**OFFERING CIRCULAR** **9 March 2018**

ALTIA

# Listing on the Official List of Nasdaq Helsinki Ltd

## Share Sale of preliminarily a maximum of 20,000,000 Sale Shares

## Personnel Offering of a maximum of 300,000 Personnel Shares

## Preliminary Price Range EUR 7.50–9.00 per Sale Share

This offering circular (the "**Offering Circular**") has been prepared in connection with the contemplated listing of Altia Plc, a public limited liability company incorporated in Finland ("**Altia**" or the "**Company**"). The State of Finland, represented by the Prime Minister's Office (the "**State of Finland**" or the "**Seller**") is offering, through a sale of shares, preliminarily a maximum of 20,000,000 shares (the "**Sale Shares**") in the Company for purchase (the "**Share Sale**") (i) to private individuals and entities in Finland (the "**Public Share Sale**"), and (ii) to institutional investors as private placements in Finland and internationally (the "**Institutional Share Sale**"). In addition, the Company is offering for subscription to the permanent employees of Altia in Finland and Sweden and to the members of the Executive Management Team of Altia a maximum of 300,000 new shares in the Company (the "**Personnel Shares**") (the "**Personnel Offering**"). The Company and the Seller have appointed Nordea Bank AB (publ), Finnish Branch ("**Nordea**") to act as the global coordinator and bookrunner (the "**Global Coordinator**") as well as a financial advisor for the Share Sale and the Personnel Offering. In addition, the Company and the Seller have appointed Carnegie Investment Bank AB ("**Carnegie**") to act as the joint bookrunner and OP Corporate Bank plc ("**OP**") to act as the co-lead manager for the Share Sale and the Personnel Offering (Nordea, Carnegie and OP together, the "**Managers**" and each individually a "**Manager**"). In addition, the Seller has appointed Nordnet Bank AB, Finnish Branch ("**Nordnet**") to act as a subscription place in the Public Share Sale. The Seller is expected to agree on that it will grant the Global Coordinator an over-allotment option, exercisable within 30 days from the commencement of trading in the Company's shares (the "**Shares**") on the prelist of Nasdaq Helsinki Ltd. (the "**Helsinki Stock Exchange**") (which is expected to be between 23 March 2018 and 21 April 2018), for up to 3,000,000 additional Shares (the "**Additional Shares**") solely to cover over-allotments, if any (the "**Over-allotment Option**"). Unless the context indicates otherwise, the Sale Shares, the Personnel Shares and the Additional Shares are referred to together herein as the "**Offer Shares**".

The preliminary price range in the Sale Shares is EUR 7.50–9.00 per Sale Share (the "**Preliminary Price Range**"). In the Public Share Sale, the final sale price is at most the upper limit of the Preliminary Price Range (the "**Sale Price**"), i.e. EUR 9.00 per Sale Share. The subscription price per share in the Personnel Offering is 10 per cent lower than the Sale Price in the Public Share Sale (the "**Subscription Price**"). Thus, the Subscription Price per Personnel Share in the Personnel Offering is EUR 8.10 at maximum. The Sale Price and the Subscription Price will be announced through a stock exchange release immediately following the pricing and they will be available on the Company's website at www.altiagroup.com/ipo on or about 23 March 2018 and in the subscription places of the Share Sale and the Personnel Offering on or about 23 March 2018.

The Shares have not been subject to trading on a regulated market prior to the execution of the Share Sale and the Personnel Offering. The Company will submit a listing application with the Helsinki Stock Exchange to list the Shares on the Official List of the Helsinki Stock Exchange (the "**Official List**") under the share trading code "ALTIA". Trading in the Shares is expected to commence on the prelist of the Helsinki Stock Exchange on or about 23 March 2018 and on the Official List of the Helsinki Stock Exchange on or about 27 March 2018 (the "**Listing**"). The Personnel Shares will be applied to be admitted for trading later, on or about 28 March 2018. The Sale Shares offered in the Public Share Sale will be recorded in the book-entry accounts of investors maintained by Euroclear Finland Ltd ("**Euroclear Finland**"), the Finnish central securities depository, on or about 23 March 2018. In the Institutional Share Sale, the Sale Shares will be ready to be delivered against payment on or about 27 March 2018 through Euroclear Finland. The Personnel Shares will be recorded in the book-entry accounts of investors on or about 28 March 2018. The Shares will be eligible for clearing through the facilities of Euroclear Finland.

The subscription period for the Public Share Sale will commence on 12 March 2018 at 10:00 a.m. (Finnish time) and end on 20 March 2018 at 16:00 p.m. (Finnish time). The subscription period for the Institutional Share Sale will commence on 12 March 2018 at 10:00 a.m. (Finnish time) and end on 22 March 2018 at 12:00 p.m. (Finnish time). The subscription period for the Personnel Offering will commence on 12 March 2018 at 10:00 a.m. (Finnish time) and end on 20 March 2018 at 16:00 p.m. (Finnish time). However, the subscription period for the Personnel Offering in Sweden will end on 19 March 2018 at 11:00 a.m. (local time) and Nordea's e-subscriptions in Finland will end on 19 March 2018 at 4:00 p.m. Instructions for making the subscriptions and purchases as well as detailed terms and conditions of the Share Sale and the Personnel Offering are presented in this Offering Circular under "*Terms and Conditions of the Share Sale and the Personnel Offering*".

The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or under the securities laws of any state of the United States and accordingly, may not be offered or sold, directly or indirectly, in or into the United States except in transactions exempt from registration under the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in compliance with Regulation S under the U.S. Securities Act ("**Regulation S**").

The distribution of this Offering Circular and the offer and sale of the Offer Shares may be restricted by law in certain jurisdictions. Accordingly, neither this Offering Circular nor any advertisement or any other material relating to the Share Sale and the Personnel Offering may be published or distributed in or into Australia, Canada, the Hong Kong Special Administrative Region of the People's Republic of China, Japan, South Africa, or the United States, or any other jurisdiction in which it would not be permissible to deliver or make an offer of the Offer Shares. The Offer Shares may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any such jurisdiction. See "*Important Information*".

An investment in the Offer Shares involves risks. Prospective investors should read this entire Offering Circular and, in particular, "*Risk Factors*" when considering an investment in the Company.

*Global Coordinator*

Nordea

*Joint bookrunner*

Carnegie

*Co-lead manager*

op

# IMPORTANT INFORMATION

In connection with the Share Sale and the Personnel Offering, the Company has prepared a Finnish language Prospectus (the "**Finnish Prospectus**") in accordance with the Finnish Securities Market Act (746/2012, as amended, the "**Securities Market Act**"), Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (as amended, Annexes I, III and XXII), the Decree of the Ministry of Finance on the prospectuses referred to in Chapter 3–5 of the Securities Market Act (1019/2012) and the regulations and guidelines issued by the Financial Supervisory Authority. The Financial Supervisory Authority has approved the Finnish Prospectus, but is not responsible for the accuracy of the information presented therein. The record number of the Financial Supervisory Authority's approval decision concerning the Finnish Prospectus is FIVA 5/02.05.04/2018. This offering circular ("**Offering Circular**") is an English language document of the original Finnish Prospectus. This Offering Circular contains the same information as the Finnish Prospectus, with the exception of certain information directed at investors outside of Finland. The English language Offering Circular has not been approved by the Financial Supervisory Authority. In the event of any discrepancies between the original Finnish Prospectus and the English language Offering Circular, the Finnish Prospectus shall prevail. The restrictions for distribution differ between the Finnish Prospectus and the English language Offering Circular.

In this Offering Circular, any reference to "**Altia**", the "**Company**" or the "**Group**" means Altia Plc and its subsidiaries collectively, except where it is clear from the context that the term means Altia Plc as the parent company or a specific subsidiary or particular business unit only. References and matters relating to the Shares and share capital of the Company or matters of administration of the Company shall refer to the Shares, share capital and matters of administration of Altia Plc. The Company and the Seller have appointed Nordea Bank AB (publ), Finnish Branch to act as the global coordinator and bookrunner as well as a financial advisor and Carnegie Investment Bank AB to act as the joint bookrunner and OP Corporate Bank plc to act as the co-lead manager for the Share Sale and the Personnel Offering.

No person has been authorised to give any information or to make any representation other than as contained in this Offering Circular in connection with the Share Sale and the Personnel Offering. If such information or representations are given or made, it must be noted that they have not been authorised by the Company or the Managers. No representation or warranty, express or implied, is made by the Managers as to the accuracy or completeness of the information contained in this Offering Circular, and nothing contained in this Offering Circular should be relied upon as a promise or representation by the Managers in this respect, regardless of whether it concerns the past or the future. Neither the Managers assume any responsibility for the accuracy, completeness or verification of the information and, accordingly, disclaims to the fullest extent permitted by applicable law any and all liability, whether arising in tort, contract or otherwise, which it might otherwise be found to have in respect of this Offering Circular or any such representation. Any information given or representations made in connection with the Share Sale and the Personnel Offering that are inconsistent with those contained in this Offering Circular are invalid.

The Managers are acting exclusively for the Company and the Seller and no one else in connection with the Share Sale and the Personnel Offering. They will not regard any other person (whether or not a recipient of this Offering Circular) as their respective client in relation to the Share Sale and the Personnel Offering. Neither of the Managers will be responsible to anyone other than the Company and the Seller for giving advice in relation to the Share Sale and the Personnel Offering or any transaction or arrangement referred to in this Offering Circular. In connection with the Share Sale and the Personnel Offering, each of the Managers and any of their respective affiliates, acting as an investor for its own account, may purchase Offer Shares in the Share Sale and the Personnel Offering and in that capacity may retain, purchase or sell for its own account any Offer Shares or related investments and may offer or sell Offer Shares or other investments otherwise than in connection with the Share Sale and the Personnel Offering. Accordingly, references in this Offering Circular to Shares being offered should be read as including any offering or placement of the Offer Shares to any of the Managers or any of their respective affiliates acting in such capacity. None of the Managers intend to disclose the extent of such investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, certain of the Managers or their affiliates may enter into financing arrangements with investors in connection with which such Managers, or their affiliates, may from time to time acquire, hold or dispose of Shares.

Prospective investors should rely only on the information contained in this Offering Circular. Prospective investors should not rely on the Managers or their respective affiliates or any other third party in connection with any investigation in respect of the accuracy of any information contained in this Offering Circular or in making an investment decision. No person has been authorised to give any other information or to make any representation concerning the Offer Shares or Shares and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Managers. Prospective investors should, prior to making an investment decision, carefully acquaint themselves with the entire Offering Circular. In making an investment decision, prospective investors must rely on their own examination of the Company and the terms and conditions of the Share Sale and the Personnel Offering, including the benefits and risks involved in them. None of the Company, the Managers or their respective affiliates or respective representatives, are making any representation to any recipient of the offer, subscriber or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares under the laws applicable to them. Investors should consult their own advisers, as they consider it necessary, before subscribing for or purchasing the Offer Shares. Investors are required to make their own independent assessments of the legal, tax, business, financial and other consequences and risks of a subscription or purchase concerning the Offer Shares.

Neither the submission of this Offering Circular nor any offering, sale or delivery based thereon shall, under any circumstances, mean that the information contained in this Offering Circular would be correct in the future or that no changes would have taken place in respect of the Company's business which may result in or have resulted in a material adverse effect on the Company's business operations, operating result or financial standing as of the date of this Offering Circular. The Company shall, however, correct and supplement the Offering Circular as required in the Securities Markets Act Chapter 4, Section 14. Nothing contained in this Offering Circular constitutes, or shall be relied upon as, a promise or representation by the Company or the Managers as to the future.

The distribution of this Offering Circular and the offer and sale of the Offer Shares may be restricted by law in certain jurisdictions. Accordingly, neither this Offering Circular nor any advertisement or any other material relating to the Share Sale and the Personnel Offering may be published or distributed in or into Australia, Canada, the Hong Kong Special Administrative Region of the People's Republic of China, Japan, South Africa, or the United States, or any other jurisdiction in which it would not be permissible to deliver or make an offer of the Offer Shares. The Offer Shares may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any such jurisdiction.

In a number of countries, in particular in Australia, Canada, the Hong Kong Special Administrative Region of the People's Republic of China, Japan, South Africa, and the United States, the distribution of this Offering Circular as well as the sale of the Offer Shares is subject to restrictions imposed by law (such as registration, admission, qualification and other regulations). The offer to subscribe for or purchase the Offer Shares does not include people resident in Australia, Canada, the Hong Kong Special Administrative Region of the People's Republic of China, Japan, South Africa, or the United States, or any other jurisdiction where such an offer would be illegal. No action has been or will be taken by the Company or the Managers to permit a public offering or the possession or distribution of this Offering Circular (or any other offering or publicity materials or application forms relating to the Share Sale and the Personnel Offering) in any jurisdiction where such distribution may otherwise lead to a breach of any law or regulatory requirement. In addition, until 40 days after the commencement of the Share Sale and the Personnel Offering, an offer or sale of the Shares within the United States by a dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements under the Securities Act and in accordance with any applicable U.S. state securities law.

Neither this Offering Circular nor any advertisement or any other material relating to the Share Sale and the Personnel Offering may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. It is not the responsibility of the Company or the Managers to acquire appropriate information regarding the above restrictions or to comply with the above restrictions. None of the Company or the Managers accepts any legal responsibility for persons who have obtained this Offering Circular in violation of these restrictions, irrespective of whether these persons are prospective subscribers or purchasers of the Offer Shares. This Offering Circular does not constitute an offer to sell the Offer Shares to any person in any jurisdiction in which it is unlawful to make such offer to such person, or a solicitation of an offer to buy the Offer Shares from a person in a jurisdiction in which it is unlawful to make such solicitation. As a condition to subscribing for or purchasing the Offer Shares, each subscriber and purchaser is considered to have made – or, in some cases, has been required to make – certain representations and warranties regarding their domicile that will be relied upon by the Company, the Managers, the Seller and their respective affiliates. The Company reserves the right, in its sole and absolute discretion, to reject any subscription or purchase of the Offer Shares that the Company or its representatives believe may give rise to a breach or violation of any law, rule or regulation. The Share Sale and the Personnel Offering will be governed by the laws of Finland and any disputes arising in connection with them will be settled by a court of competent jurisdiction in Finland.

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## SUMMARY

*Summaries are made up of disclosure requirements known as 'Elements'. The Elements are presented in Sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be included, there may be gaps in the numbering sequence of the Elements.*

*Even though an Element may be required to be included in the summary due to the type of securities or issuer, it is possible that no relevant information exists regarding the Element. In this case, the summary includes a brief description of the Element along with a notion of the Element being 'not applicable'.*

| | **Element** | **Section A – Introduction and warnings** |
|---|---|---|
| **A.1** | Warning | This summary should be considered as an introduction to this Offering Circular (the "**Offering Circular**"). Any decision to by the investor to invest in the shares ("**Shares**") of Altia Plc ("**Altia**" or the "**Company**") should be based on consideration of the Offering Circular as a whole. If a claim relating to the information contained in the Offering Circular is brought before a court, the plaintiff investor might under the national legislation of an EEA state, have to bear the costs of translating the Offering Circular before the legal proceedings are commenced. Civil liability attaches to those persons who are responsible for this summary including its translation only if the summary is misleading, inaccurate or inconsistent in relation to the other parts of the Offering Circular or if the summary does not provide, when read together with the other parts of the Offering Circular, the key information required by the investors when considering whether to invest in the shares. |
| **A.2** | Financial intermediary | Not applicable. |

| | **Element** | **Section B — Issuer and guarantor** |
|---|---|---|
| **B.1** | Legal and commercial name of the issuer | The issuer's legal name is Altia Plc. |
| **B.2** | Domicile and legal form, law applicable to the issuer and the issuer's country of incorporation | The domicile of the Company is Helsinki. The Company is a public limited liability company incorporated in Finland. The Company is governed by Finnish law. |
| **B.3** | Nature of the issuer's current operations and principal activities | Altia is a leading Nordic alcoholic beverage company that operates in the wine and spirits markets in the Nordic countries, Estonia and Latvia. The Company has production also in Cognac, France. The Company produces, imports, markets, sells and distributes both own and partner brand beverages and exports alcoholic beverages to approximately 30 countries, most of which are in Europe, Asia and North America. The Group comprises three business segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Within the Scandinavia segment the Company operates in Sweden, Norway and Denmark. The Altia Industrial segment comprises the Company's production of ethanol, starch and feed component, logistics, procurement and manufacturing operations as well as contract services. Together with the Finland & Exports and Scandinavia segments, i.e., the consumer brand operations, Altia Industrial improves the efficiency of the use of raw materials and production and logistics capacity.<br><br>The Company's business model is based on offering a strong portfolio of its own brands and a versatile range of international partner brands as well as providing services to its customers that utilise the Company's production, packaging and logistics capacity. In addition, by-products from the production process are sold to the Company's industrial customers. The Company's integrated operating model creates economies of scale in sourcing, production and distribution and the Company can take advantage of its shared operations, including consumer research, innovation, product development, overall know-how and effective use of centralized support functions. The Company's net sales in 2017 were EUR 359.0 million and comparable EBITDA was EUR 42.4 million. At the end of 2017, the Company had 703 employees.<br><br>The Company has a strong market position in the Company's home markets, which include Finland, Sweden, Norway, Denmark, Estonia, Latvia and travel retail. The Company's own brands include |

brands such as Koskenkorva, Chill Out, Blossa, Larsen, O.P. Anderson, Renault, Xanté, and Valhalla, which form the Nordic core brands, and local heritage brands such as Leijona and Jaloviina in Finland, Explorer and Grönstedts in Sweden, Brøndums and 1-Enkelt in Denmark and Saaremaa vodka in Estonia, which form the Company's local heritage brands. The Company's key partner brands include, among others, Bollinger, Finlandia Vodka, Jack Daniels's, Amarula, Codorníu, Robert Mondavi, Pasqua, Faustino, Trapiche, Nederburg, Tarapacá, Lindeman's and Penfolds. In addition to the import, marketing, sale and distribution of partner products, the Company also offers services related to product and brand development to its partners, as well as production and bottling at the Company's production plants.

The Company's head office is located in Helsinki, Finland. The Company has a distillery in Koskenkorva village in Finland, an aquavit distillery in Sundsvall, Sweden, alcohol beverage and technical ethanol plants in Rajamäki village in Finland, an alcohol beverage plant in Tabasalu municipality in Estonia, as well as warehouse operations and offices in the Company's home markets. The Company also has a cognac house with production, storage and cognac aging cellars in Cognac, France.

The Company covers all significant sales channels and its most significant customers and business partners are the Nordic alcohol retail monopolies, international alcoholic beverage companies, alcoholic beverage wholesalers, restaurants, travel retailers such as shipping and airline companies, grocery stores, and importers operating in export markets as well as industrial customers in Finland and Sweden. Within Finland, Sweden and Norway, important sales channels are the state retail monopolies (Alko, Systembolaget and Vinmonopolet), which accounted for 69 per cent of the Company's consumer product net sales in 2017. [1]

**B.4a** Main recent trends affecting the issuer and its industry

The results of the Company's operations are influenced by a number of internal or external factors. The following factors have affected the Company's results of business operations during the period under review, and may continue to affect the Company's result of business operations in the future.

- *General economic conditions*: The macroeconomic and financial market conditions especially in the Company's home markets in Northern Europe are factors affecting the demand for the Company's products. In addition, market conditions in Russia and the Baltic, central Eastern European region, China and the United States may impact the demand for the Company's export services. Economic fluctuation is usually reflected more strongly in consumers' purchasing power and spending behaviour, such as in consumer preferences between the product categories, brands and price segments. On the other hand, an economic slowdown and other negative economic developments may affect consumer choices and put additional financial stress on the Company's customers and suppliers in the Nordics as well as in export markets. Even though the national alcoholic beverage retailing monopolies in Finland, Sweden and Norway can be seen as a lower credit risk customer than other customers, negative economic developments can negatively impact the Company's ability to collect its receivables in a timely manner, or at all, for example from its partners.

- *Demand, trends and consumer behaviour*: Consumer behaviour and preferences in the alcoholic beverage markets are affected by several factors, including changes in purchasing power, the age structure of consumers, changes in consumer preferences regarding the geographical origin of wines, the popularity of different spirit types and lifestyle trends. Segmentation of consumer groups into smaller special groups as well as demand for the novelties are still continuing, for which the Company aims to actively analyse consumer trends to foresee future consumer preferences. Changes in consumption habits of alcoholic beverages and consumer preferences can occasionally occur fast. Key trends such as authenticity and up-trading, convenience, health & wellbeing and sustainability provide growth opportunities for the Company to continue to further develop and expand the Company's current product portfolio. On the other hand, rapid changes in demand for alcoholic beverages in general or in a specific category might increase or reduce the consumption of a certain product category or the consumption of alcoholic beverages as a whole, and therefore the Company must be able to react to these changes rapidly.

- *Seasonal variations:* There are substantial seasonal aspects affecting the Company's net sales and profitability during the year, namely holiday and seasonal consumer buying patterns, especially at the end of the year during Christmas and New Year, but also during other key holidays such as Easter, 1st of May and Midsummer. The Company typically generates a large amount of its revenue and cash flow during the fourth quarter of each financial year. The Company's revenue is generally lower in the first quarter of each financial year. The seasonal variations have resulted

[1] Breakdown of Finland & Exports and Scandinavia segments' net sales in 2017 based on unaudited management reporting.

in significant fluctuations also in net working capital during the financial year, with Company's net working capital requirements at their highest before Christmas, Easter and Midsummer.

- *Competition*: The wine and spirits sale and distribution industry in the markets in which the Company operates is intensely competitive. Despite the regulated nature of the state retail monopoly markets, all international brand houses are generally present, together with their regional and local producers and representatives, as well as hundreds of smaller importers (particularly in the wine industry), in all key markets where the Company operates. The Company's distribution business is also very competitive with hundreds of importers operating in the market. The principal factors affecting the Company's competitive position among the customers, consumers and partners include its brand strength, product range, pricing, product quality, innovation and new product offering, distribution capabilities, knowledge, and the capability and resources to create successful partnerships as well as the ability to foresee and respond to changing consumer preferences and demand. Gaining of new customers, partners or distributors or, on the other hand, loss of agreements can affect the net sales and profitability of the Company's operations.

- *The Company's operational efficiency*: The Company has focused on improving operational efficiency by simplifying the Company structure and operations and improving capital efficiency. The Company has also invested in brand building, innovation and the development of sales operations and sales channels. One of the key elements in the Company's commercial strategy has been a focus and resource allocation on its key brands and partners. The effective category management process has aimed to adapt its assortment to meet the preferences of its local customers and ensure that the Company's product offering is price-competitive, supports inventory turnover and improves the Company's profitability. The Koskenkorva plant is efficient due to the unit's own production, innovative use of material streams and outbound, and a bio power plant in Koskenkorva. Production volume is always a combination of the products. Therefore, significant changes in demand for one of the end products cannot be fully reflected in production because of the interdependence with the other streams. Due to the versatile range of different products, bottles and packaging concepts, production planning is critical to ensure efficiency and to ensure the targeted costs of the goods sold.

- *Price development of the Company's products:* The pricing of the Company's products is affected by demand in the end markets, portfolio management, tendering processes in retail monopolies, competition, the cost of raw materials and production, cost management and efficiency measures, as well as the overall financial targets. There are significant price differences between the Company's home markets caused by varying alcohol tax levels, which may also affect pricing decisions for the products. The Company's products are priced in a competitive way by utilising scale, local presence, strong brands, long experience and extensive knowledge of consumer reactions with respect to changes in pricing in different price points.

- *Pricing and availability of raw materials:* Fluctuations in raw material prices can affect the Company's profitability at least in the short term, as they are not immediately reflected in the prices of the Company's products. Costs of raw materials and packaging materials used for the Company's products may be affected by various reasons, such as global supply and demand, fuel and transport costs, weather conditions, agricultural uncertainty, crop failures, and governmental import and export controls. In exceptional circumstances, for example due to the effects of climate change, the Company could use certain alternative raw materials for the production of alcoholic beverages as well as packaging. Fluctuations in the market price of electricity are likely to affect the Company's total operating costs.

- *Demand for industrial products:* General economic conditions affect the demand for industrial products and therefore the end use of the products the Company is supplying. The starch market has generally been stable but the recent growth in paper and especially paperboard industries has increased the demand for starch. According to the Company management, the market for technical ethanol has generally been relatively stable, but the market for heat transfer fluids is growing.

- *Changes in currency exchange rates:* The Company's exposure to foreign exchange rates consists of transaction exposure and translation exposure. Fluctuations in currency exchange rates against the euro, particularly that of the Swedish krona, the Norwegian krone, U.S. dollar and Australian dollar have had, and are likely to continue to have, a significant impact on the Company's reported figures.

- *Regulatory and tax changes:* The Company's business is subject to, and impacted by, extensive laws and regulations. These laws may change from time to time, which can have a direct impact on the Company or the changes can affect the Company's customers or the markets they serve. While regulation may adversely affect the Company's business, it may also offer opportunities

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| | | to develop new products, gain competitive advantage as well as deepen relationships with the customers. For example, the Finnish renewed Alcohol Act allows selling ethanol based RTDs in grocery stores as of January 2018. Excise taxes related to alcohol are the taxes with heaviest impact on the Company's operational activities. Demand for the Company's products is sensitive to fluctuations in excise taxes, since excise taxes generally constitute the largest component of the sales price of alcoholic beverages. In Nordic countries, increase in alcohol taxation and differences in consumer prices between neighbouring countries have increased the share of cross-border and tax-free sales. |
| **B.5** | Group structure | Altia Plc is the parent company of the Altia Group (the "**Group**"). The Company has 23 subsidiaries, which are all 100 per cent owned by the Group. The subsidiaries are located in Finland, Estonia, Denmark, Sweden, Latvia, Norway and France. The parent company of the Group, Altia Plc, is responsible for, inter alia, the management of the Group as well as treasury and accounting functions, HR, legal affairs and corporate communications. The business operations of the Group are carried out by several of Altia Plc's local subsidiaries that employ local resources and operating models. In addition, the Company holds a 50 per cent ownership in a joint arrangement Roal Oy and a 25.53 per cent ownership in an associated company Palpa Lasi Oy. |
| **B.6** | Major shareholders | The Company has one class of shares. Each share carries one vote at the Company's General Meeting of Shareholders and confers equal rights to dividends. As at the date of this Offering Circular, the Company's registered share capital is EUR 60,480,378.36 and the Company has 35,960,000 Shares. As at the date of this Offering Circular, the State of Finland is the sole shareholder of the Company.<br><br>The Company is not aware of event and arrangements following the Share Sale and the Personnel Offering that may in the future lead to a change of control in the Company. The shares held by the State of Finland can be transferred by the decision of the Government to the State Business Development Company Vake Oy. |
| **B.7** | Selected historical key financial information | The following tables present selected consolidated financial information for the Company as at and for the financial years ended 31 December 2017, 2016 and 2015. The financial information presented below has been derived from the Company's audited consolidated financial statements as at and for the financial years ended 31 December 2017, 2016 and 2015. Certain of the historical financial information as at and for the years ended 31 December 2016 and 2015 presented below differs from the historical financial information in Altia's audited statutory consolidated financial statements adopted by the Annual General Meeting of Shareholders due to restatements made in 2017 according to ''*IAS 8—Accounting Policies, Changes in Accounting Estimates and Errors*''. The Company's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") as adopted by the European Union. |

*Consolidated Income Statement*

| In EUR million | 2017 | 2016 (restated) | 2015 (restated) |
|---|---|---|---|
| | 1 January to 31 December | | |
| | | (audited) | |
| **Net sales** | **359.0** | **356.6** | **380.7** |
| Other operating income | 8.3 | 12.6 | 10.0 |
| Materials and services | -202.0 | -197.0 | -217.2 |
| Employee benefit expenses | -52.0 | -36.6 | -54.7 |
| Other operating expenses | -72.9 | -74.8 | -79.1 |
| Depreciation, amortisation and impairment | -14.2 | -14.5 | -14.4 |
| **Operating result** | **26.1** | **46.3** | **25.3** |
| Finance income | 4.5 | 1.3 | 0.8 |
| Finance expenses | -6.4 | -3.4 | -3.6 |
| Share of profit in associates and income from interests in joint operations | 0.9 | 0.9 | 0.9 |
| **Result before taxes** | **25.0** | **45.0** | **23.4** |
| Income tax expense | -6.7 | -9.0 | -5.2 |
| **Result for the period** | **18.3** | **36.1** | **18.1** |
| **Result for the period attributable to:** | | | |
| Owners of the parent | 18.3 | 36.1 | 18.1 |
| **Earnings per share for the result attributable to owners of the parent, EUR** | | | |
| Basic and diluted | 0.51 | 1.00 | 0.50 |

*Consolidated Statement of Comprehensive Income*

| In EUR million | 2017 | 2016 (restated) | 2015 (restated) |
|---|---|---|---|
| **Result for the period** | **18.3** | **36.1** | **18.1** |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurements of post-employment benefit obligations | -0.0 | -0.4 | 5.8 |
| Related income tax | 0.0 | 0.1 | -1.2 |
| Total | -0.0 | -0.4 | 4.6 |
| **Items that may be reclassified to profit or loss** | | | |
| Cash flow hedges | 1.4 | 0.1 | -0.0 |
| Available-for-sale financial assets | 0.6 | - | - |
| Translation differences | -4.0 | -2.7 | 1.5 |
| Income tax related to these items | -0.3 | -0.0 | 0.0 |
| Total | -2.3 | -2.6 | 1.5 |
| Other comprehensive income for the period, net of tax | -2.3 | -3.0 | 6.1 |
| **Total comprehensive income for the period** | **16.0** | **33.1** | **24.3** |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | 16.0 | 33.1 | 24.3 |

*Consolidated Balance Sheet*

| In EUR million | 2017 | 2016 (restated) | 2015 (restated) |
|---|---|---|---|
| | As at 31 December (audited) | | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 82.1 | 83.1 | 84.4 |
| Other intangible assets | 34.4 | 36.7 | 40.7 |
| Property, plant and equipment | 67.4 | 70.0 | 74.6 |
| Investments in associates and interests in joint operations | 7.6 | 7.6 | 7.6 |
| Available-for-sale financial assets | 1.4 | 0.8 | 0.8 |
| Other receivables | 1.0 | 0.3 | 0.5 |
| Deferred tax assets | 1.0 | 4.6 | 10.7 |
| **Total non-current assets** | **194.8** | **203.1** | **219.2** |
| **Current assets** | | | |
| Inventories | 94.5 | 96.3 | 101.2 |
| Trade and other receivables | 53.9 | 63.8 | 59.1 |
| Current tax assets | 2.8 | 1.4 | 3.5 |
| Cash and cash equivalents | 52.4 | 68.0 | 76.3 |
| **Total current assets** | **203.6** | **229.6** | **240.2** |
| **TOTAL ASSETS** | **398.4** | **432.7** | **459.3** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 60.5 | 60.5 | 60.5 |
| Fair value reserve | 0.6 | - | - |
| Hedge reserve | -0.3 | -1.4 | -1.6 |
| Translation differences | -16.0 | -12.3 | -9.6 |
| Retained earnings | 92.0 | 144.5 | 119.3 |
| **Total equity** | **136.8** | **191.3** | **168.6** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 17.7 | 20.7 | 23.2 |
| Borrowings | 89.1 | 64.9 | 88.4 |
| Provisions | - | – | 1.3 |
| Employee benefit obligations | 1.3 | 1.8 | 21.6 |
| **Total non-current liabilities** | **108.2** | **87.4** | **134.5** |
| **Current liabilities** | | | |
| Borrowings | 11.0 | 7.8 | 8.3 |
| Provisions | - | 1.3 | 2.1 |
| Trade and other payables | 137.4 | 142.7 | 143.5 |
| Current tax liabilities | 5.0 | 2.2 | 2.4 |
| **Total current liabilities** | **153.4** | **154.1** | **156.3** |
| **Total liabilities** | **261.6** | **241.5** | **290.7** |
| **TOTAL EQUITY AND LIABILITIES** | **398.4** | **432.7** | **459.3** |

*Consolidated Statement of Cash Flows*

| In EUR million | 1 January to 31 December 2017 | 2016 (restated) (audited) | 2015 (restated) |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Result before taxes | 25.0 | 45.0 | 23.4 |
| Adjustments | | | |
| Depreciation, amortisation and impairment | 14.2 | 14.5 | 14.4 |
| Share of profit in associates and income from investments in joint operations | -0.9 | -0.9 | -0.9 |
| Net gain on sale of non-current assets | -1.6 | -4.3 | -2.7 |
| Finance income and costs | 1.9 | 2.2 | 2.8 |
| Settlement gain of defined benefit obligation | - | -16.5 | – |
| Other adjustments | 0.5 | -0.1 | 0.6 |
| | 14.1 | -5.1 | 14.1 |
| Change in working capital | | | |
| Change in inventories, increase (-) / decrease (+) | 1.2 | 4.9 | 2.4 |
| Change in trade and other receivables, increase (-) / decrease (+) | 9.4 | -4.4 | 15.1 |
| Change in trade and other payables, increase (+) / decrease (-) | -2.6 | 0.1 | -13.8 |
| Change in provisions, increase (+) / decrease (-) | -1.3 | -2.1 | 0.1 |
| Change in working capital | 6.7 | -1.6 | 3.9 |
| Settlement of defined benefit obligation | – | -4.1 | – |
| Interests paid | -1.7 | -1.8 | -2.2 |
| Interests received | 0.3 | 0.3 | 0.3 |
| Other finance income and expenses paid | -2.2 | -0.3 | -0.7 |
| Income taxes paid | -4.6 | -2.9 | -3.9 |
| Financial items and taxes | -8.2 | -4.8 | -6.5 |
| **Net cash flow from operating activities** | **37.6** | **29.4** | **34.8** |
| **Cash flow from investing activities** | | | |
| Payments for property, plant and equipment and intangible assets | -11.9 | -8.7 | -11.3 |
| Proceeds from sale of property, plant and equipment and intangible assets | 2.6 | 4.5 | 1.0 |
| Payments for available-for-sale financial assets | – | -0.0 | – |
| Proceeds from sale of available-for-sale financial assets | 0.0 | – | 1.7 |
| Repayment of loan receivables | 0.3 | 0.2 | 0.2 |
| Interest received from investments in joint operations | 0.9 | 0.9 | 0.9 |
| Dividends received | 0.2 | 0.1 | 0.1 |
| **Net cash flow from investing activities** | **-7.8** | **-3.1** | **-7.4** |
| **Cash flow from financing activities** | | | |
| Changes in commercial paper program | – | – | -13.0 |
| Proceeds from borrowings | 100.0 | – | 30.0 |
| Repayment of borrowings | -72.5 | -22.5 | -60.2 |
| Dividends paid and other distributions of profits | -70.5 | -10.4 | – |
| **Net cash flow from financing activities** | **-43.0** | **-32.9** | **-43.2** |
| **Change in cash and cash equivalents** | **-13.2** | **-6.6** | **-15.8** |
| Cash and cash equivalents at the beginning of the period | 68.0 | 76.3 | 91.1 |
| Translation differences on cash and cash equivalents | -2.5 | -1.6 | 1.0 |
| Change in cash and cash equivalents | -13.2 | -6.6 | -15.8 |
| **Cash and cash equivalents at the end of the period** | **52.4** | **68.0** | **76.3** |

### *Financial key figures*

| In EUR million, unless otherwise indicated | 1 January to 31 December or as at 31 December | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (unaudited, unless otherwise indicated) | | |
| Net sales[1] | 359.0 | 356.6 | 380.7 |
| Operating result[1] | 26.1 | 46.3 | 25.3 |
| Operating margin, % | 7.3 | 13.0 | 6.6 |
| EBITDA | 40.3 | 60.8 | 39.7 |
| EBITDA margin, % | 11.2 | 17.0 | 10.4 |
| Comparable operating result | 28.2 | 26.4 | 23.6 |
| Comparable operating margin, % | 7.8 | 7.4 | 6.2 |
| Comparable EBITDA | 42.4 | 40.8 | 38.0 |
| Comparable EBITDA margin, % | 11.8 | 11.5 | 10.0 |
| Items affecting comparability | -2.1 | 19.9 | 1.7 |
| Invested capital | 236.9 | 264.0 | 265.3 |
| Return on equity (ROE), % | 11.1 | 20.0 | 11.6 |
| Return on invested capital (ROI), % | 8.0 | 14.4 | 7.6 |
| Borrowings | 100.1 | 72.8 | 96.7 |
| Net debt | 47.7 | 4.7 | 20.4 |
| Gearing, % | 34.9 | 2.5 | 12.1 |
| Equity ratio, % | 34.3 | 44.2 | 36.7 |
| Net debt / Comparable EBITDA | 1.1 | 0.1 | 0.5 |
| Trade working capital | 11.0 | 17.5 | 16.8 |
| Trade working capital / Net sales, % | 3.1 | 4.9 | 4.4 |
| Net working capital | 11.0 | 16.1 | 13.4 |
| Net working capital / Net sales, % | 3.1 | 4.5 | 3.5 |
| Free cash flow | 37.1 | 30.6 | 30.6 |
| Cash conversion, % | 87.6 | 74.8 | 80.4 |
| Gross capex | 11.9 | 8.7 | 11.3 |
| Gross capex / Net sales, % | 3.3 | 2.4 | 3.0 |
| Earnings per share, basic, EUR[1] | 0.51 | 1.00 | 0.50 |
| Equity per share, EUR | 3.80 | 5.32 | 4.69 |
| Number of outstanding shares at the end of the period (1,000 shares) | 35,960 | 35,960 | 35,960 |
| Average number of personnel | 762 | 829 | 879 |
| Number of personnel at the end of the period | 703 | 797 | 842 |

[1] Audited.

