

TAALERITEHDAS

Taaleritehdas Plc

Consolidated Financial Statements 1 January – 31 December 2013

Summary

TAALERITEHDAS GROUP 1 January – 31 December 2013

The Group's turnover during the financial period totalled EUR 27.5 million, representing growth of 35.7% (1–12/2012: EUR 20.3 million).

The Group's operating profit amounted to EUR 4.5 million, representing growth of 37.9% (EUR 3.3 million).

Managed wealth totalled EUR 2.8 billion at the end of December, representing growth of 16.7% (EUR 2.4 billion on 31 December 2012).

The Group's equity ratio was 80.5% (66.0%).

Wealth Management continued its stable development.

The development of private equity funds continued at a good level. The first co-investment focusing on corporate business was made in Matti-Ovi. Taaleritehdas has a total of 12 private equity funds.

The Lainaamo business started as planned. The loan portfolio at the end of the year totalled EUR 4.8 million,

Taaleritehdas' liquidity and capital adequacy position are strong.

TAALERITEHDAS IN BRIEF

Taaleritehdas in brief

Taaleritehdas is an investment company listed on the First North Finland marketplace on the Helsinki Stock Exchange maintained by NASDAQ OMX Helsinki. Taaleritehdas focuses on comprehensive private banker services for private individuals and wealth management for institutional clients. Our mission at Taaleritehdas is to promote the functioning of the Finnish capital market together with our clients. We wish to enable the active participation of affluent Finnish residents and those who are becoming affluent in the development of the capital market and make ownership a value and a source of pride. Our wealth management and investment operations are based on cost-efficiency, transparency and insightful portfolio management.

Taaleritehdas Group consists of the parent company Taaleritehdas Oyj and four operational subsidiaries: Taaleritehdas Wealth Management Ltd, Taaleritehdas private equity funds company Taaleritehtaan Pääomarahastot Oy, Taaleritehdas' funding company Lainaamo Oy and Taaleritehdas' investment company Taaleritehtaan Sijoitustehdas Oy. Taaleritehdas Fund Management Ltd, which manages Taaleritehdas' investment funds, is a wholly-owned subsidiary of Taaleritehdas Wealth Management Ltd. In addition, Taaleritehdas partly owns Kultataaleri Oy offering physical gold and Vakuutusvahti Oy offering competitive bidding for corporate insurance policies. Taaleritehtaan Holvi Oy provides Taaleritehdas' clients with tax and legal consultancy as part of comprehensive wealth management. Taaleritehdas has also started gradual internationalisation by offering wealth management services in Turkey. The Taaleritehdas group employs more than 130 people. Its offices are located in Helsinki, Tampere, Turku, Pori, Oulu, Istanbul and Nairobi. Taaleritehdas is an entrepreneur-driven growth company. Taaleritehdas managed wealth worth EUR 2.8 billion and had 2,500 wealth management clients at the end of December 2013.

Further information on Taaleritehdas Group is available on its website at taaleritehdas.fi.

REVIEW BY CEO JUHANI ELOMAA

Taaleritehdas is a Journey.

The task of Taaleritehdas is to operate actively together with its clients, looking for investment opportunities in capital markets aiming at growing wealth. Taaleritehdas provides more than asset management, which is why we define Taaleritehdas to be an investment company.

As an investment company, we provide security-based investment services, invest ourselves and invest together with our clients. Our mission is to promote Finnish ownership.

2013 was an exceptionally important year on the journey of Taaleritehdas. In 2013, we created the basis for building the company's future growth. The most important event was the share issue directed towards our clients and listing on the First North marketplace maintained by the Helsinki Stock Exchange. For a growth company, it is important to keep growing, and in 2013 our turnover grew by 35.7% and our financial results improved in the same proportion. The Group structure achieved last year corresponds to the company's longer-term strategic objectives. Wealth management operations continued their stable growth, and the operations of the funding company Lainaamo started as planned.

Taaleritehdas' starting points for developing its business are good, and the opportunities for engaging in new kinds of investment company operations together with our clients are at an exceptionally interesting stage. Finland needs ownership. Our entire business operations are based on serving our clients, and I wish to separately thank our clients for the confidence they have shown in our company and for the various ideas we have received from our clients and various stakeholders. In addition, I wish to thank all of our employees, the around 130 people who have contributed to Taaleritehdas' journey together with our clients, for the industrious previous year. Our work has meaning, thank you.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 1 January 2013 – 31 December 2013

Operating environment

Growth in the world economy accelerated at the end of 2013, and we also expect growth to continue at a relatively brisk pace this and next year. Economic growth is largely driven by the private sector in the United States. In the Eurozone, economic growth may hold a positive surprise this year via the implementation of bottled-up investments and growth in consumption. In developing countries, economic development is dual. Many countries that have exceeded their disposable funds are now descending into recession, whereas in the developing Asia, economic growth is to a large extent continuing.

The reduction in the government bond-buying programme by the United States Federal Reserve System has already increased long-term interest rates and decreased global liquidity. This is now seen in developing markets and particularly in countries that have spent more than their disposable funds and which now have large current account deficits.

Growth will be weak in Finland, but Taaleritehdas believes that, in its pioneering role, it will be able to open and expand new client relationships and investment opportunities. This view is supported by, for example, the strong growth in the assets managed by Taaleritehdas' investment funds.

Taaleritehdas' business during the review period

The Group's turnover, i.e. the income from investment services, increased by 35.7 per cent to 27.5 million (EUR 20.3 million during the corresponding period in 2012). The development of turnover was positively impacted by the growth in securities trade and the commission income from the company's own funds. A non-recurring expense of EUR 0.646 million from listing arrangements was allocated to the result for the financial period. The operating profit for 2013 amounted to EUR 4.5 million (EUR 3.3 million), and the profit for the period after taxes and minority interests stood at EUR 3.2 million (EUR 2.1 million).

Taaleritehdas' business operations consist of Wealth Management, Private Equity Funds, Lainaamo and Sijoitustehdas.

