receivables corresponds to their fair value, since the effect of discounting is not significant considering the maturity of the receivables.

Loans from financial institutions, convertible subordinated loan and other non-current liabilities

The fair values of the liabilities are based on discounted cash flows. The discount rate used for the convertible subordinated loan is 3.5%.

Trade payables and other liabilities

The original book value of trade payables and other liabilities corresponds to their fair value, since the effect of discounting is not significant considering the maturity of the liabilities.

Reconciliation statement for financial assets valued at fair value according to level 3

	Held-for-sale investments
Opening balance on November 1, 2010	270
Purchases	14
Sales	-4
Profit/loss through profit or loss	
Closing balance on October 31, 2011	280
Total profit or loss through profit or loss of assets at the end of the reporting period	**0**

34. Guarantees and contingencies

EUR 1,000	2011	2010
Guarantees given on behalf of Group companies		
Enterprise mortgages	**41,394**	41,257
Pledges given	**59,019**	58,942
Other liabilities	**1,549**	912

Pledges given include pledged subsidiary shares amounting to EUR 54.7 million. The nominal or book value has been used as the value of liabilities.

Other rental agreements		
In one year	**7,160**	5,927
In over one year but within five years maximum	**17,543**	13,597
In over five years	**3,162**	3,957
Total	**27,865**	23,481
Financial institution loans in total	**42,249**	45,549

35. Insider events

The Group's insiders include the Board members, CEO and Senior Management Team.

Reward scheme

On December 16, 2010, the Board decided on a new long-term incentive and commitment scheme for the members of the Senior Management Team. During the financial period, Panostaja sold 623,561 of the company's own shares to the members of the Senior Management Team, and members of the Senior Management Team acquired a total of 950,000 Panostaja shares for their personal ownership or for the ownership of a company where they have a controlling interest. The maximum quantity held in such ownership as specified in the company's ownership system is the said 950,000.

The Management's share ownership within the incentive and commitment scheme is distributed as follows:

Pravia Oy (Juha Sarsama)	350,000 shares
Artaksan Oy (Simo Mustila)	200,000 shares
Heikki Nuutila	200,000 shares
Comito Oy (Tapio Tommila)	200,000 shares
Total	**950,000** shares

The members of the Senior Management Team financed their investments personally, in part, and through company loans, in part, and they bear the genuine corporate risk with respect to the investment they have made in the scheme. In order to enable the acquisition of the shares, and as part of the system, Panostaja's Board of Directors decided to grant an interest-bearing loan in the amount of EUR 1,250,000 maximum to the Senior Management Team members or to the companies where they have a controlling interest. To finance the acquisition, the management took out an interest-bearing loan in the amount of EUR 1,207,127.84.

Members of the Senior Management Team participating in the system during 2011–2015 may be granted a maximum of 237,500 Panostaja shares as a bonus, based on the achievement of set targets. A potential bonus may also be paid in cash to cover the taxes and tax-like payments arising from the bonus. Members of the Senior Management Team are obliged not to sell shares received as a bonus during a period of 27 months after receiving them. During the 2011 financial period, the company has not awarded shares as remuneration to the management.

Loans to insiders

EUR 1,000	2010
At the beginning of the period	0
Loans granted during the period	1,207
Loans repaid	-42
Interest charged	0
Interest payments received during the period	0
At the end of the period	1,165

The loan terms for key members of management are as follows:

Name	Amount of loan	Repayment terms	Interest
Pravia Oy (Juha Sarsama)	230	Full repayment at the end of the loan period	1,773
Pravia Oy (Juha Sarsama)	113	Full repayment at the end of the loan period	1,644
Artaksan Oy (Simo Mustila)	288	Full repayment at the end of the loan period	1,644
Heikki Nuutila	288	Full repayment at the end of the loan period	1,644
Comito Oy (Tapio Tommila)	209	Full repayment at the end of the loan period	1,644
Comito Oy (Tapio Tommila)	79	Full repayment at the end of the loan period	1,591
Total	**1,207**		

Collateral for the loans granted are the company's shares with a fair value of EUR 1.0 million on October 31, 2011.

Management's employee benefits

EUR 1,000	2011	2010
Salaries and other short-term employee benefits	**766**	621
Share-based benefits	**0**	17
Total	**766**	**638**
Salaries and compensation		
CEO	**183**	175
Board members		
Ala-Mello Jukka	**37**	27
Ketola Hannu	**5**	18
Martikainen Hannu	**20**	18
Tarkkonen Hannu	**20**	18
Satu Eskelinen	**20**	14
Eero Eriksson	**15**	0
Koskenkorva Mikko	**15**	0
Koskenkorva Matti	**9**	36

On January 27, 2011, Panostaja Oyj's Annual General Meeting decided on the payment of meeting compensation to the Board of Directors that approx. 40% of the compensation remitted to the Board members be paid on the basis of the share issue authorization given to the Board, by issuing company shares to each Board member if the member does not own more than one percent of the company's shares on the date of the Annual General Meeting.

If the holding of a Board member on the date of the Annual General Meeting is over one percent of all company shares, the compensation will be paid in full in monetary form. Furthermore, Panostaja Oyj's Board of Directors decided, in its organizing meeting held immediately after the Annual General Meeting, to implement the Annual General Meeting's decision on compensation to Board members such that the compensation is remitted four times a year, always on the date following the publication of the interim report/financial statements.

It has been agreed with the Managing Directors of some of the companies belonging to Panostaja Group that they may retire at 55–60 years of age if they so desire. The liability related to the right to early retirement will accrue and be recorded and paid by financial period. The retirement age of Panostaja Oyj's CEO is determined in accordance with the Employees Pensions Act.