***The definitions and reasons for the use of financial key indicators***

| Key figure | Definition | Reason for the use |
|---|---|---|
| Operating margin, % | Operating result / Net sales | Operating result shows result generated by the operating activities. |
| EBITDA | Operating result before depreciation and amortization | EBITDA is the indicator to measure the performance of the Group. |
| EBITDA margin, % | EBITDA / Net sales | |
| Comparable operating result | Operating result excluding items affecting comparability | Comparable EBITDA, comparable EBITDA margin, comparable operating result and comparable operating margin are presented in addition to EBITDA and operating result to reflect the underlying business performance and to enhance comparability from period to period. Altia believes that these comparable performance measures provide meaningful supplemental information by excluding items outside normal business, which reduce comparability between the periods.<br><br>Comparable EBITDA is an internal measure to assess performance of Altia and key performance measure at segment level together with Net Sales.<br><br>Comparable EBITDA margin is also one of Altia's financial targets. Comparable EBITDA is commonly used as a base for valuation purposes outside the Company and therefore important measure to report regularly. |
| Comparable operating margin, % | Comparable operating result / Net sales | |
| Comparable EBITDA | EBITDA excluding items affecting comparability | |
| Comparable EBITDA margin, % | Comparable EBITDA / Net sales | |
| Items affecting comparability | Material items outside normal business, including net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings, as well as the Group's major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and the Group's costs related to other corporate development. | |
| Invested capital | Total equity + Borrowings | Base for ROI measure. |
| Return on equity (ROE), % | Result for the period / Total equity (average of the first and last day of the period) | This measure can be used to evaluate how efficiently Altia has been able to generate results in relation to the total equity of the Company. |
| Return on invested capital (ROI), % | (Result for the period + Interest expenses) / (Total equity + Non-current and current borrowings) (average of the first and last day of the period) | This measure is used to evaluate how efficiently Altia has been able to generate results in relation to the total investments made to the Company. |
| Borrowings | Non-current borrowings + Current borrowings | Net debt is an indicator to measure the total external debt financing of the Group. |
| Net debt | Borrowings – cash and cash equivalents | |
| Gearing, % | Net debt / Total equity | Gearing ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's indebtedness. Important measure for the loan portfolio. |
| Equity ratio, % | Total equity / Total assets – Advances received | Equity / assets ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's capital used in the operations. |
| Net debt / Comparable EBITDA | Net debt / Comparable EBITDA | The level of Net debt / Comparable EBITDA is one of Altia's financial targets and shows the financial risk of the Company. |
| Trade working capital | Inventories + Trade and other receivables – Trade and other payables | The working capital related key performance indicators are useful |

| | | |
|---|---|---|
| Net working capital | Trade working capital – Non-current provisions – Current Provisions | measures for management to monitor the level of direct net working capital tied to the operations and changes therein. |
| Change in working capital | Change in working capital as presented in consolidated statement of cash flows | |
| Net working capital / Net sales, % | Net working capital / Net sales | |
| Free cash flow | Comparable EBITDA – Change in working capital – Gross capex | Free cash flow provides information about the cash that the Company is able to generate after the capital expenditures. |
| Cash conversion, % | Free cash flow / Comparable EBITDA | Cash conversion presents shown how much of EBITDA turns into free cash flow. Indicates also capacity to pay dividend and / or generate funds for acquisitions or other transactions. |
| Gross capex | Payments for property, plant and equipment and intangible assets as presented in the consolidated statements of cash flows | Gross capex provides additional information of the cash flow needs of the operational investments. |
| Gross capex / net sales, % | Gross capex / Net sales | Provides measure and benchmark on the investment level of the Company. |

***Reconciliation of Alternative Performance Measures***

| | 1 January to 31 December | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| **In EUR million, except for percentages** | **(unaudited, unless otherwise indicated)** | | |
| **Items affecting comparability** | | | |
| Net gain of defined benefit obligation | – | 16.3 | – |
| Net gains or losses from business and assets disposals | 1.3 | 4.2 | 2.7 |
| Restructuring costs | -1.1 | -0.6 | -1.0 |
| Costs related to a planned stock exchange listing | -2.4 | – | – |
| **Total items affecting comparability** | **-2.1** | **19.9** | **1.7** |
| **Comparable EBITDA** | | | |
| Operating result[1] | 26.1 | 46.3 | 25.3 |
| Depreciation, amortisation and impairment[1] | 14.2 | 14.5 | 14.4 |
| **EBITDA** | **40.3** | **60.8** | **39.7** |
| Less: Total items affecting comparability | 2.1 | -19.9 | -1.7 |
| **Comparable EBITDA** | **42.4** | **40.8** | **38.0** |
| % of net sales | 11.8 | 11.5 | 10.0 |
| **Comparable EBIT** | | | |
| Operating result[1] | 26.1 | 46.3 | 25.3 |
| Less: Total items affecting comparability | 2.1 | -19.9 | -1.7 |
| **Comparable EBIT** | **28.2** | **26.4** | **23.6** |
| % of net sales | 7.8 | 7.4 | 6.2 |
| **Free cash flow** | | | |
| **Comparable EBITDA** | **42.4** | **40.8** | **38.0** |
| Change in working capital[1] [2] | 6.7 | -1.6 | 3.9 |
| Payments for property, plant and equipment and intangible assets[1] [2] | -11.9 | -8.7 | -11.3 |
| **Free cash flow** | **37.1** | **30.6** | **30.6** |
| % of comparable EBITDA (Cash conversion) | 87.6 | 74.8 | 80.4 |

[1] Audited.
[2] As presented in consolidated statement of cash flows.

| | | |
|---|---|---|
| | | The Company has strongly concentrated its product portfolio and partner business while intensifying operational business as well as divested non-core sections. This has affected the Company's net sales, profitability and financial position.<br><br>Except for the above-mentioned, in the Company's view, there have been no significant changes in its financial position and operating result during the period presented herein and thereafter before the date of this Offering Circular. |
| **B.8** | Pro forma financial information | Not applicable. |
| **B.9** | Profit forecast or estimate | *The following future outlook constitutes forward-looking statements that are not guarantees of future financial performance and the Company's actual financial performance could differ materially from those expressed or implied by these forward-looking statements as a result of many factors. The Company cautions prospective investors not to place undue reliance on these forward-looking statements.*<br><br>The positive trend in Altia's core brand portfolio is expected to continue. Cost increases on key raw materials and expansion in exports impact profitability development. The Group's comparable EBITDA is expected to improve or be at the 2017 level.<br><br>***Basis of the guidance***<br><br>Altia's guidance is based on the estimates and assumptions made by the Company's management as regards the development of the Company's net sales, EBITDA and operating environment. The guidance is based on market forecasts of alcohol beverages, which the Company utilises especially when formulating long-term forecasts. It is also based on the volume development, in particular with respect to the Company's core brands, and the growth expectations on innovations, partner business as well as exports and travel retail.<br><br>The key factors affecting net sales and operating profit, in which Altia can affect, are product portfolio management, pricing, product quality, innovation and new products, functioning of the logistics, knowledge, capabilities and resources to create successful partnerships, continuous monitoring of costs and efficiency, as well as the ability to foresee and respond to changing consumer preferences and demand.<br><br>Factors beyond Altia's control are mainly related to the competitors' actions, general economic development and the consumer confidence that may affect demand in both consumer products and industrial products. In addition to these factors, failure to reach the expected sales set for the most significant products for reasons independent of the Company or termination of the cooperation with the largest partners may affect the Company's expected results in the short term. Also other general risk factors in the industry and business, the availability and fluctuation in prices of raw materials due to crop seasons and weather conditions, fluctuation in the consumer demand of the products, currency exchange fluctuations as well as regulatory and tax changes are also beyond Altia's control. |
| **B.10** | Description of the nature of qualifications in the auditor's report on the historical financial information | Not applicable. The Company's auditor's reports for the financial years ended 31 December 2017, 31 December 2016 and 31 December 2015 are unqualified. |
| **B.11** | Working capital | The Company believes that the working capital available to the Company is sufficient for at least the 12 months following the date of this Offering Circular. |
| | **Element** | **Section C — Securities** |
| **C.1** | Type and class of securities and/or admitted to trading | The Company has one class of Shares, and each Share carries one vote at the Company's General Meeting of Shareholders. The Shares of the Company do not have nominal value. The Shares of the Company have been entered in the Euroclear Finland Ltd's book-entry securities system. The ISIN code of the Shares is FI4000292438. The Shares are freely transferrable. |
| **C.2** | Currency of issue | The currency of the securities issued is Euro. |

| | | |
|---|---|---|
| **C.3** | Number of shares issued / nominal value | The registered share capital of the Company at the date of the Offering Circular is EUR 60,480,378.36. The Company has 35,960,000 Shares outstanding that are fully-paid. The Shares of the Company do not have nominal value. |
| **C.4** | Description of rights attached to the securities | The rights attached to the Shares are determined by the Finnish Companies Act (624/2006, as amended) (the "**Companies Act**") and other applicable Finnish regulation.<br><br>**Shareholders' Pre-emptive Subscription Right**<br>Pursuant to the Companies Act, the shareholders of a Finnish limited liability company have a pre-emptive right to subscribe for the company's new shares, option rights and convertible bonds in proportion to the number of shares in a company they already hold unless otherwise provided in the resolution of the General Meeting of Shareholders or the Board of Directors resolving on such issue.<br><br>**General Meetings of Shareholders**<br>Shareholders exercise their decision-making powers in matters concerning the company at the General Meeting of Shareholders. Pursuant to the Companies Act, the shareholders have the right to attend and vote at the General Meeting of Shareholders. A shareholder may attend and vote at the General Meeting of Shareholders in person or by using a representative.<br><br>Resolutions at the General Meeting of Shareholders generally require a majority vote. However, certain resolutions, such as amending the Articles of Association, issuing shares in deviation of the shareholders' pre-emptive subscription rights and decisions on e.g., mergers or demergers require a qualified majority of at least two-thirds of the votes cast and of the shares represented at the General Meeting of Shareholders. In addition, certain resolutions, such as a mandatory redemption of the shares by the company in deviation from the shareholdings of the shareholders, require consent of all shareholders.<br><br>**Dividends and Other Distribution of Profits**<br>All of the Shares entitle their holders to equal rights to dividend and other distributable funds (including the distribution of the Company's assets in dissolution) after the shares are entered in the trade register ("**Trade Register**").<br><br>The dividend can only be distributed after the General Meeting of Shareholders has confirmed the company's financial statements and decided on the distribution of dividends on the basis of the proposal of the Board of Directors. Resolution on the distribution of dividends or granting of authorisation to the Board of Directors regarding the distribution of dividends requires a majority decision at the General Meeting of Shareholders.<br><br>The amount of dividends distributed may not exceed the distributable funds in the latest adopted financial statements of the company. Material changes in the Company's financial position after the adoption of the previous financial statements shall be taken into account upon resolving on the distribution of dividends. In addition, no dividends may be distributed if, when deciding on the distribution, it is known or should be known that the Company is insolvent or that the distribution will cause the Company to be insolvent. |
| **C.5** | Restrictions on the free transferability of the securities | The Shares are freely transferable. The distribution of this Offering Circular, the Share Sale and the Personnel Offering may be subject to limitations in certain jurisdictions. The Company has not taken any measures to register the Shares, the Share Sale and the Personnel Offering or any public offering of Shares outside of Finland. The lock-up agreements concerning the Shares are described in Element E.5. |
| **C.6** | Admission | The Company will submit a listing application with Nasdaq Helsinki Ltd (the "**Helsinki Stock Exchange**") to list the Shares on the Official List of the Helsinki Stock Exchange. The trading in the Shares is expected to commence on the prelist of the Helsinki Stock Exchange on or about 23 March 2018 and on the Official List of the Helsinki Stock Exchange on or about 27 March 2018. The Personnel Shares (as defined below) will be applied to be admitted for trading later, on or about 28 March 2018. The share trading code of the Shares is "ALTIA" and ISIN code "FI4000292438". |
| **C.7** | Dividend policy | The Board of Directors has confirmed a dividend policy for the Company. According to the dividend policy, the Company targets a dividend pay-out ratio of 60 per cent or above of the result for the period. The Company aims to pursue active dividend policy, and result of the period not considered necessary to grow and develop the Company will be distributed to the shareholders. |

| | Element | Section D — Risks |
|---|---|---|
| **D.1** | Key information on major risks applicable to the issuer or its industry | **Risks Related to the Company's Operating Environment**<br>• Uncertain global economic, political and financial market conditions could have a material adverse effect on the Company's business, financial condition and results of operations.<br>• The Company operates in a very competitive industry and intensifying competition could have a material adverse effect on its business.<br>• Demand for alcoholic beverages may be adversely affected by changes in consumer behaviour and preferences and governmental policies.<br><br>**Risks Related to the Highly Regulated Nordic Alcohol Market**<br>• Changes to legislation regarding state-owned retail monopolies in the Company's core markets could have a negative impact on the Company's business.<br>• Changes in the legislation concerning alcoholic beverages could increase the Company's costs or limit its business activities.<br>• The Company is subject to extensive regulations limiting producing, advertising, marketing, promoting and distributing alcoholic beverages, and these regulations and any changes to these regulations could adversely affect its business activities.<br>• Increases in taxes, particularly increases to excise taxes, could adversely affect demand for the Company's products.<br><br>**Risks Related to the Company's Business**<br>• The Company may be unsuccessful in fulfilling its strategy or the strategy itself may be unsuccessful.<br>• New products and line extensions are an important part of the Company's growth strategy, and success of the launch of new products and line extensions as well as the success of existing products is uncertain.<br>• Failures in tender processes, in fulfilling requirements to maintain a product ranking or other requirements related to assortments could affect the Company's business adversely.<br>• Loss of agreements or weakening of the relationships between the Company and the key partners, customers, suppliers and distributors could affect the Company's business negatively.<br>• The Company's business may be adversely affected by disruptions and damage in its production and storage plants.<br>• Interruptions and other disturbances at key suppliers', sub-suppliers' or partners' production sites could affect the Company's ability to supply its products in a timely manner.<br>• The Company may not be able to protect the appeal and value of its brands.<br>• The Company may not be able to establish, protect, maintain or enforce its intellectual property, and the Company may need to respond to claims brought by third parties.<br>• Potential problems relating to the ageing of cognac and damage of the cognac inventory could adversely affect the Company's business.<br>• As a large part of the Company's net sales is generated during the last two months of the year due to the seasonal events, any event affecting consumer demand or the Company's ability to supply products during that period could affect the Company's results adversely.<br>• Inconsistent quality or contamination of the Company's products or similar products in the same categories as the Company's products could harm the reputation of the Company's products and adversely affect sales of those products.<br>• The Company is dependent on the supply of high-quality Finnish barley, and changes in the prices or availability of barley or other raw materials, wine, eau-de-vie, supplies and finished products could have an adverse effect on the Company's business.<br>• The Company may be affected by the price and availability of energy.<br>• The Company's success is dependent on its ability to attract and retain highly qualified and skilled personnel.<br>• The Company's business and production plants are subject to significant regulation and failure to comply with provisions of such regulations and permits or any changes in such regulations and permits could result in business interruptions and increased costs.<br>• The Company may be negatively affected by legal or administrative proceedings directed at the Company or the alcoholic beverages industry or other disputes and claims.<br>• Potential violations of laws and regulations could have material adverse effect to the Company.<br>• Failures or deficiencies in operational risk management and internal control processes may lead to lapses in quality control or otherwise have an adverse effect on the Company's results and reputation.<br>• Corporate transactions and joint arrangements pose risks, and the Company's operating results and financial condition may be adversely affected if it acquires businesses or enters into joint arrangements that do not perform as expected or that are difficult to integrate. |

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| | | • The Company's tax liabilities may increase as a result of tax audits or changes in the practises and interpretations.<br>• Strikes or other industrial action affecting the Company, the retail monopolies or the Company's other customers could disrupt the Company's sales and business operations.<br>• The Company's insurance cover may prove insufficient.<br>• The Company's business may be adversely affected by a breakdown of its IT-systems or a failure to develop those systems.<br><br>**Risks Related to Financial Position and Financing**<br>• Difficulties in accessing additional financing or complying with financial covenants included in the Company's credit facilities as well as increases in costs of financing could have an adverse effect on the Company's financial condition and results of operations.<br>• The Company is exposed to changes in interest rates in its interest-bearing liabilities.<br>• The Company is exposed to foreign exchange rate risks.<br>• The Company is exposed to credit and counterparty risks through the trade receivables and receivables associated with financial intermediaries.<br>• The Company's actual results of operations may differ materially from the financial targets included in this Offering Circular and investors should not place undue reliance on the financial targets.<br>• A possible impairment of goodwill, other intangible or tangible assets could have adverse effects on the Company's financial condition and results of operations.<br>• The adoption of new or revised IFRSs may have material effects on Company's future consolidated financial statements. |
| **D.3** | Key information on the risks specific to the securities | **Risks Related to the Shares and the Share Sale and the Personnel Offering**<br>• The amount of any dividends to be potentially paid by the Company in any given financial year is uncertain.<br>• The Company will incur additional costs and new obligations as a consequence of the Listing.<br>• The Shares have not been previously subject to public trading, and thus the share price may be volatile and an orderly and liquid trading market may not develop.<br>• Share ownership is concentrated, and the largest shareholder or its associated company will continue to have significant decision-making power.<br>• Future share issues and sales of significant number of Shares may reduce the price of the Shares and the future share issues may dilute the share of ownership of the shareholders.<br>• Certain foreign shareholders may not necessarily be able to exercise their subscription rights. |
| | **Element** | **Section E — Offering** |
| **E.1** | Total net proceeds and estimated total costs of issue | See Element E.2a |
| **E.2a** | Reasons for offer, use of proceeds and estimated total net proceeds | **Reasons for the Listing**<br><br>The Company's operations have been run in an autonomous way and it has been operating in an internationally competitive environment for years. The State of Finland considers the contemplated Listing and the reduction of the state ownership in the Company as a natural next step for the Company's growth and development in Finland and internationally. The contemplated Listing would increase the transparency of the Company's business, and from the perspective of the Company's business partners, the contemplated Listing would bring more neutrality with regard to the Company considering its operations in the international environment. The contemplated Listing would also serve to broaden the ownership base in the Company, provide the general public with an opportunity to invest in the Company and increase the general interest towards the Company and awareness of the Company with investors, business partners and customers as well as provide the Company an access to capital markets. The objective of the contemplated Listing would be therefore to improve the Company's ability to successfully pursue its strategy and to increase its strategic flexibility. Through the Listing, the Shares can also more effectively be used in potential acquisitions and in rewarding the Company's personnel and key persons.<br><br>The Share Sale and the contemplated Listing would allow for a liquid market for the Shares going forward.<br><br>**Use of Proceeds**<br><br>The Seller will receive gross proceeds of approximately EUR 189.8 million from the Share Sale (calculated by using the mid-point of the Preliminary Price Range and assuming that all Sale Shares |

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| | | are sold and that the Over-allotment Option is used). The Seller expects to pay approximately EUR 6.2 million in fees, expenses and transfer taxes in connection with the Share Sale (calculated by using the mid-point of the Preliminary Price Range and the maximum number of Sale Shares and assuming that all Sale Shares are sold, the Over-allotment Option is used and that the discretionary fee will be paid in full). The Company will not receive any of the gross proceeds received from the Sale Shares sold by the Seller in connection with the Share Sale.<br><br>The Company will receive gross proceeds of approximately EUR 2.2 million from the Personnel Offering[2]. The proceeds from the Personnel Offering will be used for general corporate purposes. The Company estimates that it will incur total fees, commissions and expenses related to the Listing and the Personnel Offering of approximately a maximum of EUR 5.6 million. As a result, the net proceeds for the Company from the Personnel Offering, including costs related to the Listing and the Personnel Offering, are estimated to amount to approximately EUR -3.4 million.<br><br>Based on above, the Company and the Seller expect to pay approximately EUR 11.8 million in fees, commissions and expenses in connection with the Share Sale and the Personnel Offering. |
| **E.3** | Terms and conditions of the offer | The State of Finland, represented by the Prime Minister's Office (the "**State of Finland**" or the "**Seller**") is offering, through a sale of shares preliminarily a maximum of 20,000,000 existing shares in the Company (the "**Sale Shares**") for purchase (the "**Share Sale**") (i) to private individuals and entities in Finland (the "**Public Share Sale**"), and (ii) to institutional investors as private placements in Finland and internationally (the "**Institutional Share Sale**"). In addition, the Company is offering for subscription to all permanent employees of Altia employed in Finland and Sweden and to the members of the Executive Management Team of Altia a maximum of 300,000 new shares in the Company (the "**Personnel Shares**" and, together with the Sale Shares, the "**Offer Shares**") (the "**Personnel Offering**"). Only new shares in the Company will be offered in the Personnel Offering and a discount will be applied to the Subscription Price as described below. The Offer Shares are being offered and sold outside the United States in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**").<br><br>If the Offer Shares are not subscribed for in full to their preliminary maximum amount (i.e. less than 20,000,000 Sale Shares in the Share Sale and less than 300,000 Personnel Shares in the Personnel Offering), the number of Sale Shares sold or Personnel Shares issued may be below the announced preliminary maximum amount.<br><br>The Offer Shares represent preliminarily a maximum of approximately 56.0 per cent of all the Shares and votes in the Company after the registration of the Personnel Shares in the Trade Register without the Over-allotment Option (as defined below) assuming that all of the Personnel Shares offered are subscribed for in full (with the Over-allotment Option a maximum of approximately 64.3 per cent).<br><br>Immediately after the listing of the Shares on the Official List of the Helsinki Stock Exchange (the "**Listing**"), the State of Finland would hold approximately 44.0 per cent of the Shares and votes (without the Over-allotment Option) assuming that the State of Finland sells 20,000,000 Sale Shares and all the Personnel Shares offered are subscribed for in full.<br><br>The terms and conditions of the Share Sale and the Personnel Offering are comprised of the general terms and conditions of the Share Sale and the Personnel Offering as well as the special terms and conditions of the Institutional Share Sale, the Public Share Sale and the Personnel Offering, respectively.<br><br>The Company and the Seller have appointed Nordea Bank AB (publ), Finnish branch ("**Nordea**") to act as the global coordinator and bookrunner (the "**Global Coordinator**") as well as a financial advisor for the Share Sale and the Personnel Offering. In addition, the Company and the Seller have appointed Carnegie Investment Bank AB ("**Carnegie**") to act as the joint bookrunner and OP Corporate Bank plc ("**OP**") to act as the co-lead manager for the Share Sale and the Personnel Offering (Nordea, Carnegie and OP together, the "**Managers**" and each individually a "**Manager**"). In addition, the Seller has appointed Nordnet Bank AB, Finnish Branch ("**Nordnet**") to act as a subscription place in the Public Share Sale. |

[2] The calculation assumes that (i) the maximum number of the Personnel Shares offered in the Personnel Offering are fully subscribed for, and (ii) the subscription price of the Personnel Shares is the mid-point of the Preliminary Price Range less the 10 per cent discount on the Personnel Shares compared to the Sale Price.

**Share Sale**

The Seller will offer for purchase preliminarily a maximum of 20,000,000 Sale Shares in the Public Share Sale and in the Institutional Share Sale.

The Sale Shares represent preliminarily a maximum of approximately 55.6 per cent of the Shares and votes before the Personnel Offering and 55.2 per cent after the registration of the Personnel Shares in the Trade Register without the Over-allotment Option (a maximum of approximately 63.4 per cent with the Over-allotment Option) and assuming that all the Personnel Shares offered are subscribed for in full.

The final number of Sale Shares to be sold in the Share Sale will be announced through a stock exchange release at the same time with the Sale Price of the Sale Shares (as defined below) announcement immediately following the Pricing (as defined below) and it will be available at the latest on the next banking day following the Pricing, on or about 23 March 2018, at the subscription places of the Share Sale and the Personnel Offering and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia.The Sale Shares are sold in order to enable the listing of the Shares on the Official List of the Helsinki Stock Exchange.

**Personnel Offering**

The Extraordinary General Meeting of Shareholders of the Company resolved on 22 February 2018 to authorise the Board of Directors to decide on a directed issue against payment so that the number of Shares issued may not exceed 300,000 Personnel Shares. Based on the authorisation granted by the Extraordinary General Meeting of Shareholders, the Board of Directors resolved on 9 March 2018 to issue a maximum of 300,000 Personnel Shares by way of a Personnel Offer to all permanent employees in Finland and in Sweden with a direct, permanent contract of employment to Altia at the end of the subscription period and to members of the Executive Management Team of Altia. The Board of Directors of the Company is expected to resolve on or about 22 March 2018 on the approval and allocation of the subscriptions of the Personnel Offering based on the authorisation. The payments made to the Company for the approved Personnel Share subscriptions will be booked in their entirety in the invested unrestricted equity fund. Thus, the Company's share capital will not be increased in connection with the Personnel Offering.

As a result of the Personnel Offering, the number of the Shares may increase up to 36,260,000 Shares, if the authorisation of the Extraordinary General Meeting of Shareholders would be used in full. The Personnel Shares issued in the Personnel Offering represent approximately 0.8 per cent of the Shares and votes after the Personnel Offering assuming that all the Personnel Shares offered are subscribed for in full.

The final number of Personnel Shares to be issued in the Personnel Offering will be announced through a stock exchange release together with the announcing of the Subscription Price immediately following the Pricing and it will be available at the latest on the next banking day following the Pricing, on or about 23 March 2018, at the subscription places of the Share Sale and the Personnel Offering and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia.

**Over-allotment Option**

The Seller is expected to agree on that it will grant the Global Coordinator an over-allotment option, exercisable within 30 days from commencement of trading in the Shares on the prelist of the Helsinki Stock Exchange (which is expected to be between 23 March 2018 and 21 April 2018), for up to 3,000,000 additional Shares (the "**Additional Shares**") solely to cover over-allotments, if any (the "**Over-allotment Option**"). The Additional Shares correspond to approximately a maximum of 8.3 per cent of the Shares and votes before the Personnel Offering and approximately a maximum of 8.3 per cent after the Personnel Offering, assuming that all the Personnel Shares offered are subscribed for in full.

**Stabilisation measures**

After the Share Sale, Nordea, as stabilisation manager (the "**Stabilisation Manager**"), may, to the extent permitted by applicable law, within 30 days from commencement of trading in the Shares on the prelist of the Helsinki Stock Exchange (which is expected to be between 23 March 2018 and 21 April 2018) engage in measures that stabilise, maintain or otherwise affect the price of the Shares.

**Placing Agreement**

The Company expects, together with the Seller, to enter into a placing agreement (the "**Placing Agreement**") with the Managers on or about 22 March 2018.

The Seller will decide alone, on the completion of the Share Sale and the number of Sale Shares, and the Board of Directors of the Company will decide on the completion of the Personnel Offering and the number Personnel Shares in accordance with the share issue authorisation. The Seller will decide, after consulting the Board of Directors of the Company, the Sale Price (as defined below) for the Shares, after the subscription period directed at institutional investors has ended, on or about 22 March 2018. In case the Share Sale or the Personnel Offering does not result in a sufficient amount of subscriptions for Sale Shares and/or Personnel Shares, the Share Sale and/or the Personnel Offering may not be completed. The Personnel Offering is conditional to the completion of the Share Sale. In addition, the Share Sale and the Personnel Offering are conditional to the Placing Agreement being signed between the Company, the Seller and the Managers.

**Subscription period**

The subscription period for the Institutional Share Sale will commence on 12 March 2018 at 10:00 a.m. (Finnish time) and end at the latest on 22 March 2018 at 12:00 noon (Finnish time).

The subscription period for the Public Share Sale will commence on 12 March 2018 at 10:00 a.m. (Finnish time) and end on 20 March 2018 at 4:00 p.m. (Finnish time) in Nordea's, OP Financial Group's and Nordnet's online services, Nordea 24/7 service and OP 0100 0500 telephone service with bank identifiers and in Nordea's branch offices and OP Financial Group's cooperative banks.

The subscription period for the Personnel Offering will commence on 12 March 2018 at 10:00 a.m. (Finnish time) and will end on 20 March 2018 at 4:00 p.m. (Finnish time). However, the subscription period for the Personnel Offering in Sweden will end on 19 March 2018 at 11:00 a.m. (local time) and Nordea's e-subscriptions in Finland will end on 19 March 2018 at 4:00 p.m. (Finnish time).

The Seller has, in the event of an oversubscription, the right to discontinue the Share Sale at the earliest on 19 March 2018 at 4:00 p.m. (Finnish time). The Institutional Share Sale and the Public Share Sale can be discontinued independently of each other. The Institutional Share Sale and the Public Share Sale may be discontinued even if they would not be oversubscribed. A stock exchange release will be published in the event of a discontinuation.

The Seller has the right to extend the subscription periods in respect of the Share Sale and the Board of Directors of the Company has the right to extend the subscription period in respect of the Personnel Offering. A possible extension of the subscription period of the Institutional Share Sale, the Public Share Sale and the Personnel Offering or any of them will be announced through a stock exchange release, which will indicate the new end date of the subscription period. All subscription periods for the Share Sale or the Personnel Offering will end in any case at the latest on 9 April 2018 at 4:00 p.m. (Finnish time).

**Sale and Subscription price**

The preliminary price range for the Sale Shares is a minimum of EUR 7.50 and a maximum of EUR 9.00 per Sale Share (the "**Preliminary Price Range**"). The Preliminary Price Range can be changed during the subscription period, which will be announced through a stock exchange release and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia. If, as a result of the change, the upper limit of the Preliminary Price Range increases or the lower limit decreases, the Finnish language prospectus (the "**Finnish Prospectus**") will be supplemented and the supplement will be published through a stock exchange release. In the Public Share Sale, the final sale price is at most the upper limit of the Preliminary Price Range (the "**Sale Price**"), i.e. EUR 9.00 per Sale Share. The subscription price per share in the Personnel Offering is 10 per cent lower than the Sale Price in the Public Share Sale (the "**Subscription Price**"). Thus, the Subscription Price in the Personnel Offering is EUR 8.10 at maximum. The reduced price, of at a maximum 10 per cent that is applied to the Subscription Price in the Personnel Offering, is not deemed as a taxable benefit in Finland in accordance with Chapter 4, Section 66 of the Income Tax Act (1535/1992, as amended).

The Sale Price will be decided based on subscription orders submitted by institutional investors in negotiations between the Seller and the Global Coordinator, after the Seller and the Global Coordinator have consulted the Board of Directors of the Company (the "**Pricing**"), when the subscription period has ended on or about 22 March 2018, provided that the Institutional Share Sale and/or the Public Share Sale have not been discontinued earlier. The Sale Price may be above or below the Preliminary Price Range provided, however, that in the Public Share Sale, the Sale Price cannot be higher than the maximum price of the Preliminary Price Range, i.e. EUR 9.00 per Sale Share, and in the Personnel Offering the Subscription Price cannot be higher than 10 per cent below the maximum price of the Preliminary Price Range, i.e. EUR 8.10 per Personnel Share. The Sale Price in the Public Share Sale and the Institutional Share Sale can differ from one another only if the Sale Price in the Institutional Share Sale is higher than the maximum price of the Preliminary Price Range. If the Sale Price and/or the Subscription Price are above or below the Preliminary Price Range, the Finnish Prospectus will be supplemented and the supplement will be published through a stock exchange release.

The Sale Price and the Subscription Price will be announced through a stock exchange release immediately following the Pricing and they will be available at the latest on the next banking day following the Pricing, on or about 23 March 2018 at the subscription places of the Share Sale and the Personnel Offering and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia.

**Cancellation of the subscription commitment**

Subscription commitment in the Public Share Sale and the Personnel Offering (the "**Commitment**") cannot be changed or cancelled, otherwise than in the situations provided for in the Finnish Securities Market Act (746/2012, as amended, the "**Finnish Securities Market Act**").

***Procedure for changing the Preliminary Price Range or deciding on the Sale Price in deviation of the Preliminary Price Range***

If the Preliminary Price Range is changed during the subscription period, such changes will be published through a stock exchange release and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia. If, as a result of the change, the upper limit of the Preliminary Price Range increases or the lower limit decreases or if the Sale Price or the Subscription Price is outside the Preliminary Price Range, the Finnish Prospectus published in connection with the Listing will be supplemented and the supplement will be published through a stock exchange release. However, in the Public Share Sale the Sale Price can be no higher than the maximum price of the Preliminary Price Range, i.e. EUR 9.00 per Sale Share, and in the Personnel Offering the Subscription Price cannot be higher than 10 per cent below the maximum price of the Preliminary Price Range, i.e. EUR 8.10 per Personnel Share. If the upper limit of the Preliminary Price Range increases or the lower limit decreases as a result of the change, or if the Sale Price of the Sale Shares or the Subscription Price of the Personnel Shares is beyond the Preliminary Price Range, investors who have made a Commitment before the change was announced, may, for at least the next two (2) banking days after the publication of the change, cancel their Commitment.

If a Commitment is not cancelled, any excessive amount paid will be refunded to the bank account specified in the Commitment.