Wealth management

Taaleritehdas offers comprehensive wealth management services for affluent private individuals and corporate clients. The comprehensive wealth management service includes, for example, allocation investment, investment based on information benefits, individual wealth management, ETF wealth management, private equity investment funds, structured products and brokerage services.

The income from the Wealth Management business increased by 34% to EUR 24.6 million during the review period, compared with EUR 18.4 million during the corresponding period in 2012. The net subscriptions to our own investment funds totalled EUR 154 million during the financial period, and the managed wealth amounted to EUR 610 million (383). The income from investment funds increased by 82% from the corresponding period in 2012, and totalled EUR 8.0 million (4.4).

Taaleritehdas is the only wealth manager in Finland that offers its clients an opportunity to also invest in physical gold through Kultataaleri Oy as part of comprehensive wealth management. Vakuutusvahti, which is an insurance broker specialising in organising competitive bidding for non-life insurance, started its operations in the second quarter of the year. The company offers its clients the professional management of non-life insurance and competitive bidding independent of insurance companies. Taaleritehtaan Holvi Oy offers Taaleritehdas' clients tax and legal consultancy as part of comprehensive wealth management. Holvi's actual business operations were launched during the second half of the year. During the financial period, Taaleritehdas Wealth Management sold all of the shares it owned in Verona International Oy. Before the share transaction, Taaleritehdas Wealth Management's holding in Verona International Oy was 13.5%.

Private equity funds

Taaleritehdas' goal is to combine private capital, ideas and Finnish entrepreneurship. Taaleritehdas' private equity funds enable investment in objects and business operations that would otherwise be inaccessible to individual investors.

Taaleritehdas has implemented the following private equity investments: Taaleritehdas' Housing Funds I–VI, Taaleritehtaan Tuulitehdas, Taaleritehdas Linnainmaankulma Real Estate Fund, Taaleritehtaan Oaktree Syöttörahassto, Taaleritehtaan Biotehdas, Taaleritehtaan Metsä and Taaleritehtaan Ovitehdas established at the end of 2013. The assets managed by the private equity funds, which in this connection only includes the withdrawn capital and debt shares and not the investment commitments by investors or the size of the fund, totalled EUR 307 million at the end of the review period (215). The management fees of the private equity funds increased by 26% compared with 2012, but the total income for the financial period decreased by EUR 0.4 million to EUR 2.8 million (3.2). The income for 2012 was significantly impacted by the establishment fees for new private equity funds.

Lainaamo

Lainaamo is a Finnish special funding company whose products are consumer loans and investment loan products for Taaleritehdas' clients and, from the beginning of 2014, also corporate funding products. Its actual business operations were launched in June 2013 with collateral-free consumer loans. Its loan portfolio increased from EUR 0.4 million in June to EUR 4.8 million during the second half of the year. During the second half of the year, Lainaamo joined the consumer credit enquiry system of Suomen Asiakastieto, through which we will be able to even better assess clients' overall situation and solvency. Lainaamo also offers rental deposits to its clients through its subsidiary Takaamo, i.e. Suomen Vuokravakuus Oy. Lainaamo's income during the review period totalled EUR 0.5 million.

Sijoitustehdas

The Group's investment company Taaleritehtaan Sijoitustehdas Oy launched its business operations during the second half of the year according to the principles of co-investment. Sijoitustehdas aims to make longer-term minority investments creating value through ownership and combining entrepreneurship, ideas and private capital. The investments are principally made as minority holdings in unlisted companies. The aim is to keep Sijoitustehdas' holdings at less than 20% of the object companies. During the review period, Sijoitustehdas implemented a fund investment in Taaleritehdas Mikro Markka and two investments in unlisted Finnish companies: gTIE and Matti-Ovi Oy. The latter of these, Matti-Ovi Oy, was also granted a capital loan of EUR 0.6 million for a business operations transaction.

Internationalisation

In 2012, Taaleritehdas established a subsidiary in Turkey to provide investment services on the local market. The Turkish subsidiary is Taaleritehdas' first internationalisation step, and the intention is to increase its operations and become a medium-sized investment service firm independent of local banks. The operations of the subsidiary were launched in the second quarter of 2013 when the company received an investment service licence from the Turkish authorities. Turkish clients are provided with comprehensive and high-quality wealth management services from Istanbul considering the local needs and utilising operating models proven good in Finland. The Turkish capital market is opening up with new legislation. The Turkish operations were capitalised at EUR 0.6 million in December.

Decisions of shareholders and General Meetings

On 1 February 2013, shareholders unanimously decided to change the company name of Taaleritehtaan Omistusyhteisö Oy into Taaleritehdas Oy and establish two share series for the company, Series A and Series B. Series A shares confer twenty (20) votes each and Series B shares one (1) vote each. In addition, it was decided that the shares issued by the company are Series A shares in accordance with the new Articles of Association and that the 522,505 shares issued through a directed share issue decided on 31 December 2012 are Series A shares.

The Annual General Meeting was held on 7 March 2013. It decided to adopt the financial statements for 2012 and grant the Board of Directors and the CEO discharge from liability for 2012. The AGM decided that no dividend is distributed and that Peter Fagernäs, Pertti Laine and Esa Karppinen are re-elected as members of the Board. Vesa Puttonen and Juha Laaksonen were elected as new Board members. Peter Fagernäs was re-elected as the Chairman of the Board, and Juha Laaksonen was elected as Vice Chairman. Ernst & Young Oy, Authorised Public Accountants, was re-elected as the company's auditor, with Tomi Englund, Authorised Public Accountant as chief auditor.

The AGM decided to change the company form into a public limited company, include the shares in the book-entry system and apply for the Series B shares to be admitted to trading on the First North Finland marketplace maintained by NASDAQ OMX Helsinki Oy. The company's Board of Directors was authorised to decide on the period of time during which the shares are to be included in the book-entry system, decide on all measures related to the application to be admitted to trading and listing and make any other decisions concerning the application to be admitted to trading and listing. On 18 March 2013, the company's Board of Directors decided to start the preparations for admitting the company's Series B shares to trading on the First North Finland marketplace.