36. Subsidiaries on October 31, 2011

Parent company and subsidiary relations within the Group	Registered office	Group's holding in %	Share of votes	Parent company's holding in %
Parent company				
Panostaja Oyj	Tampere			
Subsidiaries				
Annektor Oy	Lahti	100.0	100.0	100.0
Copynet Finland Oy	Vilnus	68.0	68.0	68.0
Digiprint Finland Oy	Jyväskylä	65.8	65.8	65.8
Eurotermo Holding Oy	Helsinki	63.3	63.3	63.3
Flexim Group Oy	Helsinki	70.0	70.0	70.0
Flexim Security Oy	Helsinki	70.0	70.0	70.0
Heatmasters Group Oy	Lahti	80.0	80.0	80.0
Heatmasters Oy	Lahti	80.0	80.0	80.0
Heatmasters Sp.zoo	Poland	80.0	80.0	80.0
Heatmasters Sweden Ab	Sweden	80.0	80.0	80.0
Hervannan Koneistus Oy	Tampere	65.1	65.1	65.1
Kannake Holding Oy	Tampere	100.0	100.0	100.0
Kannake Oy	Tampere	70.4	70.4	70.4
Kiinnikekeskus Services Oy	Tampere	90.0	90.0	90.0
KL-Parts Oy	Tampere	75.0	75.0	75.0
KL-Varaosat Oy	Tampere	75.0	75.0	75.0
Kopijyvä Oy	Jyväskylä	65.8	65.8	65.8
Lahden Lämpökäsittely Oy	Lahti	80.0	80.0	80.0
Lingoneer Oy	Tampere	51.0	51.0	51.0
Lämpö-Tukku Oy	Helsinki	63.3	63.3	63.3
Matti-Ovi Oy	Laitila	70.0	70.0	70.0
Microtieto Suomi Oy	Espoo	65.8	65.8	65.8
Oy Alfa-Kem Ab	Lahti	100.0	100.0	100.0
Suomen Helakeskus Oy	Seinäjoki	100.0	100.0	100.0
Suomen Helasto Oy	Seinäjoki	100.0	100.0	100.0
Suomen Kiinnikekeskus Oy	Tampere	90.0	90.0	90.0
Takoma Gears Oy	Parkano	65.1	65.1	65.1
Takoma Oyj	Tampere	65.1	65.1	65.1
Takoma Systems Oy	Tampere	65.1	65.1	65.1
Tampereen Laatukoneistus Oy	Tampere	65.1	65.1	65.1
Toimex Oy	Tampere	70.4	70.4	70.4
Vindea Oy	Hyvinkää	70.0	70.0	70.0
Vindea Group Oy	Hyvinkää	70.0	70.0	70.0

37. Judicial events

In the preliminary ruling on the capital repayment in respect of Takoma Oyj shares in spring 2008, the Tax Office for Major Corporations decided on the basis of an overall assessment that Panostaja was a capital investor within the meaning of Section 6, Subsection 1, Item 1 of the Finnish Business Tax Act. For capital investors, capital gains from fixed asset shares are considered taxable income.

Due to the said preliminary ruling, the Tax Office for Major Corporations, in its taxation by direct assessment in 2007, regarded Panostaja Oyj as a capital investor in the aforementioned sense and taxed the company's certain capital gains from fixed asset shares. Panostaja Oyj submitted a claim for adjustment over the 2007 taxation to the Board of Adjustment claiming that the capital gain from fixed asset shares should be exempt from tax. The Board of Adjustment denied Panostaja Oyj's claim in August 2009. Panostaja Oyj appealed the decision to the Administrative Court of Helsinki.

In June, Panostaja Oyj was informed that the Administrative Court of Helsinki had rejected the appeal. The Administrative Court considers Panostaja Oyj as a capital investor within the meaning of the Finnish Business Tax Act. Panostaja Oyj has applied to the Supreme Administrative Court for the right to appeal the decision.

38. Events after the balance sheet date

On November 9, 2011, Panostaja reported that Managing Director of Lämpö-Tukku, Jouko Tyrkkö, would immediately be relieved of his duties and that his employment contract would be terminated. On the same day, S. Martti Niemi M.Sc.(Econ.) was appointed Managing Director of Lämpö-Tukku. He is first assuming the position under a fixed-term contract.

In the same release on November 9, 2011, Panostaja reported that it was continuing the investigation of the reasons resulting in the inventory difference and would provide information about them in more detail if necessary.

Group’s key figures

	2011	2010	2009
Net sales, MEUR	**163.2**	137.9	120.1
Operating profit, MEUR	**5.9**	2.9	4.3
% of net sales	**3.6**	2.1	3.6
Profit for the financial period	**2.2**	-3.2	1.3
Return on equity (ROE), %	**5.0**	-7.0	2.6
Return on investment (ROI), %	**5.6**	-1.0	4.7
Equity ratio, %	**33.4**	31.3	37.9
Gearing ratio, %	[1] **99.6**	[1] 127.3	[1] 58.9
Current ratio	**1.39**	1.5	2.26
Gross capital expenditure, MEUR	**9.1**	15.7	23.0
% of net sales	**5.6**	11.2	19.2
Average number of Group personnel	**1 034**	967	790
Earnings per share (EPS), EUR, diluted	**0.02**	-0.06	0.02
Earnings per share (EPS), EUR, undiluted	**0.02**	-0.06	0.02
Equity per share, EUR	**0.65**	0.59	0.80
Capital repayment per share,	[2] **0.05**		
Dividend per share, EUR		0.05	0.12
Dividend per profit, %, diluted		-142.9	444.4
Dividend per profit, %, undiluted		-83.3	800
Effective dividend yield, %		3.4	8.6
Price/profit ratio		-24.3	92.7
Average number of shares during financial period, 1,000	**50.128**	46.127	46.324
Number of shares at end of financial period, 1,000	**51.733**	47.403	47.403
Weighted average of number of shares adjusted by issue during financial period, 1,000	**60.258**	56.252	56.449
Share closing price for financial period, EUR	**1.06**	1.46	1.39
Lowest share price, EUR	**0.97**	1.32	0.89
Highest share price, EUR	**1.51**	1.75	1.40
Average share price during financial period, EUR	**1.23**	1.45	1.19
Market value of share capital, MEUR	**54.8**	69.2	65.9
Shares exchanged, 1,000 pcs	**3,841**	5,302	8,108
Shares exchanged, %	**7.7**	11.2	17.5