***Cancellation according to the Finnish Securities Market Act***

If the Finnish Prospectus is supplemented or amended in accordance with the Finnish Securities Market Act due to a material error or omission or due to material new information that has become known after the Finnish Financial Supervisory Authority has approved the Finnish Prospectus and before the end of the subscription period or before the Sale Shares are admitted to trading, and, respectively, with regards to the Personnel Shares before they are admitted to trading, investors who have committed to subscribe for Shares before the publication of a supplement or correction of the Finnish Prospectus have, in accordance with the Finnish Securities Market Act, the right to cancel their Commitments within at least two (2) banking days after the supplement or correction has been published. The use of the cancellation right requires that the error, omission or material new information that led to the supplement or correction has become known prior to delivery of the Offer Shares to the investors. If the Finnish Prospectus is supplemented, such an event will be announced through a stock exchange release. Such stock exchange release shall also contain information on the investors' right to cancel their Commitments in accordance with the Finnish Securities Market Act.

***Procedure to cancel a Commitment according to the Finnish Securities Market Act***

The cancellation of a Commitment must be notified in writing to the subscription place where the initial Commitment was made and within the time limit set for such cancellation. However, a Commitment made by telephone to Nordea or OP may be cancelled by telephone. The cancellation of a Commitment made via Nordnet's online service can be made through an authorized representative or via Nordnet's online service by accepting a separate Commitment cancellation using Nordnet's bank identifiers. Cancelling or changing a Commitment cannot be made online via Nordea Netbank or e-subscription, but must be made by telephone in Nordea's 24/7 service or in other Nordea's subscription places. Cancelling or changing a Commitment in the Public Share Sale cannot be made either in OP Financial Group's online services, instead it must be made in a branch office of OP Financial Group's cooperative bank. With regard to investors that are not Nordea, OP or Nordnet customers and that have submitted a Commitment in a Designated Bank[3] of OP Financial Group, the cancellation of a Commitment must be made in the same Designated Bank where the investor has submitted its Commitment. The possible cancellation of a Commitment concerns the entire Commitment. After the period entitling to the cancellation right has lapsed, the cancellation right no longer exists. If the Commitment is cancelled, the subscription place refunds the sum paid for the Shares to the bank account specified in the Commitment or, with respect to Nordea's e-subscription, to the account from which the subscription payment has been made. In case Nordnet has acted as the subscription place, the refunded amount will be paid to Nordnet's cash account. The money is refunded as soon as possible after the cancellation, approximately within five (5) banking days of serving the subscription place with the cancellation notice. If an investor's bank account is in a different bank than the subscription place, the refund will be paid to the investor's Finnish bank account in accordance with the payment schedule of the financial institutions, approximately no later than two (2) banking days thereafter and, in the Personnel Offering, to the Swedish employees' Swedish Nordea bank account approximately no later than two (2) banking days. No interest will be paid on the refunded amount.

**Registration of Shares to book-entry accounts**

An investor making a Commitment must have a book-entry account and a related cash account with a Finnish custodian or account operator, or with another such custodian operating in Finland, and must submit the number of his or her book-entry account in the Commitment. The Swedish employees who are qualified to participate in the Personnel Offering must be customers of Nordea and they must have a book-entry account in Nordea upon submitting their Commitment. Sale Shares offered in the Public Share Sale will be recorded in the book-entry accounts of investors who have made an approved Commitment on or about the first banking day after the Pricing takes place, on or about 23 March 2018. In the Institutional Share Sale, the Sale Shares will be ready to be delivered against payment on or about 27 March 2018 through Euroclear Finland Ltd ("**Euroclear Finland**"). The Personnel Shares will be recorded in the book-entry accounts of investors who have made an approved Commitment on or about 28 March 2018.

**Title and shareholder rights**

The title to the Shares is transferred when the Shares are paid for, the Personnel Shares are registered in the Trade Register and the Shares are recorded in the investor's book-entry account. The right to dividend and to other distribution of funds as well as other rights carried by the Shares in the Company belong to the investor after the title has been transferred.

**Transfer tax and other expenses**

The Seller will pay any transfer tax potentially due on transfers of its Sale Shares or its Additional Shares. In Finland no transfer tax will be payable in connection with the issue of or the subscription for Personnel Shares.

No fees or other payments will be charged from the investors in connection with offer for subscription, Commitment nor subscribing the Offer Shares. Account operators may charge fees in accordance with their price lists for the opening and maintaining of the book-entry account or other custody system and for custody of Shares.

**Trading in the Shares**

The Company will submit a listing application with the Helsinki Stock Exchange to list the Shares on the Official List of the Helsinki Stock Exchange. The Shares will be admitted to trading immediately in connection with the Listing. The trading is expected to commence on the prelist of the Helsinki Stock Exchange on or about 23 March 2018 and on the Official List of the Helsinki Stock Exchange on or about 27 March 2018. The Personnel Shares will be applied to be admitted for trading later, on or about 28 March 2018. The trading code of the Shares is ALTIA and the ISIN code is FI4000292438.

When the trading on the prelist commences on or about 23 March 2018, all Sale Shares sold in the Share Sale may not yet have been fully transferred to the investors' book-entry accounts. If an investor wishes to sell Shares purchased in the Share Sale on the prelist, he or she should ensure, before placing the order, that the number of Shares registered to his or her book-entry account covers the transaction in question at the time of the trade. Personnel Shares are subject to a lock-up.

[3] The Designated Banks are: Etelä-Hämeen Osuuspankki, Etelä-Karjalan Osuuspankki, Etelä-Pohjanmaan Osuuspankki, Itä Uudenmaan Osuuspankki, Kainuun Osuuspankki, Keski-Pohjanmaan Osuuspankki, Keski-Suomen Osuuspankki, Keski-Uudenmaan Osuuspankki, Kymenlaakson Osuuspankki, Lounaismaan Osuuspankki, Lounaisrannikon Osuuspankki, Länsi-Suomen Osuuspankki, Länsi-Uudenmaan Osuuspankki, Helsingin Seudun Osuuspankki, Oulun Osuuspankki, Pohjois-Karjalan Osuuspankki, Pohjois-Savon Osuuspankki, Pohjolan Osuuspankki, Päijät-Hämeen Osuuspankki, Suur-Savon Osuuspankki, Tampereen Seudun Osuuspankki, Turun Seudun Osuuspankki and Vasa Andelsbank.

**Right to cancel the Share Sale and/or the Personnel Offering**

The Seller is entitled to cancel the Share Sale and the Board of Directors of the Company is entitled to cancel the Personnel Offering at any time prior to their execution for any reason, such as due to a material change in the market conditions, the Company's financial position or the Company's business. The Personnel Offering is conditional to the execution of the Share Sale. The subscription place will refund the amount paid for the Shares to the bank account specified in the Commitment or, with regard to the subscriptions made via Nordea Netbank e-subscription, to the bank account from which the subscription payment was made as soon as possible after such cancellation decision approximately five (5) banking days later. If the investor's bank account is in another financial institution than the subscription place, the refund will be paid to the investor's Finnish bank account in accordance with the payment schedule of the financial institutions, approximately no more than two (2) banking days later and, in the Personnel Offering, to the Swedish employees' Swedish Nordea bank account approximately no later than two (2) banking days. No interest will be paid on such repaid funds.

**Other issues**

Other issues and practical matters relating to the Share Sale will be resolved by the Seller, together with the Global Coordinator.

Other issues and practical matters relating to the Personnel Offering will be resolved by the Board of Directors of the Company based on the authorisation for the share issue.

**Documents on display**

The Company's latest financial statements, the report of the Board of Directors and the auditor's report as well as the other documents pursuant to Chapter 5, Section 21 of the Companies Act are available during the subscription period at the Company's headquarters in Kaapeliaukio 1, 00180 Helsinki, Finland.

**Governing law**

The Share Sale and the Personnel Offering are governed by the laws of Finland. Any disputes arising in connection with the Share Sale and/or the Personnel Offering will be settled by a court of competent jurisdiction in Finland.

**E.4** Description of all essential interests regarding the offering, including conflicts of interest

The fees to be paid to the Managers are, in part, linked to the proceeds from the Share Sale and the Personnel Offering.

Nordea, Carnegie and OP acting as the Managers, as well as other entities within the same groups, may purchase and sell Shares for their own or their customers' account prior to, during and after the Share Sale and the Personnel Offering subject to the legislation and regulations applicable to this.

The Managers, other entities within the same groups and/or their affiliates have provided, and may provide in the future, investment, insurance, banking and /or other services as well as financing (including the facilities under the Senior Facilities Agreement) to the Company and the Seller in the ordinary course of business, for which they may have received and may continue to receive customary fees and commissions.

The Managers do not intend to disclose the content of any such services, investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so. As described above, the Managers will receive placing commissions in connection with the Share Sale and the Personnel Offering and, as such, have an interest in the Share Sale and the Personnel Offering.

**E.5** Name of persons selling the security and lock-up agreements

The Company's sole shareholder the State of Finland sells the Sale Shares in the Share Sale.

The Company and the Seller are expected to commit, during the period that will end on the date that falls 180 days from the Listing, without the prior written consent of the Global Coordinator, not to issue, offer, pledge, sell, contract to sell, sell any option rights or contract to purchase, purchase any option rights or contract to sell, concede any option right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities they hold entitling to Shares or exchangeable for or convertible into or exercisable for Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transactions are to be settled by delivery of the Shares or other securities, in cash or otherwise. The lock-up does not apply to the potential transfer of the Shares from the Seller to

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| | | State Business Development Company (Vake Oy). The lock-up does not apply to measures related to the execution of the Share Sale or the Personnel Offering.<br><br>As a precondition for participation in the Personnel Offering, persons eligible to participate in the Personnel Offering must undertake the lock-up upon submitting their subscriptions, which ends, for part of the members of the Executive Management Team of Altia on the date that falls 365 days from the Listing, and, for part of other personnel, on the date that falls 180 days from the Listing. The participants of the Personnel Offering accept upon submitting their subscriptions that the above-mentioned lock-up will be binding upon them without any further action and that it will be recorded to their book-entry accounts on the order by the Company.<br><br>In aggregate, the terms of the lock-up agreements apply to approximately 44.8 per cent of the Shares after the Share Sale and the Personnel Offering, without the Over-allotment Option (approximately 36.6 per cent with the Over-allotment Option), assuming that the Company issues 300,000 Personnel Shares. |
| **E.6** | Degree and percentage of immediate dilution resulting from the offering | The Personnel Shares offered in the Personnel Offering represent approximately 0.8 per cent of the Shares in the Company prior to the Personnel Offering. This corresponds to a dilution for the existing shareholder of the Company of approximately 0.8 per cent, assuming that all the Personnel Shares offered are subscribed for in full. |
| **E.7** | Estimated costs charged to investor by the issuer | Not applicable. The Company does not charge costs related to the Share Sale and the Personnel Offering to the investors. |

## RISK FACTORS

*An investment in the Shares involves risks, materialisation of which could have an adverse effect on the value of the investment. Prospective investors should carefully consider the following risk factors, in addition to the other information contained in this Offering Circular, before deciding whether or not to invest in the Shares. Should one or more of these risks materialise and result in a decline in the market price of the Shares, investors could lose all or part of their investment. The risks and uncertainties described here are not the only risks potentially affecting the Company's business operations. Additional risks and uncertainties presently unknown to the Company or currently deemed immaterial may also have an adverse effect on the Company's business, financial condition, results of operations or future prospects. The order in which the risks are presented is not intended to be an indication of the probability of their materialisation or order of priority.*

*This Offering Circular includes forward-looking statements that involve risks and uncertainties. The Company's actual results may differ in a material way from those anticipated in the forward-looking statements due to the risks described below and other factors described in this Offering Circular.*

### Risks Related to the Company's Operating Environment

***Uncertain global economic, political and financial market conditions could have a material adverse effect on the Company's business, financial condition and results of operations***.

In recent years, the general economic and financial market conditions in Europe and other parts of the world have undergone significant volatility due to, among other factors, the sovereign debt crisis in certain European countries. Although general economic and financial market conditions have improved somewhat recently, there is no assurance that economic or financial market conditions will continue to improve in the future. The Company is particularly exposed to macroeconomic conditions affecting Northern Europe, in addition to which economic, political and financial market conditions in Russia and the Baltics, central Eastern European region, China and the United States may impact the demand for the Company's export operations. The Company is also exposed to economic or financial market conditions as well as trade restrictions and agreements affecting wine producing countries such as Australia, Argentina, Chile and South Africa.

Geopolitical tensions and political developments around the world have had an impact on the global economic conditions and increased market uncertainty and volatility and may continue to do so in the future. It cannot be ruled out that changes in global economic conditions could cause the markets the Company is present in or that otherwise affect the operations of the Company to fall into a recession or even a depression. Of the Company's key markets, the performance of the Finnish economy has generally been weak during the recent years[4] even though the economic conditions have improved and exports have recovered in 2017[5]. As Finland is a relatively small economy that relies on export-based growth, it is dependent on global economic conditions. In Sweden, the high and rising household debt currently, among other things, poses a threat to the economy, which is also dependent on exports[6]. Even though consumption of alcoholic beverages has historically been relatively stable over the cycle and not strongly affected by economic fluctuations[7], an economic slowdown or a recession, or any other negative economic developments in the Nordics as well as in new markets the Company enters may negatively affect, including among other things, the net sales, profitability, liquidity, and business and financial condition of the Company. Further, weak economic conditions may put financial stress on the Company's customers and suppliers. Even though the state alcoholic beverage retail monopolies in Finland, Sweden and Norway can generally be seen as lower credit risk customers compared to other customers, negative economic developments can negatively impact the Company's opportunities to collect its receivables in a timely manner, or at all. Despite the rather resilient nature of the alcoholic beverages business, consumer behaviour and preferences are influenced by many factors beyond the Company's control, including consumer perception of current and future general economic conditions, levels of private consumer spending, as well as consumer preferences and purchasing power, which may lead to different choices between different product categories and brands, and hence affect demand for the Company's products. Further, the Company may not be able to utilise the opportunities created by the economic fluctuations or be able to adapt to a long-term economic recession or period of stagnation.

The uncertainty in the international financial markets could have a material adverse effect on the Company. The Company's business, liquidity and access to financing as well as its ability to conduct exports, especially with respect to new market openings may be materially affected by changes in the financial markets as well as measures taken by various governmental and supervisory authorities, central banks and other organisations as well as any sanctions measures, import

[4] Source: OECD (2017).
[5] Source: Ministry of Finance, Economic Survey, winter 2017.
[6] Source: Riksbank 2017.
[7] Source: OECD (2017).

restrictions or customs imposed by the United Nations, the European Union or the United States, over which the Company has no control.

The materialization of any of the above risks could have a material adverse effect on the Company's asset values, its opportunities to collect its receivables, future cost of debt and access to bank and capital market financing in the future, which, in turn, could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company operates in a very competitive industry and intensifying competition could have a material adverse effect on its business.***

The Company's important sales channels in the Nordics are the state-owned alcohol retail monopolies, which accounted for 69 per cent of the Company's sales of consumer products[8] in 2017. Despite the high level of regulation in the markets in most of the countries in which the Company operates, the alcoholic beverage sale and distribution is intensely competitive. The principal factors affecting the Company's competitive position include brand strength, product range, pricing, product quality, innovation and new product offerings, the product portfolio, distribution capabilities and the ability to foresee and respond to changing consumer trends and preferences as well as demand. The effect of these factors varies depending on the market and the product. In addition, changes in the operating environment, regulation and state retail monopolies' operating models and strategies, as well as the liberated retail channel for ethanol based RTDs (as defined below), enabled by the renewed Alcohol Act (as defined below), could result in, among other things, increased price competition in the retail channel, and thus affect the Company's profitability.

The Company's competitors in the alcoholic beverage industry include both local and international producers. Even though large multinational companies may not be able to take equal advantage of their global brand campaigns in entering the Nordic market in the same manner as in other less regulated markets due to the strict marketing rules and tender processes applied by the Nordic alcohol retail monopolies, the Company may face increased competition from multinational alcoholic beverage companies seeking to enter the Company's core markets by introducing their own brands, strengthening their own brands already present in the markets or by acquiring local brands. The Company's net sales and market share could suffer if its current or future competitors introduce new products to markets which respond better to consumer preferences, or if competing products are offered at prices that are lower than the prices of the Company's products in a segment where consumer price could be a highly sensitive factor. Currently the alcoholic beverages retail sales, including web sales, are highly regulated in the Nordic monopoly markets. Due to differences in taxes levied on alcohol in European countries, the price levels in foreign e-commerce sites might attract consumers to order products, if the local tax and despatch costs impacts are not correctly taken into account in comparison.

The Company's distribution business is also very competitive, and the Company's competitors may seek to capture partners by different measures to increase their sales and to enhance their distribution operations, which could lead to the Company's partners, e.g. wine producers, terminating their cooperation with the Company. In addition, in retail, customers are increasingly focusing their purchases directly toward producers instead of local distributors, which could pose a risk to the Company's partner business, particularly in the Baltics and Denmark. A decline in consumer demand in the Company's core geographic markets in the Nordic and Baltic countries could further intensify competition and result in increased price competition and thus decrease the Company's profitability. Increased competition and unanticipated actions by competitors, including aggressive pricing policies, could lead to downward pressure on prices or a decline in the Company's market share and profitability.

The Company produces grain spirits and technical ethanol and offers contract manufacturing services to its customers. The Company has a long-term exclusive production services agreement with Brown-Forman Finland Ltd ("**Brown-Forman**") regarding the production of Finlandia Vodka and certain other products, currently in force until 2025. Finlandia Vodka is produced and bottled at the Company's alcoholic beverage plant in Rajamäki and currently the Company is the only producer of Finlandia Vodka in the world. In the event that competition on the global vodka market increases and the demand for Finlandia Vodka decreases, it could affect the volumes that Brown-Forman sources from the Company and thus have an adverse effect on the Company's business and results of operations. Furthermore, when the production agreement with Brown-Forman expires, there is no guarantee that the Company will be able to renew or prolong the agreement especially if new competitors capable of meeting the quality and brand requirements for Finlandia Vodka emerge. Increased competition in the Altia Industrial segment could also affect the demand for starch and technical ethanol, in particular, which could lead to a loss of agreements and customerships and have an adverse effect on the Company's operations and results of the operations. Volatility in prices of different raw materials could lead to an unfavourable cost structure for the Company's ethanol and starch production versus competition from imported products.

[8] Net sales of the Finland & Exports and Scandinavia segments based on the unaudited management reporting in 2017.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***Demand for alcoholic beverages may be adversely affected by changes in consumer behaviour and preferences and governmental policies.***

Consumption of certain beverages with higher alcohol content has declined in some European countries due to a variety of reasons such as increasing general health consciousness, an increase in lifestyle diseases, health risks associated with excessive alcohol consumption, awareness of the social costs of alcohol abuse or excessive alcohol consumption and a trend towards healthier or more low-energetic beverages such as soft drinks, juice and mineral water products and, in some jurisdictions, increased level of taxes on alcoholic beverages. These factors have affected and could in the future affect the social acceptability of alcohol consumption and increase governmental regulation of the alcohol industry in the markets in which the Company operates.

Consumer behaviour and preferences in the alcoholic beverage markets are affected by several factors, including general social changes, changes in purchasing power, the age structure of consumers, lifestyle trends and changes in consumption preferences regarding the geographical origin of wines. Substantial changes in the consumption habits and preferences for alcoholic beverages normally take place over a longer period of time. However, there is no certainty that such changes could not occur quickly and be profound and thereby affect the Company's ability to react and adapt to these changes. Furthermore, segmentation of consumer groups into increasingly smaller special groups is continuing, and it can be increasingly challenging to foresee changes in consumer behaviour and to be fast to react on and adapt to the changes. The selection criteria for alcoholic beverages besides the price, domestic origin and taste and brand perception are becoming more diverse. Health-oriented and ethical thinking has been a rising trend in the consumer market in recent years. The role of organic and fair-trade products in wine sales has increased during the past few years and this growth has been gaining strength as the Nordic alcohol retail monopolies have been actively driving these types of products in their listing processes. Another trend in the alcoholic beverages market is that a growing number of consumers are favouring lighter alcoholic beverages, such as wines, instead of spirits. A small proportion of consumers avoid all alcoholic beverages due to health-related, religious or other reasons and this proportion has increased especially among young people and could increase even more in the future. Segmentation of consumer groups into smaller special groups as well as the demand for novelties are continuing which makes it important to actively analyse consumer trends to foresee future consumer preferences. This results in challenges for innovation and the speed of launching products on the market and also challenges the supply chain, with the need to be able to operate both efficiently and profitably at the same time with smaller scale production. Changes in consumer preferences may cause a reduction in the consumption of certain product categories or the consumption of alcoholic beverages as a whole. Any significant changes in consumer behaviour or preferences or any failure to anticipate and react to such changes could result in reduced demand for the Company's products and weaken its competitive position.

In addition, negative publicity and scientific publications regarding the health effects of alcohol consumption, regulatory action or customer complaints and any potential litigation against companies in the industry may negatively impact the social acceptability and demand of the Company's products. Certain non-governmental and other organisations are also promoting information campaigns highlighting a connection between alcohol consumption and the increased risk of illnesses. Intensified information campaigns regarding the risks related to excessive alcohol consumption together with general health consciousness could have an impact on consumer behaviour and reduce the demand for alcoholic beverages.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

**Risks Related to the Highly Regulated Nordic Alcohol Market**

***Changes to legislation regarding state-owned retail monopolies in the Company's core markets could have a negative impact on the Company's business.***

In Finland, Sweden and Norway retail sales of alcoholic beverages to consumers are channelled through retail monopolies with enterprises wholly owned and controlled by the state in each of the jurisdictions (Alko, Systembolaget and Vinmonopolet, respectively) which have the exclusive right to sell wine, spirits and strong beer as well as strong RTDs to the retail market. Only beverages that contain a lower percentage of alcohol are permitted to be sold through ordinary retail channels. In Finland the alcohol limit in the retail channel is 5.5 per cent ABV (as defined below), in Sweden 2.25 per cent ABV (except for beer up to 3.5 per cent ABV) and in Norway 4.7 per cent ABV. The situation in Denmark, Estonia and Latvia is different as there are no retail monopolies, and alcoholic beverages including wine, spirits and beer are sold through ordinary retail channels. Even though the state retail monopolies currently enjoy high levels of public support[9] and the total number of monopoly outlets has been increasing in Sweden and Norway and has been stable in Finland[10], it is possible that the number of monopoly outlets or categories of products that need to be sold or will be sold through the monopoly outlets could be reduced or that the retail monopolies could be abolished altogether in the future, which could cause a major need for restructuring the Company's operating model and hence have a material adverse effect on the Company's business, financial condition and results of operations.

***Changes in the legislation concerning alcoholic beverages could increase the Company's costs or limit its business activities.***

The renewed Finnish Alcohol Act (1102/2017, the "**Alcohol Act**"), entered into force on 1 January 2018 with regard to certain first amendments and the whole Act entered into force on 1 March 2018. The Alcohol Act allows the sale of ethanol based ready-to-drink beverages ("**RTD**") of up to 5.5 per cent alcohol by volume ("**ABV**") in grocery stores. In addition, spirit brands are allowed to be used in alcoholic beverages sold in grocery stores, even though they are not allowed to be marketed. Alko, the state alcohol retail monopoly in Finland ("**Alko**"), will retain its current alcohol monopoly and the right to sell alcoholic beverages containing above 5.5 per cent ABV. Exceptions to this include wines of up to 13 per cent ABV produced from berries at the producers' own facility that are sold at the production facility, the sale of traditional Finnish beer made of a variety of grains (Finnish: *sahti*), and the right to sell craft beers at the brewery produced by independent and microbreweries. The Alcohol Act also permits Alko to sell alcoholic beverages from mobile stores. The Company believes that the renewed Alcohol Act may create new possibilities for the retail segment and an opportunity to expand the RTD product market. However, uncertainty regarding its legal interpretation could affect the Company's ability to take advantage of the opportunities of the reform. It is also possible that the current Government or a subsequent Government would propose amendments to the Alcohol Act due to political reasons, public health issues or other factors which can adversely affect the Company's operating environment and its business operations as well as sales channels.

The Company's products are also sold at duty-free shops on several airports, harbour outlets and cruises in the Nordics. Similarly to the state retail monopolies, duty-free shops are also heavily regulated, which for instance include limitations to the quantity of alcohol allowed for each customer to purchase and import without making a customs declaration. Changes, or dissolution of the state retail monopolies in the Nordic countries as well as increases in the quantity of alcohol permitted to be procured from duty-free shops in Finland or elsewhere, could increase competition and may result in the need to modify the Company's operating model and cause the Company to incur material additional costs that could adversely affect its business.

Similarly, if the Nordic countries or their neighbouring countries make changes to their regulations and such new regulations reduce the price of alcoholic beverages or make them otherwise more accessible for the retail market through more liberal e-commerce channels or otherwise, consumers may choose to purchase and import alcoholic beverages from such markets or order alcoholic beverages through such channels. The Company may also want to develop its own e-commerce channels in different countries but there may be regulatory restraints and costs related to the establishment of such operations.

Furthermore, changes to the laws and regulations as well as decisions of the EU relating to geographical indications as well as definition, description, presentation and labelling of wines, spirit drinks and aromatized wine products or foodstuffs in general could have an effect on the Company's operations. The European Commission is currently preparing an amendment to the regulation concerning the definition, presentation and labelling of spirit drinks, in addition to which there are ongoing discussions on whether the requirement on labelling of the list of ingredients and the nutritional information should be extended to cover alcoholic beverages. These kinds of amendments could have an effect on the labelling requirements of the Company's products. Furthermore, the European Commission is currently considering the basis for the geographical indication of Swedish Aquavit (*Svensk Akvavit*). Currently the Company uses grain spirit from its Koskenkorva plant and spring water from the Rajamäki plant in the blending and bottling of its aquavits. Should the Commission resolve that the ethanol and water to be used in the production of Swedish Aquavit must be Swedish, or impose other restrictions regarding ingredients or production methods of Swedish Aquavit, this could result in problems relating to the availability or sourcing of raw materials or incur additional costs relating to the production or limit the Company's business operations, should it not be able to adjust its production processes accordingly. Any of the foregoing could adversely affect the Company's business, financial condition and results of operations.

[9] Source: Alko (2017), "Information on the Nordic Alcohol Market 2017".
[10] Source: Alko, Systembolaget and Vinmonopolet.

***The Company is subject to extensive regulations limiting producing, advertising, marketing, promoting and distributing alcoholic beverages, and these regulations and any changes to these regulations could adversely affect its business activities.***

Governments in the countries in which the Company operates impose prohibitions and limitations on the marketing of alcoholic beverages, which can range from selective regulation to a near total ban. These prohibitions may limit the Company's ability to successfully launch new products or brands as well as market its current product portfolio. Even if certain relief on selling restrictions were adapted through the adoption of the renewed Finnish Alcohol Act, governments and regulatory bodies in the countries in which the Company operates may pass laws or regulations that seek to restrict consumer access to alcohol by, for example, controlling the times when alcohol retail monopolies are allowed to sell alcohol or increasing the minimum age for purchasing alcoholic beverages. The unpredictability of the politics and governmental regulations regarding the production, marketing and sales of alcoholic beverages may affect the Company's operational planning and its business in general. Such laws or regulations or any changes to such laws or regulations may adversely affect consumer demand for the Company's products. Further, the supervisory authorities' policies in relation to enforcing and interpreting the regulation are often very strict, which also increase the unpredictability in the Company's business.

The EU and countries in which the Company operates have also passed regulations relating to the production and sale of the Company's products, such as labelling requirements, and limitations to, the ingredients permitted in alcoholic beverages. Changes to production and sales requirements for alcoholic beverages, such as the introduction of regulations that require any potential adverse effects of alcohol consumption to be highlighted on product labels, requiring certain alcoholic beverages to be sold in neutral packaging showing only certain product details or a ban on the use of certain ingredients could change consumers' beverage preferences or increase sales of consumer products on unofficial markets, and thus result in a reduction in the Company's net sales or in the Company incurring additional expenses relating to marketing or production. Failure to comply with any requirements relating to the production, labelling, sale and marketing of alcoholic beverages could affect the Company's operations negatively and result in product recalls.

In addition, these prohibitions and limitations may act as a barrier to entry to the markets in the countries where the Company operates to large multinational companies that operate through large volumes and global brand campaigns, which, if removed, could allow new competitors to enter the market in which the Company operates. If the restrictions on selling, marketing, promotion and distribution were to be removed or the scope of the products sold through the state retail monopolies is reduced, this could lower or remove the potential barrier to entry and encourage other businesses to enter the markets.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***Increases in taxes, particularly increases to excise taxes, could adversely affect demand for the Company's products.***

The Company is subject to tax laws in the countries where it operates. Excise taxes related to alcohol are the taxes with the heaviest impact on the Company's operational activities. Governments in the countries the Company operates in may increase such taxes or impose new taxes altogether. For example, in Finland the alcohol tax increased in January 2018. Demand for the Company's products is generally sensitive to fluctuations in excise taxes, since excise taxes generally constitute the largest component of the sales price of alcoholic beverages for which excise duty increases may lead to increases via volumes in e-commerce, illegal distribution and a higher level of private import from Estonia, for example. In the Nordic countries, increases in alcohol taxation and differences in consumer prices between neighbouring countries have increased the share of cross-border and tax-free sales and decreased sales from the state retail monopoly. The tax and excise regimes applicable to the Company's operations have in the past resulted, and could result in the future, in temporary increases or decreases in net sales that are responsive to the timing of any changes in taxation.

The increase in taxes in the countries where the Company operates may result in increased traveller imports of alcoholic beverages, e-commerce, tax-free imports and illegal distribution and sale of alcoholic beverages. The share of traveller imports accounted for approximately 17 per cent of the Finnish alcoholic beverage consumption in 2016, corresponding to an increase of 4.9 per cent since previous year. The volume of the traveller importation of alcoholic beverages to Finland was 81.5 million litres in 2016. Of such traveller imports 75 per cent were imported from Estonia and the ships operating between Finland and Estonia.[11] Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

[11] Source: The National Institute for Health and Welfare, Report on Traveller Import of Alcoholic Beverages 2016 (3/2017) and Report on Alcoholic Beverage Consumption in 2016 (11/2017).

### Risks Related to the Company's Business

***The Company may be unsuccessful in fulfilling its strategy or the strategy itself may be unsuccessful.***

As part of the Company's strategy, the Company aims to strengthen the Company's Nordic core brands, execute a step change in wines, strengthen the Company's strategic partnerships, and channel expansion in different sales channels. In addition, the Company aims to improve its operational efficiency and the operations in Koskenkorva and Rajamäki in particular through improved material management and technology. Furthermore, the Company is aiming to improve its operational efficiency through improved capital efficiency and simplified company structure and operations, including production and logistics. The Company's strategy is described in more detail under "*Business of the Company — Business Strategy*".

The successful implementation of the Company's strategy depends upon a number of factors, some of which are completely or partially outside of the Company's control. The Company may not be able to successfully execute its strategy due to, for example, market conditions, regulatory changes or operational challenges. The execution of the strategy may also cause increased costs as a result of the reorganization of operations. The Company may also decide to amend its strategy or adapt its strategy in response to changes in its operating environment. In addition, even if the Company succeeds in execution of its strategy, there can be no certainty that the chosen strategy is or will be successful. Costs related to pursuing a strategy or an amended strategy or any failure in executing or amending the Company's strategy, or a failure of the strategy itself or the amended strategy, could have a material adverse effect on the Company's business, financial condition and results of operations.

***New products and line extensions are an important part of the Company's growth strategy, and success of the launch of new products and line extensions as well as the success of existing products is uncertain.***

Product innovation is a significant part of the Company's strategy for future growth. The Company seeks to develop its current product portfolio and focus on new products and brands, maintain the success of existing products and brands as well as to take advantage of its existing brands in new products and categories. However, the success in the development and launch of new products and product categories as well as maintaining the success of existing products and brands is dependent on several factors. The lifecycle of products in state retail monopolies may be restricted as a product needs to reach sufficient sales and maintain its product ranking. The lifecycle of the products is uncertain and depends on the customer acceptance, prevailing beverage trends as well as changes in tastes and consumption habits of consumers. As the marketing opportunities are very restricted due to marketing regulation, the product design is an important factor to gain consumers' attention and to make a purchase decision. Consumer tests and general reviews in traditional and social media can impact the success of the product launch. An unsuccessful launch of a new product may give rise to inventory write-offs and have an adverse impact on consumer perception of other products and brands of the Company. In addition, the success of a new product could replace an existing product and thus reduce net sales from other existing Company brands or products. There can be no assurance that the Company will be able to continuously successfully develop new brands, products and product categories or anticipate consumer response to such new brands, products or product categories. For example, despite of the opportunities brought by the renewal of the Alcohol Act, the Company may fail to launch new ethanol-based RTDs that would gain customer acceptance in the retail channel. Failure to develop and launch new product categories, brands, products, and new variants of existing products successfully could hinder the Company's growth potential and cause the Company to lose market share. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***Failures in tender processes, in fulfilling requirements to maintain a product ranking or other requirements related to assortments could affect the Company's business adversely.***

One of the characteristics of state retail monopoly sales channels is that the product assortment is determined through structured tender processes. If the listing requirements of the state retail monopoly are fulfilled and a product ranking is maintained, the product will remain part of the state retail monopolies' base assortment and be allocated shelf spacing. Failure to comply with the requirements of the tender processes or any other requirement set by the state retail monopolies or by other customers related to assortments such as complying with amfori Business Social Compliance Initiative ("**amfori BSCI**") and any other requirements for responsible operations as well as failures in maintaining good positions in sales-based rankings, may result in the Company's products being de-listed from the monopoly assortment or losing store coverage or shelf spacing. This may have a material adverse effect on the Company's business, financial condition and results of operations.

***Loss of agreements or weakening of the relationships between the Company and the key partners, customers, suppliers and distributors could affect the Company's business negatively.***

The success of the Company's business is in many ways dependant on functioning and successful relationships with its key partners (i.e. wine, spirit and other alcoholic beverage producers), customers, suppliers and distributors. The Company follows its know-your-business partner policies and the Company strives to diligently select its partners, suppliers, customers and distributors. Despite the Company's efforts to carefully select its business partners, the selection may turn out to be unsuccessful and have an adverse effect on the reputation of the Company and its brands, which may reduce demand for the Company's products.

The Company enters into partner agreements particularly with wine producers which entitle the Company to distribute the products of the particular wine producer, i.e. partner in the Company's home market on an exclusive basis. Even though majority of the Company's material agreements are in a written form, operations, especially with partners, may be arranged without written agreements in the early stage of the cooperation and with certain partners prices, deliveries, volumes and annual targets as well as other terms and conditions of agreements may be agreed for one year at a time through e-mail, for example. If partner relationships or their value creation are not systematically managed or if the Company is unable to create value for its key partners or maintain consumer appreciation of the partner's products, this might be detrimental to the partner relationships which, in turn, could decrease sales and lower margins and result in the loss of key partners. The partners may terminate their cooperation with the Company if the development of sales and performance of the Company is considered unsatisfactory. In order to maintain and prolong the validity of the agreements, the Company aims to maintain good relations and expand the scope of cooperation with its partners. However, as the partner business is intensely competitive, even good relations with partners cannot guarantee that the cooperation continues during the agreement period or that the agreements are renewed or the cooperation extended. In addition, in order to develop its product portfolio, the Company needs to continuously replace and renew certain of its partner agreements. If the Company is not able to replace or renew its agreements in a timely manner, or at all, or if the Company breaches the agreements, this could have an adverse effect on the Company's business.

In the travel retail channel, the Company's key customers include shipping and airline companies as well as airport shops. Consolidation among the Company's customer base and in the distribution channels could negatively affect the Company's opportunities to distribute its products. Furthermore, part of the Company's agreements with partners, suppliers and distributors are not written, and typically the Company has no written agreements with its travel retail customers, but prices, deliveries and volumes are agreed annually. This may lead to ambiguity and uncertainty in relation to the length and the terms and conditions governing the cooperation.