The General Meeting decided to distribute a total of EUR 560,000 to shareholders from the invested free equity fund in proportion to their shareholdings on the General Meeting date and authorise the company's Board of Directors to decide on the issue of the company's Series B shares as follows:

- The maximum number of Series B shares to be issued is 1,600,000.
- The Series B shares to be issued are new shares.
- Series B shares may be issued in one or several instalments.
- The Board of Directors shall decide on the terms and conditions of the issue, including any derogation from shareholders' pre-emptive rights ("directed issue"), including an offer to the public in connection with the listing of the company.
- The decision revoked the share issue authorisation given to the Board of Directors on 25 April 2012.

The General Meeting also authorised the Board of Directors to decide on the issue of option rights as referred to in Chapter 10 of the Limited Liability Companies Act on the following terms and conditions:

- At most 200,000 option rights shall be issued for the subscription of Series B shares so that one option right confers the right to subscribe to one new Series B share.
- The option rights are to be issued without consideration.
- Option rights may only be issued to persons employed by the company or its Group companies. From the point of view of the company, there is a particularly weighty financial reason for issuing option rights, as they are only issued to employees (key persons) who are important for the company's future.
- The company's Board of Directors was authorised for a period of three (3) years to decide to whom the option rights are issued and what are the subscription price of the shares to be subscribed on the basis of the rights, the subscription period and the period of payment of the subscribed shares.
- The company's Board of Directors was authorised to decide on the principles for determining the share subscription price; however, so that the principles of determination take into account the possible market price of the share and the equal treatment of shareholders.
- The company's Board of Directors was authorised to decide on the position of the rights issued when shares are issued, when rights according to this section are issued on the basis of another decision, when the company's assets are distributed in ways referred to in Chapter 13, Section 1(1), of the Limited Liability Companies Act, when rights according to Chapter 10 of the Limited Liability Companies Act are acquired back to the company, when the company merges with another company or demerges and when shares of minority shareholders are redeemed according to Chapter 18 of the Limited Liability Companies Act.

The Annual General Meeting also authorised the Board of Directors to decide on the acquisition of the company's own shares with funds included in the company's unrestricted equity on the following terms and conditions:

- Shares may be acquired to develop the company's capital structure, to be used for funding or implementing corporate acquisitions or other arrangements, to enable commitment arrangements for the company's key persons or otherwise to be assigned further or invalidated.
- Shares may be acquired in one or several instalments at most to a total number of five hundred thousand (500,000).
- The minimum consideration to be paid for the shares is EUR 2 and the maximum consideration EUR 20 per share.
- The Board of Directors has the right to acquire shares otherwise than in proportion to the shareholders' shareholdings and decide on the order of acquisition of the shares if there is a weighty financial reason for such deviation from the point of view of the company.
- The Board of Directors shall decide on the other terms and conditions of the acquisition of the company's own shares.
- The authorisation is valid for 18 months from the date of the decision at the General Meeting.

Shares and share capital

On 18 March 2013, the company's Board of Directors decided on a share issue where at most 1,455,000 Taaleritehdas Oyj Series B shares were offered for subscription on the basis of the authorisation given by the Annual General Meeting on 7 March 2013. All of the 1,455,000 Series B shares were subscribed in the share issue, and the subscription price received in the share issue was recognised in its entirety in the invested free equity fund. After the share issue, the company has 4,838,005 Series A shares, each conferring twenty votes, and 1,455,000 Series B shares, each conferring one vote. All shares confer the same right to dividends and company assets. The company's share capital of EUR 125,000.00 did not change as a result of the share issue.

Taaleritehdas' shareholders and treasury shares

Taaleritehdas had 495 shareholders at the end of the financial period, of whom 92 owned Series A shares and 416 owned Series B shares. The Group's personnel, management and Board members owned 78% of the company's total shares. The company does not possess any treasury shares.

Personnel

The Group's average personnel was 114 (88) during the financial period and 130 (95) at period-end. Of the personnel, 94 per cent were employed in Finland and 6 per cent abroad.

Balance sheet, capital adequacy and own funds

The consolidated balance sheet total was EUR 28.1 million at the end of the review period (EUR 9.8 million). The Group's equity amounted to EUR 22.2 million on 31 December 2013 (EUR 6.2 million). With the listing of 1,455,000 parent company Series B shares, the Group's equity increased by EUR 15.0 million during the financial period.

The Group's own funds on 31 December 2013 totalled EUR 20.0 million (EUR 5.4 million); the minimum amount of own funds was EUR 3.7 million (2.1), while the capital adequacy ratio was 43.7% (20.1%). The Group has no Tier 2 capital, so the capital adequacy ratio of Tier 1 capital was also 43.7%. The equity ratio of Taaleritehdas Group was 80.5% at the end of the review period (66.0%). In its capital adequacy calculation, Taaleritehdas applies the standard approach (credit risk capital requirement) and the basic approach (operational risk capital requirement).

Company administration and management during the review period

Composition of the Board of Directors during the term 1 January – 31 December 2013:

- Peter Fagernäs, Chairman
- Juha Laaksonen, Vice Chairman (7 March – 31 December 2013)
- Esa Karppinen
- Pertti Laine
- Vesa Puttonen (7 March – 31 December 2013)

Juhani Elomaan was the CEO of the parent company throughout the period, and Karri Haaparinne was the deputy CEO. Petri Lampinen was appointed as the CEO of Taaleritehdas Wealth Management Ltd in March 2013. Two management teams operate in the Group: the Group Executive Management Team and the Management Team for Wealth Management. The main task of the Group Executive Management Team is to assist the CEO by preparing area-specific strategies and policies, operating plans, internal guidelines and various monthly reports to be processed in common by the Management Team and potentially by the Board of Directors. The task of the Management Team for Wealth Management is to support the CEO of Wealth Management in the operations of Wealth Management.

The company's auditor is Ernst & Young Oy, Authorised Public Accountants, with Tomi Englund, Authorised Public Accountant, as the chief auditor.

The company's share capital and changes in it during the review period

The company share capital on 31 December 2013 was EUR 125,000.00, and the company had 4,838,005 Series A shares and 1,455,000 Series B shares.

By decision of the Extraordinary General Meeting on 11 December 2013, EUR 0.24/share, in total EUR 1,510,321.20, was returned to shareholders from the invested free equity fund.