[1] Liabilities include convertible subordinated loan
[2] Board’s proposal

Notes to the consolidated financial statements

Return on investment, % (ROI)	=	Profit before extraordinary items + financial expenses + profit/loss from discontinued operations x 100 / Balance sheet total - non-interest-bearing liabilities (average during financial period)
Return on equity, % (ROE)	=	Profit/loss for financial period x 100 / Equity (average during financial period)
Equity ratio, %	=	Equity x 100 / Balance sheet total - advances received
Interest-bearing net liabilities	=	Interest-bearing liabilities - financial assets
Gearing ratio, %	=	Interest-bearing net liabilities / Equity
Equity per share	=	Equity attributable to parent company shareholders / Adjusted number of shares on balance sheet date
Earnings per share (EPS)	=	Profit/loss for financial period attributable to parent company shareholders / Average adjusted number of shares during financial period
Current Ratio	=	Current assets / Current liabilities
Dividend per share	=	Dividend paid during financial period / Adjusted number of shares on balance sheet date
Dividend per profit, %	=	Dividend per share x 100 / Earnings per share (EPS)
Effective dividend yield, %	=	Dividend per share / Share price on balance sheet date
Price per earnings (P/E)	=	Share price on balance sheet date / Earnings per share

Parent company income statement

EUR 1,000	1 Nov.10– 31 Oct. 11	1 Nov. 09– 31 Oct. 10
NET SALES	**57**	55
Other operating income	**152**	291
Staff expenses	**1,086**	875
Depreciations, amortizations and impairment	**3,597**	1,080
Other operating expenses	**2,383**	980
OPERATING PROFIT/LOSS	**-6,857**	-2,589
Financial yields and expenses	**671**	968
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS	**-6,186**	-1,621
Extraordinary items	**-731**	-487
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES	**-6,917**	-2,108
Appropriations	**4**	-7
Taxes on income	**-2**	0
PROFIT/LOSS FOR THE FINANCIAL PERIOD	**-6,915**	-2,115

Parent company balance sheet

Assets

EUR 1,000	31 Oct. 2011	31 Oct. 2010
PERMANENT ASSETS		
Intangible assets	**120**	139
Tangible assets	**103**	162
Investments	**33,120**	33,858
PERMANENT ASSETS TOTAL	**33,343**	34,160
CURRENT ASSETS		
Non-current receivables	**15,963**	19,357
Current receivables	**2,288**	1,755
Short-term investments	**0**	0
Cash and cash in bank	**7,181**	1,368
CURRENT ASSETS TOTAL	**25,432**	22,479
ASSETS IN TOTAL	**58,776**	56,639

Equity and liabilities

EUR 1,000	31 Oct. 2011	31 Oct. 2010
EQUITY		
Share capital	**5,569**	5,529
Share premium account	**4,691**	4,691
Invested unrestricted equity fund	**22,261**	15,243
Retained earnings/loss	**10,258**	14,929
Profit/loss for the financial period	**-6,915**	-2,115
EQUITY TOTAL	35,864	38,277
ACCUMULATED APPROPRIATIONS	16	19
LIABILITIES		
Non-current liabilities	15,878	17,255
Current liabilities	7,017	1,089
LIABILITIES TOTAL	22,895	18,344
EQUITY AND LIABILITIES TOTAL	58,776	56,639

Parent company financial statements

EUR 1,000	1 Nov.10– 31 Oct. 11	1 Nov.09– 31 Oct. 10
OPERATING CASH FLOW		
Profit/loss for the financial period	**-6,915**	-2,115
Adjustments:	**4,175**	505
Planned amortizations	**76**	80
Write-downs	**3,521**	1,000
Sales profit	**-37**	-103
Sales losses	**557**	2
Financial yields and expenses	**-671**	-968
Appropriations total	**-4**	7
Taxes	**2**	0
Minority interest	**0**	0
Result of associated company	**0**	0
Extraordinary income and expenses	**731**	487
CHANGES		
Change in trade receivables	**-1,799**	517
Change in inventories	**0**	0
Change in trade payables	**73**	-129
Change in provisions	**0**	0
Interests and other financial expenses	**-1,163**	-1,139
Interest and other financial income	**1,377**	1,167
Other financial income	**0**	0
Taxes paid	**-2**	-5
Cash flow before extraordinary items	**-4,252**	-1,200
OPERATING CASH FLOW	**-4,252**	-1,200
INVESTMENT CASH FLOW		
Invest. in tang. and intang. assets	**-23**	-180
Investments in business	**0**	0
Investments in subsidiaries	**-637**	-92
Investments in associated companies	**0**	0
Investments in others	**0**	-5
Proceeds from sale of tang. and intang. assets	**62**	41
Divestments business transactions	**0**	0
Capital yield from the sale of subsidiaries	**314**	0
Capita yield from the sale of associated companies	**0**	0
Capital yield from the sale of other shares	**0**	108
Net change in internal receivables	**3,651**	1,394
Loans granted	**-1,262**	0
Loans receivable repaid	**43**	0
Dividends received	**635**	1,089
Change in other investments	**-408**	0
INVESTMENT CASH FLOW	**2,375**	2,356