The Company's key industrial customer agreements include cooperation and supply agreements concerning the supply of ethanol and certain by-products from the ethanol distillation process at the Koskenkorva plant. For example, barley starch can be used as a binding agent in the paper and paperboard industries and as a raw material in the food industry. Grain spirit is used in the beverage industry and technical ethanols and solvents are used in a wide range of industries, including medical and process industries. Further, the Company's industrial services offer a broad range of packaging, logistics and contract manufacturing services for the alcoholic beverage industry. The Company's key industrial customer agreements include, for example, a cooperation agreement with A-Rehu Oy ("**A-Rehu**"), whose plant is located next to the Koskenkorva plant. A-Rehu is the only purchaser of the animal feed component the Company produces on a continuing basis as part of its ethanol distillation process. The cooperation between A-Rehu and the Company consists of a continuous flow of the animal feed component from the Company's process directly to A-Rehu's process. The agreement with A-Rehu is valid until further notice with a termination period of 24 months from the end of the year during which the agreement was terminated. If A-Rehu ceases to need the feed component due to changes in its business model, damage at its production plant, a pandemic affecting livestock or other force majeure event or if the agreement is terminated, this could lead to a loss of net sales and increased costs as it would be difficult for the Company to replace the agreement on terms that are commercially viable. The Company also has a supply agreement with Chemigate Oy ("**Chemigate**"), which modifies starch for the forest industry. Chemigate purchases a major share of the Company's unmodified starch, i.e. native starch. The agreement is valid for a fixed period until 31 December 2020. If the agreement with Chemigate is terminated, the Company may not be able to find new customers on economically viable terms due to, for example, costs related to logistics.

The Company has a long-term production services agreement with Brown-Forman regarding the production of Finlandia Vodka and certain other products, currently in force until 2025. In certain exceptional situations Brown-Forman is entitled to purchase finished vodka or ethanol in bulk, rather than pre-bottled, which could lead to decreased profitability for the Company and idle capacity at the Rajamäki plant with respect to production, warehousing and logistics. If the Brown-Forman agreement is terminated, the Company needs to adjust the operations and find new customers for ethanol and use of the Company's bottling and warehousing capacity. If this is not successful, this could lead to loss of the Company's revenue and decrease of profitability. See "*Business of the Company — Business Segments — Altia Industrial*" and "*Business of the Company — Material Agreements*" for further information.

The Company has entered into various distribution agreements with different distributors. If several or one important distribution agreements are terminated or renegotiated on terms that are less beneficial for the Company, this could result in increased costs, decreased profitability and loss of net sales of the Company.

Termination of an important agreement or several agreements due to unsatisfactory sales, deterioration of the business relationships, breach of agreement or other factors could result in disruption to the Company’s distribution channels, increased costs, decreased profitability and the loss of net sales.

Any of the foregoing could have a material adverse effect on the Company’s business, financial condition and results of operations.

***The Company’s business may be adversely affected by disruptions and damage in its production and storage plants.***

The Company’s production and supply chain consist of the Koskenkorva plant in Finland, the Aquavit distillery in Sundsvall in Sweden, the production plants in Rajamäki in Finland and Tabasalu in Estonia, cognac production and aging facilities in Cognac in France, and logistics centres in seven countries. Any significant disruption in its production plants, for example, at the main production plants in Koskenkorva and Rajamäki, its logistics centres or warehouse facilities, such as the Company’s aging and cognac stock in Cognac in France, could have an adverse effect on the Company’s business. As alcohol is highly inflammable, fire is a risk at the Company's production plants and other facilities as well as exposure to hazardous chemicals, particularly at its production and storage plants. A technical failure, fire, explosion, flooding, severe weather conditions or failure to comply with environmental requirements causing environmental pollution or any other event resulting in a significant or prolonged disruption at any of its production plants could result in a loss of production capacity and cause, among other things, damage, significant costs, loss of agreements, liabilities, legal claims or damage to the Company’s reputation. Furthermore, failure to comply with, among other things, hygiene requirements, causing an outbreak of salmonella or other bacteria, virus or mould contaminating the Company’s facilities, production equipment or products, especially low- or non-alcoholic and organic products, could result in intervention or sanctions by a supervisory authority, and could affect the Company’s operations negatively and result in product recalls, production shutdowns as well as damage to the Company’s and its brands’ reputation.

Any of the foregoing could have a material adverse effect on the Company’s business, financial condition and results of operations.

***Interruptions and other disturbances at key suppliers’, sub-suppliers’ or partners’ production sites could affect the Company’s ability to supply its products in a timely manner.***

The Company purchases wine, whiskey, barley, *eau-de-vie* liquids for cognac blends, non-alcoholic beverages and other raw and packaging materials for the Company’s proprietary brands as well as for its industrial service customers from suppliers, as well as finished goods from the Company’s partners. The Company’s suppliers, sub-suppliers or partners may experience problems or disruptions at their production sites or in their supply channels, which could be due to several factors, such as capacity, labour or material shortages, strikes, natural disasters or phenomena such as extreme droughts, cold or downpour, crop failures, fire, explosion, flooding, acts of war, actions by authorities, terrorist attacks or failure to comply with environmental or hygiene requirements and damage resulting from non-compliance. Business or production interruptions which occur on such production sites could lead to the suppliers, sub-suppliers or partners not being able to deliver necessary products and raw materials to the Company. If such an event were to occur, the Company’s business could be adversely affected. For example, the Company could be compelled to source substitute products and raw material from other producers or from other geographical areas, which could increase its costs and cause disruptions or delays in the production resulting in loss of sales and damage.

Even though the Company has implemented certain measures to monitor and promote the use of responsibly produced raw materials, minimising the environmental impacts and promoting human rights in the supply chain, there can be no assurance that the Company's suppliers, sub-suppliers and partners operate in manners which are in accordance with responsible business practices. Such suppliers, sub-suppliers or partners may become the target of investigations and be issued fines or other sanctions, or even closed down as a result of inadequate working and socio-economic conditions, neglect of environmental impacts or similar issues. Any such issue could cause financial damage, legal claims and negative publicity, which in turn could negatively impact the demand for products from a specific supplier or the Company’s brands. A failure by the Company’s suppliers, sub-suppliers or partners to comply with the Company’s customers’ demands on social compliance could also lead to the product being de-listed from the monopoly assortment or further deliveries of the product being stopped to the Company’s customer. Furthermore, a serious violation of sustainability principles by one producer could negatively impact all products from the region or the country and hence indirectly impact the demand for the Company’s products.

Any of the foregoing could have a material adverse effect on the Company’s business, financial condition and results of operations.

***The Company may not be able to protect the appeal and value of its brands.***

The Company's success depends on the value and visibility of its brands. Maintaining and enhancing its brand image and reputation through a product portfolio is one of the key factors affecting the Company's results of operations. The Company's own products and the products of the Company's partners are sold in the consumer market in which the visibility and reputation of the brands have substantial effects on the Company and its products' attractiveness to consumers. The Company's key own brands consist of the Nordic Core brands: Blossa, Chill Out, Koskenkorva, Valhalla, Renault, O.P. Anderson, Xanté and Larsen, as well as local heritage brands, such as: Explorer, Grönstedts, Jaloviina, Brøndums, Leijona, Saaremaa and 1-Enkelt. Brands may lose their value as a consequence of, among other things, negative publicity associated with the brands or with the Company. In addition, changes to traditional production methods or locations may affect the customer perception negatively and harm the brands. Impaired visibility or reputation of one or several core brands or local heritage brands of the Company or negative publicity may have a material adverse effect on the Company's business, financial condition and results of operations.

Any event that materially damages the reputation of the Company or one or more of the Company's core brands or local heritage brands, or any material failure by the Company to sustain the reputation of its brands could have a material adverse effect on the value of those brands and the Company's business.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company may not be able to establish, protect, maintain or enforce its intellectual property, and the Company may need to respond to claims brought by third parties.***

The Company owns and licenses trademarks such as its product names and packaging as well as other intellectual property rights that are important to its business and competitive position. The Company may fail to establish, protect, maintain or enforce its intellectual property rights. The Company also incurs costs for the establishment, protection and enforcement of its intellectual property rights. The expansion of the business of the Company into new countries will increase the costs associated with measures to establish, protect and enforce its intellectual property rights, as well as the risks associated with the increasing presence of products imitating or otherwise infringing the Company's intangible assets. Furthermore, it may not be possible to register, protect and enforce the intellectual property rights in all new markets due to similar earlier or reminiscent rights. Some of the Company's intellectual property may not be capable of being registered due to, for example, descriptive elements, and the Company may, therefore, have difficulties protecting such intellectual property. The Company's ability to protect and maintain trademarks may be further hindered through degeneration of some of the Company's trademarks.

Third parties may infringe on or otherwise misuse the Company's intellectual property by, for example, imitating the Company's brands, packaging or other intangible property, which could have an adverse effect on the Company's trademarks, brands and business operations. Third parties may also require, for example, to assert rights in, or ownership of, the Company's trademarks or other intellectual property rights. Third parties may also seek to prohibit the use of, or seek restitution or compensation based on, the intellectual property rights that are similar to the intellectual property rights the Company owns and licenses, or they may also seek to invalidate or rescind the Company's intellectual property rights. The Company may fail to discover infringement or abuse of its intellectual property, or any steps taken by it may not be sufficient to protect or defend its intellectual property rights.

The Company may in its business operations infringe third parties' intellectual properties, for example, in connection with the launch of new products or brands or expanding into new distribution channels or new export markets. Such third parties may take legal action for alleged infringement of these intellectual property rights, seek sales injunctions or bring claims to invalidate or rescind the intellectual property rights, and any such legal proceedings could have an adverse effect on the Company's trademarks, brands or business operations and result in product recalls, trials and damage payments.

The Company's employment contracts do not provide terms and conditions regarding the automatic transfer of intangible rights to the Company with respect to all of the Company's employees participating in product and packaging design. In addition, the Company does not have written agreements with a number of design and marketing agencies that the Company cooperates with for developing its brands and marketing. Therefore, certain copyrights or other intellectual property rights related to the Company's packaging, brands and marketing may not have been transferred or may not transfer to the Company from those employees who participated in planning or development work or from other third party designers and the Company may not be able to freely use, protect or enforce such intellectual property rights in its business.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***Potential problems relating to the ageing of cognac and damage of the cognac inventory could adversely affect the Company's business.***

The production of cognac requires long-term management of inventories of *eau-de-vie*, a derivative of distilled white wine that originates from a specific geographical area in France as opposed to other wines that the Company can purchase elsewhere. In order to produce cognacs, the *eau-de-vie* must be aged in oak barrels for several years. The Company must therefore seek to determine the desired levels and mix of different qualities and ages of its inventory of *eau-de-vie* based on assumptions regarding the future demand for each of the relevant products across the Company's product range. Costs incurred during the ageing process, including evaporation of *eau-de-vie*, are annually added to the value of the inventory, and the value of the inventory as such is significant. The value of the *eau-de-vie* and cognac inventory changes over time, and at the end of 2017 the inventory amounted to EUR 45.3 million. The loss as a result of contamination, fire or disaster, or destruction resulting from negligence or the acts of third parties or otherwise of all or a portion of the inventory of *eau-de-vie* may not be replaceable and, consequently, may lead to a substantial reduction in the supply of such products. Additionally, determining the desired levels and mix of qualities and ages of its inventory of *eau-de-vie* in any given year for future consumption involves an inherent risk of forecasting error due to the long planning period. This could either lead to an inability to supply future demand leading to a possible allocation of inventories or lead to a future surplus inventory or decrease of profitability. The materialisation of any of the above risks could have a material adverse effect on the Company's business, financial condition and results of operations.

***As a large part of the Company's net sales is generated during the last two months of the year due to the seasonal variations, any event affecting consumer demand or the Company's ability to supply products during that period could affect the Company's results adversely.***

The Company's net sales and profitability during the year are heavily affected by seasonal effects, i.e. holiday and seasonal consumer shopping patterns, especially at the end of the year during Christmas and New Year, but also during other key festivities such as Easter, the 1st of May and Midsummer. The Company has typically generated a large amount of its net sales and cash flow during the fourth quarter of each financial year driven by Glögg (mulled wine) category and Christmas and New Year in general due to higher consumption and gift purchases of more premium wine and spirits. On the other hand, the Company's sales have generally been lower in the first quarter of each financial year. Net sales have historically been highest in the fourth quarter. For the year ended 31 December 2017, EUR 73.4 million in net sales were generated for the three months ended 31 March 2017, EUR 91.3 million for the three months ended 30 June 2017, EUR 84.5 million for the three months ended 30 September 2017 and EUR 109.8 million for the three months ended 31 December 2017. Profitability follows a similar pattern of seasonality as net sales, and it increases towards the end of the year especially due to the sales of Blossa as well as seasonal sales, taking place in the end of the year.

The sale of Blossa Glögg, including the sale of each vintage flavour of Blossa Glögg, forms a substantial part of the Company's net sales and EBITDA at the end of the year. A failure or adverse event in preparations for the Christmas sales season, such as in the development of the annual edition of Blossa Glögg or in Blossa Glögg's raw material sourcing production, distribution and marketing processes, or the occurrence of any other major adverse events during a high season, such as a natural disaster, pandemic or economic or political crisis could result in a significant reduction in net sales, and, consequently, a deterioration in full-year earnings. In addition, if the annual flavour of Blossa Glögg does not gain consumer favour and a significant part of Blossa Glögg inventory remains unsold, this could result in inventory write-offs and a negative effect towards the brand recognition. Furthermore, changes in temperature such as cold summers or unusually warm temperatures in the winter can result in temporary changes in consumer preferences and impact demand of certain types of alcoholic beverages the Company produces and distributes. For example, the late arrival of winter may affect the sale of glöggs. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***Inconsistent quality or contamination of the Company's products or similar products in the same categories as the Company's products could harm the reputation of the Company's products and adversely affect sales of those products.***

The success of the Company's products depends on the appreciation and brand recognition that consumers have of those brands. A lack of consistency in the quality of products or contamination of the Company's products, whether occurring accidentally or through deliberate or negligent action by a single employee or third-party or failures in quality control, could harm the integrity of, or consumer acceptance for, those products and therefore could adversely affect their sales. Further, a lack of consistency in the quality or contamination of products in the same categories as the Company's products could, by association, harm the integrity of or consumer support for the Company's products, and could adversely affect sales.

The Company purchases a large proportion of the raw materials for the production and packaging of its products from third-party producers. The Company has only limited insight into the production and supply chains of such producers and the level of control of producers located in third countries, especially countries outside the European Union. Even though the Company emphasizes sustainability and responsibility in its production processes and supply chain and ultimately in the products, there is no guarantee that these measures are sufficient. As an importer and distributor of such products, the Company is nonetheless responsible for its customers of these products produced by third parties and for the consumers served by the Company's customers.

The Company may be subject to liability if contaminants in raw materials such as barley, spring water and bulk wine, the mislabelling of raw materials or defects in the distillation or bottling process lead to low beverage quality, or illness or injury to consumers. In addition, the Company may voluntarily recall or withhold from distribution, or be required to halt deliveries temporarily, recall or withhold products from the markets in the event of an actual or suspected case of contamination or damage. Any such incidents could affect the Company's reputation and its results of operations.

The hygiene standards of products produced for human consumption are essential and especially emphasized in wines and low-alcoholic beverages, raw material production and bottling. Tanks of bulk wine from suppliers may, for example, contain mould that makes the wine unusable for production and sale. The majority of the Company's products are bottled in glass bottles. The potential existence of glass or other foreign particles in bottles or deficiencies in the quality or integrity of glass bottles are inherent and typical risks of the beverage industry. It is also possible that beverages are bottled in the wrong bottles due to errors during the production process. Similarly, quality issues in other packaging formats like PET bottles and bag-in-box products or failures in the packaging itself could cause contamination, leakage, breakdown or other defects in the product quality or other damage.

As a result of quality problems, the Company may become subject to product liability claims and other legal claims. A significant product liability or other legal claim or judgment or a widespread product recall may negatively impact the reputation of the affected product, the Company or of the Company's brands. Even if a product liability claim is unsuccessful or is not fully pursued, the resulting negative publicity could adversely affect the Company's reputation and brand image.

Any of the foregoing may have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company is dependent on the supply of high-quality Finnish barley, and changes in the prices or availability of barley or other raw materials, wine, eau-de-vie, supplies and finished products could have an adverse effect on the Company's business.***

The main raw materials in the Company's production include barley, spring water, wine, whiskey as well as various herbs and spices. In 2017, the Company used approximately 206 million kilos of Finnish barley from approximately 1,500 farmers in Finland, directly or through grain handling companies. The Company is a significant buyer of Finnish barley as it purchases approximately 15 per cent of the annual barley production in Finland and the Company's total purchases of barley have grown for four years in a row. Even though the Company has taken certain measures to ensure the availability of high-quality Finnish barley through contract cultivation and entering into agreements with grain producers and grain handling companies each crop year, the market price for barley may fluctuate significantly year by year as a result of various factors, including weather conditions and crop failures, that affect the Finnish barley supply and demand and is therefore a significant risk for the Company, especially with respect to its own products. According to the Company, there are no effective derivate instruments available at the moment to hedge the price risk. Some supplementary raw materials that the Company uses may not be able to replace barley in certain products. With respect to wine, the Company is dependent on its ability to source sufficient amounts of quality bulk wine at commercially viable prices to be used for its own brands. However, the market price of bulk wine can fluctuate, and availability of quality bulk wine can be limited. See "*The Company's Business Operations — Sourcing*" and "*Operating and Financial Review — Key Factors Affecting the Results of Operations — Pricing and availability of raw materials*".

The costs of barley, bulk wine, other raw materials and packaging materials used for the Company's products could increase due to a variety of reasons, such as global supply and demand, fuel and transport costs, weather conditions, agricultural uncertainty, crop failures and governmental import and export controls. Similarly, the Company may experience that its partners, whose products the Company distributes, may experience similar difficulties in their operations, and thus not be able to supply the Company with the relevant products or volumes thereof in a timely manner, or at all. The Company seeks to maintain relationships with a variety of suppliers, but the imposition of onerous contractual terms in supply contracts with key suppliers or the consolidation of suppliers could have a material adverse effect on the Company's profitability, and the loss of a key supplier could result in a disruption of the Company's business. Further, the price of *eau-de-vie* the Company purchases for its cognac production can fluctuate as the structure of the wine growing regions and annual production quantities of *eau-de-vie* are controlled by BNIC (*Bureau National Interprofessionnel du Cognac*) and therefore, the pricing of *eau-de-vie* is impacted by the annual yield from the wine yards.

The Company may not be able to pass on increases in production, raw materials, transportation or other costs to its customers in a timely manner, or at all, and increased prices of the Company's products may cause a decline in their sales volumes. If the Company is unable to effectively manage the prices and availability of its raw materials and the finished products it distributes, this could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company may be affected by the price and availability of energy.***

In the Company’s production, energy is one of the most significant cost items. In addition to production, energy costs are reflected in transport and the entire logistics chain. Power failures or other difficulties with the availability of energy or disruptions in the distribution of energy could disrupt the production of the Company or cease the operations of one of the Company’s production facilities and logistics centres. Either there is no certainty that power back-ups would be sufficient in all situations. A substantial increase in energy prices or difficulties with or disruptions to the availability of energy may have a material adverse effect on the Company’s business, financial condition and results of operations.

***The Company’s success is dependent on its ability to attract and retain highly qualified and skilled personnel.***

The Company’s success is dependent on, among other things, the competence and professional skills of its employees and its management, as well as on the Company’s ability to hire, develop, train, motivate and retain skilled and professional personnel. Competition for highly skilled individuals is intense and there can be no certainty that the Company will be able to recruit professionally skilled management and employees and retain these relationships in the future. As the Company has been state-owned, it has been subject to the state ownership steering policies with respect to executive remuneration arrangements that may restrict or prevent setting remuneration policies in line with the market practice applicable for listed companies. For example, the State of Finland’s ownership steering policies do not allow the use of options or other measures requiring the issue of new shares as remuneration. Failure to establish and maintain remuneration arrangements could reduce the Company’s ability to attract and retain highly skilled individuals. Furthermore, developing and establishing alternative remuneration arrangements could result in additional costs for the Company.

The Company’s management team has a proven track record of creating and executing strategy and has broad experience in the Nordic and Baltic alcohol markets as well as operating in a brand focused and trend driven market environment, which has been an important contributor to the Company’s growth and success. The loss of certain key personnel, including members of management may have a material adverse effect on the Company's business. Especially when such individuals possess specialised knowledge that is not easily replaceable.

Any of the foregoing could have a material adverse effect on the Company’s business, financial condition and results of operations.

***The Company’s business and production plants are subject to significant regulation and failure to comply with provisions of such regulations and permits or any changes in such regulations and permits could result in business interruptions and increased costs.***

In the countries in which the Company operates, the importation, production, trade and distribution of alcohol are subject to strict regulations and the Company is required to obtain various administrative permits, approvals and licences to carry out its business activities. Failure to comply with applicable regulations can result in punitive sanctions and even the loss of permits or approvals required to operate the Company’s business.

The Company is also subject to numerous environmental, occupational and health and safety laws and regulations. The Company may incur significant costs to maintain compliance with increasingly stringent environmental and occupational, health and safety requirements, or to respond to possible challenges or investigations relating to such requirements. The Company aims to develop its environmental protection and environmental systems on the premise that the operation of the production plants takes place in accordance with valid permits controlled by the public authorities and with the objective to proactively reduce the Company’s environmental impacts. At the Koskenkorva and Rajamäki production plants and the Helsinki head office, the environmental management system has been certified according to the ISO 14001 standard. The Company’s Rajamäki alcoholic beverage plant has also been certified according to the ISO 22000 food safety management standard. The environmental targets of the Company include reduction in the use of energy and water, and improvements in the waste water quality as well as reductions in waste volumes and product wastage. Despite these standards and targets, it is possible that damage, human error or sabotage, for example, may lead to substantial environmental damage and, in such situations, legal action directed against the Company, revocation of licences and other sanctions that could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Company’s production plants especially in Finland, Estonia and France are situated in locations with a long history of industrial use and activity with potentially harmful environmental impacts, including due to the use, storage and disposal of potentially hazardous or detrimental materials. It cannot be excluded that the Company may be required to investigate, remediate, monitor or otherwise pay for such measures at locations where operations are currently pursued or where they have been pursued in the past. Such a liability for costs might arise with respect to, among other things, real estate property that the Company owns, has previously owned or where predecessor companies previously had operations, or in connection with the closure of a production facility.

A failure by the Company to comply with such regulations or conditions of permits could result in personal injury, occupational disease or other health and safety issues, environmental accidents, pollution, property damage and financial losses and expose the Company to claims, liabilities or sanctions by governmental authorities. Any breach of regulations or conditions of permits could also expose the Company to negative publicity which could harm the Company's reputation.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company may be negatively affected by legal or administrative proceedings directed at the Company or the alcoholic beverages industry or other disputes and claims.***

The Company is and may in the future be subject to legal or administrative proceedings such as intellectual property claims, product liability claims, product labelling and marketing disputes, administrative claims as well as contract disputes and disputes related to corporate acquisitions. The Company may also become secondarily liable under certain contractual arrangements for third parties' liabilities. If such legal or administrative proceedings result in fines, damages, other payments or reputational damage to the Company or its brands, or if the Company is required to alter its trademarks, labels or packaging or withdraw products from the market, the Company's business could be adversely affected. Any claims may result in significant costs and divert the management's resources, which could disrupt the Company's operations. In addition, investigations, legal proceedings, complaints, demands and class actions by consumers or governmental authorities relating to, for example, illness, injury, alcohol abuse, illegal sales, marketing of alcoholic beverages and health concerns or other issues relating to alcohol or alcohol consumption may affect the alcohol beverage industry as a whole. Any legal proceedings, judgements or adverse publicity in any of the countries in which the Company operates or exports its products and any future restrictions regarding the production, marketing, sale or consumption of alcoholic beverages due to any such legal proceedings may result in a significant reduction in the Company's operations and net sales.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***Potential violations of laws and regulations could have material adverse effect to the Company.***

The Company is subject to various laws and regulations affecting its operations such as laws and regulations concerning alcohol and foodstuffs, labelling, marketing, employment, data protection, competition, antitrust and anti-corruption issues. As an example, the competition authorities may question the terms according to which a company with a strong market position enters into agreements with third parties or with parties that could be considered as the Company's competitors. If any of the applicable laws and regulations were violated by the Company or its employees or by its partners, distributors or suppliers, the Company could experience increased costs or delays in the delivery of its products, be subject to fines, damages or penalties as well as orders and sanctions imposed by supervisory authorities and courts in countries the Company operates in, or the Company could suffer reputational harm, which could reduce demand for the Company's products and have a material adverse effect on the Company's business. For example, the maximum amount of a possible penalty payment for an infringement of Finnish and EU competition law is ten per cent of the turnover of the undertaking concerned (on a group-wide basis) during the year in which the undertaking was last involved in the infringement.

In addition, the Company has an ongoing process of revision of the data protection practises in the Company's business and operations aiming to be compliant with the General Data Protection Regulation ((EU) 2016/679, the "**GDPR**") which becomes applicable in May 2018. However, compliance with the GDPR in the Company's business and operations or potential inadequacy of the revision of the data protection practises may cause problems, difficulties or additional costs to the Company. Any infringement of the GDPR could adversely affect the Company's reputation among its customers and other stakeholders. Furthermore, under the GDPR, a national data protection authority will be able to impose administrative fines for breaches of the GDPR up to EUR 20 million or four per cent of the total worldwide annual turnover of a company.

Similarly, changes in laws and regulations could make the Company's business operations more expensive or require the Company to change the way in which it conducts business. The measures taken by the Company may be inadequate and it may be difficult for the Company to foresee regulatory or legal changes impacting its business, and any actions required in order to respond to, or prepare for, such changes could be costly and have a material adverse effect on the Company's business, financial condition and results of operations. See also " — *Risks Related to the Highly Regulated Nordic Alcohol Market*".

Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***Failures or deficiencies in operational risk management and internal control processes may lead to lapses in quality control or otherwise have an adverse effect on the Company's results and reputation***.

The Company has adopted and regularly assesses and develops its risk management and internal control processes and systems. Risk management and internal control strives to ensure that the Company is able to identify, assess and manage its key risks. The Company has established a risk policy setting out the Company's targets, principles and responsibilities for the risk management as well as the reporting principles. The risk management is aimed to be implemented on all organizational levels in accordance with the Company's internal risk management system. However, the Company's risk management and internal control may not achieve its intended effects. The Company's risk management function may not be able to identify all material risks, monitor all relevant risks and determine efficient risk management procedures and responsible persons. Despite adequate risk management procedures, some of the risks identified could be beyond the Company's control. The Company may also experience the realization of operational risks. The personnel or the management may also make mistakes, or commit negligence, vandalism, wrongdoing, fraud or other criminal behaviour or the Company and its property and operations may become a victim of embezzlement or crime. The materialization of any of these risks may have a material adverse effect on the Company's business, financial condition and results of operations.

***Corporate transactions and joint arrangements pose risks, and the Company's operating results and financial condition may be adversely affected if it acquires businesses or enters into joint arrangements that do not perform as expected or that are difficult to integrate.***

In addition to the Company's organic strategic streams (see "*Business of the Company — Business Strategy*"), active brand portfolio management may include possible selective corporate or business acquisitions and/or divestments. The Company's objective is to sustainably and continuously increase profits through a combination of growth and through operational efficiency and performance measures. In addition, mainly brand related acquisitions are considered to support the execution of the strategy. Therefore, in the future, the Company may enter into acquisitions across the Nordic, Northern European region and also other locations, and any such transactions can be significant. The Company may also decide to expand its operations to other countries in the future. The Company may also decide not to pursue any acquisitions.

Acquisitions involve numerous risks and uncertainties, including, for example, the failure of the acquired businesses to achieve the projected financial targets in the near or long term; risks relating to the valuation; the assumption of unknown liabilities; integrating the acquired companies into the Company; the diversion of management and other employees' attention from other business concerns; cultural differences; and the failure to achieve the strategic objectives of these acquisitions, such as growth, cost savings and synergies. Acquisitions may also result in increased expenditures and amortisation expenses related to intangible assets. Incurrence of additional debt, amortisation expenses or acquisition-related impairments could reduce the Company's profitability.

The Company may not be able to identify or acquire suitable acquisition targets on acceptable terms. In addition, consolidation in the alcoholic beverage industry may limit the Company's opportunities concerning acquisitions, and competitors may also follow similar acquisition strategies and target the same acquisition targets. The Company's ability to acquire new businesses and brands may also be restricted under applicable competition laws. If the Company is not able to pursue the acquisitions it considers beneficial, this could have a material adverse effect on the Company's prospects, results of operations and financial condition.

The Company may also choose to penetrate new markets and businesses by entering into joint arrangements, which may involve similar risks and uncertainties that are involved in acquisitions. Joint arrangements always pose risk and the Company will not be able to exercise full control over joint arrangements, and is therefore reliant, to an extent, on its joint arrangement partners. Any of the joint arrangement partner may be incapable or reluctant to fulfil its commitments, encounter financial distress, require the Company to make additional investments or dissent with the Company in terms of its rights, responsibilities and obligations. Should the Company decide to dispose its share in the joint arrangement, there can be no certainty that the Company could gain of fair value for its investment. Accordingly, should the Company lose its joint arrangement partner, it could lose its production capacity or its possibility to exploit commercial agreements or access to the important markets. In addition, the Company's joint arrangement partners may have interests and targets deviating from the Company's financial and business targets, and they may engage in operations that are against the Company's instructions, requirements, operating principles or business targets. The Company and ABF have currently a joint arrangement in Roal Oy.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company's tax liabilities may increase as a result of tax audits or changes in the practises and interpretations.***

The Company is at times subject to tax audits conducted by national tax authorities. Tax audits or other auditing measures carried out by tax or other relevant authorities could result in an imposition of additional taxes (such as income taxes, taxes at source and property, capital, transfer and value-added taxes) and penalties, which could lead to an increase in the Company's tax liability either in such a way that the tax in question is imposed directly on the Company or in such a way that the Company is deemed liable for the tax as a secondary debtor. The French tax authorities are currently performing a tax audit in Larsen S.A.S, a subsidiary of the Company. The tax audit commenced in June 2017 concerning the years 2014, 2015 and 2016. The audit is currently still pending and the outcome of the audit is not yet known to the Company. Larsen S.A.S is being assisted by the Company in connection with the tax audit. According to the information received by the Company, the tax audit mainly focuses on the transfer pricing. Furthermore, the Finnish tax authorities are initiating tax audit proceedings in Altia Plc in spring 2018 concerning years 2015, 2016 and 2017. According to the information received by the Company, the tax audit will focus on excise tax. The Company's effective tax rate in any given financial year reflects a variety of factors that may not be present in succeeding financial years and may be affected by the interpretation or changes of the tax laws of the countries in which the Company operates. Changes in tax laws and their interpretations as well as increased enforcement actions and penalties may alter the environment in which the Company operates. In addition, certain tax positions taken by the Company are based on industry practice and external tax advice and are based on assumptions that involve a degree of judgment. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***Strikes or other industrial action affecting the Company, the retail monopolies or the Company's other customers could disrupt the Company's sales and business operations.***

The Company may become subject to or the Company's business operations may be affected by strikes or other industrial action that may interrupt its business operations. The employer organizations representing the Company and other employers will not necessarily be able to negotiate collective agreements satisfactory after previous agreements have expired. In addition, current collective agreements pertaining to the Company will not necessarily prevent strikes or work stoppages, such as political demonstrations. While the Company believes that it has good relations with unions and its employees generally, there can be no assurance that these relations will not deteriorate and that the Company will not experience labour disputes in the future. Furthermore, the Company distributes and sells alcoholic beverages to the national alcohol retail monopolies in the Nordics, and retail, wholesale, HoReCa (as defined below), travel retail, border trade and industrial markets. General business interruptions, such as strikes and other industrial actions at its suppliers and customers, especially the national alcohol retail monopolies, or in transportation operations could lead to significant loss of income for the Company. Strikes or industrial action may disrupt the Company's operations and result in increased personnel expenses through an increase in negotiated wages or benefits. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company's insurance cover may prove insufficient.***

In accordance with the terms and conditions of the insurance policies, the Company has insurance policies covering aspects of its operations and risks to be insured therein, such as property, damage and business interruption, liability insurances and cargo and employer's statutory insurances. The Company's insurance policies may not cover all risks and occurrences of damage that may materialize in the future, and there can be no certainty that any particular claim of the Company would be paid by the insurance provider due to, for example, such claims being not covered under existing policies, or the Company's right to the compensation may be limited or reduced in the terms and conditions of the policy. Further, sufficient insurance coverage may not be available for certain damages at all. In addition, there can be no certainty that the Company will be able to maintain its current insurance coverage on terms acceptable to it.

Any losses and damage not covered by the Company's current or future insurance policies could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company's business may be adversely affected by a breakdown of its IT-systems or a failure to develop those systems.***

The Company uses information technology systems for the processing, transmission and storage of electronic data relating to its operations and financial reporting, as well as for production, order bookings, logistics facilities and other operations. A significant portion of communications between the Company's personnel, customers and suppliers relies on the efficient performance of information technology systems and the Company's operations are also indirectly dependent on data networks and data transfer, as well as data systems used by external experts.

Despite the Company's security measures and back-up systems, its information technology and infrastructure may be vulnerable to attacks by hackers, computer viruses or malicious code. Various cyber threats have increased in recent years along with the digitalisation of companies' operations. The Company may be targeted, for example, by phishing or malware attacks, denial-of-service attacks, breaches in information or data systems, ransomware or attacks targeting production processes. It may also be difficult for the Company to detect cyber-attacks upon their occurrence, which could have an impact on the size of damage. In addition, the Company's information technology and infrastructure may be breached due to employee error, malfeasance or affected by other disruptions, including as a result of natural disasters or telecommunications breakdowns or other reasons beyond the Company's control. In addition, problems may emerge in the integration of the Company's data systems, including systems acquired in connection with potential corporate acquisitions or integration of customers', vendors or suppliers' data systems into the Company's data systems. If one or more such events occur, it could cause, among other things, disruptions or delays to the Company's operations, direct or indirect loss of profit, violations of personal data, loss or negative publicity of intangible assets, especially trade secrets, which could expose the Company to losses, damage and liability and which could cause its business and reputation to suffer. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

**Risks Related to Financial Position and Financing**

***Difficulties in accessing additional financing or complying with financial covenants included in the Company's credit facilities as well as increases in costs of financing could have an adverse effect on the Company's financial condition and results of operations.***

The target of the Company's capital management is to secure an effective capital structure that offers the Company continuous access to the capital markets. Currently the majority of receivables from the state retail monopolies are sold in the ongoing arrangement as a part of the working capital management. In the future, the Company may not be able to obtain financing, or it may only be able to obtain financing at a significantly higher cost than is currently the case. Many factors such as financial market conditions, the general availability of credit and the Company's credit rating may affect the availability of financing. Financial market conditions may be affected by various factors, including adverse macroeconomic development, sovereign debt crises and unstable political environments. Any increased volatility and uncertainty as well as disruptions and adverse developments in the financial markets could constrain the Company's access to capital and result, for example, in a reduction of liquidity that could make it more difficult to obtain funding at reasonable price levels. There can be no assurances that in the future the Company will be able to obtain financing at a reasonable cost or on acceptable terms. Should the Company not be able to obtain such financing, this could have a material adverse effect on the Company's business, financial condition and result of operations.