On 4 December 2013, the Board of Directors of Taaleritehdas Oyj decided on a new share-based incentive scheme for the Group's key persons. Under the incentive scheme, key persons are issued synthetic option rights, and a potential bonus will be paid in 2017–2018 partly in the company's Series B shares and partly in cash. The aim is to cover the taxes and tax-like charges incurred by the key persons from the bonus through the cash share. If the employment or service relationship of a key person terminates before 2017, the bonus will not be paid, as a rule. Shares paid as a bonus may not be transferred during a waiting period of one year set for the shares. The bonuses to be paid on the basis of the incentive scheme correspond to the total value of at most approximately 200,000 Series B shares in Taaleritehdas Oyj, also including the share paid in cash. The dilution caused by the incentive scheme for the company's shares is at most 3.08%.

Statement on the scope of research and development operations

A large amount of development work was directed at the operations of Taaleritehdas Group in 2013 when the parent company was listed and the Group was divided into four different business areas. Of these, Lainaamo and Sijoitustehdas are new areas, which launched their operations during the review period. The product selections of Taaleritehdas Wealth Management and Private Equity Funds were expanded during the financial period.

Major future risks and uncertainty factors faced by the company

The most significant future risks from the point of view of the company are risks related to the growth of business operations and growth management, as well as credit risks. The company has four different business operations, each of which involves different types of risks, described in more detail below. A number of factors impact on the company's operating profit in 2014–2016, which may weaken the company's opportunities to achieve the set targets and the expected positive growth in operating profit. Key factors include:

– With regard to the Wealth Management business, the amount of management fees and trading commissions is exposed to the overall market situation. We do not expect the wealth management market to increase, as such; potential growth will come solely through any overall positive development of the equity and fixed income markets or by taking over market share from competitors. If the company fails to acquire new clients and/or the overall equity and fixed income markets decline, this will have a negative impact on the company's turnover and profitability.

– Taaleritehdas' private equity funds and investment operations are associated with risks concerning the materialisation of yield expectations. It is typical of capital investment operations that some of the object companies do not achieve the targets set for them. The market risk related to investment operations depends on the market situation in the industry in question and on how this affects the opportunities to exit from the investment. Taaleritehdas cannot guarantee that potential exits through listing or corporate transactions will succeed.

– With regard to the Funding business, the availability of funding and changes in interest rates may significantly affect the profitability of business operations. Weakening of the overall economic situation may increase credit losses in funding operations and make it more difficult for the company to acquire new clients. Increasing competition may also result in the narrowing of the marginal return acquired from funding operations.

Typical factors that may have a weakening impact on the company's performance trend and profitability are presented above. However, it should be noted that the list is not exhaustive and there are also other factors that may have a negative impact on the company's earning power and profitability.

Risk management and capital adequacy of the company

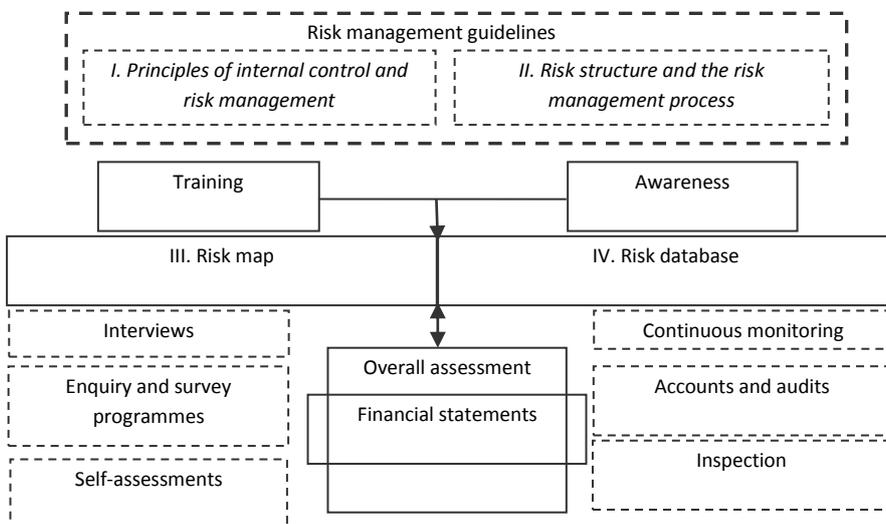
Risk management objectives and responsibilities

The objective of risk management is to support the disruption-free implementation of Taaleritehdas Group's strategy and income generation and to ensure that any risks related to the operations of Taaleritehdas Group are identified, assessed and reacted to. Risk management comprises all measures needed for managing the risks arising from the business operations of Taaleritehdas Group. Risk management is a continuous process that is regularly assessed. Each leader of business operations, supervisor and employee bears the responsibility for functional risk management. The business operations are responsible for ensuring that risk management is at a sufficient level, and the compliance function regularly supervises the business operations of Taaleritehdas Group. Risk management regularly reports to the Boards of Directors and Management Teams of the companies in Taaleritehdas Group.

The Board of Directors of Taaleritehdas Oyj is responsible for the appropriate organisation of risk management and internal control. The responsibility for the implementation of risk management rests with the CEO of Taaleritehdas Group.

Structure and organisation of risk management

Taaleritehdas Oyj, the parent company of Taaleritehdas Group, is also responsible for implementing risk management with regard to the companies included in the group of companies. Taaleritehdas Oyj ensures that the other companies in the group of companies have in place procedures related to risk management that are sufficient with regard to their operations. With regard to risk management, a uniform and systematic approach is applied in all companies within the group regarding operations, guidelines and the risk management process.



In Taaleritehdas Group, the risk manager is responsible for risk management and the organisation of risk management. The compliance officer of Taaleritehdas Group acts as the risk manager alongside his own work, with the compliance controller and the head of legal and compliance of Taaleritehdas Group as his deputies.