EUR 1,000	1 Nov.10– 31 Oct. 11	1 Nov.09– 31 Oct. 10
FINANCING CASH FLOW		
Share issue	**6,116**	0
Acquisition and disposal of own shares	**942**	38
Extraordinary income and expenses	**0**	16
Change in current interest-bearing receivables	**-983**	-800
Change in current interest-bearing liabilities	**-25**	-3,083
Loans drawn	**15,000**	0
Loans repaid	**-11,581**	0
Change in non-current internal loans	**732**	39
Dividends paid	**-2,546**	-5,512
Other financial cash flow		
FINANCING CASH FLOW		
CHANGE IN CASH AND CASH EQUIVALENTS	**5,813**	-8,146
Cash and cash equivalents at start of financial period	**1,368**	9,514
CHANGE IN CASH AND CASH EQUIVALENTS	**5,813**	-8,146
Cash and cash equivalents at end of financial period	**7,181**	1,368

Notes to the financial statements

October 31, 2011

Comparability of figures

The figures from this and the previous financial period are comparable.

Valuation principles

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

Pensions

The statutory pension insurance for staff has been taken care of at an external pension insurance company. Pensions costs are entered as a cost in the year of accrual.

Depreciations

Planned amortizations from permanent assets are calculated based on probable useful life from the original purchase price.

Planned amortization periods are:	
Intangible rights	3 yrs.
Goodwill	5–10 yrs.
Other capitalized long-term expenditure	5-10 yrs.
Buildings	20-40 yrs.
Machinery and equipment	3-10 yrs.
Other tangible goods	3-10 yrs.

Notes to the income statement EUR 1,000

Net sales	2011	2010
Administrative charges from Group companies	**57**	55

Other operating income	2011	2010
Proceeds from sale of fixed assets	**37**	103
Other	**115**	188
	152	291

Staff expenses	2011	2010
Salaries and bonuses	**910**	746
Pension costs	**143**	97
Other indirect staff expenses	**32**	32
	1,086	875
During the financial period, the company employed on average		
Clerical staff	**10**	10

Depreciations, amortizations and impairment	2011	2010
Planned amortization periods		
Intangible rights	**4**	3
Other capitalized long-term expenditure	**38**	38
Machinery and equipment	**34**	38
Amortizations	**3,521**	1,000
	3,597	1,080

Other operating expenses	2011	2010
Other operating expenses, internal	**14**	7
Other operating expenses	**1,160**	442
Marketing costs	**136**	145
Data management costs	**89**	75
Costs for expert services	**341**	232
Losses from sale of fixed assets	**0**	2
Loss from the sale of fixed asset shares	**557**	0
Rental costs	**86**	77
Other business expenses total	**2,383**	980
Auditor's fees		
auditing fees	**20**	17
auxiliary services	**21**	20
	41	37

Financial yields and costs	2011	2010
Dividend yields		
From companies in the same Group	**635**	969
From others	**173**	8
Dividend yields total	**808**	977
Other interest earned and financial yields		
From companies in the same Group	**997**	1,031
From others	**235**	99
Interest earned total	**1,002**	907
Other interest earned and financial yields total	**1,231**	1,130
Interest earned from long-term investments and other interest earned total	**1,231**	1,130
Short-term investment amortizations	**0**	0
Interest costs and other financial expenses		
For companies in the same Group	**46**	0
For others	**1,322**	1,139
Interest costs total	**1,327**	1,119
Interest costs and other financial expenses total	**1,368**	1,139
Financial yields and costs total	**671**	968

Extraordinary items		
Extraordinary income/Group allowance	**0**	0
Extraordinary costs/accords	**686**	0
Extraordinary costs/loss from mergers	**45**	487
	731	487

Appropriations		
Difference between planned and taxed depreciations	**4**	-7

Taxes on income		
Income taxes from financial period	**0**	0
Income taxes from previous financial period	**-2**	0
	-2	0

Notes to the balance sheet EUR 1,000

Intangible assets	2011	2010
Intangible rights		
Acquisition cost Nov. 1	**18**	18
Additions Nov. 1–Oct. 31	**28**	5
Deductions Nov. 1–Oct. 31	**0**	0
Acquisition cost Oct. 31	**46**	23
Accumulated planned amortizations Nov. 1	**-13**	-10
Planned amortizations Nov. 1–Oct. 31	**-4**	-3
Book value Oct. 31	**29**	10
Other capitalized long-term expenditure		
Acquisition cost Nov. 1	**259**	241
Additions Nov. 1–Oct. 31	**0**	18
Deductions Nov. 1–Oct. 31	**0**	0
Acquisition cost Oct. 31	**259**	259
Accumulated planned amortizations Nov. 1	**-130**	-91
Planned amortizations Nov. 1–Oct. 31	**-38**	-38
Book value Nov. 31	**91**	130
Intangible assets total		
Acquisition cost Nov. 1	**277**	258
Additions Nov. 1–Oct. 31	**28**	23
Deductions Nov. 1–Oct. 31	**0**	0
Acquisition cost Oct. 31	**305**	282
Accumulated planned amortizations Nov. 1	**-143**	-101
Planned amortizations Nov. 1–Oct. 31	**-42**	-41
Book value Oct. 31	**120**	139