Certain of the Company's financing arrangements include a financial covenant related to gearing. For more information, see "*Operating and Financial Review — Liquidity and Capital Resources — Liquidity of the Company — Senior Facilities Agreement*". If the Company is unable to comply with the covenants and other undertakings, conditions and warranties included in its facilities agreements and other financing arrangements in the future or if it would be unable to make the required interest payments on time, the counterparty to the facilities agreement may require premature payment or terminate the facilities agreement. The Company could also be required to renegotiate its facilities agreements, request waivers or replace borrowings under the facilities agreements with other financing in order to prevent a default. There can be no certainty that the Company would be able to take any such action on terms that are acceptable to it, or at all. If the Company is not able to comply with the financial covenants included in its facilities agreements and other financing arrangements, this or any of the foregoing could have a material adverse effect on the Company's business, financial condition, results of operations and future prospects as well as make it difficult for the Company to obtain additional financing on reasonable terms, or at all.

***The Company is exposed to changes in interest rates in interest-bearing liabilities.***

The Company's interest rate risk arises from its interest-bearing liabilities, which amounted to EUR 100.1 million as at 31 December 2017. Interest-bearing liabilities issued at variable rates expose the Company to cash flow interest rate risks. Interest bearing liabilities issued at fixed rates expose the Company to fair value interest rate risks. Interest rates can increase in response to numerous factors outside the Company's control, including government and central bank policies. An increase in interest rates would cause the Company's financial expenses to increase and could have a material adverse effect on the Company's business, financial condition and results of operations. For additional information on the financial risk management of the Company see "*Operating and Financial Review — Financial Risk Management*".

***The Company is exposed to foreign exchange rate risks.***

The Company is exposed to foreign exchange rate risks, both translation risks and transaction risks arising from fluctuations in currency exchange rates. Translation risks are mainly caused by the parent company's foreign currency denominated net investments in foreign subsidiaries, which cause a translation difference in equity in the Group's balance sheet upon consolidation. Transaction risks caused by foreign currency denominated items in the balance sheet and future cash flows relating to sales, purchases and returns on equity. The key currencies in which the Company has the most exchange rate risk exposures are the Swedish krona, the Norwegian krone, the U.S. dollar and the Australian dollar. The Company uses currency forwards or options for managing exchange rate risks.

Unfavourable fluctuations in exchange rates of especially the Swedish krona, the Norwegian krone, the U.S. dollar and the Australian dollar could have an adverse effect on the Company's business, financial condition and results of operations.

***The Company is exposed to credit and counterparty risks through the trade receivables and receivables associated with financial intermediaries.***

Credit and counterparty risks materialise when counterparties are unable or unwilling to fulfil their obligations towards the Company. The Company's credit risk arises from credit exposures to customers, from outstanding receivables, as well as cash in hand and at banks and derivative instruments with banks and financial institutions. As a majority of the Company's trade receivables are from state retail monopolies, and the remaining part is spread over a large number of customers, there is no significant concentration of credit risks, according to the assessment of the management, and the Company's credit losses have historically been small. In addition, the majority of receivables from the state retail monopolies are currently sold pursuant to a factoring arrangement, in which case the buyer bears the credit risk related to such receivables. Even though the arrangement concerns receivables which are from the state retail monopolies, however, there is no assurance that such an arrangement can be continued in the future. In addition, the Company's credit risks will increase if its export operations increase significantly. Financial and operational challenges experienced by customers may impact the Company's ability to collect outstanding receivables fully or in a timely manner, or at all, which, in turn, could lead to credit losses and require the Company to contribute additional capital or obtain alternative financing to meet its obligations under any financing arrangements. An increase in credit losses or failure by counterparties to meet their obligations towards the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company's actual results of operations may differ materially from the financial targets included in this Offering Circular and investors should not place undue reliance on the financial targets.***

The Company has adopted financial targets concerning profitable growth, payment of dividends and capital structure. See "*Business of the Company — Financial Targets*". These financial targets constitute forward-looking statements, and it is possible that the Company's actual results of operations or financial condition could, as a result of various factors, alone or in combination, differ materially from those expressed or implied by these financial targets. The Company's financial targets are based on a number of assumptions that are inherently subject to significant business, operational, financial and other risks and changes, many of which are outside the Company's control. Key assumptions the Company and its Board of Directors have made when setting the financial targets include, among other factors, assumptions as to the development of the economy in the Nordic and Baltic countries and development of the Company's business operations regarding the development, launches of new products and retaining key customer accounts. However, these assumptions may be incomplete or invalid or may not continue to reflect the commercial, regulatory or financial environment which the Company operates in or will operate in the future. Furthermore, unexpected events may have an adverse effect on the Company's actual results and financial position, regardless of whether the assumptions on which the financial targets are based otherwise prove correct. The Company's ability to achieve the financial targets is subject to uncertainties and contingencies, some of which are beyond the Company's control, and no assurance can be given that the Company will achieve these targets. The Company's actual results of operations and financial condition may significantly vary from the financial targets, and investors should not place undue reliance on them.

***A possible impairment of goodwill, other intangible or tangible assets could have adverse effects on the Company's financial condition and results of operations.***

As at 31 December 2017, the Company's consolidated balance sheet included EUR 82.1 million of goodwill, EUR 34.4 million of other intangible assets and EUR 67.4 million of tangible assets. The other intangible assets consist primarily of trademarks which are obtained in connection with acquisitions or purchased separately. Other intangible and tangible assets are amortised or depreciated over their useful lives and tested for impairment when events or changes in circumstances indicate that the carrying value of the asset exceeds the recoverable amount. Goodwill is not amortised, but is tested for impairment annually or when there is reason to assume that the carrying amount has exceeded the recoverable amount. The key variables in impairment testing are discount rate, the terminal growth rate and development of the net sales and operating result, including the estimated cost levels of the main raw materials and energy. The discount rates reflect current assessments of the time value of money and relevant market risk premiums reflecting risks and uncertainties for which the future cash flow estimates have not been adjusted. The carrying value of goodwill is compared to the recoverable amount, which is the higher of the value in use and the fair value less the costs of disposal of the related cash generating unit. Any impairment in goodwill is recognised immediately as an expense and is not subsequently reversed. Significant changes in net sales or cost items, cash-flow projections, discount rates or growth rates based on the Company's strategic plans could result in write-downs of goodwill or other assets, which would make the Company's result weaker. Other events and circumstances that could result in an impairment of goodwill or other intangible or tangible assets include increasing financial uncertainty, increasing competition and other factors leading to declining sales or profitability.

If the value of goodwill, or other intangible or tangible assets is impaired, or if the amortisation and depreciation periods of other intangible and tangible assets need to be adjusted to reflect shorter useful lives, it could have an adverse effect on the Company's business, financial condition and results of operations.

***The adoption of new or revised IFRSs may have material effects on Company's future consolidated financial statements.***

The International Financial Reporting Standards ("**IFRS**") comprise IFRSs issued by the International Accounting Standards Board ("**IASB**"), the International Accounting Standards ("**IAS**") as well as the interpretations of the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee. The annual consolidated financial statements included elsewhere in this Offering Circular comply with the IFRS as adopted by the EU as of the date of such financial statements. The IASB has published or may in the future publish new or amended standards and interpretations, which are not yet effective and have not yet been adopted by the Company in its financial statements. The Company will adopt each standard and interpretation from their effective date, or if the effective date is different from the first date of the reporting period, from the start of the next reporting period following the effective date as endorsed by the EU.

The Company has adopted the IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* standards on 1 January 2018. The Company has assessed the impacts of the adoption of these standards, and these are described under sections "*Operating and Financial Review — Adoption of New or Amended IFRS Standards and Interpretations Applicable in Current and Future Reporting Periods*" in this Offering Circular as well as in Note 6.4 to the consolidated financial statements as at and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 included elsewhere in this Offering Circular. Furthermore, the Company will adapt the IFRS 16 *Leases* standard on 1 January 2019. The Company is currently assessing the impacts of the implementation of the new standard. The new standard requires that almost all leases are recognised on the balance sheet. As a result, the recognised assets of leases (the right to use the leased item) and financial liability to pay rentals will increase in the balance sheet. The operating expenses will decrease and depreciation and interest expenses will increase in the income statement, because lease expenses are no longer classified as operating expenses. For more information on Altia's preliminary impact assessments, see sections "*Operating and Financial Review — Adoption of New or Amended IFRS Standards and Interpretations Applicable in Current and Future Reporting Periods*" in this Offering Circular as well as in Note 6.4 to the consolidated financial statements as at and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 included elsewhere in this Offering Circular.

Possible future changes in the IFRS would expose the Company to risks related to changes in accounting policies and reporting standards and changes in accounting systems which may affect, among others things, the reported profitability, dividend payment capability and/or financial position and key ratios of the Company.

### Risks Related to the Shares and the Share Sale and the Personnel Offering

***The amount of any dividends to be potentially paid by the Company in any given financial year is uncertain.***

Under the provisions of the Companies Act (624/2006, as amended, the "**Companies Act**"), the amount distributed by the Company as dividends may not exceed the amount of distributable funds shown on its latest unconsolidated parent company audited financial statements adopted by the General Meeting of Shareholders. The possible distribution of dividends over a financial period depends on the Company's and its subsidiaries' results of operations, financial condition, cash flow, investments, future outlook, terms of its financing agreements and other factors. Under the Companies Act the distribution of dividends is not permitted if it would jeopardise the Company's solvency. The Board of Directors of the Company (the "**Board of Directors**") has adopted a dividend policy for the Company. Notwithstanding this policy, the Company will evaluate the preconditions for the distribution of dividends in connection with the dividend distribution resolution so that the distribution does not jeopardise the growth objective set out in the Company's strategy or the Company's development, or jeopardise the Company's financial position. The amount of any dividends to be potentially paid by the Company in any given financial year is thus uncertain. Further, the dividends paid by the Company for a certain financial period are not an indication of the dividends to be paid for financial periods in the future, if any. See also "*Dividend and Dividend Policy*".

***The Company will incur additional costs and new obligations as a consequence of the Listing.***

The Company will submit a listing application to the Helsinki Stock Exchange to list the Shares on the Official List of the Helsinki Stock Exchange. In addition to non-recurring costs, the Listing will generate additional administrative costs for the Company. As a consequence of the Listing, the Company will be required to meet regulatory requirements pertaining to entities with shares admitted to trading on the Helsinki Stock Exchange, in particular with respect to financial reporting, and will need to allocate staff and resources to such purposes. Such increased costs could have an adverse effect on the Company's business, financial condition and results of operations.

***The Shares have not been previously subject to public trading, and thus the share price may be volatile and an orderly and liquid trading market may not develop.***

The Shares have not previously had a public trading market, and there can be no assurance that, after the Listing, the Shares will be actively traded or that active trading can be maintained. Therefore, the liquidity of the Shares is uncertain.

The final Offer Price in the Share Sale and the Personnel Offering will be determined based on the negotiation by the Seller and the Global Coordinator and the book-building process, and may not be indicative of the prices that will prevail in the public market after the Listing. The market price of the Shares may fluctuate significantly due to a number of factors, such as realised or anticipated changes in the Company's results of operations, the Company's ability to reach its business objectives, developments in the markets the Company serves, the introduction of new products to the market, changes in the regulatory environment, general market conditions and other factors. In addition, international financial markets have occasionally experienced significant fluctuations in share prices and trading volumes regardless of the business development or future outlook of individual companies. These factors are mainly beyond the Company's control.

Moreover, the prices of shares offered publicly for the first time have been subject to considerable price fluctuations for periods of time, which may not have corresponded to the business or financial success of the particular company issuing such shares. There can be no assurance that the market price of the Shares will not experience significant fluctuations or decline below the final Offer Price.

***Share ownership is concentrated, and the largest shareholder or its associated company will continue to have significant decision-making power.***

If the Share Sale and the Personnel Offering are carried out as planned, the largest shareholder of the Company, the State of Finland, will preliminary hold a minimum of approximately 35.7 per cent of all Shares and votes of the Company immediately following the Share Sale and the Personnel Offering, assuming that the maximum number of the Personnel Shares offered in the Personnel Offering are wholly subscribed for and that the Over-allotment Option is exercised. See "*Major Shareholders and Related Party Transactions*" for further information. After the Share Sale and the Personnel Offering, the Seller or, after the potential transfer of the Shares, the State Business Development Company Vake Oy will continue to have significant decision-making power in the Company concerning, among other things, the composition of the Board of Directors, the approval of financial statements and the distribution of dividends. The Seller (or the State Business Development Company Vake Oy) may also have the ability to block decisions requiring a qualified majority at the General Meeting of Shareholders of the Company including, among other things, decisions regarding changes to the Articles of Association and certain corporate transactions, such as mergers or demergers. There can be no assurance that the actions, objectives and interests of the Seller (or the State Business Development Company Vake Oy) will correspond with those of other shareholders, which may have an adverse effect on the value and liquidity of the Shares.

***Future share issues and sales of significant number of Shares may reduce the price of the Shares and the future share issues may dilute the share of ownership of the shareholders.***

Immediately following the Share Sale and the Personnel Offering, the largest shareholder, the State of Finland, will hold in aggregate a minimum of approximately 35.7 per cent of the Shares, assuming that the maximum number of the Personnel Shares offered in the Personnel Offering are wholly subscribed for and that the Over-allotment Option is exercised. The Company and the Seller are expected to commit with the Managers that such parties will not, for a period lasting for 180 days from the Listing of the Shares on the Helsinki Stock Exchange, with certain exceptions, issue or sell Shares without the consent of the Managers. The lock-up is not applied to the potential transfer of the Shares from the Seller to the State Development Company Vake Oy. For further information see "*Plan of Distribution in the Share Sale and the Personnel Offering — Lock-up*". After the restriction period, the Company may issue and the Seller (or the State Business Development Company Vake Oy) may sell Shares. The issuance or sale of a significant number of Shares, or an understanding that such an issuance or sale may occur in the future, could have an adverse effect on the market price of the Shares and on the Company's ability to raise funds through share issues in the future.

Due to the large percentage of Shares held by the largest shareholder, there can be no assurance that the largest shareholder will not affect trading and transaction volumes, which could have an adverse effect on the prevailing market price of the

Shares. Furthermore, any possible future directed share issue, or a rights issue where any shareholders decide not to exercise their subscription rights, could dilute shareholders' relative share of shares and votes.

***Certain foreign shareholders may not necessarily be able to exercise their subscription rights.***

Under Finnish legislation, shareholders have specific subscription rights in proportion to their holdings when the Company issues new shares or securities entitling the subscription of new shares. Certain shareholders of the Company who live or will live, or whose registered address is located in, certain countries other than Finland, including shareholders in the United States, may not necessarily be able to exercise their subscription rights in possible future share issues, unless the shares have been registered according to the securities legislation of the country in question or in an otherwise similar manner, or unless a derogation from the registration or other equivalent regulations provided in the applicable legislation is available. This may lead to the dilution of such shareholders' ownership in the Company. Further, if the number of shareholders who are not able to exercise their subscription rights is high and if the subscription rights of such shareholders are sold on the market, it could have an adverse effect on the price of the subscription rights. A foreign shareholder's right to have access to information concerning share issues and important transactions may also be restricted due to the legislation of the country in question. See "*Description of the Shares and Share Capital — Shareholders' Rights*" for further information.

## COMPANY, BOARD OF DIRECTORS, AUDITORS AND ADVISERS

### Company

Altia Plc
Kaapeliaukio 1
P.O. Box 350
FI-00101 Helsinki, Finland

### Board of Directors of the Company

| Name | Position |
|---|---|
| Sanna Suvanto-Harsaae | Chairman of the Board of Directors |
| Kim Henriksson | Member of the Board of Directors |
| Annikka Hurme | Member of the Board of Directors |
| Tiina Lencioni | Member of the Board of Directors |
| Jukka Ohtola | Member of the Board of Directors |
| Torsten Steenholt | Member of the Board of Directors |
| Kai Telanne | Member of the Board of Directors |

The business address of all members of the Board of Directors is c/o Altia Plc, Kaapeliaukio 1, P.O. Box 350, FI-00101 Helsinki, Finland

### Auditor of the Company

PricewaterhouseCoopers Oy
Itämerentori 2
FI-00101 Helsinki, Finland
Auditor in charge: Ylva Eriksson
Authorized Public Accountant

### Managers

***Global Coordinator***
Nordea Bank AB (publ), Finnish Branch
Satamaradankatu 5
FI-00020 Nordea, Helsinki, Finland

***Joint bookrunner***
Carnegie Investment Bank AB
Regeringsgatan 56
SE-10338 Stockholm, Sweden

***Co-lead manager***
OP Corporate Bank plc
Gebhardinaukio 1
FI-00510 Helsinki, Finland

### Legal Adviser to the Company

Hannes Snellman Attorneys Ltd
Eteläesplanadi 20
FI-00130 Helsinki, Finland

### Legal Adviser to the Seller

Borenius Attorneys Ltd
Eteläesplanadi 2
FI-00130 Helsinki, Finland

### Legal Adviser to the Managers

Roschier, Attorneys Ltd
Kasarmikatu 21 A
FI-00130 Helsinki, Finland

# CERTAIN MATTERS

## Statement Regarding Information in this Offering Circular

The Company is responsible for the information included in this Offering Circular. To the best knowledge of the Company and its Board of Directors, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is in accordance with the facts and contains no omission likely to affect its import.

To the best knowledge of the Seller, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular concerning the Seller and its shareholdings in the Company is in accordance with the facts and contains no omission likely to affect its import.

9 March 2018

Altia Plc　　　　the State of Finland

## Forward-Looking Statements

Some of the statements in this Offering Circular, particularly all statements regarding the future or profit projections under sections "*Summary*", "*Risk Factors*", "*Business of the Company*" and elsewhere in this Offering Circular include forward-looking statements that reflect the management's current views and understanding with respect to the Company's financial condition, business strategy, and plans and objectives of the management for future operations and goals (including development plans relating to the Company's products and services). These statements may include forward-looking statements both with respect to the Company and the sector and industry in which it operates. Statements that include the words "aim", "anticipate", "assume", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "project", "target", "will", "would" and similar statements identify forward-looking statements.

All forward-looking statements address matters that involve risks and uncertainties, as a result of which the Company's actual results or operating results may differ materially from those indicated in the forward-looking statements. These risks and uncertainties include, but are not limited to, those described in section "*Risk Factors*" in this Offering Circular, which should be read together with the other cautionary statements included in this Offering Circular. Any forward-looking statements in this Offering Circular are unaudited and reflect the current views of the management of the Company with respect to future events. These forward-looking statements are subject to those risks described in section "*Risk Factors*" in this Offering Circular and other risks, uncertainties and assumptions relating to the Company's business, results of operations, growth strategy and liquidity.

These forward-looking statements reflect only current views as at the date of this Offering Circular. Subject to any obligations under the applicable laws and regulations (including the Securities Markets Act), the Company undertakes no obligation to update or review any forward-looking statements, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or individuals acting on behalf of the Company are expressly qualified in their entirety by this section.

## Availability of the Finnish Prospectus

The Finnish Prospectus will be available as of 12 March 2018 at the latest at the website of the Company at www.altiagroup.com/listautuminen and at the registered office of the Company at Kaapeliaukio 1, FI-00180 Helsinki, Finland. In addition, the Finnish Prospectus will be available on or about 12 March 2018 at Nordea's branch offices and at branch offices of OP Financial Group's cooperative banks as well as at the website of Nordea at www.nordea.fi/altia, website of OP Financial Group at www.op.fi/merkinta and website of Nordnet at www.nordnet.fi/altia as well as at the Helsinki Stock Exchange at Fabianinkatu 14, FI-00100 Helsinki, Finland.

## Presentation of Financial and Certain Other Information

### *Historical Financial Statements*

This Offering Circular includes historical financial information derived from the audited consolidated financial statements of Altia Plc as at and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. The Company's audited consolidated financial statements as at and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 are included in the F-pages to this Offering Circular.

Certain of the historical financial information as at and for the years ended 31 December 2016 and 31 December 2015 presented in this Offering Circular differs from the historical financial information in Altia's audited statutory consolidated financial statements adopted by the Annual General Meeting of Shareholders due to restatements made in 2017. The Company's consolidated financial statements as at and for the years ended 31 December 2016 and 31 December 2015 have been restated due to a correction of the accounting treatment in a joint arrangement, changing of the presentation of the consolidated cash flow statement from direct method to indirect method and re-categorising of certain other items on the consolidated balance sheet to be in line with the current presentation method.

In 2017, Altia has made a detailed review of its shareholder agreement with ABF Overseas Limited ("**ABF**") regarding Altia's interest in Roal Oy to confirm the IFRS accounting treatment in Altia's consolidated financial statements. Pursuant to the terms and conditions of the shareholder agreement, Altia is entitled to an agreed annual return for its interest in Roal Oy as a minimum dividend, and ABF has a right to redeem Altia's interest in Roal Oy at a fixed amount on the expiry of certain patents. In its consolidated financial statements, Altia had accounted for its interest in Roal Oy as a joint venture pursuant to IFRS 11 applying the equity method of accounting up until the fourth quarter of 2016 when Altia classified the interest as a held for sale asset, assuming that ABF would have exercised its call option during 2017. However, as the exercise of the call is dependent on the expiry of certain patents and a single patent continues to be valid until 2024, Altia's exit from Roal Oy could not take place in 2017. Altia exercises joint control over Roal Oy. However, accounting treatment of the option right held by ABF represents in substance a receivable with a fixed rate of return for Altia, and Altia does not have a right to 50 per cent of the net assets of Roal Oy unless ABF refrains to exercise its option right with respect to Altia's interest in Roal Oy when it is possible pursuant to the shareholder agreement. Accordingly, the interest should have been classified as a joint operation pursuant to IFRS 11 in the consolidated financial statements with Altia accounting for its share of Roal Oy's assets and liabilities as a receivable with the annual minimum dividend accounted for as interest income. The correction did not have an impact on the net cash flows from operating activities or the net cash flows from investing activities.

In 2017, Altia decided to change its presentation of the consolidated statement of cash flows from the direct method to the indirect method. Altia believes that the indirect method gives more accurate and reliable information on cash flows from operating activities by disclosing the reconciliation from result before taxes to operating cash flows. The indirect method is also a more commonly used method and thus, gives more comparable information on Altia's operating cash flows to its peers. Therefore, the presentation of cash flows from operating activities has been restated to reflect the indirect method for the years ended 31 December 2016 and 31 December 2015. The indirect method did not change the presentation of the cash flows from investing activities and financing activities.

In addition, Altia has reclassified certain trade and other payables to current and non-current provisions to better reflect the nature of such liabilities.

The audited consolidated financial statements as at and for the years ended 31 December 2016 and 31 December 2015 included in this Offering Circular have been retrospectively restated according to *''IAS 8—Accounting Policies, Changes in Accounting Estimates and Errors''* in respect of the items described above. The restated audited consolidated financial statements have been prepared for inclusion in this Offering Circular and they have not been considered or confirmed at the Company's Annual General Meeting of Shareholders. For more information on the restatements, see Note 6.5 to the consolidated financial statements as at and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 included elsewhere in this Offering Circular.

The consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2016 included in this Offering Circular have been audited by PricewaterhouseCoopers Oy, Authorised Public Accountants, with Ylva Eriksson, Authorized Public Accountant, as the auditor with the principal responsibility. PricewaterhouseCoopers Oy has issued an auditor's report regarding the Company's restated consolidated financial statements as at and for the years ended 31 December 2016 on 23 February 2018. The consolidated financial statements as at and for the year ended 31 December 2015 included in this Offering Circular have been audited by KPMG Oy Ab, Authorised Public Accountants, with Jari Härmälä, Authorized Public Accountant, as the auditor with the principal responsibility. KPMG Oy Ab has issued an auditor's report regarding the Company's restated consolidated financial statements as at and for the year ended 31 December 2015 on 23 February 2018.

***Segment information***

The financial information for the Company's segments as at and for the financial years ended 31 December 2017 and 2016 included in this Offering Circular have been derived from the Company's audited consolidated financial statements for the financial years ended 31 December 2017 and 2016, both included in this Offering Circular. The financial information for the Company's segments as at and for the year ended 31 December 2015 presented in this Offering Circular are based on the internal reporting of the Company's management and are thus, unaudited.

Altia reports its business operations under the following segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise the importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment, the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Scandinavia segment represents the Company's operations in Sweden, Norway and Denmark. The Altia Industrial segment comprises the Company's production of ethanol, starch and feed as well as contract services. These segments comprise both Altia's operating and its reportable segments.

The Board of Directors of Altia has been determined as the Company's current chief operative decision maker, and the reportable segments are based on Altia's operating structure and internal reporting to the Chief Operating Decision Maker (CODM) used to assess the performance of the segments. For internal reporting purposes, reporting on the segment profit is based on an internal measure of a comparable EBITDA derived as follows:

- Net sales and direct segment expenses reported within the Comparable EBITDA segment profit measure are measured on an accrual basis and reported under the same accounting principles as in the consolidated accounts.

- Expenses allocated to the segments related to shared function costs or business support services expenses comprise costs such as centralized marketing costs, IT infrastructure related costs, shared support services, headquarter costs including finance and treasury, communication, legal and human resource related costs as well as certain warehousing and service fees. For internal reporting purposes these cost allocations are based on budgeted amounts and variances from budgeted amounts are presented under the column "Unallocated and adjustments" and can result in either incurred overruns or savings compared to budgeted amounts. These variances are not allocated to the segments for internal reporting purposes.

- The unallocated and adjustments column represents in addition to the budget variances, certain unallocated headquarter costs.

***Alternative performance measures***

This Offering Circular includes certain alternative performance measures of the Company's historical financial performance, financial position and cash flows, which, in accordance with the "Alternative Performance Measures" guidance issued by the European Securities and Markets Authority ("**ESMA**") are not accounting measures defined or specified in IFRS and are therefore considered alternative performance measures. The Company presents the following alternative performance measures:

- Operating result
- Operating margin, %
- EBITDA
- EBITDA margin, %
- Comparable operating result
- Comparable operating margin, %
- Comparable EBITDA
- Comparable EBITDA margin, %
- Items affecting comparability
- Invested capital
- Return on equity (ROE), %
- Return on invested capital (ROI), %
- Borrowings
- Net debt
- Gearing, %
- Equity ratio, %
- Net debt / Comparable EBITDA
- Trade working capital
- Trade working capital / Net sales, %
- Net working capital
- Net working capital / Net sales, %
- Free cash flow
- Cash conversion, %
- Gross capex
- Gross capex / Net sales, %

For the detailed definitions and reasons for the use of these alternative performance measures, see "*Selected Consolidated Information — The definitions and reasons for the use of financial key indicators*". The reconciliation of alternative performance measures is presented in section "*Selected Consolidated Financial Information — Reconciliation of Alternative Performance Measures*", "*Operating and Financial Review — Liquidity and Capital Resources — Net debt*" and "*Operating and Financial Review — Consolidated Balance Sheet Data — Net Working Capital"*

Altia presents the alternative performance measures as additional information to financial measures presented in the consolidated income statement, consolidated balance sheet, consolidated statement of cash flows and in the notes disclosures prepared in accordance with IFRS. In Altia's view, alternative performance measures provide management, investors, securities analysts and other parties with relevant and useful additional information on Altia's results of operations, financial position and cash flows.

Alternative performance measures should not be viewed in isolation or as a substitute to the IFRS financial measures and they are not accounting measures defined or specified in IFRS. All companies do not calculate alternative performance measures in a uniform way, and therefore, Altia's alternative performance measures may not be comparable with similarly named measures presented by other companies.

Alternative performance measures are unaudited.

***Rounding adjustments***

The figures presented in this Offering Circular, including the financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or row in tables may not conform exactly to the total figure given for that column or row. In addition, certain percentages presented in this Offering Circular reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

***Currencies***

As used herein, references to (i) "euro", "EUR" or "€" are to the euro, the lawful currency of the participating member states in the Third Stage of the European and Monetary Union of the Treaty Establishing the European Community and (ii) "U.S. dollar" or "USD" or "$" are to the United States dollar, the lawful currency of the United States of America and (iii) "Swedish krona" or "SEK" are to the Swedish krona, the lawful currency of Sweden and (iv) "Norwegian krone" or "NOK" are to the Norwegian krone, the lawful currency of Norway and (v) "Australian dollar" or "AUD" are to the Australian dollar, the lawful currency of Australia. For information regarding recent rates of exchange between the euro and the U.S. dollar, Swedish krona, Norwegian krone and Australian dollar, see "*Exchange Rates*".

**Market, Economic and Industry Data and Management Reports and Findings**

The market, economic and industry data used throughout this Offering Circular is obtained from one or several designated sources or derived from various industry and other independent sources, including data from reports and surveys concerning the Company's customer satisfaction, awareness of the Company's brands as well as the market in which the Company operates. These sources include, for example, the state retail monopolies Alko, Systembolaget and Vinmonopolet, Euromonitor International Limited ("**Euromonitor**"), OECD, the State Revenue Service Latvia, the Finnish National Supervisory Authority for Welfare and Health, IWSR and information obtained in other ways, unless otherwise stated. Some of the statistics, data and other information relating to markets, market sizes, market shares and market positions contained in this Offering Circular is based on an analysis commissioned by the Company from Lynxeye AB in spring 2017 (the "**Management Consultant Analysis**"). The historical market data contained both in the Company's own analysis and in the Management Consultant Analysis is compiled from statistics by the state retail monopolies as well as information from industry associations, country organisations and other market data providers, internal financial and operational information supplied by, or on behalf of, the Company, and publicly available information from other sources, applying certain supplementary assumptions, where necessary. Information from the state retail monopolies covers the clear majority of the off-trade market and includes detailed data on the market size, product categories and sales per product. With respect to the on-trade market, the compilation of data requires applying certain assumptions in the available information, especially with respect to Denmark. Certain of the market estimates and forecasts contained in this Offering Circular are based on the analysis by the Company based on its own information and information derived from third-party sources concerning the factors affecting the growth of the markets and their forecasted development.

The Company has ensured that the information has been reproduced appropriately in this Offering Circular. As the Company does not have access to all of the facts, assumptions and postulates underlying the market analyses or statistical information and economic indicators contained in sources of third party information, including Euromonitor, OECD, the State Revenue Service Latvia, the Finnish National Supervisory Authority for Welfare and Health, IWSR and the Management Consultant Analysis, the Company is unable to verify such information. As far as the Company is aware and is able to ascertain from the information provided by third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Moreover, market studies are frequently based on information and assumptions that may not be exact or appropriate, and their methodology is by nature forward looking and speculative. Therefore, changes in the postulates and the premises on which market studies are based, could have a significant influence on the analyses and conclusions made.

The statements in this Offering Circular on the product areas of the Company, its market position, and other companies operating in its market areas are based solely on the experiences, internal investigations and assessments of the Company, as well as the reports and surveys it has commissioned, which the Company deems reliable. The Company cannot, however, guarantee that any of these statements are accurate or give an accurate description of the Company's position in its market, and none of the Company's internal investigations or information has been verified using external sources independent of those commissioned by the Company.

### Website information

The Company and the Managers will publish the Finnish Prospectus and any supplements thereto on their websites. The contents of the Company's or the Managers' websites or any other website do not form part of this Offering Circular, and prospective investors should not rely on such information in making their decision to invest in securities.

## IMPORTANT DATES

| | |
|---|---|
| 12 March 2018 at 10:00 a.m. | The subscription period for the Public Share Sale commences |
| 12 March 2018 at 10:00 a.m. | The subscription period for the Institutional Share Sale commences |
| 12 March 2018 at 10:00 a.m. | The subscription period for the Personnel Offering commences |
| 19 March 2018 at 11:00 a.m. (local time) | The subscription period for the Personnel Offering ends in Sweden |
| 19 March 2018 at 4:00 p.m. | The subscription period for the Personnel Offering ends in Nordea's e-subscriptions in Finland |
| 19 March 2018 at 4.00 p.m. | The option to discontinue the Institutional Share Sale and the Public Share Sale commences |
| 20 March 2018 at 4:00 p.m. | The subscription period for the Public Share Sale ends |
| 20 March 2018 at 4:00 p.m. | The subscription period for the Personnel Offering ends in Finland |
| 22 March 2018 at 12:00 p.m. | The subscription period for the Institutional Share Sale ends |
| 22 March 2018 (estimate) | Announcement of the results of the Share Sale and the Personnel Offering |
| 23 March 2018 (estimate) | The Sale Shares offered in the Public Share Sale are registered in the book-entry accounts of the investors |
| 23 March 2018 (estimate) | Trading in the Shares is expected to commence on the prelist of the Helsinki Stock Exchange |
| 27 March 2018 (estimate) | The Sale Shares offered in the Institutional Share Sale are ready to be delivered against payment |
| 27 March 2018 (estimate) | Trading in the Shares is expected to commence on the Official List of the Helsinki Stock Exchange |
| 28 March 2018 (estimate) | The Personnel Shares offered in the Personnel Offering are registered in the book-entry accounts of the investors |

## EXCHANGE RATES

The following table presents the average, high, low, and period-end reference rates as published by the European Central Bank for the U.S. dollar ("**USD**") per EUR as at the dates and for the periods indicated:

| | Reference rates of USD per euro | | | |
|---|---|---|---|---|
| | **Average** | **High** | **Low** | **Period-End** |
| 2015…………………………………………… | 0.9013 | 0.9477 | 0.8304 | 0.9185 |
| 2016…………………………………………… | 0.9034 | 0.9649 | 0.8644 | 0.9487 |
| 2017………………………………………….... | 0.8852 | 0.9629 | 0.8292 | 0.8338 |
| 2018 (through 7 March 2018) ………………… | 0.8146 | 0.8381 | 0.8004 | 0.8053 |

The following table presents the average, high, low, and period-end reference rates as published by the European Central Bank for the Swedish krona ("**SEK**") per EUR as at the dates and for the periods indicated:

| | Reference rates of SEK per euro | | | |
|---|---|---|---|---|
| | **Average** | **High** | **Low** | **Period-End** |
| 2015…………………………………………… | 0.1069 | 0.1097 | 0.1036 | 0.1088 |
| 2016…………………………………………… | 0.1056 | 0.1094 | 0.1000 | 0.1047 |
| 2017………………………………………….... | 0.1038 | 0.1062 | 0.0998 | 0.1016 |
| 2018 (through 7 March 2018)………………… | 0.1009 | 0.1024 | 0.0977 | 0.0977 |

The following table presents the average, high, low, and period-end reference rates as published by the European Central Bank for the Norwegian krone ("**NOK**") per EUR as at the dates and for the periods indicated:

| | Reference rates of NOK per euro | | | |
|---|---|---|---|---|
| | **Average** | **High** | **Low** | **Period-End** |
| 2015…………………………………………… | 0.1117 | 0.1201 | 0.1040 | 0.1041 |
| 2016…………………………………………… | 0.1076 | 0.1121 | 0.1030 | 0.1101 |
| 2017………………………………………….... | 0.1072 | 0.1135 | 0.1003 | 0.1016 |
| 2018 (through 7 March 2018) ………………… | 0.1036 | 0.1047 | 0.1021 | 0.1033 |

The following table presents the average, high, low, and period-end reference rates as published by the European Central Bank for the Australian dollar ("**AUD**") per EUR as at the dates and for the periods indicated:

| | Reference rates of AUD per euro | | | |
|---|---|---|---|---|
| | **Average** | **High** | **Low** | **Period-End** |
| 2015…………………………………………… | 0.6767 | 0.7272 | 0.6193 | 0.6713 |
| 2016…………………………………………… | 0.6719 | 0.7088 | 0.6218 | 0.6851 |
| 2017………………………………………….... | 0.6788 | 0.7305 | 0.6372 | 0.6516 |
| 2018 (through 7 March 2018) ………………… | 0.6435 | 0.6561 | 0.6286 | 0.6286 |

The above rates are provided solely for the convenience of the reader and are not necessarily the rates used in the preparation of the Company's financial statements and financial statement information. No representation is made that the euros could have been converted into U.S. dollars, Swedish krona, Norwegian krone or Australian dollars at the rates shown or any other rate at such dates or during such periods.