Risk and capital adequacy management practices

The company protects itself against risks by means of internal guidelines, process descriptions, internal control and insurance policies, the purpose of which is to enable the company to engage in its operations safely and efficiently. Self-assessment of risks and measures taken on the basis of it play a key role in the identification of and response to risks. As part of risk management, detailed operating guidelines have been prepared for key business operations. These guidelines describe the organisation of the operations, the job descriptions of personnel, the objectives and indicators of operations, reporting and monitoring, and the key processes and controls.

The compliance function of Taaleritehdas Group performs internal control and supervises that operations have the necessary internal guidelines and process descriptions in use. In addition, the compliance function performs various inspections of operations.

The risk manager annually organises discussion, interview and self-assessment events in the business units, where the basic details and processes of the operations are reviewed with selected persons from the operations. It is also possible to identify risks by reviewing accidents occurred. Matters to be reviewed include materialised and potential operation-specific risks, measures to prevent risks, the up-to-date nature of the guidelines and process descriptions, factors anticipating increased risks, etc. Operating plans are prepared for risks detected at the risk assessment events (risk database).

The risk manager annually produces a report for the Board of Directors of Taaleritehdas Oyj, as far as possible for the last Board meeting of the year. The risk manager reports to the Boards of Directors and Management Teams of Taaleritehdas Group on risks detected and measures to prevent the impact of risks.

Independent internal control also operates at Taaleritehdas Group. It is responsible for the continuous inspection of the functions of Taaleritehdas Group. Internal audit is outsourced to Oyj Tuokko Ltd.

Risk-carrying capacity in relation to the risks of the supervised entity and ensuring the sufficiency of capital

The risk-carrying capacity of Taaleritehdas Group in relation to risks is good, due to the relationship of equity capital to the capital requirement under Pillar II. The own funds of Taaleritehdas Group were EUR 20.0 million at the end of 2013, while the capital adequacy ratio was 43.7%. The minimum level of capital adequacy set by Taaleritehdas is currently 10%, and the target level is 150% of the minimum level for the capital adequacy requirement under the law, i.e. 12%.

The starting point for the management of capital adequacy is the Group's short- and long-term strategies approved by the Boards of Directors at least annually, the business plan and the principles for internal control and risk management. These create the basis for the strategy, process and capital plan for capital adequacy management and the principles for publishing capital adequacy information. These documents are approved at all companies supervised by the Financial Supervisory Authority and Taaleritehdas Oyj once a year.

On the basis of Taaleritehdas' Group-level strategy and business plan, targets are set for Taaleritehdas Group which take into account the future outlook for, and the risks involved in, its business operations and the industry. The strategy, business plans and the budgeting process take into account the willingness of Taaleritehdas Group to take risks and its risk-carrying capacity. In addition to the strategy, business plan and annual budget, Taaleritehdas' Board of Directors approves the Group structure and the organisation of business operations through which the targets should be achieved. The Boards of Directors of the separate companies take the strategic policies defined by the Board of Directors of Taaleritehdas Oyj into account when preparing their own strategies, business plans and organisation.

Risks and their management

The most significant future risks from the point of view of Taaleritehdas Group are risks related to the growth of business operations and growth management, as well as credit risks. Taaleritehdas Group has four different business operations, each of which involves different types of risks, described in more detail below.

Taaleritehdas Group divides risks into five main categories:

- Strategic risks
- Credit risks
- Liquidity and cash flow risks
- Market risks
- Operational risks

Strategic risks

The key strategic and external operating environment risks include wrong emphases in the business plan, operational liquidity deficits and internationalisation risks. With regard to these risks, the need for capital was assessed in the same manner as the need for capital with regard to operational risks. In addition, business risks have been assessed by analysing the development of financial results, the balance sheet and capital adequacy in different scenarios (the scenario of expected growth according to the strategy and operating plan, the worst case scenario and the scenario of extremely strong growth).

Credit risks

Credit risk describes the loss that Taaleritehdas Group would incur if the counterparty does not meet its obligations under the agreement. Credit risks may be divided into creditworthiness and collateral risks. Creditworthiness risk means that the counterparty is not able or willing to meet its obligations under the agreement. Collateral risk means that potentially lodged collateral is not sufficient to cover the receivable. Loans granted to clients are the largest source of credit risks, but credit risk is also involved in other receivables, such as commission receivables from clients, deposits and investments of liquid funds, and off-balance-sheet receivables, such as guarantees granted. The contractual counterparties of Taaleritehdas Group are the debtors of Lainaamo and the Group, clients who have taken out a rental deposit from Takaamo, clients who have purchased services from Group companies, partners and deposit banks where the funds of Taaleritehdas Group companies are deposited.

The Wealth Management business of Taaleritehdas does not engage in lending, and it operates in the market with known operators and checks their background carefully before starting cooperation or entering into legal transactions. The more detailed operating methods are defined by function. Taaleritehdas Wealth Management Group does not take significant risks with counterparties as part of its operations, but attempts to keep the risks as low as possible. Operational decisions involving credit risks that are more significant than slight from the point of view of operations are made in the Management Team, and those involving significant risks by the Board of Directors of Taaleritehdas Oyj.

The Taaleritehdas Wealth Management business may only invest its own funds in a financial institution with a high credit rating. The operations and situation of parties with regard to which the Taaleritehdas Wealth Management business is exposed to credit or counterparty risks are continuously monitored, and any changes are reported to the Management Team and Board of Directors. The aim is always to distribute both the credit risk and the counterparty risk to more than a single counterparty, depending on the market and the situation in question.

Lainaamo grants collateral-free consumer loans to private individuals resident in Finland. The maximum amount of a consumer loan to be granted is EUR 15,000 and the maximum amount of an investment loan is EUR 100,000. The risk level aimed for attempts to optimise the ratio of risk to return. The company's Board of Directors sets long-term targets for the company's business operations in relation to credit risk and its management in the company's daily operations. In addition, the company's Board of Directors is responsible for the company's credit policy, which describes the principles and procedures related to lending. It is assessed at least once a year whether the credit policy is up to date. All loan decisions are made by loan processors in a specialised unit. The main principle for lending is to distribute the risk by granting a large number of loans where the amount of each individual receivable is relatively small. It follows from the lack of collateral for the loans that strict creditworthiness requirements are set for the applicants, which they must meet to be granted a loan. In addition, applicants are required to deliver documents to establish their income and indebtedness information.