Tangible assets	2011	2010
Machinery and equipment		
Acquisition cost Nov. 1	**599**	481
Additions Nov. 1–Oct. 31	**0**	161
Deductions Nov. 1–Oct. 31	**-25**	-43
Acquisition cost Oct. 31	**574**	599
Accumulated planned amortizations Nov. 1	**-437**	-398
Planned amortizations Nov. 1–Oct. 31	**-34**	-38
Book value Nov. 31	**103**	162
Accumulated difference between total and planned amortizations Nov. 1	**19**	12
Increase in depreciation difference Nov. 1–Oct. 31	**0**	7
Decrease in depreciation difference Nov. 1–Oct. 31	**-4**	0
Accumulated difference between total and planned amortizations Oct. 31	**16**	19
Tangible goods total		
Acquisition cost Nov. 1	**599**	481
Additions Nov. 1–Oct. 31	**0**	161
Deductions Nov. 1–Oct. 31	**-25**	-43
Acquisition cost Oct. 31	**574**	599
Accumulated planned amortizations Nov. 1	**-437**	-398
Planned amortizations Nov. 1–Oct. 31	**-34**	-38
Book value Oct. 31	**103**	162

Investments	2011	2010
Holdings in companies in the same Group		
Acquisition cost Nov. 1	**30,601**	31,500
Additions Nov. 1–Oct. 31	**1,130**	103
Deductions Nov. 1–Oct. 31	**-2,939**	-1,003
Acquisition cost Oct. 31	**28,792**	30,601
Holdings in associated companies		
Acquisition cost Nov. 1	**3,250**	3,250
Additions Nov. 1–Oct. 31	**3,722**	0
Deductions Nov. 1–Oct. 31	**-3,521**	0
Acquisition cost Oct. 31	**3,451**	3,250
Other shares and holdings		
Acquisition cost Nov. 1	**8**	24
Additions Nov. 1–Oct. 31	**0**	5
Deductions Nov. 1–Oct. 31	**0**	-21
Acquisition cost Oct. 31	**8**	8
Other investments		
Acquisition cost Nov. 1	**0**	0
Additions Nov. 1–Oct. 31	**869**	0
Deductions Nov. 1–Oct. 31	**0**	0
Acquisition cost Oct. 31	**869**	0
Investments total		
Acquisition cost Nov. 1	**33,858**	34,774
Additions Nov. 1–Oct. 31	**5,722**	108
Deductions Nov. 1–Oct. 31	**-6,460**	-1,023
Acquisition cost Oct. 31	**33,120**	33,858

Non-current receivables	2011	2010
Subordinated loans receivable from companies in the same Group	**4,090**	7,113
Subordinated loans receivable from associated companies	**2,261**	0
Loans receivable from companies in the same Group	**4,892**	8,744
Loans receivable	**1,220**	0
Other receivables	**3,500**	3,500
	15,963	19,357

Current receivables	2011	2010
Trade receivables from companies in the same Group	**391**	925
Trade receivables	**13**	0
Loans receivable from companies in the same Group	**1,783**	800
Other receivables	**34**	4
Dividend receivables from companies in the same Group	**0**	0
Interest receivables from companies in the same Group	**21**	17
Accrued income	**46**	9
	2,288	1,755

Accrued income, essential items		
Interest receivables from insider loans	**14**	
Interest receivables from Sampo deposit	**8**	
Advance payments	**1**	9
Accrued costs	**9**	
Accounts of expenses for further invoicing	**13**	
Other	**0**	
	46	9

Short-term investments		
Short-term investments entered/valued at the rate of the balance sheet date.	**0**	0

Equity

	2011	2010
Share capital November 1	**5,529**	5,529
Share capital increase and share issue	**40**	0
Share capital October 31	**5,569**	5,529
Share premium account November 1 = October 31	**4,691**	4,691
Invested unrestricted equity fund November 1	**15,243**	15,205
Share capital increase and share issue	**6,076**	0
Acquisition/disposal of own shares	**896**	0
Board bonuses as own shares	**46**	38
Capital repayment	**0**	0
Invested unrestricted equity fund October 31	**22,261**	15,243
Retained earnings/loss November 1	**12,813**	20,463
Dividends paid	**-2,555**	-5,534
Retained earnings/loss October 31	**10,258**	14,929
Profit/loss for the financial period	**-6,915**	-2,115
Equity total	**35,864**	38,277
Distributable unrestricted equity October 31	**25,604**	28,056
Accumulated appropriations		
Accumulated appropriations comprises the accumulated depreciation difference.	**16**	19

Liabilities

	2011	2010
Non-current liabilities		
Convertible subordinated loan 2006	**0**	17,213
Convertible subordinated loan 2011	**15,000**	0
Other non-current liabilities	**3**	3
	15,003	17,216

	2011	2010
Liabilities owed to companies in the same Group		
Other liabilities	**875**	39
	875	39
Non-current liabilities total	**15,878**	17,255

Current liabilities		
Loans from financial institutions	**0**	0
Convertible subordinated loan 2006	**5,631**	0
Trade payables	**105**	51
Other liabilities	**181**	169
Accruals and deferred income	**1,054**	844
	6,971	1,064
Liabilities owed to companies in the same Group		
Trade payables	**47**	0
Other liabilities	**0**	25
	47	25
Essential items included in accruals and deferred income		
Annual holiday salaries and social security costs	**72**	77
Salaries and social security costs	**0**	5
Accrued pension insurance payments	**12**	13
Accrued interest	**955**	748
Accrued interest, internal	**0**	0
Other items	**14**	1
	1,054	844
Current liabilities total	**7 017**	1 089

Other notes

EUR 1,000	2011	2010
Guarantees and contingencies		
On behalf of Group companies		
Guarantees given	**16,171**	17,486
On behalf of associated companies		
Guarantees given	**575**	0
Rental liabilities		
Within one year	**1**	2
In more than one and within 5 years	**0**	1
In over five years	**0**	0

Convertible subordinated loan 2006
Loan am**ount remaining EUR 5,631,000.**
Loan period is January 15, 2007–March 1, 2012. The loan will be repaid in one installment on March 1, 2012, provided that the repayment requirements determined in the loan terms are met.