## DIVIDEND AND DIVIDEND POLICY

The Board of Directors has confirmed a dividend policy for the Company. According to the dividend policy, the Company targets a dividend pay-out ratio of 60 per cent or above of the result for the period. The Company aims to pursue active dividend policy, and result of the period not considered necessary to grow and develop the Company will be distributed to the shareholders.

The following table presents the dividends paid from the financial years ended 31 December 2016 and 31 December 2015. In accordance with the proposal of the Board of Directors, the Company's shareholder has resolved that dividend will not be paid from the financial year ended in 31 December 2017.

| **Financial year ended** | **Amount of the dividend per share for the financial year** |
|---|---|
| 31 December 2016, extra dividend | EUR 1.67 |
| 31 December 2016 | EUR 0.29 |
| 31 December 2015 | EUR 0.29 |

The Board of Directors of the Company has on 13 December 2017 resolved to cancel the series L shares which were held in treasury by the Company and upon registration of such cancellation the Company no longer had any series L shares. The sole shareholder of the Company resolved on 15 December 2017 to combine the Company's series A and series L shares to single share series. See "*Description of the Shares and Share Capital*". As the Company's series L shares have been in treasury prior to their cancellation and the combination of the share series, no dividend has been paid for them for the financial periods presented in the table above.

On 31 December 2017, Altia Plc's distributable funds were EUR 56.8 million.

Under the Finnish Companies Act, the General Meeting decides on the distribution of dividends based on a proposal by the Company's Board of Directors. Dividends are generally declared once every financial year and may be paid only after the General Meeting of Shareholders has approved the Company's financial statements. If dividends are distributed, all of the Shares of the Company entitle to the same dividend. There can be no assurance regarding any financial period as to the amount of dividends to be distributed or as to whether the Company will distribute dividends at all. The dividends paid by the Company for any financial period will not be indicative of the dividends to be paid after the said financial period. The covenants in the Company's financial agreements may restrict the distribution of the Company's profits. For a description of the restrictions applicable to dividend distributions, see "*Description of the Shares and Share Capital — Shareholders' Rights — Dividend and Other Distribution of Funds*".

## BACKGROUND AND REASONS FOR THE CONTEMPLATED LISTING AND USE OF PROCEEDS

### Reasons for the Listing

The Company's operations have been run in an autonomous way and it has been operating in an internationally competitive environment for years. The State of Finland considers the contemplated Listing and the reduction of the state ownership in the Company as a natural next step for the Company's growth and development in Finland and internationally. The contemplated Listing would increase the transparency of the Company's business, and from the perspective of the Company's business partners, the contemplated Listing would bring more neutrality with regard to the Company considering its operations in the international environment. The contemplated Listing would also serve to broaden the ownership base in the Company, provide the general public with an opportunity to invest in the Company and increase the general interest towards the Company and awareness of the Company with investors, business partners and customers as well as provide the Company an access to capital markets. The objective of the contemplated Listing would be therefore to improve the Company's ability to successfully pursue its strategy and to increase its strategic flexibility. Through the Listing, the Shares can also more effectively be used in potential acquisitions and in rewarding the Company's personnel and key persons.

The Share Sale and the contemplated Listing allow for a liquid market for the Shares going forward.

The Board of Directors resolved on 9 March 2018 to apply for the Listing of the Shares on the Official List of the Helsinki Stock Exchange.

### Use of Proceeds

The Seller will receive gross proceeds of approximately EUR 189.8 million from the Share Sale (calculated by using the mid-point of the Preliminary Price Range and assuming that all Sale Shares are sold and that the Over-allotment Option is used). The Seller expects to pay approximately EUR 6.2 million in fees, expenses and transfer taxes in connection with the Share Sale (calculated by using the mid-point of the Preliminary Price Range and the maximum number of Sale Shares and assuming that all Sale Shares are sold, the Over-allotment Option is used and that the discretionary fee will be paid in full). The Company will not receive any of the gross proceeds received from the Sale Shares sold by the Seller in connection with the Share Sale.

The Company will receive gross proceeds of approximately EUR 2.2 million from the Personnel Offering[12]. The proceeds from the Personnel Offering will be used for general corporate purposes. The Company estimates that it will incur total fees, commissions and expenses related to the Listing and the Personnel Offering of approximately a maximum of EUR 5.6 million. As a result, the net proceeds for the Company from the Personnel Offering, including costs related to the Listing and the Personnel Offering, are estimated to amount to approximately EUR -3.4 million.

Based on above, the Company and the Seller expect to pay approximately EUR 11.8 million in fees, commissions and expenses in connection with the Share Sale and the Personnel Offering.

For information on the effect of the Share Sale and the Personnel Offering on the Company's capitalisation and indebtedness, see "*Capitalisation and Indebtedness*".

[12] The calculation assumes that (i) the maximum number of the Personnel Shares offered in the Personnel Offering are fully subscribed for, and (ii) the subscription price of the Personnel Shares is the mid-point of the Preliminary Price Range less the 10 per cent discount on the Personnel Shares compared to the Sale Price.

## TERMS AND CONDITIONS OF THE SHARE SALE AND THE PERSONNEL OFFERING

*"Subscription" means below an offer or commitment provided by an investor in the Share Sale or the Personnel Offering, whether the investor has offered or committed to purchase Sale Shares or to subscribe Personnel Shares. Correspondingly, "subscriber", "subscription period", "subscription place", "subscription offer" and "subscription commitment" (and other corresponding terms) refer to both the Share Sale and the Personnel Offering. In these terms and conditions, the "Company", "Altia" and "Altia Group" refer to Altia Plc together with its subsidiaries, except where it is clear from the context that the term refers only to Altia Plc or its specific subsidiaries or business operations.*

### General terms and conditions of the Share Sale and the Personnel Offering

The State of Finland, represented by the Prime Minister's Office (the "**State of Finland**" or the "**Seller**") is offering, through a sale of shares preliminarily a maximum of 20,000,000 existing shares in the Company (the "**Sale Shares**") for purchase (the "**Share Sale**") (i) to private individuals and entities in Finland (the "**Public Share Sale**"), and (ii) to institutional investors as private placements in Finland and internationally (the "**Institutional Share Sale**"). In addition, the Company is offering for subscription to all permanent employees of Altia employed in Finland and Sweden and to the members of the Executive Management Team of Altia a maximum of 300,000 new shares in the Company (the "**Personnel Shares**" and, together with the Sale Shares, the "**Offer Shares**") (the "**Personnel Offering**"). Only new shares in the Company will be offered in the Personnel Offering and a discount will be applied to the Subscription Price as described below. The Offer Shares are being offered and sold outside the United States in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**").

If the Offer Shares are not subscribed for in full to their preliminary maximum amount (i.e. less than 20,000,000 Sale Shares in the Share Sale and less than 300,000 Personnel Shares in the Personnel Offering), the number of Sale Shares sold or Personnel Shares issued may be below the announced preliminary maximum amount.

The Offer Shares represent preliminarily a maximum of approximately 56.0 per cent of all the shares (the "**Shares**") and votes in the Company after the registration of the Personnel Shares in the Finnish Trade Register (the "**Trade Register**") without the Over-allotment Option (as defined below) assuming that all of the Personnel Shares offered are subscribed for in full (with the Over-allotment Option a maximum of approximately 64.3 per cent).

Immediately after the listing of the Shares on the official list of Nasdaq Helsinki Ltd (the "**Helsinki Stock Exchange**") (the "**Official List**") (the "**Listing**"), the State of Finland would hold approximately 44.0 per cent of the Shares and votes (without the Over-allotment Option) assuming that the State of Finland sells 20,000,000 Sale Shares and all the Personnel Shares offered are subscribed for in full. See also below " *— Lock-up*".

The terms and conditions of the Share Sale and the Personnel Offering are comprised of the general terms and conditions of the Share Sale and the Personnel Offering as well as the special terms and conditions of the Institutional Share Sale, the Public Share Sale and the Personnel Offering, respectively.

The Company and the Seller have appointed Nordea Bank AB (publ), Finnish branch ("**Nordea**") to act as the global coordinator and bookrunner (the "**Global Coordinator**") as well as a financial advisor for the Share Sale and the Personnel Offering. In addition, the Company and the Seller have appointed Carnegie Investment Bank AB ("**Carnegie**") to act as the joint bookrunner and OP Corporate Bank plc ("**OP**") to act as the co-lead manager for the Share Sale and the Personnel Offering (Nordea, Carnegie and OP together, the "**Managers**" and each individually a "**Manager**"). In addition, the Seller has appointed Nordnet Bank AB, Finnish Branch ("**Nordnet**") to act as a subscription place in the Public Share Sale.

#### *Share Sale*

The Seller will offer for purchase preliminarily a maximum of 20,000,000 Sale Shares in the Public Share Sale and in the Institutional Share Sale.

The Sale Shares represent preliminarily a maximum of approximately 55.6 per cent of the Shares and votes before the Personnel Offering and 55.2 per cent after the registration of the Personnel Shares in the Trade Register without the Over-allotment Option (a maximum of approximately 63.4 per cent with the Over-allotment Option) and assuming that all the Personnel Shares offered are subscribed for in full.

The final number of Sale Shares to be sold in the Share Sale will be announced through a stock exchange release at the same time with the Sale Price of the Sale Shares (as defined below) announcement immediately following the Pricing (as defined below) and it will be available at the latest on the next banking day following the Pricing, on or about 23 March 2018, at the subscription places of the Share Sale and the Personnel Offering and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia.The Sale Shares are sold in order to enable the listing of the Shares on the Official List of the Helsinki Stock Exchange.

### *Personnel Offering*

The Extraordinary General Meeting of Shareholders of the Company resolved on 22 February 2018 to authorise the Board of Directors to decide on a directed issue against payment so that the number of Shares issued may not exceed 300,000 Personnel Shares. Based on the authorisation granted by the Extraordinary General Meeting of Shareholders, the Board of Directors resolved on 9 March 2018 to issue a maximum of 300,000 Personnel Shares by way of a Personnel Offer to all permanent employees in Finland and in Sweden with a direct, permanent contract of employment to Altia at the end of the subscription period and to members of the Executive Management Team of Altia. The Board of Directors of the Company is expected to resolve on or about 22 March 2018 on the approval and allocation of the subscriptions of the Personnel Offering based on the authorisation. The payments made to the Company for the approved Personnel Share subscriptions will be booked in their entirety in the invested unrestricted equity fund. Thus, the Company's share capital will not be increased in connection with the Personnel Offering.

As a result of the Personnel Offering, the number of the Shares may increase up to 36,260,000 Shares, if the authorisation of the Extraordinary General Meeting of Shareholders would be used in full. The Personnel Shares issued in the Personnel Offering represent approximately 0.8 per cent of the Shares and votes after the Personnel Offering assuming that all the Personnel Shares offered are subscribed for in full.

The final number of Personnel Shares to be issued in the Personnel Offering will be announced through a stock exchange release together with the announcing of the Subscription Price immediately following the Pricing and it will be available at the latest on the next banking day following the Pricing, on or about 23 March 2018, at the subscription places of the Share Sale and the Personnel Offering and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia.

### Over-allotment Option

The Seller is expected to agree on that it will grant the Global Coordinator an over-allotment option, exercisable within 30 days from commencement of trading in the Shares on the prelist of the Helsinki Stock Exchange (which is expected to be between 23 March 2018 and 21 April 2018), for up to 3,000,000 additional Shares (the "**Additional Shares**") solely to cover over-allotments, if any (the "**Over-allotment Option**"). The Additional Shares correspond to approximately a maximum of 8.3 per cent of the Shares and votes before the Personnel Offering and approximately a maximum of 8.3 per cent after the Personnel Offering, assuming that all the Personnel Shares offered are subscribed for in full.

### Stabilisation measures

After the Share Sale, Nordea, as stabilisation manager (the "**Stabilisation Manager**"), may, to the extent permitted by applicable law, within 30 days from commencement of trading in the Shares on the prelist of the Helsinki Stock Exchange (which is expected to be between 23 March 2018 and 21 April 2018) engage in measures that stabilise, maintain or otherwise affect the price of the Shares. The Stabilisation Manager may allocate a number of Shares that is larger than the total number of Offer Shares, creating a short position. The short selling is covered if the short position does not exceed the number of Shares that the Stabilisation Manager can acquire through the Over-allotment Option. The Stabilisation Manager may close covered short selling with the Over-allotment Option or by purchasing Shares in the market. In determining how to close covered short selling, the Stabilisation Manager will consider, among other things, the market price of the Shares compared to the Over-allotment Option price. In connection with the Share Sale, the Stabilisation Manager may also bid for and purchase Shares in the market to stabilise the share price. These measures may raise or maintain the market price of the Shares in comparison with the price levels determined independently on the market or may prevent or delay any decrease in the market price of the Shares. However, stabilisation measures will not be carried out at a higher price than the Sale Price. The Stabilisation Manager has no obligation to carry out these measures, and the Stabilisation Manager may stop any of these measures at any time, and such measures must be brought to an end within 30 days of commencement of trading in the Shares on the prelist of the Helsinki Stock Exchange.

Any stabilisation measures will be conducted in accordance with Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse ("**Market Abuse Regulation**") and the Commission Delegated Regulation (EU) 2016/1052 supplementing Market Abuse Regulation with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

The Stabilisation Manager may sign a share lending agreement with the State of Finland related to stabilisation. According to the share lending agreement, the Stabilisation Manager may borrow a number of Shares equal to the Over-allotment Option solely to cover any possible over-allotments in connection with the Share Sale. To the extent that the Stabilisation Manager borrows Shares in accordance with these provisions, it must return an equal number of Shares to the Seller.

**Placing Agreement**

The Company expects, together with the Seller, to enter into a placing agreement (the "**Placing Agreement**") with the Managers on or about 22 March 2018. For additional information, see "*Plan of Distribution in the Share Sale and the Personnel Offering".*

The Seller will decide alone, on the completion of the Share Sale and the number of Sale Shares, and the Board of Directors of the Company will decide on the completion of the Personnel Offering and the number Personnel Shares in accordance with the share issue authorisation. The Seller will decide, after consulting the Board of Directors of the Company, the Sale Price (as defined below) for the Shares, after the subscription period directed at institutional investors has ended, on or about 22 March 2018. In case the Share Sale or the Personnel Offering does not result in a sufficient amount of subscriptions for Sale Shares and/or Personnel Shares, the Share Sale and/or the Personnel Offering may not be completed. The Personnel Offering is conditional to the completion of the Share Sale. In addition, the Share Sale and the Personnel Offering are conditional to the Placing Agreement being signed between the Company, the Seller and the Managers.

**Subscription period**

The subscription period for the Institutional Share Sale will commence on 12 March 2018 at 10:00 a.m. (Finnish time) and end at the latest on 22 March 2018 at 12:00 noon (Finnish time).

The subscription period for the Public Share Sale will commence on 12 March 2018 at 10:00 a.m. (Finnish time) and end at the latest on 20 March 2018 at 4:00 p.m. (Finnish time) in Nordea's, OP Financial Group's and Nordnet's online services, Nordea 24/7 service and OP 0100 0500 telephone service with bank identifiers and in Nordea's branch offices and OP Financial Group's cooperative banks.

The subscription period for the Personnel Offering will commence on 12 March 2018 at 10:00 a.m. (Finnish time) and will end on 20 March 2018 at 4:00 p.m. (Finnish time). However, the subscription period for the Personnel Offering in Sweden will end on 19 March 2018 at 11:00 a.m. (local time) and Nordea's e-subscriptions in Finland will end on 19 March 2018 at 4:00 p.m. (Finnish time).

The Seller has, in the event of an oversubscription, the right to discontinue the Share Sale at the earliest on 19 March 2018 at 4:00 p.m. (Finnish time). The Institutional Share Sale and the Public Share Sale can be discontinued independently of each other. The Institutional Share Sale and the Public Share Sale may be discontinued even if they would not be oversubscribed. A stock exchange release will be published in the event of a discontinuation.

The Seller has the right to extend the subscription periods in respect of the Share Sale and the Board of Directors of the Company has the right to extend the subscription period in respect of the Personnel Offering. A possible extension of the subscription period of the Institutional Share Sale, the Public Share Sale and the Personnel Offering or any of them will be announced through a stock exchange release, which will indicate the new end date of the subscription period. All subscription periods for the Share Sale or the Personnel Offering will end in any case at the latest on 9 April 2018 at 4:00 p.m. (Finnish time).

**Sale and Subscription price**

The preliminary price range for the Sale Shares is a minimum of EUR 7.50 and a maximum of EUR 9.00 per Sale Share (the "**Preliminary Price Range**"). The Preliminary Price Range can be changed during the subscription period, which will be announced through a stock exchange release and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia. If, as a result of the change, the upper limit of the Preliminary Price Range increases or the lower limit decreases, the Finnish language prospectus (the "**Finnish Prospectus**") will be supplemented and the supplement will be published through a stock exchange release. In the Public Share Sale, the final sale price is at most the upper limit of the Preliminary Price Range (the "**Sale Price**"), i.e. EUR 9.00 per Sale Share. The subscription price per share in the Personnel Offering is 10 per cent lower than the Sale Price in the Public Share Sale (the "**Subscription Price**"). Thus, the Subscription Price per Personnel Share in the Personnel Offering is EUR 8.10 at maximum. The reduced price, of at a maximum 10 per cent that is applied to the Subscription Price in the Personnel Offering, is not deemed as a taxable benefit in Finland in accordance with Chapter 4, Section 66 of the Income Tax Act (1535/1992, as amended). See section " — *Cancellation of the subscription commitment — Procedure for changing the Preliminary Price Range or deciding on the Sale Price in deviation of the Preliminary Price Range*" and regarding the tax treatment of the personnel in the Personnel Offering, see section "*Taxation — Taxation of Finnish Resident Individuals — Taxation of Finnish Resident Employees Participating in the Personnel Offering*" below.

The Sale Price will be decided based on subscription orders submitted by institutional investors in negotiations between the Seller and the Global Coordinator, after the Seller and the Global Coordinator have consulted the Board of Directors of the Company (the "**Pricing**"), when the subscription period has ended on or about 22 March 2018, provided that the Institutional Share Sale and/or the Public Share Sale have not been discontinued earlier. The Sale Price may be above or below the Preliminary Price Range provided, however, that in the Public Share Sale, the Sale Price cannot be higher than the maximum price of the Preliminary Price Range, i.e. EUR 9.00 per Sale Share, and in the Personnel Offering the Subscription Price cannot be higher than 10 per cent below the maximum price of the Preliminary Price Range, i.e. EUR 8.10 per Personnel Share. The Sale Price in the Public Share Sale and the Institutional Share Sale can differ from one another only if the Sale Price in the Institutional Share Sale is higher than the maximum price of the Preliminary Price Range. If the Sale Price and/or the Subscription Price are above or below the Preliminary Price Range, the Finnish Prospectus will be supplemented and the supplement will be published through a stock exchange release. See section "*— Cancellation of the subscription commitment — Procedure for changing the Preliminary Price Range or deciding on the Subscription Price in deviation of the Preliminary Price Range*" below.

The Sale Price and the Subscription Price will be announced through a stock exchange release immediately following the Pricing and they will be available at the latest on the next banking day following the Pricing, on or about 23 March 2018 at the subscription places of the Share Sale and the Personnel Offering and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia.

**Cancellation of the subscription commitment**

Subscription commitment in the Public Share Sale and the Personnel Offering (the "**Commitment**") cannot be changed or cancelled, otherwise than in the situations provided for in the Finnish Securities Market Act (746/2012, as amended, the "**Finnish Securities Market Act**").

***Procedure for changing the Preliminary Price Range or deciding on the Sale Price in deviation of the Preliminary Price Range***

If the Preliminary Price Range is changed during the subscription period, such changes will be published through a stock exchange release and on the Internet on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia. If, as a result of the change, the upper limit of the Preliminary Price Range increases or the lower limit decreases or if the Sale Price or the Subscription Price is outside the Preliminary Price Range, Finnish Prospectus published in connection with the Listing will be supplemented and the supplement will be published through a stock exchange release. However, in the Public Share Sale the Sale Price can be no higher than the maximum price of the Preliminary Price Range, i.e. EUR 9.00 per Sale Share, and in the Personnel Offering the Subscription Price cannot be higher than 10 per cent below the maximum price of the Preliminary Price Range, i.e. EUR 8.10 per Personnel Share. If the upper limit of the Preliminary Price Range increases or the lower limit decreases as a result of the change, or if the Sale Price of the Sale Shares or the Subscription Price of the Personnel Shares is beyond the Preliminary Price Range, investors who have made a Commitment before the change was announced, may, for at least the next two (2) banking days after the publication of the change, cancel their Commitment.

If a Commitment is not cancelled, any excessive amount paid will be refunded to the bank account specified in the Commitment. See below "*— Special terms and conditions concerning the Public Share Sale — Refund of paid amount*" and "*— Special terms and conditions concerning the Personnel Offering — Refund of paid amount*".

***Cancellation according to the Finnish Securities Market Act***

If the Finnish Prospectus is supplemented or amended in accordance with the Finnish Securities Market Act due to a material error or omission or due to material new information that has become known after the Finnish Financial Supervisory Authority has approved the Finnish Prospectus and before the end of the subscription period or before the Sale Shares are admitted to trading, and, respectively, with regards to the Personnel Shares before they are admitted to trading, investors who have committed to subscribe for Shares before the publication of a supplement or correction of the Finnish Prospectus have, in accordance with the Finnish Securities Market Act, the right to cancel their Commitments within at least two (2) banking days after the supplement or correction has been published. The use of the cancellation right requires that the error, omission or material new information that led to the supplement or correction has become known prior to delivery of the Offer Shares to the investors. If the Finnish Prospectus is supplemented, such an event will be announced through a stock exchange release. Such stock exchange release shall also contain information on the investors' right to cancel their Commitments in accordance with the Finnish Securities Market Act.

***Procedure to cancel a Commitment according to the Finnish Securities Market Act***

The cancellation of a Commitment must be notified in writing to the subscription place where the initial Commitment was made and within the time limit set for such cancellation. However, a Commitment made by telephone to Nordea or OP may be cancelled by telephone. The cancellation of a Commitment made via Nordnet's online service can be made through an authorized representative or via Nordnet's online service by accepting a separate Commitment cancellation using Nordnet's bank identifiers. Cancelling or changing a Commitment cannot be made online via Nordea Netbank or e-subscription, but must be made by telephone in Nordea's 24/7 service or in other Nordea's subscription places. Cancelling or changing a Commitment in the Public Share Sale cannot be made either in OP Financial Group's online services, instead it must be made in a branch office of OP Financial Group's cooperative bank. With regard to investors that are not Nordea, OP or Nordnet customers and that have submitted a Commitment in a Designated Bank[13] of OP Financial Group, the cancellation of a Commitment must be made in the same Designated Bank where the investor has submitted its Commitment. The possible cancellation of a Commitment concerns the entire Commitment. After the period entitling to the cancellation right has lapsed, the cancellation right no longer exists. If the Commitment is cancelled, the subscription place refunds the sum paid for the Shares to the bank account specified in the Commitment or, with respect to Nordea's e-subscription, to the account from which the subscription payment has been made. In case Nordnet has acted as the subscription place, the refunded amount will be paid to Nordnet's cash account. The money is refunded as soon as possible after the cancellation, approximately within five (5) banking days of serving the subscription place with the cancellation notice. If an investor's bank account is in a different bank than the subscription place, the refund will be paid to the investor's Finnish bank account in accordance with the payment schedule of the financial institutions, approximately no later than two (2) banking days thereafter and, in the Personnel Offering, to the Swedish employees' Swedish Nordea bank account approximately no later than two (2) banking days. No interest will be paid on the refunded amount.

**Registration of Shares to book-entry accounts**

An investor making a Commitment must have a book-entry account and a related cash account with a Finnish custodian or account operator, or with another such custodian operating in Finland, and must submit the number of his or her book-entry account in the Commitment. The Swedish employees who are qualified to participate in the Personnel Offering must be customers of Nordea and they must have a book-entry account in Nordea upon submitting their Commitment. Sale Shares offered in the Public Share Sale will be recorded in the book-entry accounts of investors who have made an approved Commitment on or about the first banking day after the Pricing takes place, on or about 23 March 2018. In the Institutional Share Sale, the Sale Shares will be ready to be delivered against payment on or about 27 March 2018 through Euroclear Finland Ltd ("**Euroclear Finland**"). The Personnel Shares will be recorded in the book-entry accounts of investors who have made an approved Commitment on or about 28 March 2018.

**Title and shareholder rights**

The title to the Shares is transferred when the Shares are paid for, the Personnel Shares are registered in the Trade Register and the Shares are recorded in the investor's book-entry account. The right to dividend and to other distribution of funds as well as other rights carried by the Shares in the Company belong to the investor after the title has been transferred.

**Transfer tax and other expenses**

The Seller will pay any transfer tax potentially due on transfers of its Sale Shares or its Additional Shares. In Finland no transfer tax will be payable in connection with the issue of or the subscription for Personnel Shares.

No fees or other payments will be charged from the investors in connection with offer for subscription, Commitment nor subscribing the Offer Shares. Account operators may charge fees in accordance with their price lists for the opening and maintaining of the book-entry account or other custody system and for custody of Shares.

**Trading in the Shares**

The Company will submit a listing application with the Helsinki Stock Exchange to list the Shares on the Official List of the Helsinki Stock Exchange. The Shares will be admitted to trading immediately in connection with the Listing. The trading is expected to commence on the prelist of the Helsinki Stock Exchange on or about 23 March 2018 and on the Official List of the Helsinki Stock Exchange on or about 27 March 2018. The Personnel Shares will be applied to be admitted for trading later, on or about 28 March 2018. The trading code of the Shares is ALTIA and the ISIN code is FI4000292438.

When the trading on the prelist commences on or about 23 March 2018, all Sale Shares sold in the Share Sale may not yet have been fully transferred to the investors' book-entry accounts. If an investor wishes to sell Shares purchased in the Share Sale on the prelist, he or she should ensure, before placing the order, that the number of Shares registered to his or her book-entry account covers the transaction in question at the time of the trade. Personnel Shares are subject to a lock-up. See section " *— Special terms and conditions concerning the Personnel Offering — Lock-up*" below.

**Right to cancel the Share Sale and/or the Personnel Offering**

The Seller is entitled to cancel the Share Sale and the Board of Directors of the Company is entitled to cancel the Personnel Offering at any time prior to their execution for any reason, such as due to a material change in the market conditions, the

[13] The Designated Banks are: Etelä-Hämeen Osuuspankki, Etelä-Karjalan Osuuspankki, Etelä-Pohjanmaan Osuuspankki, Itä Uudenmaan Osuuspankki, Kainuun Osuuspankki, Keski-Pohjanmaan Osuuspankki, Keski-Suomen Osuuspankki, Keski-Uudenmaan Osuuspankki, Kymenlaakson Osuuspankki, Lounaismaan Osuuspankki, Lounaisrannikon Osuuspankki, Länsi-Suomen Osuuspankki, Länsi-Uudenmaan Osuuspankki, Helsingin Seudun Osuuspankki, Oulun Osuuspankki, Pohjois-Karjalan Osuuspankki, Pohjois-Savon Osuuspankki, Pohjolan Osuuspankki, Päijät-Hämeen Osuuspankki, Suur-Savon Osuuspankki, Tampereen Seudun Osuuspankki, Turun Seudun Osuuspankki and Vasa Andelsbank.

Company's financial position or the Company's business. The Personnel Offering is conditional to the execution of the Share Sale. The subscription place will refund the amount paid for the Shares to the bank account specified in the Commitment or, with regard to the subscriptions made via Nordea Netbank e-subscription, to the bank account from which the subscription payment was made as soon as possible after such cancellation decision approximately five (5) banking days later. If the investor's bank account is in another financial institution than the subscription place, the refund will be paid to the investor's Finnish bank account in accordance with the payment schedule of the financial institutions, approximately no more than two (2) banking days later and, in the Personnel Offering, to the Swedish employees' Swedish Nordea bank account approximately no later than two (2) banking days. No interest will be paid on such repaid funds.

**Lock-up**

The Company and the Seller are expected to commit, during the period that will end on the date that falls 180 days from the Listing, without the prior written consent of the Global Coordinator, not to issue, offer, pledge, sell, contract to sell, sell any option rights or contract to purchase, purchase any option rights or contract to sell, concede any option right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities they hold entitling to Shares or exchangeable for or convertible into or exercisable for Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transactions are to be settled by delivery of the Shares or other securities, in cash or otherwise. The lock-up does not apply to the potential transfer of the Shares from the Seller to State Business Development Company (Vake Oy). The lock-up does not apply to measures related to the execution of the Share Sale or the Personnel Offering.

As a precondition for participation in the Personnel Offering, persons eligible to participate in the Personnel Offering must undertake the lock-up upon submitting their subscriptions, which ends, for part of the members of the Executive Management Team of Altia on the date that falls 365 days from the Listing, and, for part of other personnel, on the date that falls 180 days from the Listing. The participants of the Personnel Offering accept upon submitting their subscriptions that the above-mentioned lock-up will be binding upon them without any further action and that it will be recorded to their book-entry accounts on the order by the Company. See section " *— Special terms and conditions concerning the Personnel Offering — Lock-up"* below.

In aggregate, the terms of the lock-up agreements apply to approximately 44.8 per cent of the Shares after the Share Sale and the Personnel Offering, without the Over-allotment Option (approximately 36.6 per cent with the Over-allotment Option), assuming that the Company issues 300,000 Personnel Shares.

**Other issues**

Other issues and practical matters relating to the Share Sale will be resolved by the Seller, together with the Global Coordinator.

Other issues and practical matters relating to the Personnel Offering will be resolved by the Board of Directors of the Company based on the authorisation for the share issue.

**Documents on display**

The Company's latest financial statements, the report of the Board of Directors and the auditor's report as well as the other documents pursuant to Chapter 5, Section 21 of the Finnish Limited Liability Companies Act (624/2006, as amended, the "**Companies Act**"), are available during the subscription period at the Company's headquarters in Kaapeliaukio 1, 00180 Helsinki, Finland.

**Governing law**

The Share Sale and the Personnel Offering are governed by the laws of Finland. Any disputes arising in connection with the Share Sale and/or the Personnel Offering will be settled by a court of competent jurisdiction in Finland.

**Special terms and conditions concerning the Institutional Share Sale**

Preliminarily 16,000,000 Sale Shares are offered in the Institutional Share Sale in private placements to institutional investors in Finland and internationally on the terms and conditions set forth herein. The number of Sale Shares offered in the Institutional Share Sale may be more or less than the respective amount presented herein. The Seller may decide, based on demand, to transfer Sale Shares without any restrictions between the Institutional Share Sale and the Public Share Sale in deviation from the preliminary number of Shares. The number of Sale Shares to be offered in the Public Share Sale is preliminarily approximately 20 per cent of all Sale Shares. However, the minimum number of Sale Shares to be offered in the Public Share Sale will be 2,000,000 Sale Shares or, if the aggregate number of Sale Shares covered by the Commitments submitted in the Public Share Sale is smaller than this, such aggregate number of Sale Shares as covered by the Commitments.

The Managers may reject a subscription order, either partially or wholly, if it does not meet the terms and conditions set herein or it is otherwise incomplete.

The Shares are being offered in the Institutional Share Sale to institutional investors in Finland and internationally in certain other countries outside the United States in accordance with Regulation S under the U.S. Securities Act, as amended. The Shares have not been registered, and they will not be registered under the U.S. Securities Act or under the securities laws of any state of the United States and, accordingly, will not be offered or sold, directly or indirectly, in or into the United States (as defined in Regulation S of the U.S. Securities Act) unless they have been registered under the U.S. Securities Act or pursuant to an exemption from the registration requirements of the U.S. Securities Act and in compliance with any applicable state securities laws of the United States. For more information on restrictions concerning the offering of the Offer Shares, see section "*Important Information*".

***Right to participate and minimum amount of the subscription order***

An investor, whose subscription order includes at least 20,000 Sale Shares, may participate in the Institutional Share Sale. Natural persons or estates of deceased persons may not participate in the Institutional Share Sale other than via an asset manager. Corporations submitting subscription orders must have a valid LEI- identifier.

***Subscription places***

Subscription orders by institutional investors may be submitted to the Managers.

***Payment of the Sale Shares***

Institutional investors participating the Institutional Share Sale must pay for the Sale Shares corresponding to their approved subscription offers in accordance with the instructions issued by the Managers, on or about 27 March 2018. The Managers have the right, in accordance with the duty of care set for securities intermediaries, where necessary, upon receipt of a subscription order or before approval thereof, to request the subscriber to give an account of its ability to pay for the Sale Shares corresponding to the order or to require an amount corresponding to the order to be paid in advance. The amount payable will then be the maximum price of the Preliminary Price Range, EUR 9.00, multiplied by the number of Sale Shares corresponding to the subscription order. If the Preliminary Price Range is decreased or increased, the maximum price per Sale Share of the new price range will be applied to the orders submitted thereafter. Possible refunds will be made on or about on the fifth (5th) banking day following the Pricing, on or about 29 March 2018. No interest will be paid on such repaid funds.

***Approval of the subscription orders and allocation of the Sale Shares***

The Seller decides at its sole discretion on the approvals of the submitted subscription orders and on the allocation of the Sale Shares after the Pricing. The subscription orders can be approved or rejected partially or wholly.

**Special terms and conditions concerning the Public Share Sale**

Preliminarily 4,000,000 Sale Shares are offered in the Public Share Sale for subscription by private individuals and corporations in Finland in accordance with the terms and conditions herein. The preliminary number of the Sale Shares offered in the Public Share Sale represents approximately 20 per cent of all the Sale Shares. The Seller may, based on demand, reallocate Sale Shares between the Institutional Share Sale and the Public Share Sale in deviation from the preliminary number of Sale Shares without limitation. However, the minimum number of Sale Shares to be offered in the Public Share Sale shall be 2,000,000 Sale Shares (i.e. no less than 10 per cent of all the Sale Shares) or, if the aggregate number of Sale Shares covered by the Commitments submitted in the Public Share Sale is smaller than this, such aggregate number of Sale Shares as covered by the Commitments.

The subscription place has the right to reject a Commitment, either partially or wholly, if the Commitment does not comply with the terms and conditions set forth herein or if it is otherwise incomplete.

***Right to participate, the minimum and maximum amounts for Commitments***

In the Public Share Sale the Sale Shares are offered to investors, whose domicile is in Finland and who submit their Commitments in Finland. Corporations must have a valid LEI-identifier to submit a Commitment. In the Public Share Sale, the Commitment must concern a minimum of 100 Sale Shares and a maximum of 19,999 Sale Shares. If an investor submits Commitments in the Public Share Sale in more than one subscription place, the Commitments are combined into one Commitment to which the above-mentioned minimum and maximum amounts are applied. However, the Commitments submitted by one and the same investor in the Public Share Sale and the Personnel Offering are not combined.