Taaleritehdas Group has also temporarily funded key private equity fund projects and granted a capital loan of EUR 0.6 million to Matti-Ovi Oy. The loan portfolio of Taaleritehdas Group on 31 December 2013 was EUR 11.0 million.

With regard to credit risks, Taaleritehdas Group calculates its minimum capital adequacy requirement under Pillar 1 using the standard approach. In the capital adequacy calculation, the capital adequacy requirement for the credit risk involved in loan receivables, other receivables, shares and holdings calculated using the standard approach in the basic scenario was EUR 1.4 million for 2013. The risk-based need for capital for the credit risk involved in these receivables is assumed to be same as that of the capital adequacy requirement.

Liquidity and cash flow risks

Liquidity risk refers to the risk that the company's liquid funds and additional funding opportunities are not sufficient to cover the needs of business operations. Liquidity risk arises from the imbalance of cash flows. During 2013, Taaleritehdas Oyj strengthened its liquidity with a share issue through which Taaleritehdas was capitalised at EUR 15.0 million. Liquidity is monitored daily, and good liquidity is maintained by investing the additional liquidity buffer of Taaleritehdas Group in low-risk objects (better credit rating than A+) that can quickly and at a clear market price be converted into cash. With regard to liquidity risk, no risk-based need for capital arises.

The key source of funding for Taaleritehdas Group is the Group's equity, which consists of proceeds from the share issue of spring 2013 and retained earnings. To secure the availability and flexibility of funding, Taaleritehdas Group has an overdraft facility of EUR 5.0 million at its disposal, which was wholly unused on 31 December 2013. There is no structural funding risk in the operations of

Taaleritehdas Group, as there are no long-term commitments to be covered by shorter-term funding. The importance of net income from financial operations has increased during the year when Lainaamo launched its operations in June. The parent company Taaleritehdas Oyj funded Lainaamo's operations during the year, so there have been no external funding expenses during 2013, except for the unused overdraft facility of EUR 5.0 million. Good liquidity must be maintained at all times. Liquidity must be continuously monitored, and liquidity management is mainly based on cash management. The liquidity situation of Taaleritehdas Group must be reported regularly to the Boards of Directors of the companies within Taaleritehdas Group and the Management Team of Taaleritehdas Oyj. In Taaleritehdas Group, the CFO of Taaleritehdas Oyj is responsible for liquidity management and reporting.

The cash flow of Taaleritehdas Group is made up of clearly foreseeable management fee income from funds and private equity funds, interest income from loans withdrawn by clients, relatively foreseeable trading commissions, sales campaigns that are more difficult to predict, growth in the loan portfolio of Lainaamo, yield-based fees and share investments made by Sijoitustehdas. Changes in investment and exit activities may have a significant impact on the cash flows of Taaleritehdas Group. Management fees paid by private equity funds are based on long-term agreements, and management fee income from existing private equity funds are relatively reliably predictable over the next 12 months. The management fees for the investment funds of Taaleritehdas Fund Management Ltd and the amount of funds in the investment funds are exposed to changes in both market value and clients' subscriptions and redemptions.

The concentration of operations is monitored regularly, and currently the client base is fairly well distributed. In addition, the long-term and stable flow of income from the Private Equity Fund business evens out the company's flow of income. Attempts are made to reduce the concentration of operations by expanding the client base, and the company strives to strengthen existing client relationships and offer clients new and different products. Through these measures, the company attempts to prepare for any loss of potential important client relationships in advance. If the concentration risk materialises and important clients are lost, the Board of Directors of Taaleritehdas Oyj will, as necessary, decide on any measures to adjust its operations. It is not considered necessary to define a risk-based need for capital with regard to the concentration of operations.

The CFO of Taaleritehdas Oyj, together with the accounting team, is responsible for the continuous monitoring of the financial situation and balance sheet of Taaleritehdas Group. The CFO monitors the items on the balance sheet of companies within Taaleritehdas Group and their financial situation on a monthly basis and reports on the situation monthly to the Management Team of Taaleritehdas Oyj and the CEOs of the separate companies. The CEO reports the financial situation of, and development of sales in, the Taaleritehdas Wealth Management business to the Board of Directors of Taaleritehdas Oyj and the Board of Directors of Taaleritehdas Wealth Management Ltd. Financial information is collected, saved, analysed and distributed among the persons concerned in accordance with the processes and practices in use. The reported figures are inspected in both the subsidiaries and the financial administration of Taaleritehdas Group. In addition, the financial administration of Taaleritehdas Group monitors the profit and loss account and balance sheet items through an analytic examination. The interim reports and financial statements of Taaleritehdas Group are prepared in accordance with the regulations of the Financial Supervisory Authority. The correctness of financial information, the up-to-date nature of the information and correct valuation methods are important for providing a true and fair view of the financial results and balance sheet of the entire Taaleritehdas Group. The largest valuation items are involved in the credit loss risks of Lainaamo and the subsidiary and other investments made by the Group, which include valuation items with regard to the financial success and the growth outlook of the object companies and the valuation of the reference companies.

Taaleritehdas Group is prepared for property, interruption and liability risks through insurance policies. The comprehensiveness of the insurance cover is reviewed annually. In addition, attempts are made to protect the property of Taaleritehdas Group through security services and access rights, for example.

Market risks

Market risk refers to a loss that may be caused by fluctuations in market prices. Market risks include interest rate, foreign exchange and price risks. Taaleritehdas Wealth Management does not take positions in financial instruments or commodities for trading purposes on its own behalf, and it has no trading stock or external liabilities. Taaleritehdas' market risks mainly consist of foreign exchange and price risks from the operations of its Turkish subsidiary and the unquoted share investments made by Sijoitustehdas. Fair value changes from the Turkish business operations are recognised in the consolidated financial statements on a monthly basis. In the ordinary operations of Wealth Management, market risks mainly arise as the settlement risk of client trading.