Convertible subordinated loan 2011
Loan amount remaining EUR 15,000,000.
Loan period is February 7, 2011–April 1, 2016. The loan will be repaid in one installment on April 1, 2016, provided that the repayment requirements determined in the load terms are met.

Proposal by the Board of the Parent Company about the processing of the result and distribution of profits of the financial period

Panostaja Oyj's distributable assets, including the loss for the financial period of EUR 6,914,708.09 and EUR 22,260,954.89 in the invested unrestricted equity fund, amount to EUR 25,604,284.04.

The Board proposes to the Annual General Meeting that the loss for the financial period be transferred to the accrued earnings account and that dividends be not paid.

The Board also proposes to the Annual General Meeting that EUR 0.05 per share be paid as capital repayment from the invested unrestricted equity fund. The capital repayment will be made to those shareholders who on the record date of the repayment, February 3, 2012, are recorded in the company's shareholder list maintained by Euroclear Finland Oy. The Board of Directors proposes that the capital repayment be made on February 10, 2012.

The Board also proposes that the Annual General Meeting authorize the Board of Directors to decide, at its discretion, on the potential distribution of assets to shareholders, should the company's financial status permit this, either as dividends from profit funds or as distribution of assets from the invested unrestricted equity fund. The maximum distribution of assets totals no more than EUR 5,200,000.

It is proposed that the authorization include the right of the Board to decide on all other terms and conditions relating to the said asset distribution.

It is also proposed that the authorization remain valid until the next Annual General Meeting.

The Board has estimated that the capital repayment will not endanger the Company's solvency.

Tampere, December 14, 2011

Jukka Ala-Mello Chairman of the Board	Mikko Koskenkorva
Eero Eriksson	Hannu Tarkkonen
Hannu Martikainen	Satu Eskelinen
Juha Sarsama CEO	

Audit report
To Panostaja Oyj's Annual Meeting

We have audited the accounting, financial statements, annual report and management for the financial year November 1, 2010–October 31, 2011. The financial statements include the Group's balance sheet, income statement, extensive income statement, statement concerning changes in equity, cash flow statement and notes as well as the parent company's balance sheet, income statement, financial statement and notes.

Liability of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation of the financial statements and annual report and for ensuring that the consolidated financial statements provide correct and sufficient information in accordance with the International Financial Reporting Standards (IFRS) approved for use in the European Union, and that the financial statements and annual report provide correct and sufficient information in accordance with the regulations that are valid in Finland with regard to the preparation of the financial statements and annual report. The Board of Directors is responsible for the appropriate organization of accounting and the management of assets, and the CEO for ensuring that accounting is compliant with the law and that the management of assets is arranged in a reliable manner.

Duties of the auditor

It is our duty to provide, on the basis of the audit we have performed, a report on the financial statements, consolidated financial statements and annual report. The Auditing Act requires that we observe the principles of professional ethics. We have performed this audit report in accordance with the good auditing practice enforced in Finland. Good auditing practice requires that, in planning and carrying out the audit, we acquire reasonable certainty as to whether or not there is any fundamental inaccuracy in the financial statements or annual report as well as whether or not the members of the parent company's Board of Directors or CEO are guilty of an act of intent or negligence from which either liability for damages could follow towards the company or a violation of the Companies Act or the articles of association.

The audit comprises measures for the acquisition of auditing evidence on the figures included in the financial statements and annual report as well as other information presented therein. The choice of procedures is based on the discretion of the auditor, to whom the assessment of misuse or the risks of fundamental inaccuracy due to error belongs. In assessing these risks, the auditor takes into consideration internal supervision important within the company from the perspective of the financial statements and annual report that provide accurate and sufficient information. The auditor evaluates internal supervision in order to design the appropriate auditing measures with regard to the circumstances, but not for the purpose that he would issue a declaration on the effectiveness of the company's internal supervision. The evaluation of the appropriateness of the applied formulation principles behind the financial statements is also part of the audit, as well as the temperance of the evaluations of accounting assessments performed by the acting management, and evaluation of the method of general presentation employed in the financial statements and annual report.

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

Report on consolidated financial statements

As our report, we submit that the consolidated financial statements provide accurate and sufficient information in accordance with the International Financial Reporting Standards (IFRS) approved for use in the European Union, with regard to the Group's financial position as well as the results of its operations and its cash flows.

Report on the financial statements and annual report

As our report, we submit that the financial statements and annual report provide accurate and sufficient information in accordance with the regulations concerning the preparation of financial statements and annual reports in effect in Finland on the operational result and financial position of both the Group and the parent company. The information in the annual report and financial statements is consistent and non-contradictory.

Tampere, December 14, 2011

PricewaterhouseCoopers Oy
Authorized Public Accountants

Janne Rajalahti	Eero Suomela
Authorized Public Accountant	Authorized Public Accountant

Information on shares

Share capital and shares

At the close of the period under review, Panostaja Oyj's share capital was EUR 5,568,681.60. The number of shares issued at the end of the period was 51,733,110. According to the shareholder list of October 31, 2011, the company has 3,826 (4,050) shareholders.