*Places of subscription and submission of Commitments*

The places of subscription in the Public Share Sale for customers **with a book-entry account in Nordea** are:

- Nordea Netbank with bank identifiers at www.nordea.fi;

- Nordea 24/7 service for private customers with Nordea's bank identifiers by telephone Monday to Friday 8.00 a.m. to 8.00 p.m. (Finnish time), tel. 0200 3000 (Finnish service, local network charge / mobile charge), tel. 0200 5000 (Swedish service, local network charge / mobile charge) or Monday to Friday 8.00 a.m. to 6.00 p.m. (Finnish time), tel. 0200 70 000 (English service, local network charge / mobile charge);

- Nordea Business Centre for Nordea corporate customers;

- Nordea's branch offices (except branches with cash services only) in Finland during their normal business hours; and

- Nordea Private Banking units in Finland (only for Nordea Private Banking customers).

The places of subscription in the Public Share Sale for **customers of OP** are:

- OP Financial Group online service for private customers at the address www.op.fi/merkinta. OP Financial Group's customers submitting a Commitment by e-subscription are required to have OP Financial Group's bank identifiers;

- OP 0100 0500 telephone service (in Finnish, local network charge / mobile charge). The Commitment may be submitted via telephone if the customer has personal internet banking agreement with OP Financial Group and bank identifiers, which are required in connection with the identification to the telephone service; and

- Branch offices of OP Financial Group's cooperative banks during their normal business hours.

The place of subscription in the Public Share Sale for customers **with a book-entry account in Nordnet** is:

- Nordnet's online service with Nordnet's bank identifiers at www.nordnet.fi/altia.

The places of subscription in the Public Share Sale **for investors that are not Nordea, OP or Nordnet customers**[14] are:

- OP Financial Group online service for private customers at the address www.op.fi/merkinta. An internet subscription requires bank identifiers of Aktia, Danske Bank, Handelsbanken, POP Bank, S-Bank, Savings Bank or Ålandsbanken; and

- Nordea's branch offices (except branches with cash services only) in Finland during their normal business hours;

- Designated banks[15] of OP Financial Group (the "**Designated Banks**"), only during the normal business hours.

Submitting a Commitment to Nordea via internet banking or via telephone requires a valid internet banking agreement with Nordea. Corporations may not submit Commitments via telephone in Nordea's 24/7 service or Nordea Netbank. The phone calls to Nordea's customer service are recorded.

When submitting the Commitment in OP Financial Group's internet banking service, the person submitting the Commitment has to check his or her daily limit in the account bank. If the payment exceeds the daily limit, the Commitment cannot be submitted through internet banking service. The payment of the Commitment must be made from

[14] Excluding customers with a book-entry account in Euroclear Finland. (It is not possible to participate in the Public Share Sale with a book-entry account in Euroclear Finland. As part of the national implementation of the EU Central Securities Depositories Regulation, Euroclear Finland is not anymore required to provide safekeeping services free-of-charge for equity instruments to end-investors and new securities cannot be transferred within the book-entry accounts in the Customer Account Services anymore. Investors who only have a book-entry account in Euroclear Finland's Customer Account Services are instructed to open a book-entry account with other custodian or account operator.)

[15] The Designated Banks are: Etelä-Hämeen Osuuspankki, Etelä-Karjalan Osuuspankki, Etelä-Pohjanmaan Osuuspankki, Itä Uudenmaan Osuuspankki, Kainuun Osuuspankki, Keski-Pohjanmaan Osuuspankki, Keski-Suomen Osuuspankki, Keski-Uudenmaan Osuuspankki, Kymenlaakson Osuuspankki, Lounaismaan Osuuspankki, Lounaisrannikon Osuuspankki, Länsi-Suomen Osuuspankki, Länsi-Uudenmaan Osuuspankki, Helsingin Seudun Osuuspankki, Oulun Osuuspankki, Pohjois-Karjalan Osuuspankki, Pohjois-Savon Osuuspankki, Pohjolan Osuuspankki, Päijät-Hämeen Osuuspankki, Suur-Savon Osuuspankki, Tampereen Seudun Osuuspankki, Turun Seudun Osuuspankki and Vasa Andelsbank.

a bank account that is solely in the name of the investor who submitted the Commitment. Corporations, estates of a deceased person or persons under guardianship cannot submit the Commitment through online service but instead they have to submit the Commitment in a branch office. The Commitments submitted in OP Financial Group's online service violating the terms and conditions will be rejected afterwards.

Submitting a Commitment via Nordnet's online service requires a valid investment service agreement with Nordnet and Nordnet bank identifiers.

The Commitment will be considered to have been made when the investor has submitted a signed commitment form to the place of subscription in accordance with instructions, submitted a Commitment according to Nordnet's subscription place instructions or has confirmed the Commitment with his or her bank identifiers and paid for the share subscription price in accordance with the Commitment. Any detailed instructions possibly issued by the place of subscription must be taken into consideration when submitting a Commitment. The Commitment in the Public Share Sale is binding and cannot be changed and can only be cancelled in the specified manner and situations referred to above under "*— Cancellation of the subscription commitment*".

On the part of persons under 18 years of age or investors otherwise under guardianship, permission from the magistrate is required in order for them to give a Commitment because the Shares will not yet be admitted to trading on a regulated market when the Commitment is made.

***Payment of the Sale Shares***

When submitting the Commitment, the price to be paid for the Sale Shares in the Public Share Sale is the maximum price of the Preliminary Price Range, i.e. EUR 9.00 per Sale Share multiplied by the number of Sale Shares covered by the Commitment. The Sale Price in the Public Share Sale shall not be higher than the maximum price of the Preliminary Price Range, i.e. EUR 9.00 per Sale Share.

The payment of a Commitment submitted in a branch office of Nordea will be debited directly from the investor's bank account in Nordea, or it may be paid by cash payment. The payment corresponding to a Commitment that has been submitted through Nordea Netbank will be charged from the investor's bank account when the investor confirms the Commitment with his or her bank identifiers.

A payment corresponding to a Commitment submitted in the OP Financial Group's internet banking service will be debited directly from the investor's bank account, when the investor confirms the payment of the Commitment with his or her bank identifiers. The payment of a Commitment submitted through the internet service must be made in accordance with the terms and conditions of the internet service immediately after the Commitment has been submitted. The payment must be made from a bank account that is solely in the investor's name. The payment corresponding to a Commitment that has been submitted through OP 0100 0500 telephone service will be charged from the investor's bank account in OP Financial Group.

The customers of OP Financial Group may submit and pay the Commitment in the branch offices of co-operative banks belonging to OP Financial Group. Non-customers of OP Financial Group may submit and pay their Commitments solely in the Designated Banks belonging to OP Financial Group.

If the customer of OP Financial Group has submitted the Commitment in a branch office of a co-operative bank belonging to OP Financial Group, the customer's bank account in OP Financial Group is debited directly. If non-customers of OP Financial Group have submitted the Commitments in the co-operative bank belonging to OP Financial Group, the payments can be settled in cash or by cheque.

OP Financial Group will conduct necessary controls regarding the investor and the origin of the funds when paying in cash or by cheque in the branch offices of co-operative banks belonging to OP Financial Group. When carrying out banking operations in the branch offices of co-operative banks belonging to OP Financial Group, the investor must make an appointment.

The payment of a Commitment submitted via Nordnet online service will be charged from the investor's cash bank account in Nordnet when the investor confirms the Commitment with his or her bank identifiers.

***Approval of a Commitment and allocation of the Sale Shares***

The Seller will decide on the allocation of the Sale Shares to investors in the Public Share Sale after the Pricing. Commitments can be approved or rejected in full or in part. In the possible event of an oversubscription the Seller aims to approve the Commitments in full for up to 200 Sale Shares and for Commitments exceeding this amount, to allocate the Sale Shares in the Public Share Sale in proportion to the amount of Commitments unmet. The final allocation principles will be published through a stock exchange release immediately after the Pricing and they will be available no later than the business day following the Pricing on or about 23 March 2018, in the subscription places of the Public Share Sale and on the websites www.altiagroup.com/ipo, www.nordea.fi/altia, www.op.fi/merkinta and www.nordnet.fi/altia.

A confirmation letter regarding the approval of the Commitments and allocation of the Shares will be sent as soon as possible and no later than on or about 9 April 2018 to all investors who have submitted their Commitments in the Public Share Sale. Investors at Nordnet will see their Commitments as well as the Offer Shares allocated to them on the transaction page of Nordnet's online service.

***Refund of paid amount***

If the Commitment is rejected or approved only in part and/or if the Sale Price of the Sale Shares is less than the price paid in connection with submission of the Commitment, the paid amount or part thereof will be refunded to the investor who submitted the Commitment approximately five (5) banking days after the Pricing, on or about 29 March 2018, to the Finnish bank account specified in the Commitment. If the subscription place is Nordnet, the refunded amount will be paid to Nordnet cash account. If the investor's bank account is in another financial institution than the subscription place, the refund will be paid to a Finnish bank account in accordance with the payment schedule of the financial institutions, approximately no later than two (2) banking days thereafter. If the Commitments submitted by the one and the same investor are being combined, the potential refund of paid amount is only refunded to one bank account of the investor. No interest will be paid on such repaid funds. See also " *— Cancellation of the subscription commitment — Procedure for changing the Preliminary Price Range or deciding on the Sale Price in deviation of the Preliminary Price Range*".

**Special terms and conditions concerning the Personnel Offering**

In the Personnel Offering, a maximum of 300,000 Personnel Shares will be offered to all permanent employees of Altia in Finland and Sweden with a direct, permanent contract of employment at the end of the subscription period and to the members of the Executive Management Team of Altia.

The subscription place has the right to reject a Commitment, either partially or wholly, if the Commitment does not comply with the terms and conditions set forth herein or if it is otherwise incomplete.

***Right to participate, the minimum amount for Commitments***

All Altia's permanent employees in Finland and in Sweden with a direct, permanent contract of employment to Altia at the end of the subscription period and the Executive Management Team of Altia may participate in the Personnel Offering. The Seller may not participate in the Personnel Offering. The right to participate in the Personnel Offering is personal and non-transferrable. In the Personnel Offering, the Commitment must concern a minimum of 50 Shares. Each person eligible to participate may only provide one Commitment in the Personnel Offering. The Commitments submitted by the same person eligible to participate in one or more subscription places are combined into one Commitment, which the above-mentioned minimum amount is applied to. However, the Commitments submitted by one and the same investor in the Public Share Sale and the Personnel Offering are not combined.

***The Subscription Price of the Personnel Shares***

The Subscription Price payable for the Personnel Shares is 10 per cent lower than the maximum price of the Preliminary Price Range in the Public Share Sale, i.e. EUR 8.10 per Personnel Share multiplied by the number of Personnel Shares covered by the Commitment.

***Approval of Commitments and allocation of the Personnel Shares***

Based on the authorisation for the share issue, the Board of Directors will decide on the allocation of the Personnel Shares offered in the Personnel Offering after the Pricing and the procedure to be followed in the possible event of an oversubscription. Commitments can be approved or rejected in full or in part. The Board of Directors aims, with regard to other subscribers than the members of the Executive Management Team and a certain other key employee of the Company, to approve Commitments in full for up to one hundred (100) Personnel Shares offered in the Personnel Offering. For part of the members of the Executive Management Team and a certain other key employee of the Company, the Board of Directors aims to approve Commitments in full for up to the amount of money corresponding to the net value (after taxes and deductions) of the personal one-off reward awarded to particular person, and which they are committed to use, in accordance with the terms and conditions of the one-off reward, for subscriptions for the Personnel Shares in the Personnel Offering. The aforementioned amount of money corresponds to approximately 58,339–70,008 Personnel Shares[16].

Thereafter, for the amounts exceeding those amounts, the Board of Directors aims to first allocate Personnel Shares offered in the Personnel Offering to others than the members of the Executive Management Team and a certain key employee of the Company in proportion to the amounts of Commitments unmet up to a maximum of 5,000 Personnel

[16] The calculation assumes that (i) all members of the Executive Management Team and a certain key employee of the Company subscribe for the Personnel Shares in accordance with the terms and conditions of the one-off reward and that (ii) the subscription price of the Personnel Shares is within of the Preliminary Price Range less the 10 per cent discount on the Personnel Shares compared to the Sale Price.

Shares, and, thereafter, to the members of the Executive Management Team and a certain key employee of the Company in proportion to the amounts of their Commitments unmet. However, with regard to the members of the Executive Management Team of Altia and a certain key employee of the Company, the Board of Directors will not approve Commitments in the Personnel Offering to the extent their aggregate Subscription Price exceeds the annual 2017 fixed salary (gross) of the particular person corresponding to approximately 214,241 Personnel Shares[17]. A confirmation letter regarding the approval of the Commitments and allocation of the Personnel Shares will be sent to all investors who have submitted their Commitments in the Personnel Offering.

For more information on the one-off reward awarded to the members of the Executive Management Team of the Company and a commitment related thereto to subscribe for the Personnel Shares in the Personnel Offering, see "*Board of Directors, Management and Auditors — Incentive Schemes — The One-off Reward*".

***Lock-up***

As a precondition for the participation in the Personnel Offering, the persons eligible to participate in the Personnel Offering must undertake the lock-up upon submitting their subscriptions, according to which they will not, without the prior written consent of the Global Coordinator, offer, pledge, sell, contract to sell, sell any option rights or contract to purchase, purchase any option rights or contract to sell, grant any option rights or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities they hold or subscribe for in the Personnel Offering and/or the Share Sale entitling to Shares or exchangeable for or convertible into or exercisable for Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transactions are to be settled by delivery of the Shares or other securities, in cash or otherwise. The lock-up commitment applies, for part of the members of the Executive Management Team of Altia who have subscribed for the Personnel Shares in the Personnel Offering, 365 days from the Listing, and, for part of other personnel who have subscribed for the Personnel Shares in the Personnel Offering, 180 days from the Listing. The participants of the Personnel Offering accept upon submitting their subscriptions that the above-mentioned lock-up will be binding upon them without any further action and that it will be recorded in the subscriber's book-entry account on the order by the Company.

***Places of subscription, submission of Commitment and payment of the Personnel Shares***

In the Personnel Offering Commitments must be made and paid up in accordance with the detailed instructions given to the persons who are eligible to participate in.

The Commitment is considered to have been made when the investor has submitted a signed commitment form to the place of subscription in accordance with instructions or has confirmed the Commitment with his or her bank identifiers and paid for the share subscription price concerned by the Commitment, and committed to the lock-up restrictions in accordance with these terms and conditions. Any detailed instructions issued by the place of subscription must be taken into consideration when submitting a Commitment. The Commitment in the Personnel Offering is binding and cannot be changed and can only be cancelled in the manner and situations referred to above under " *— Cancellation of the subscription commitment*".

***Refund of paid amount***

If the Commitment is rejected or approved only in part and/or if the Subscription Price of the Personnel Shares is less than the price paid in connection with submission of the Commitment, the paid amount or part thereof will be refunded to the investor who submitted the Commitment approximately five (5) banking days after the Pricing, on or about 29 March 2018, to the Finnish bank account specified in the Commitment. If the investor's bank account is in another financial institution than the subscription place, the refund will be paid to the bank account in accordance with the payment schedule of the financial institutions, approximately no later than two (2) banking days thereafter and to the Swedish Nordea bank account no later than two (2) banking days thereafter. In respect of Commitments submitted by the one and the same eligible person are being combined, the potential refund of paid amount is only refunded to one bank account of the investor. No interest will be paid on such repaid funds. See also " *— Cancellation of the subscription commitment — Procedure for changing the Preliminary Price Range or deciding on the Sale Price in deviation of the Preliminary Price Range*".

[17] The calculation assumes that the subscription price of the Personnel Shares is the mid-point of the Preliminary Price Range less the 10 per cent discount on the Personnel Shares compared to the Sale Price.

## CAPITALISATION AND INDEBTEDNESS

The following table presents the capitalisation and indebtedness of the Company, which is based on the Company's audited consolidated financial statements for the year ended 31 December 2017 prepared in accordance with IFRS. The following table should be read together with "*Selected Consolidated Financial Information*" and "*Operating and Financial Review*" as well as the audited consolidated financial statements.

| **Capitalisation** | **31 December 2017** |
|---|---|
| **In EUR million** | **(unaudited)** |
| | |
| **Current borrowings** | |
| Guaranteed / Secured | 0.8 |
| Unguaranteed / Unsecured | 10.2 |
| **Total** | **11.0** |
| **Non-current borrowings** | |
| Guaranteed / Secured | 14.3 |
| Unguaranteed / Unsecured | 74.9 |
| **Total** | **89.1** |
| **Total borrowings** | **100.1** |
| **Equity attributable to owners of the parent** | |
| Share capital | 60.5 |
| Fair value reserve | 0.6 |
| Hedge reserve | -0.3 |
| Translation differences | -16.0 |
| Retained earnings | 92.0 |
| **Total equity** | **136.8** |
| **Total equity and borrowings** | **236.9** |
| | |
| **Net indebtedness** | |
| **In EUR million** | |
| **Liquidity (A)** | |
| Cash and cash equivalents | 52.4 |
| **Total** | **52.4** |
| **Current borrowings (B)** | |
| Borrowings | 11.0 |
| **Total** | **11.0** |
| **Current net indebtedness (C = B − A)** | **-41.4** |
| **Non-current borrowings (D)** | |
| Borrowings | 89.1 |
| **Total** | **89.1** |
| **Net indebtedness (C + D)** | **47.7** |

The Company will receive gross proceeds of approximately EUR 2.2 million from the Personnel Offering (the calculation assumes that (i) the maximum number of the Personnel Shares offered in the Personnel Offering are fully subscribed for, and (ii) the subscription price of the Personnel Shares is the mid-point of the Preliminary Price Range less the 10 per cent discount on the Personnel Shares compared to the Sale Price). The Company estimates that it will incur total fees, commissions and expenses related to the Listing and the Personnel Offering of approximately a maximum of EUR 5.6 million. As a result, the net proceeds for the Company from the Personnel Offering, including costs related to the Listing and the Personnel Offering, are estimated to amount to approximately EUR -3.4 million. The proceeds from the Personnel Offering will be used for general corporate purposes. The net proceeds from the Personnel Offering will be recorded in the reserve for invested non-restricted equity. In 2017, a total of EUR 2.4 million in fees, commissions and expenses related to the Listing and the Personnel Offering were recognised. The Company estimates that the total fees, commissions and expenses related to the Listing and the Personnel Offering to be incurred in 2018 and recognised as expenses are approximately EUR 3.2 million.

For further information on the Company's off balance sheet arrangements, see "*Operational and Financial Review — Contractual Obligations and Off Balance Sheet Arrangements*".

There have not been any material changes in the Company's capitalization and indebtedness since 31 December 2017 up until the date of this Offering Circular.

**Working Capital Statement**

The Company believes that the working capital available to the Company is sufficient for at least the 12 months following the date of this Offering Circular.

# MARKET AND INDUSTRY OVERVIEW

Altia operates in the Nordic and Baltic wine and spirits markets in Finland, Sweden, Norway, Denmark, Estonia and Latvia, as well as in travel retail, including border trade, and air and sea traffic in the Nordics. These constitute the Company's home markets. The Company is also active in international travel retail via its large partners, such as international airport operators. Further, the Company exports alcoholic beverages to approximately 30 countries, most of which are in Europe, North America and Asia. In addition to the wine and spirits markets, the Company also operates with by-products from its production in several industrial markets which include technical ethanol, starch and feed component markets. In addition to the state retail monopolies, the Company's largest consumer product customers include hotels, restaurants and cafés ("**HoReCa**"), retail, travel retailers and wholesalers.

This section mainly focuses on the wine and spirits markets of the Company especially in the Nordics (Finland, Sweden, Norway and Denmark) but also in the Baltics, Travel retail and Exports. The section also includes a short overview of Altia Industrial segment's markets. The Company has commissioned a Management Consultant Analysis by a third party in spring 2017 concerning the Company's market positions in the Nordic wine and spirit markets. See "*Certain Matters — Market, Economic and Industry Data and Management Reports and Findings*".

The market in which the Company operates can be roughly divided into wine and spirits markets, which can be further divided into on- and off-trade markets. The on-trade market refers to outlets from which alcoholic beverages are purchased mainly to be enjoyed on the premises. The off-trade market in Finland, Sweden and Norway consists mainly of state retail monopolies, while the Danish alcoholic beverage market has been less regulated. The Danish off-trade market mainly consists of traditional retail such as grocery stores. The market values used below are based on consumer prices and both market values and volumes include on- and off-trade unless stated otherwise. In the geographic markets in which the Company operates the wine and spirits sales and distribution industry are intensely competitive. Despite the regulated nature of the retail monopoly markets, almost all international prominent brands are generally present, together with their regional and local producers as well as numerous smaller importers, particularly in the wine industry, in all key markets where the Company operates.

In 2016, the total value of the Nordic wine and spirits market including Finland, Sweden, Norway and Denmark was approximately EUR 12.2 billion. The value of the Nordic off-trade wine and spirits markets was approximately EUR 7.2 billion, which equals to approximately 59 per cent of the total market value.[18] In 2016, the total Nordic market volume reached approximately 576 million litres. Altia's market volume reached nearly 52 million litres corresponding to approximately 9 per cent of the total market volume.[19] The share of off-trade of total market volume was approximately 88 per cent.[20] Altia's off-trade volume was approximately 48 million litres accounting to approximately 9 per cent of the total off-trade volume. The reason for the on-trade's relatively large share of market in value is due to higher consumer prices in the on-trade market. In other words, the volume of alcohol consumed in bars and restaurant accounts roughly 7 per cent of the total alcohol consumption in the Nordics and consumers are paying a significantly higher price for each litre.[21]

The estimated Nordic wine and spirits market values and volumes in 2016 are summarised in Tables 1 and 2 below. Graphs 1 and 2 illustrate the relative popularity of spirits among Finnish consumers compared to other Nordic countries. Finns consume nearly 20 percentage points more spirits than consumers in the Scandinavian region.[22]

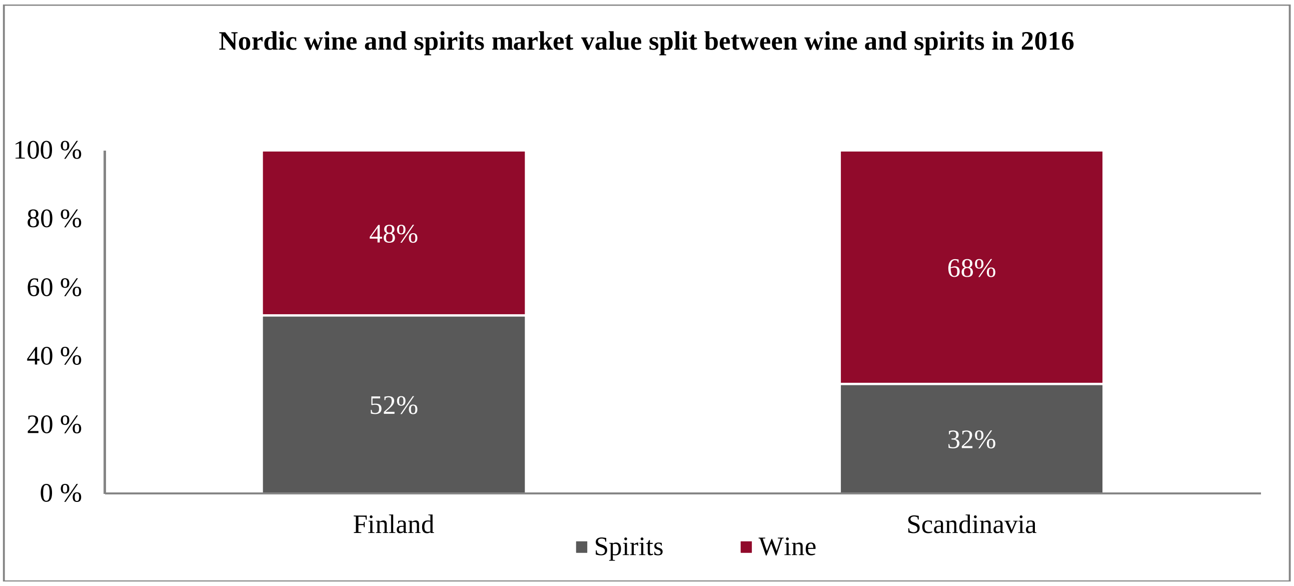
**Table 1**

| Market value in 2016 (EUR m) | Finland | Sweden | Norway | Denmark |
|---|---|---|---|---|
| Spirits | 1,061 | 1,349 | 971 | 967 |
| Wine | 983 | 2,892 | 1,547 | 2,455 |
| **Total** | **2,043** | **4,241** | **2,518** | **3,422** |
| *Off-trade share of market* | *65%* | *65%* | *65%* | *42%* |

*Source: Euromonitor (May 2017).*

[18] Source: Euromonitor International Ltd. Alcoholic Drinks data 2017 edition (May 2017). All Euromonitor data calculated in EUR with fixed exchange rates and current prices.
[19] Source: Management Consultant Analysis.
[20] Source: Euromonitor (May 2017).
[21] Source: Management Consultant Analysis.
[22] Source: Management Consultant Analysis.

**Graph 1**



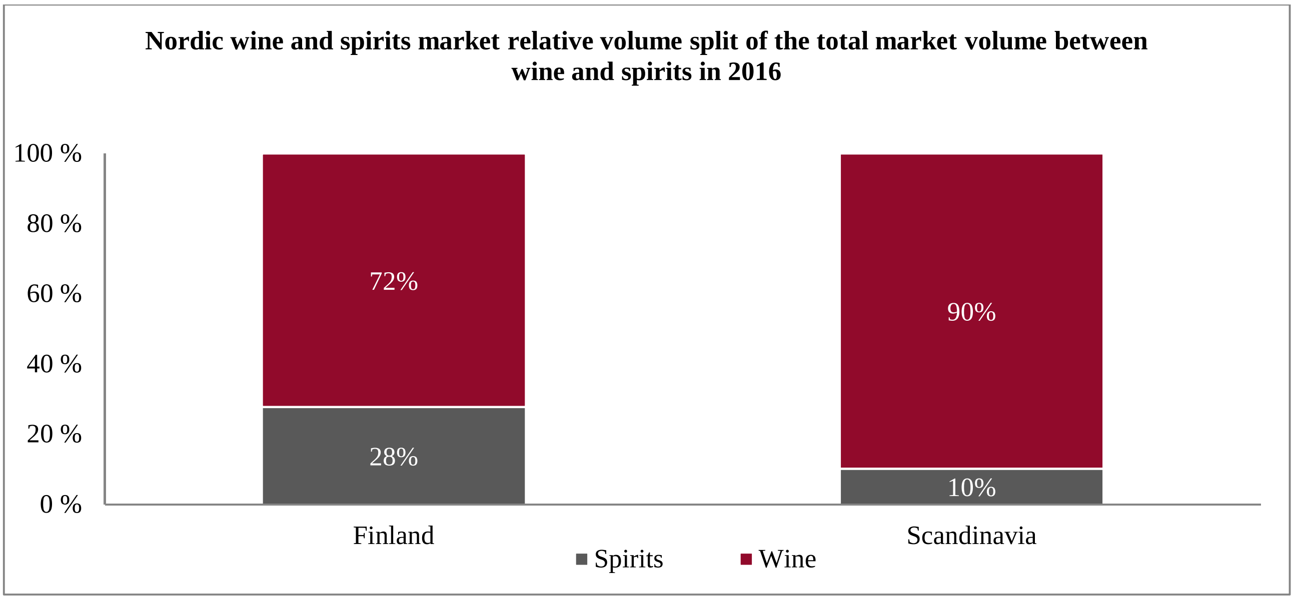

*Source: Euromonitor (May 2017).*

**Table 2**

| Market volume in 2016 (million litres) | Finland | Sweden | Norway | Denmark |
|---|---|---|---|---|
| Spirits[1)] | 24 | 21 | 13 | 16 |
| Wine[1)] | 63 | 212 | 74 | 152 |
| **Total** | **87** | **234** | **87** | **168** |
| *Off-trade share of market*[2)] | *90%* | *90%* | *90%* | *83%* |

*Source: 1) Management Consultant Analysis, 2) Euromonitor (May 2017).*

**Graph 2**




*Source: Management Consultant Analysis.*

**Regulation related to off-trade sales**

Variation exists between off-trade market regulations in the Nordic countries and this has an impact on national retail sales structures, advertising and pricing mechanisms. The off-trade for alcoholic beverage products is highly regulated in

Finland, Sweden, and Norway as state retail monopolies control retail distribution for products above certain ABV levels, as further detailed herein. The off-trade for alcoholic beverage products is less regulated in Denmark where there exists no ABV limit for retail sales and wine and spirits are sold in retail channels including grocery stores and kiosks.

In Finland, the off-trade market represents approximately 65 per cent of the total value and approximately 90 per cent of the total volume in 2016.[23] The off-trade market is mainly operated by the state retail monopoly, Alko, which controls the sale of alcoholic beverage products above 5.5 per cent ABV. Age restrictions depend on the sales channel and the level of ABV. The age limit restriction is 18 years for alcoholic beverages containing a maximum of 22 per cent ABV, and 20 years for products above this threshold in the off-trade market. In the on-trade market, the age restriction is 18 years for all alcoholic beverages. Marketing products containing a maximum of 22 per cent ABV is allowed with certain restrictions. For example, the marketing of alcoholic beverages must not be carried out in a public place, or be targeted at minors or be contrary to good manners. Marketing in television and radio is forbidden from 7 a.m. to 10 p.m. In addition, there are restrictions for the off-trade discounts and their promotion.

In Sweden, the off-trade market represents approximately 65 per cent of the total value and 90 per cent of the total volume in 2016.[24] The off-trade market is mainly operated by the state retail monopoly, Systembolaget, which controls the sale of alcoholic beverages above 2.25 per cent ABV, except for beer above 3.5 per cent ABV. The age limit restriction is 20 years for all products sold in Systembolaget, while the on-trade age restriction for all products is 18 years. The age restriction for purchasing alcoholic beverages from other retail channels than Systembolaget is 18 years. Marketing of alcoholic beverages is mainly allowed in Sweden, while certain restrictions apply. For example, all alcohol marketing must be moderate, and it may not be intrusive or encourage the use of alcohol. For marketing in periodical publications, such as newspapers and magazines or their electronic publications, a warning text must be included, and such marketing is only allowed for alcoholic beverages up to15 per cent ABV. Marketing alcoholic beverages on TV or on the radio is prohibited. Further, Systembolaget cannot communicate off-trade discounts to consumers even though importers are able to communicate price reductions on their websites, for example.

In Norway, the off-trade market represents approximately 65 per cent of the total market value and 90 per cent of the total market volume in 2016.[25] The off-trade market is mainly operated by the state retail monopoly, Vinmonopolet, which controls the sale of alcoholic beverages above 4.7 per cent ABV. The age restriction depends on ABV and is 18 years for products below 22 per cent ABV and 20 years for products above this threshold. Marketing is prohibited for all alcoholic beverages in Norway regardless of the level of ABV and including non-alcoholic products bearing the same trade name as an alcoholic beverage product. However, certain exceptions apply such as advertisements in foreign printed publications imported into Norway. Neither Vinmonopolet nor importers can communicate off-trade discounts on alcoholic beverages to consumers.

In Denmark, the off-trade market represented approximately 42 per cent of the total market value and 83 per cent of the total market volume in 2016.[26] Unlike in the other Nordic countries, the Danish off-trade market is not regulated by a state retail monopoly, and all alcoholic beverages are allowed to be sold in retail such as grocery stores and kiosks. The age restriction depends on market channel and the level of ABV. The age limit is 16 years for products below 16.5 per cent ABV and 18 years for products above this threshold in the off-trade market. In the on-trade market, the age restriction is 18 years for all alcoholic beverages. The marketing of alcoholic beverage products is generally allowed in Denmark. However, it is forbidden by law to target minors. In addition, the marketing must comply with the Danish Marketing Practices Act[27]. Furthermore, off-trade discounts are allowed.

Table 3 below summarises the key aspects of the Nordic alcohol regulations. The regulations have several implications for companies operating in the market. There is only one significant off-trade customer in Finland, Sweden and Norway affecting the dynamics of competition in the wine and spirits categories. Hence, it is essential for operators to have solid market knowledge and understanding of the market trends in order to win tender processes and successfully get their products into the state retail monopolies' assortments. Further, the marketing of alcoholic beverages is partly significantly restricted in Finland and Sweden and the marketing of alcoholic beverages is prohibited in Norway. Marketing restrictions can make new product launches challenging. Furthermore, as the number of stores where the products are sold is limited to state retail monopolies, the alcoholic beverage brands have rather limited visibility compared to liberal markets. Hence, the market players need to use alternative approaches to promote their products and increase brand equity, which increases the role of on-trade sales channel in brand building.

[23] Source: Euromonitor (May 2017).
[24] Source: Euromonitor (May 2017).
[25] Source: Euromonitor (May 2017).
[26] Source: Euromonitor (May 2017).
[27] Lov om markedsføring (LOV nr 426 af 03/05/2017).

**Table 3**

| | Finland | Sweden | Norway | Denmark |
|---|---|---|---|---|
| **State retail monopoly** | Alko | Systembolaget | Vinmonopolet | — |
| **Age restrictions** | Alko:<br>ABV ≤ 22%<br>18 years<br><br>ABV > 22%<br>20 years<br><br>HoReCa:<br>18 years | Systembolaget:<br>20 years<br><br>HoReCa:<br>18 years | Vinmonopolet and HoReCa:<br>ABV < 22%:<br>18 years<br><br>ABV ≥ 22%<br>20 years | Retail:<br>ABV < 16.5%<br>16 years<br><br>ABV >16.5%<br>18 years |
| **Max ABV for grocery retail** | 5.5% ABV | 3.5% ABV beer 2.25% ABV other products | 4.7% ABV | — |
| **Marketing** | Allowed for alcoholic beverages containing a maximum of 22% ABV with certain restrictions. Forbidden for products exceeding 22% ABV with certain exceptions. | Allowed with certain restrictions. | Forbidden with certain exceptions. | Allowed in general, however, targeting minors forbidden. |
| **Off-trade discounts** | Discounts, apart from volume discounts, are allowed. Communicating discounts is restricted. | Discounts are allowed. Communicating discounts is restricted. | Discounts are, with certain minor exceptions, not allowed. Communicating discounts is restricted. | Allowed. |

**Operating environment**

The Company operates in four end markets:

- The Nordic state retail monopolies;
- Retail sale such as grocery stores and kiosks;
- Wholesale and HoReCa; and
- Travel retail and Exports.

State retail monopolies in Finland, Sweden and Norway are the largest channels and together accounted for approximately 69 per cent of the Company's consumer products' net sales in 2017.[28] The remaining third of consumer product net sales is rather evenly divided between Wholesale and HoReCa, Retail, and Travel retail and Exports, as they constitute approximately 11, 9 and 12 per cent of the Company's consumer products' net sales, respectively.[29] Due to the regulated nature of the Nordic alcoholic beverage market, retail is significantly smaller compared to state retail monopoly sales. HoReCa, is an important sales channel for brand building and trend setting. Furthermore, due to price differences between countries caused by varying levels of taxes levied on alcohol, Travel retail plays an important role in the Nordic alcoholic beverage market. The exports market includes the Company's sales outside the home market.

[28] Breakdown of Finland & Exports and Scandinavia segments' net sales in 2017 based on unaudited management reporting.
[29] Breakdown of Finland & Exports and Scandinavia segments' net sales in 2017 based on unaudited management reporting.