Wealth Management trades on its own behalf mainly for technical reasons to facilitate the brokerage of financial instruments to its clients. Wealth Management, unlike Sijoitustehdas, does not possess financial instruments or commodities and does not acquire financial instruments on its own behalf for investment purposes on its own initiative. Sijoitustehdas makes selected, mainly minority investments in unquoted Finnish companies where Sijoitustehdas strives to increase the companies' value by means of long-term ownership.

The liquidity buffer of Taaleritehdas Group is invested in short-term fixed income instruments or bank accounts. With regard to client trading, the company is exposed to settlement risks, which may be further divided into liquidity risks and counterparty risks. The risk and capital adequacy management shall identify quantitative liquidity and counterparty risks included in client trading.

The situation of securities transactions settlement risks is continuously monitored. To manage the settlement risk, Taaleritehdas Wealth Management Ltd has in use both the cash funds of Taaleritehdas Group and the settlement limits granted by credit institutions for settlement situations.

Operational risks

Operational risks refer to direct or indirect financial loss resulting from insufficient or failed internal processes, information systems, personnel or external factors. Reputation, legal, compliance and data security risks are also included in operational risks. Operational risks are managed by developing internal processes and providing good instructions and sufficient training to personnel.

Taaleritehdas Group is dependent on its management, the professional skill of its key personnel and their commitment to Taaleritehdas. Reputation is important to Taaleritehdas to ensure clients' confidence and confidence in its personnel. Legal risks may be related to agreements with various partners and contracting parties. Attempts are made to survey these risks with a detailed review of agreements, in which an external expert may be used, as necessary. The units are responsible for the management of operational risks in their own areas.

Taaleritehdas Group calculates its operational risk capital adequacy requirement according to the basic approach. The operational risk capital adequacy requirement calculated using the basic approach was EUR 2.3 million for 2013. In practice, this amount is considerably larger than the materialised operational risk losses.

In the annual self-assessment of operational risks, the personnel of Taaleritehdas Group identify and assess the key operational risks of operations.

Changes in Group structure during the financial period

Taaleritehdas Oyj is the parent company in a Group where the subsidiaries are Taaleritehdas Wealth Management Ltd and its subsidiaries, Taaleritehtaan Pääomarahastot Oy and the sub-Group made up by it, Lainaamo Oy and its subsidiary, and Taaleritehtaan Sijoitustehdas Oy.

The funding company Lainaamo Oy implemented a directed share issue subject to a charge on 17 May 2013, where Taaleritehdas Oyj subscribed to 480 of its new shares. On the basis of the share issue, Lainaamo became a subsidiary of Taaleritehdas Oyj, and the company's operations were capitalised at EUR 910,000. Lainaamo, in turn, acquired the entire share capital of Takaamo, i.e. Suomen Vuokravastuu Oy, during the financial period.

Taaleritehdas' Turkish operations were capitalised at EUR 0.6 million by issuing 1,610,000 new shares in Taaleri Portföy Yönetimi A.S. The share of Taaleritehdas Wealth Management of capital increased from 81 per cent to 92 per cent with the capitalisation.

During the second half of the year, two corporate transactions were implemented within the Group when Taaleritehtaan Pääomarahastot Oy sold two inactive subsidiaries owned by it, Taaleritehtaan Palvelutalon hallinnointiyhtiö Oy to Taaleritehdas Oyj and TT Syöttörahasto LP Oy to Taaleritehdas Wealth Management Ltd. The name of Taaleritehtaan Palvelutalon hallinnointiyhtiö was changed, and new business operations were launched under the name Taaleritehtaan Sijoitustehdas Oy. The name of TT Syöttörahasto LP Oy was changed to Taaleritehtaan Holvi Oy.

On 31 December 2013, Taaleritehtaan Omaisuudenhoito was merged with its sister company Taaleritehdas Wealth Management Ltd.

The Board's proposal regarding the actions to be taken with respect to the financial results and equity

The parent company's result for the financial period 1 January – 31 December 2013 amounted to ER 3,118,864.83, and the parent company's distributable funds were EUR 17.1 million on 31 December 2013. The Board proposes to the Annual General Meeting to be held on 4 April 2014 that dividends be distributed at EUR 0.20 per share according to the situation on the dividend record date 9 April 2014. The dividends corresponding to the proposal calculated using the number of shares on the closing date total EUR 1,258,601.00. The Board of Directors proposes that the dividend payment date shall be 16 April 2014. No material changes have taken place in the company's financial position after the end of the financial period. The proposed distribution of dividends does not jeopardise the company's solvency.

Material events after the financial period

Taaleritehtaan Pääomarahastot Oy has opened its own office in Kenya's capital Nairobi. Taaleritehtaan Pääomarahastot has one person permanently employed in Nairobi, from where he surveys the future business operations of Taaleritehtaan Pääomarahastot in view of the entire Africa. The intention is to launch operations in the real estate industry in Africa.

The Alternative Investment Fund Managers Act will enter into force during March 2014. After this, an asset manager will need a licence in order to operate as a manager of an alternative investment fund. Taaleritehdas Fund Management Ltd and Taaleritehtaan Pääomarahastot Oy will apply for the licence in question.

Estimate of likely future development

We expect that shares will be the best investment category in 2014. But shares are no longer cheap, corrective measures are becoming more common and yields are becoming more moderate. The boost in economic growth in the United States was already included in the prices of shares last year. The preconditions for continuing the decade of shares up to 2017–2018 are in place. The first increase in interest rates by the United States Federal Reserve System will probably take place as late as 2015–2016, as inflation is remaining fairly moderate in the Western countries. The operating environment may thus remain favourable for risk investments and shares for a long time. The growth in the world economy assists companies' financial results, salaries are not rising in the Western countries and central banks' reference interest rates will not as yet threaten economic growth and the position of shares in the next few years.

The economic environment in Finland will be challenging. The Wealth Management business is expected to grow moderately in 2014, but the business operations of Private Equity Funds will begin to be seen in the Group's turnover and operating profit. During 2014, Lainaamo's target is to grow in its current business operations, and growth will also be boosted by the launch of corporate loan operations. Sijoitustehdas aims to make a few investments during the year, but actual turnover or operating profit is not expected in 2014.