The company's shares have been publicly quoted since 1989. At present, they are quoted on the NASDAQ OMX in Helsinki.

The total number of shares held by the company at the end of the review period was 601,875 individual shares (at the beginning of review period: 1,262,504). The company's own shares corresponded to 1.2% of the number of shares and votes at the end of the entire review period. The company shares owned by the company's Board of Directors and the CEO total 3,551,960. This represents 6.9% of the total number of shares.

In accordance with the decisions by the General Meeting on January 27, 2010 and by the Board, Panostaja Oyj relinquished a total of 6,777 individual shares as meeting compensation to the members of the Board on December 17, 2010. As per the decisions of the General Meeting on January 27, 2011 and by the Board, a total of 9,373 shares were issued on March 10, 2011, followed by a total of 9,913 shares on June 9, 2011, and a total of 11,005 shares on September 8, 2011.

In total, 330,000 new share subscriptions were approved by the Board on December 15, 2010. They are based on the option rights given to the company management in 2006. The share subscriptions were made with the A options of the 2006 option scheme. The new shares were registered in the Trade Register on December 23, 2010. Of the share subscription price, EUR 0.12 was registered in the share capital, in accordance with the terms and conditions of the option scheme, and the remaining part in the invested unrestricted equity fund.

On December 16, 2010, the Board of Directors decided, by virtue of the authorization given at the Annual General Meeting on December 18, 2007, on an issue of shares in which the company offered, deviating from the shareholders' pre-emptive right to subscription, a maximum of 4,000,000 new company shares for registration by domestic institutional investors. On December 21, 2010, the Board approved the subscriptions made during the issue of shares. The issue of shares subscription price was EUR 1.45 per share, and the overall yield of the share issue before sales commissions and costs was EUR 5,800,000. The new shares were registered in the Trade Register on January 11, 2011.

As a result of the subscriptions rendered with the issue of shares and A options of the 2006 option scheme, the total number of company shares rose by 4,330,000 shares.

The Annual General Meeting of January 27, 2011 authorized the Board of Directors to decide on the acquisition of the company's own shares to the extent that the company's own shares are acquired in one or several installments and, on the basis of the authorization, not exceeding the total number of 4,700,000. By virtue of the authorization, the company's own shares may be obtained using unrestricted equity only. The Board of Directors has not used the authorization granted by the Annual Meeting to acquire its own shares during the review period.

During the period under review, Panostaja Oyj received four notifications pursuant to Chapter 2, Section 9 of the Securities Markets Act concerning changes to holding in a company.

On December 16, 2010, Panostaja Oyj announced the buyback of the 2006 convertible subordinated loan and the issue of a new 2011 convertible subordinated loan. On December 16, 2010, Panostaja Oyj received an announcement from Etera Mutual Pension Insurance Company, since Etera's potential future holding in Panostaja Oyj shall be, in total, 3,318,182 shares and votes if Etera Mutual Pension Insurance Company uses the rights of exchange to Panostaja's 2011 convertible subordinated loan in full. This holding is under 10% of Panostaja Oyj's share capital and number of votes. The holding corresponded to 6.74% of Panostaja Oyj's post-exchange number of shares and votes, taking into consideration the shares issued by the date of the announcement.

Furthermore, on December 21, 2010, Panostaja Oyj received an announcement from Etera Mutual Pension Insurance Company, since Etera Mutual Pension Insurance Company's potential future holding in Panostaja Oyj shall be, in total, 6,077,182 shares and votes if Etera Mutual Pension Insurance Company uses the rights of exchange to Panostaja's 2011 convertible subordinated loan in full. This holding exceeds 10% of Panostaja Oyj's share capital and number of votes. The holding is equivalent to 11.42% of the number of Panostaja Oyj's post-exchange shares and votes, taking into consideration the shares issued by the date of the announcement.

As a result of the option subscription, on December 23, 2010 the company received Mauno Koskenkorva's announcement on the change in the shareholding. Mauno Koskenkorva's share of Panostaja Oyj's total number of shares and votes was below 5%. Mauno Koskenkorva's share totaled 2,375,173 shares. The holding corresponded to 4.98% of Panostaja Oyj's post-exchange number of shares and votes, taking into consideration the shares issued by the date of the announcement.

As a result of the subscription of the issue of shares, the company received Maija Koskenkorva's announcement on January 11, 2011. Maija Koskenkorva's share of Panostaja Oyj's total number of shares and votes was below 10%. Maija Koskenkorva's share was 5,071,742 shares, which represents 9.80% of Panostaja Oyj's share capital and number of votes.

Share price development and share ownership

Panostaja Oyj's share price fluctuated between EUR 0.97 and EUR 1.51 during the period under review. In the period under review, the exchange of shares totaled 3,841,477 individual shares, which represents 7.7% of the share capital. The share closing rate at the end of the period was EUR 1.06. The market value of the company's share capital at the end of the period was MEUR 54.8.

On December 16, 2010, the Board decided on a new long-term incentive and commitment scheme for the members of the Senior Management Team. During the review period, Panostaja sold 623,561 of its own shares to the members of the Senior Management Team, and the latter acquired a total of 950,000 Panostaja shares, specified as the maximum quantity in the company's ownership system, for personal ownership or for the ownership by a company where they have a controlling interest.

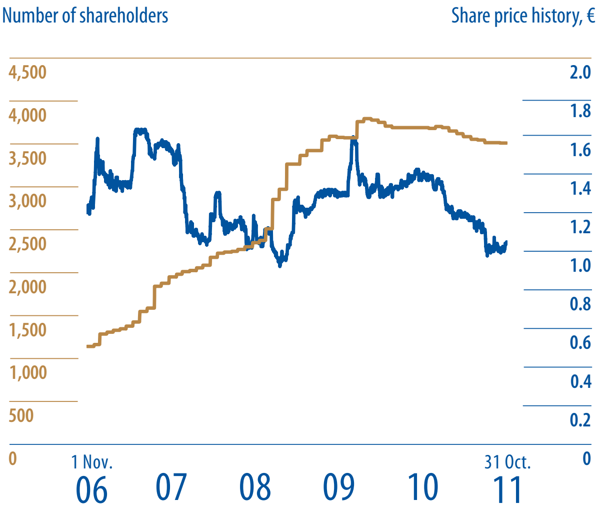
The Management's share ownership within the incentive and commitment-building scheme is distributed as follows:

Pravia Oy (Juha Sarsama)	350,000 shares
Artaksan Oy (Simo Mustila)	200,000 shares
Heikki Nuutila	200,000 shares
Comito Oy (Tapio Tommila)	200,000 shares
Total	950,000 shares

The members of the Senior Management Team have financed their investments themselves, in part, and through company loans, in part, and they bear the genuine corporate risk with respect to the investment they have made in the scheme. In order to enable the acquisition of the shares, and as part of the scheme, Panostaja's Board of Directors decided to grant an interest-bearing loan in the amount of EUR 1,250,000 maximum to the Senior Management Team members or to the companies where they have a controlling interest. To finance the acquisition, management has taken out an interest-bearing loan in the amount of EUR 1,207,127.84.

The members of the Senior Management Team participating in the scheme during 2011–2015 may be granted a maximum of 237,500 Panostaja shares as a bonus, based on the achievement of set targets. A potential bonus may also be paid in cash to cover the taxes and tax-like payments arising from the bonus. Members of the Senior Management Team are obliged not to sell shares received as a bonus during a period of 27 months after receiving them.

Share price history and number of shareholders



Share trade and rates

	Lowest, €	Highest, €	Share issue adjusted trading (no. of shares)	% of shares
2011	**0.97**	**1.51**	**3,841,477**	**7.7**
2010	1.32	1.75	5,301,507	11.2
2009	0.89	1.40	8,108,040	17.5

	A-share				***B-share***			
	Lowest, €	Highest, €	Share issue adjusted trading (no, of shares)	% of shares	Lowest, €	Highest, €	Share issue adjusted trading (no. of shares)	% of shares
2008	1.02	1.75	1,230,729	2.7	1.00	1.73	4,185,846	9.4
2007	1.21	1.83	1,646,454	9.5	1.20	1.79	4,317,106	23.3
2006	0.94	1.24	507,956	2.9	0.92	1.20	999,167	8.7
2005	0.59	1.06	1,353,791	7.8	0.65	1.09	949,059	9.3
2004	0.35	0.85	2,410,488	13.4	0.37	0.76	2,213,432	23.7

Largest shareholders

20 Largest Shareholders October 31, 2011

		Number of shares	% of shares
1	Koskenkorva Matti	6,561,873	12.68%
2	Koskenkorva Maija	5,071,742	9.80%
3	Etera Mutual Pension Insurance Company	4,259,000	8.23%
4	Fennia Mutual Insurance Company	3,468,576	6.70%
5	Koskenkorva Mauno	2,256,173	4.36%
6	Koskenkorva Mikko	1,245,139	2.41%
7	Johtopanostus Oy	1,030,000	1.99%
8	Tampereen Seudun Osuuspankki	985,334	1.90%
9	Malo Hanna	982,207	1.90%
10	Kumpu Minna	982,170	1.90%
11	Koskenkorva Karri	964,805	1.86%
12	Porkka Harri	954,000	1.84%
13	Haajanen Taru	940,917	1.82%
14	Koskenkorva Helena	918,101	1.77%
15	Leino Satu	831,653	1.61%
16	Mutal Insurance Company Tapiola	714,000	1.38%
17	Panostaja Oyj	601,875	1.16%
18	Koskenkorva Pekka	533,502	1.03%
19	Alfred Berg Small Cap Finland Investment Fund	422,309	0.82%
20	Pravia Oy	420,000	0.81%
		34,143,376	66.00%
Other shareholders		17,589,734	34.00%
Total		51,733,110	100.00%

Distribution of share ownership by size October 31, 2011

	Owners		Shares/votes	
Number of shares	pcs	%	pcs	%
1–1,000	1 979	51.73	1 009 379	1.95
1,001–10,000	1 573	41.11	5 190 955	10.03
10,001–100,000	231	6.04	5 920 184	11.44
100,001–1,000,000	36	0.94	15 522 934	30.01
1,000,001–	7	0.18	23 892 503	46.19
Total	3 826	100.00	51 535 955	99.62
of which nominee-registered	6	14 893	0.03	
In joint account	197 155	0.38		
Number of shares issued	51 733 110	100.00		

Distribution of share ownership by sector October 31, 2011

	Owners		Shares/votes	
Sector class	pcs	%	pcs	%
Enterprises	152	3.97	4 142 599	8.01
Financial and insurance institutions	12	0.31	6 013 243	11.62
Public corporations	1	0.03	4 259 000	8.23
Private households	3638	95.09	36 805 863	71.15
Non-profit-making organizations	11	0.29	278 168	0.54
Foreign	12	0.31	22 189	0.04
Total	3826	100.00	51 521 062	99.5
of which nominee-registered	6		14 893	0.03
In joint account			197 155	0.38
Number of shares issued			51 733 110	100.00

Panostaja Oyj

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