Taaleritehdas will strive to enhance the use of its balance sheet by surveying various funding alternatives. The company's turnover target is unchanged: targeted turnover for 2014 is more than EUR 30 million. The operating profit for 2014 is expected to improve compared with 2013.

TAALERITEHDAS PLC

CONSOLIDATED INCOME STATEMENT	1.1.-31.12.2013	1.1.-31.12.2012
Fee and commission income	25 459 611,79	19 561 323,63
Net gains or net losses on trading in securities and foreign currencies	1 233 434,45	318 740,09
Net gains or net losses on trading in securities	729 082,01	44 802,31
Net gains or net losses on trading in foreign currencies	504 352,44	273 937,78
Income from equity investments	91 897,50	83 952,57
Interest income	580 843,52	70 369,57
Other operating income	122 013,84	225 906,11
INCOME FROM INVESTMENT SERVICES	27 487 801,10	20 260 291,97
Fee and commission expense	-4 425 355,88	-3 486 306,75
Interest expense	-22 458,63	-29 457,61
Administration expenses	-15 301 279,85	-11 238 659,09
Staff costs		
Wages, salaries and fees	-9 720 392,59	-6 780 051,89
Other benefits	-2 201 757,58	-1 593 893,20
Pensions	-1 657 908,90	-1 216 316,46
Social security contributions	-543 848,68	-377 576,74
Staff costs in total	-11 922 150,17	-8 373 945,09
Other administrative expenses	-3 379 129,68	-2 864 714,00
Depreciation, amortisation and impairment of tangible and intangible assets		
From goodwill	-287 137,65	-160 439,15
From tangible and intangible assets	-184 607,63	-143 777,77
In total	-471 745,28	-304 216,92
Other operating expenses	-2 596 317,65	-1 910 214,91
Impairment losses on loans and other receivables	-144 497,00	0,00
Share of associates' profit or loss	-5 165,10	-12 150,69
OPERATING PROFIT OR LOSS	4 520 981,71	3 279 286,00
Income taxes	-1 337 901,18	-620 442,27
POST-TAX PROFIT OR LOSS FROM ORDINARY ACTIVITIES	3 183 080,53	2 658 843,73
Minority interests in profit or loss for the period	21 865,00	-556 181,73
PROFIT OR LOSS FOR THE PERIOD	3 204 945,53	2 102 662,00

TAALERITEHDAS PLC

CONSOLIDATED BALANCE SHEET

Assets	31.12.2013	31.12.2012
Loans and advances to credit institutions	11 519 086,48	6 206 151,99
Repayable on demand	10 817 320,58	6 191 757,75
Other	701 765,90	14 394,24
Loans and advances to the public and general government	11 040 302,41	11 808,88
Other	11 040 302,41	11 808,88
Shares and units	375 152,42	766 805,46
Participating interests	1 053 584,42	38 029,31
Intangible assets	1 312 974,35	984 337,01
Goodwill	726 702,00	838 278,39
Other long-term expenditure	586 272,35	146 058,62
Tangible assets	343 191,16	327 652,68
Other tangible assets	343 191,16	327 652,68
Other assets	1 569 795,85	964 145,17
Accrued income and prepayments	848 629,17	530 810,09
	28 062 716,26	9 829 740,59

Liabilities	31.12.2013	31.12.2012
LIABILITIES	5 474 657,74	3 339 477,34
Liabilities to credit institutions	0,00	0,00
Other liabilities	2 270 762,13	1 566 332,61
Accrued expenses and deferred income	3 203 895,61	1 773 144,73
EQUITY AND MINORITY INTEREST	22 180 118,73	6 151 052,01
Share capital	125 000,00	125 000,00
Non-restricted reserves	14 638 002,40	1 721 823,60
Reserve for invested non-restricted equity	14 638 002,40	1 721 823,60
Retained earnings or loss	4 212 170,80	2 201 566,41
Profit or loss for the period	3 204 945,53	2 102 662,00
Minority interests in equity	407 939,79	339 211,24
	28 062 716,26	9 829 740,59

TAALERITEHDAS PLC

CONSOLIDATED CASH FLOW	1.1.-31.12.2013	1.1.-31.12.2012
Cash flow from business operations:		
Operating profit or loss	4 520 981,71	3 279 286,00
Depreciation according to plan	184 607,63	143 777,77
Depreciation from goodwill	287 137,65	160 439,15
Other adjustments	-129 394,84	36 854,93
Cash flow before changes in working capital	4 863 332,15	3 620 357,85
Change in working capital		
Increase (-) decrease (+) in short-term non-interest bearing receivables	-923 364,26	398 131,58
Increase (+) decrease (-) in short-term non-interest bearing liabilities	1 652 743,30	-1 305 069,43
Cash flow of business operations before financial items and taxes	5 592 711,19	2 713 420,00
Direct taxes paid (-)	-920 035,28	-230 292,83
Cash flow from business operations (A)	4 672 675,91	2 483 127,17
Cash flow from investments:		
Investments in tangible and intangible assets	-611 389,60	-145 513,93
Other investments	-263 409,00	-675 821,14
Investments in participating interests	131 424,80	-93 920,00
Investments in subsidiaries	-1 020 720,21	-20 000,00
Increase (-) decrease (+) in loan receivables	-11 021 175,53	3 869,26
Income from subsidiaries	750,00	99 881,11
Income from participating interests	52 352,50	0,00
Income from other investments	606 246,82	276 500,00
Cash flow from investments (B)	-12 125 920,22	-555 004,70
Cash flow from financing:		
Changes in equity	14 986 500,00	0,00
Payments from own shares	0,00	-691 389,50
Repayments from the reserve for invested non-restricted equity	-2 070 321,20	-750 000,00
Increase (+) decrease (-) of short-term loans	0,00	-815 123,43
Paid dividends	-150 000,00	-412 500,00
Cash flow from financing (C)	12 766 178,80	-2 669 012,93
Increase / decrease in cash flow (A+B+C)	5 312 934,49	-740 890,46
Cash funds at the beginning of the period	6 206 151,99	6 947 042,45
Cash funds at the end of the period	11 519 086,48	6 206 151,99
Change in cash	5 312 934,49	-740 890,46