*__The Nordic state retail monopoly markets – Finland, Sweden and Norway__*

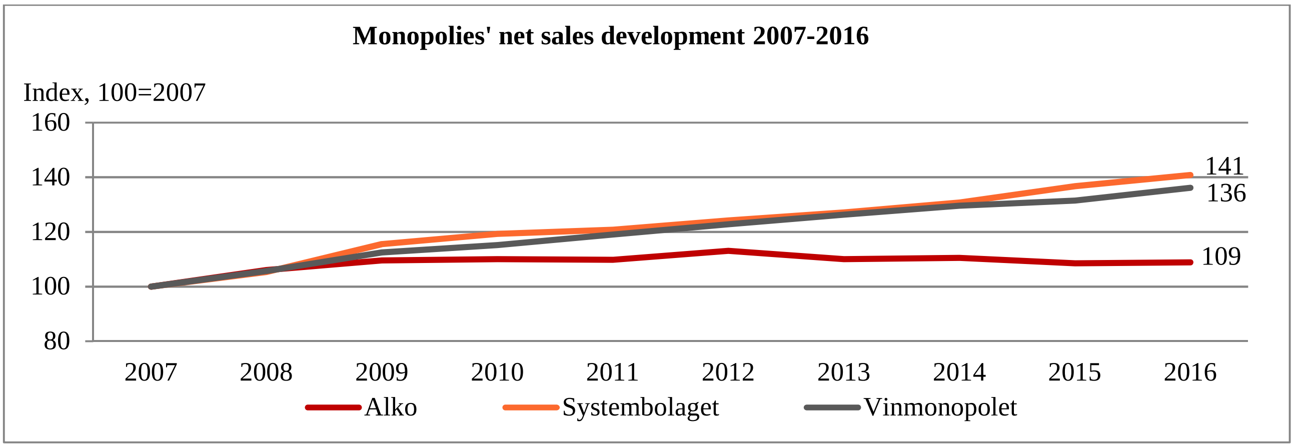
The state retail monopolies in Finland, Sweden and Norway have solid public support.[30] The state retail monopolies have extensive presence in their markets and a wide assortment supported by pick-and-collect online services. Furthermore, Systembolaget and Vinmonopolet provide home delivery in selected areas in Sweden and Norway.[31]

The state retail monopolies have an extensive selection of wine and spirits brands, and for example, Systembolaget has approximately 2,450 alcoholic beverage brands in its general selection and another 13,600 in the sale-to-order selection.[32] The state retail monopolies' selections typically represent a significantly wider choice across different price points than the typical grocery or speciality store in free markets such as Denmark and the UK.

According to the Company's management, the state retail monopolies provide an attractive sales channel for a large operator such as the Company. First, due to the scale in sourcing, production, distribution, sales and marketing, wide assortment and the Company's agility to make local solutions, the Company is well positioned to respond to the tender requirements of the state retail monopolies. Second, if a product meets the listing requirements and sufficient sales are achieved, the products will in principle stay in the assortment, and the state retail monopolies cannot discriminate or favour any specific producer. Third, the pricing models of the state retail monopolies are transparent and relatively stable and predictable, which allows suppliers to adjust their prices to meet the targeted retail price set for each product by the producer. Fourth, the tender process that most of the products are required to go through in order to be added to the state retail monopolies' assortments provide producers with a local knowledge and country specific market understanding. Producers, such as the Company, can leverage this experience in future tenders. Finally, due to the marketing restrictions, companies are not necessarily able to achieve established market positions through large scale promotional campaigns. A local player can leverage its expertise in promotional campaigns, which require local market understanding, within the limits of the applicable regulation. In addition, the monopolies that carry out the state's public function must treat producers of alcoholic beverages impartially according to the neutrality principle.

The following Graph 3 and Table 4 describe the development of Nordic retail monopolies' sales and the number of stores. The state retail monopolies' sales have increased especially in Sweden and Norway while Alko's sales growth in Finland has been rather moderate. Vinmonopolet has expanded its retail store network the most with 48 new stores in 2011–2016. The state retail monopolies' sales growth and geographic expansion underline the stability of the state retail monopoly market. Furthermore, especially the increased number of retail stores demonstrates state retail monopolies' public support and consumers' improved access to the wine and spirit market.

**Graph 3**




*Source: Alko, Systembolaget and Vinmonopolet.*

[30] Alko (2017),"Information on the Nordic Alcohol Market 2017".
[31] Alko (2017),"Information on the Nordic Alcohol Market 2017".
[32] Alko (2017),"Information on the Nordic Alcohol Market 2017 ".

**Table 4**

| | Number of stores | | |
|---|---|---|---|
| | 2011 | 2017 | Change, % |
| Alko | 348 | 354 | 2% |
| Systembolaget | 418 | 438 | 5% |
| Vinmonopolet | 267 | 315 | 18% |

*Source: Alko, Systembolaget and Vinmonopolet.*

*State retail monopolies in Finland, Sweden and Norway*

Alko is Finland's state retail monopoly which sells products above 5.5 per cent ABV in Finland. Alko was founded in 1932 and was part of the same Alko Group Ltd. with Altia until 1999, when the two entities were separated into two independent companies Alko and Altia. As a further demonstration of independence, the supervision of the two entities is separated as Alko is under the control of Ministry of Social affairs and Health while Altia is governed by the Ownership Steering Department in the Finnish Government. In 2016, Alko's net sales reached EUR 1,163 million and the company served its customers through its countrywide retail store network consisting of 354 stores at the end of the year. Alko has expanded its geographic presence gradually and increased the number of stores by 6 stores in the period of 2011–2016. In addition to retail stores, the company offers online ordering services with the pick-up of products at stores or pick-up locations. In line with its strategy, Alko's goal is to increase its selection from the current approximately 6,000 products to 10,000 by 2020.[33] Alko also imports a limited number of products for its assortments independently.

Systembolaget is Sweden's state retail monopoly which sells products above 3.5 per cent ABV for beer and above 2.25 per cent ABV for other products in Sweden. Systembolaget was founded in 1955. In 2016, Systembolaget's net sales reached SEK 28,469 million and the company served its customers through its nation-wide retail store network consisting of 438 stores at the end of the year. Systembolaget has expanded its geographic presence gradually and it increased the number of stores by 20 in the period of 2011–2016.[34] In addition to retail stores, Systembolaget offers online ordering services with home delivery in selected areas as well as a pick-up service allowing customers to collect products at stores.[35]

Vinmonopolet, founded in 1922, is Norway's state retail monopoly which sells products above 4.7 per cent ABV in Norway. In 2016, Vinmonopolet's net sales reached NOK 13,269 million and the company served its customers through its country wide retail store network consisting of 315 stores at the end of the year. Vinmonopolet has expanded its geographic presence as it increased the number of stores by 48 in the period of 2011–2016.[36] In addition to retail stores, Vinmonopolet offers online ordering services allowing customers to collect products at stores and through home delivery.[37]

*State retail monopoly assortments and route to market*

The Nordic state retail monopolies have a relatively similar assortment structure, which consists of a fixed assortment and available-for-order assortments. The fixed assortment includes products available at all stores or a number of selected stores, depending on store size and categorisation. The available-for-order assortment usually offers a significantly larger selection of products and enables consumers to pre-order available-for-order products from the retail monopolies' database. Retail monopolies' assortments are explained in more detail herein.

Alko's assortment range comprises of four different selections; the fixed range, seasonal range, available-for-order range and the special range. The fixed range aims to satisfy the demand of the majority of the customers' as it aims to secure continuity and a long-term approach, as well as to ensure the variety of the fixed range. The seasonal range consists of products that have been selected for a limited period of time to correspond to the special needs of customers during that particular time period. The seasonal range includes seasonal products and products, which are tied to a certain public holiday such as Christmas and Easter. The available-for-order range includes products, which can be ordered directly from the suppliers' domestic stocks, and products, which are characterised as local or are tied to certain geographic regions. Some of the available-for-order products are also included in the selected stores to enrich the fixed range. The special range includes products, which have a more limited availability than Alko's other products. The special range

33 Source: Alko.
34 Source: Systembolaget.
35 Source: Alko (2017),"Information on the Nordic Alcohol Market 2017".
36 Source: Vinmonopolet.
37 Source: Alko (2017),"Information on the Nordic Alcohol Market 2017".

includes super-premium wines and beers as well as limited editions of spirit brands.[38] The products, which prove to be popular and meet the sales volume target given by Alko can become part of Alko's fixed range.

Systembolaget's assortment range comprises of three different selections; the fixed range, available-for-order range and the temporary range. The fixed range aims to satisfy the demand of the majority of the customers' as it aims to secure continuity and a long-term approach, as well as to ensure the variety of the fixed range. The available-for-order range includes products, which can be ordered directly form the suppliers' stocks. The products which are proven to be popular can become part of Systembolaget's fixed range. The temporary range comprises of products with highly limited availability, high price range products, and products which are considered to be seasonal or tied to a certain public holiday such as Christmas.[39]

Vinmonopolet's assortment range comprises of five different selections; the fixed range, to-order range, additional range, and the test range. The fixed range consists of products, which are in line with the agreed purchase plan and six-month launch plans. The fixed range also includes products from the to-order and test ranges. The to-order range consists of products, which are accepted to neither to fixed nor test ranges but are stocked by wholesalers in Norway. The products in this range are mainly sold through Vinmonopolet's online shop, but certain stores may also carry them as a part of their own range. The additional range includes any other products that wholesalers may wish to offer, and which are not required to be stocked in Norway. The products in this range are mainly sold through Vinmonopolet's online shop, but certain stores may also carry them as a part of their own range. The test range consists of products for which market access is sought to be provided even though Vinmonopolet has not yet decided to purchase the products. After a six-month test period, Vinmonopolet reserves the right to return the unsold stock at the expense and risk of the wholesaler. The new product launches are launched six times a year and each launch has a special emphasis on products from a particular country, area or style. The new product launches aim to strengthen Vinmonopolet's position as a specialist retailer and provide customers with different products to choose from.[40]

Tender process

All Nordic state retail monopolies have similar tender processes in principle. The state retail monopolies usually announce a launch plan to provide suppliers with the essential information about the tender products, to expose the current assortment to competition and to introduce new products to the assortment.

The launch plan provides producers with detailed and predetermined characteristics of the products to be included in the assortment in the next assortment period. The descriptions may include, for example, the product category, country, age, taste profile, and price range or limits. The description obviously varies depending on the alcoholic beverage category. Most supplier tenders are previewed by an accredited internal sensory panel, which rates the tendered products based on specified selection criteria. The product with the highest score in the respective assortment tender process is added to the state retail monopoly's assortment. The processes vary in different countries, for example in Sweden the decision-making is based on blind tests of the liquid, whereas in Finland the overall concept including packaging and design are considered. Furthermore, all product samples are required to go through a stringent quality checking process in which the samples are checked through sensory evaluation and chemical analysis and the appropriate documentation is reviewed.

Products included in the state retail monopolies' assortments are evaluated by the respective state retail monopoly by sales volume in Norway and by value in Finland and Sweden. To achieve a continued listing in the fixed assortment, a certain minimum amount, an absolute volume or a volume relative to other products in the relevant category, must be achieved. A product can also become included in the fixed assortment if sufficient volumes of the product are purchased by consumers from the available for-order and/or test assortments.

Product assortment revisions take place twice a year in Finland (May and November), every second month in Norway starting in January, and quarterly in Sweden starting in March.

State retail monopolies' pricing

The pricing by the state retail monopolies is more transparent compared to other retail sales, and suppliers are informed in advance of the pricing rules and pricing framework for each tender. For example, it is publicly shown on Alko's website what the price coefficients include and how they affect the consumer price in each pricing category. The pricing is principally based on predetermined gross margins of the monopoly, which allows suppliers to adjust their prices to meet the targeted price set for each product by the producer. Gross margin multipliers (price coefficients) vary depending on the alcoholic beverage category and, in addition, Systembolaget and Vinmonopolet use additional fixed margins, which are added to all prices. As the price coefficients are predetermined, the companies operating in the market can consider

[38] Source: Alko.
[39] Source: Systembolaget.
[40] Source: Vinmonopolet.

and assess the characteristics of consumer behaviour, existing competition in the relevant price point and effects of taxes, among other things, in order to secure an optimal pricing and distribution coverage and to maintain a listing.

Alko and Vinmonopolet revise their prices in the fixed assortment three times annually and Systembolaget sets its prices twice a year. Suppliers can revise their pricing simultaneously although some exceptions exist. In Finland, products in fixed and available-for-order assortments have a price lock-up of four months after they have been added to the assortment for the first time (eight months after 5 June 2018), while in Sweden the price lock-up period for the products in the fixed assortment is nine months and in Norway the price lock-up period is six months.

*Implications for companies operating in highly regulated Nordic markets*

According to the Company's management, the state retail monopolies are lucrative sales channels for large operators such as the Company. The Company's management believes that agility in sourcing, production, and distribution is an important component for a company operating in the highly regulated Nordic alcoholic beverage markets. As the state retail monopolies launch new tenders, the agility provides companies with an ability to meet the new requirements of the tender by adjusting production, working directly with the producers and by making local adjustments to the products. Agility includes, for example, the fact that the Company's wine sourcing team works globally enabling a fast response to new consumer trends. If a product fulfils the listing requirements and the sales of the product are sufficient, the products, as a main rule, remain in the range. The principle of equal treatment requires the retail monopolies carrying out the public function of the state to treat the producers and importers of alcoholic beverages equally, and they are not allowed to discriminate against the producers or favour a single operator. For example, in case a listing is lost, the Company aims, with its wide assortment, network and strengths at reacting to the situations and finding alternative solutions better than such competitors not having the same strengths.

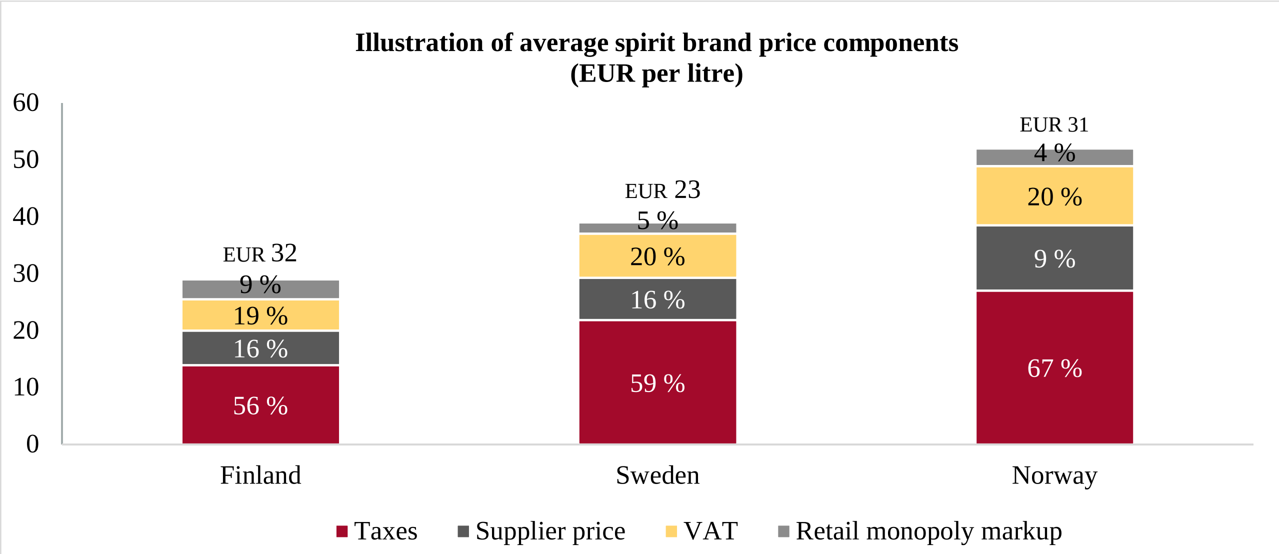
Furthermore, the local knowledge of state retail monopolies' preference in terms of assortment is important as the state retail monopolies are the largest customers in the market. Tender processes which most products must follow in order to enter the state retail monopolies' assortment provide the producers with local knowledge as well as country-specific market expertise. In addition, the knowledge of the respective markets, consumers and especially the market trends are important for a company operating in the market to be able to gain a competitive edge in the tenders. As the Nordic market is rather small, fragmented and highly competitive, large global companies may have neither necessarily the incentive nor the required local market knowledge to quickly gain significant market share and critical mass through won tenders. Alternatively, local players smaller than the Company may not have the required resources or a wide enough assortment to win tenders in several categories. In addition to retail sales restrictions, companies also operate in a highly regulated marketing environment. Marketing restrictions can make it challenging to build brand equity for completely new products especially spirits, which is why companies with an existing established position and well-established brands may be in a better position compared to companies aiming at market entry. Furthermore, local companies can leverage their local market expertise in alternative promotional campaigns.

*Alcohol taxes and duties and state retail monopoly price models*

The pricing of all Nordic state retail monopolies consists of four elements: supplier price, retail monopoly mark-up, alcohol taxes and value added taxes ("**VAT**"). The retail monopoly mark-up component of the price formation is fairly transparent as state retail monopolies tend to use predetermined coefficients for mark-ups. Alcohol taxes are fixed in all three countries based on the alcohol content, as well as the production process, meaning that there exist different tax levels for fermented and distillation-based products. VAT is added to the consumer price including the supplier price, mark-up and alcohol tax.

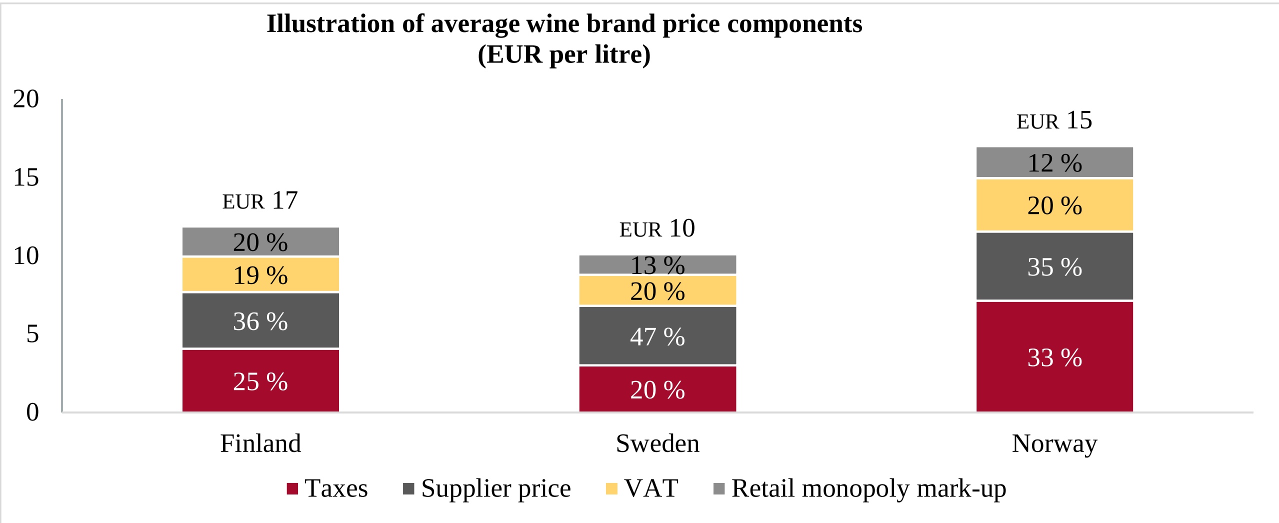
Graphs 4 and 5 below illustrate the components on average of Nordic state retail monopolies' consumer prices and their share of the total prices. Taxes and state retail monopoly mark-ups constitute a major share of the total consumer price in the state retail monopolies, indicating that the suppliers' price changes have only a relatively small impact on the total price. Due to the transparent pricing mechanism, the suppliers' price changes have a direct and predictable impact on consumer prices. Price adjustments are subject to the state retail monopolies' pricing schedule described in more detail under *"– State retail monopoly assortments and route to market — State retail monopolies' pricing"* above.

**Graph 4**




*Source: Company management estimate. Prices are based on the sale in 2017 of Koskenkorva Sauna Barrel (70 cl) in the state retail monopoly, using fixed exchange rates and current prices.*

**Graph 5**




*Source: Company management estimate. Prices are based on the sale in 2017 of True Colours Cava (75 cl) in the state retail monopoly using fixed exchange rates and current prices.*

***Retail***

Retail stores such as grocery stores, kiosks and supermarkets accounted for approximately 9 per cent of the Company's annual consumer product net sales in 2017.[41] As traditional retail is only allowed to sell alcoholic beverages below 5.5 per cent ABV in Finland, below 4.7 per cent ABV in Norway and below 3.5 per cent ABV with regards to beer and below 2.25 per cent ABV with regards to other products in Sweden, retail stores provide a channel for low/non-alcoholic wines and glöggs, RTDs, and beers and ciders. The retail channel in markets is rather small in Finland, Sweden and Norway. On the other hand, in Denmark there are only few limitations on the sale of alcoholic beverages in the retail channel, which is why the majority of sales go through retail channel in Denmark. Recent consumer trends have increased the importance of the retail channel as health consciousness is driving consumers to purchase products with lower ABV. Furthermore, the renewed Alcohol Act has opened new opportunities for the Company in the retail channel in Finland by allowing the sale of ethanol based RTDs. National sales and marketing regulations can affect the way in which importers' products can enter the market. In Finland, for example, the retail channel is committed to recycling, and the national recycling system requires that country specific identifiers are included on product labels, which may be a limiting factor when companies import products to Finland.

[41] Breakdown of Finland & Exports and Scandinavia segments' net sales in 2017 based on unaudited management reporting.

*The possible effects of the renewed Alcohol Act on the Company*

According to the Company's management, the renewed Alcohol Act supports the Company's position in the Finnish market. The Finnish state retail monopoly Alko has retained its monopoly right to sell alcoholic beverages above 5.5 per cent ABV and the renewed Alcohol Act has also permitted Alko to extend its opening hours and sell alcoholic beverages in mobile stores. In accordance with the renewed Alcohol Act, the Company is allowed to present basic product information and images of spirits as well as related food recommendations on its websites taking advantage of the exception to the marketing ban for spirits. Further, the renewed Alcohol Act allows retail stores to sell alcoholic beverages including up to 5.5 per cent ABV and ethanol-based alcoholic beverages after the removal of the requirement for production by fermentation since 1 January 2018. These amendments have provided new sales channels for the Company's blended ethanol based RTDs and venue for new product launches. The renewed Alcohol Act allowed introducing spirits brands in the products sold through retail channels, such as the Company's ethanol based RTDs, providing the Company with incremental brand visibility. See "*Risk factors — New products and line extensions are an important part of the Company's growth strategy, and success of the launch of new products and line extensions as well as the success of existing products is uncertain*".

***Wholesale and HoReCa***

Wholesale and HoReCa channels together accounted for approximately 11 per cent of the Company's consumer products' net sales in 2017.[42] Strong customer relationships are important in the HoReCa channel in achieving a significant scale in sales. In addition, extensive access to the HoReCa channel gives opportunities to local operators to sign partner agreements as large spirits and wine companies often seek importer partners with solid access to the channel. Furthermore, in Finland, premises with a licence to serve strong alcoholic beverages create an exemption to the marketing restriction on above 22 per cent ABV products. Thus, bars and restaurants provide a channel for companies to advertise alcoholic beverages, which further increases HoReCa's role in the brand building, especially in Finland.

The HoReCa channel plays an important role in new product launches and provides the Company with an opportunity to promote and increase customers' brand awareness as well as monitor and affect future consumer trends. In general, the Company's access to the HoReCa channel goes through wholesale customers as restaurants and bars usually purchase alcoholic beverages from the wholesalers, which improves logistics efficiency. Hence, the wholesalers together with large HoReCa chains (for example hotel chains) represent a major share of the Company's sales in the Wholesale and HoReCa channel.

***Travel retail***

In the Company's home market, there exist neither import quotas nor tax exemptions between countries belonging to the EU (Finland, Sweden, Denmark, Estonia and Latvia), as long as the products are purchased for personal use. The Åland Islands do not fall into the value added tax and excise tax area of the EU and, thus, most tax-free import quotas that apply to imports from outside the EU also apply to imports from Åland Islands. Price differences not just within the Nordic region but also between the Nordic and Baltic countries drive border trade between these countries and can also lead to grey market trade. The border trade driven by price differences is apparent especially in Finland and Sweden, where consumers travel to Estonia and Latvia to purchase cheaper alcoholic beverage products due to lower taxes. Alternatively, Swedes travel to Denmark and Danish consumers go to Germany to purchase relatively cheaper alcoholic beverage products. Norway is the only market within the Company's home market, which is not a member of the EU and the country has significantly stricter import quotas.

***Exports***

The Company's export market includes all consumer product sales outside its home market. The Company exports alcoholic beverages to approximately 30 countries, most of which are in Europe, North America and Asia. According to the Company's management, exports may have significant additional sales potential as the current global consumer trends, in the Company's understanding, fit well to the Company's Nordic core brand portfolio.

The Company is targeting the export market primarily with the Nordic Core brands of which the most important brands are Koskenkorva Vodka, O.P. Anderson and Larsen. The new phase in the Company´s exports started with the relaunch of Koskenkorva Vodka. In August 2017, the Company signed a distribution agreement for Koskenkorva Vodka with Infinium Spirits to enter the U.S. market. In addition, a distribution agreement with Orange Trading Ltd regarding Koskenkorva Vodka was signed in April 2017 to enter the market in Kazakhstan. Furthermore, in November 2017 the Company has signed a distribution contract with Frederick Wildman & Sons to expand O.P. Anderson distribution to the

[42] Breakdown of Finland & Exports and Scandinavia segments' net sales in 2017 based on unaudited management reporting.

U.S. as well as with AsiaEuro to launch its Larsen Cognacs to China, Hong Kong, Macau, Singapore, Malaysia and Indonesia.

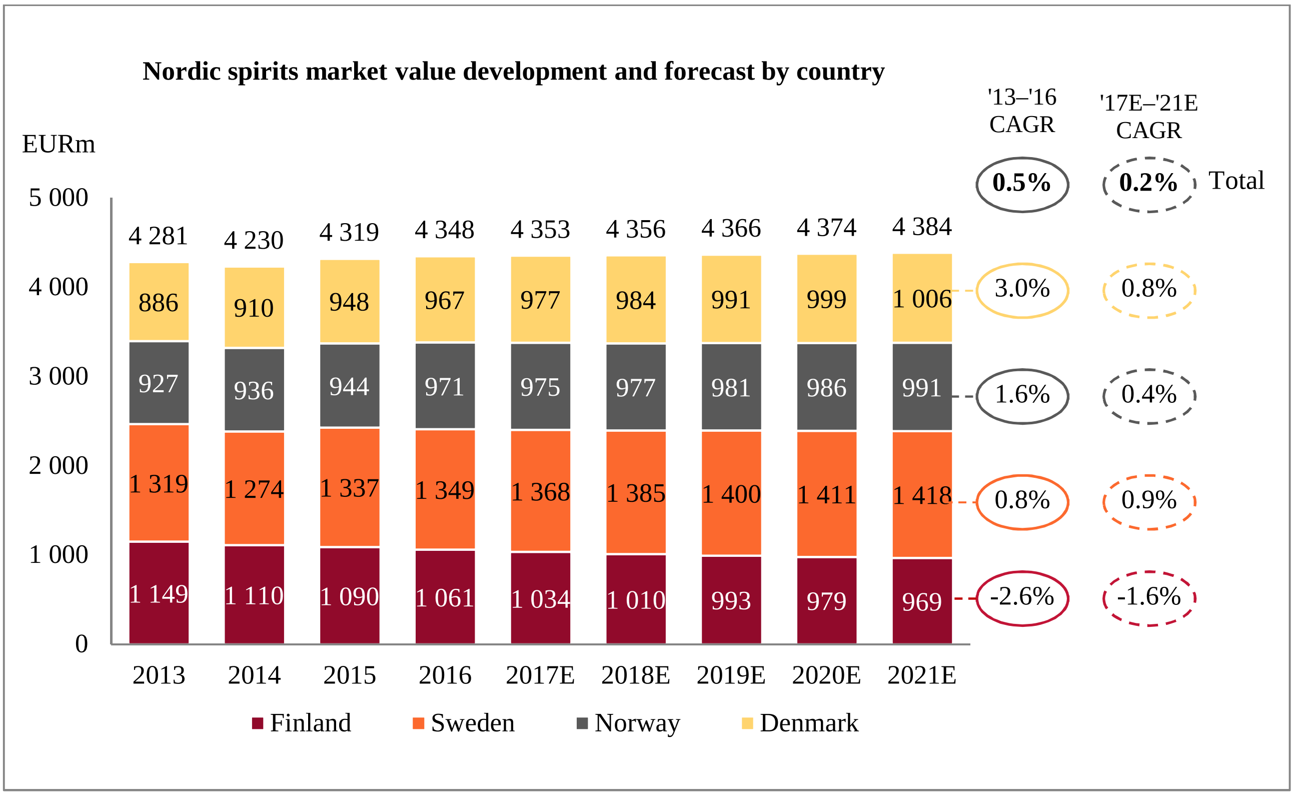
**Alcoholic beverage markets**

***Nordic spirits markets***

The Nordic spirits market has been characterised by a stable value growth during 2013–2016. The market value growth has outpaced the volume growth during 2014–2016 as premiumisation has created a platform for stable value growth in the key categories. In other words, the shifting of the consumer preference towards products of higher quality and higher price category ("**premiumisation**") has enabled faster growth in market value in relation to market volume.

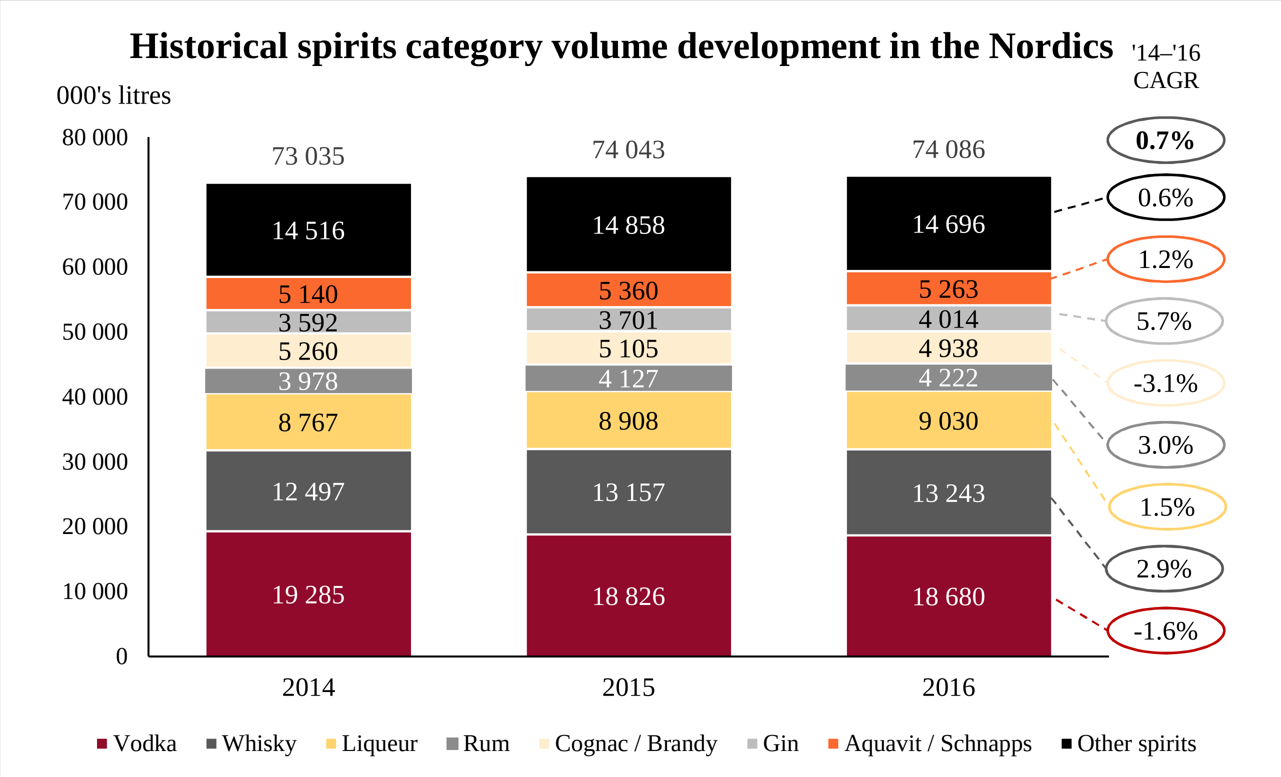
Graph 6 shows the spirits market value development in all four Nordic countries during 2013–2016 and the spirits market outlook for all four markets over 2017–2021. Graph 7 illustrates the spirits category development in 2014–2016 by volume.

**Graph 6**




*Source: Euromonitor (May 2017).*

**Graph 7**




*Source: Management Consultant Analysis.*

As summarised in Graph 6, the value development has been especially strong in Denmark and Norway where the markets have grown at a compounded annual growth rate ("**CAGR**") of 3.0 and 1.6 per cent respectively during 2013–2016. The overall market growth has been stable with a CAGR of 0.5 per cent during 2013–2016. The values in the Graphs 6 and 7 include both on-trade and off-trade markets. As summarised in Graph 7, from the spirits categories, gin, rum and whisky have experienced the most volume growth as they have grown with a CAGR of 5.7, 3.0 and 2.9 per cent respectively. Other spirits including viina (Finnish liquor), a traditionally strong category in Finland, has also reached over 0.6 per cent CAGR during the last three years. The volume of vodka has been in decline, but the strong craft and premiumisation trends are according to the Company's management expected to create growth pockets within the category. Furthermore, the aquavit/schnapps category has experienced some moderate growth during the last three years.

The Nordic spirits consumption habits have been weighted towards off-trade consumption as consumers prefer enjoying alcoholic beverages at home due to higher prices in restaurants. As a result, the off-trade market is significantly larger compared to the on-trade market as approximately 57 per cent of the total spirits market value is generated through the off-trade market.[43] The difference is even more noticeable in volumes as approximately 86 per cent of the market volume goes through the off-trade market.[44]

*Nordic spirits market trends and outlook*

As summarised in Graph 6, the Nordic total spirits market value growth is expected to remain moderate and stable. According to Euromonitor, Sweden is predicted to see nearly 1 per cent annual growth in value during the upcoming years while Norway and Denmark are expected to grow at a CAGR of 0.4 and 0.8 per cent, respectively. Further, the overall Nordic spirits market value is expected to grow at a CAGR of 0.2 per cent in 2017–2021.[45]

In accordance with global trends, the Company's management also expects the key market trends in the Nordic countries in the coming years to include craftsmanship and up-trading, health consciousness and well-being as well as the continuously evolving cocktail culture. The consumers' increased health consciousness has adversely affected spirits consumption, and the consumption in terms of volume has recently stagnated. As the overall spirits volume development has been moderate, there has been a shift towards premium and super-premium products, which has led to stable value growth in the Nordic spirits market. Premium and super-premium products are usually purchased to enjoy the value

[43] Source: Euromonitor (May 2017).
[44] Source: Euromonitor (May 2017).
[45] Source: Euromonitor (May 2017).

adding characteristics such as quality, uniqueness and locality, and the Company's management believes this trend to remain as a value growth driver in the coming years in accordance with global trends. In addition, the constantly evolving cocktail culture is encouraging consumers to shift to higher quality and in certain cases lesser-known categories as bartenders seek out new and unique products.[46]

Table 5 below shows the value growth outlook for growing spirits categories in the Nordics. The key growth categories[47] include whisky, rum and gin, the value of which are expected to grow at a CAGR of 0.8, 1.4 and 3.1 per cent, respectively.

**Table 5**

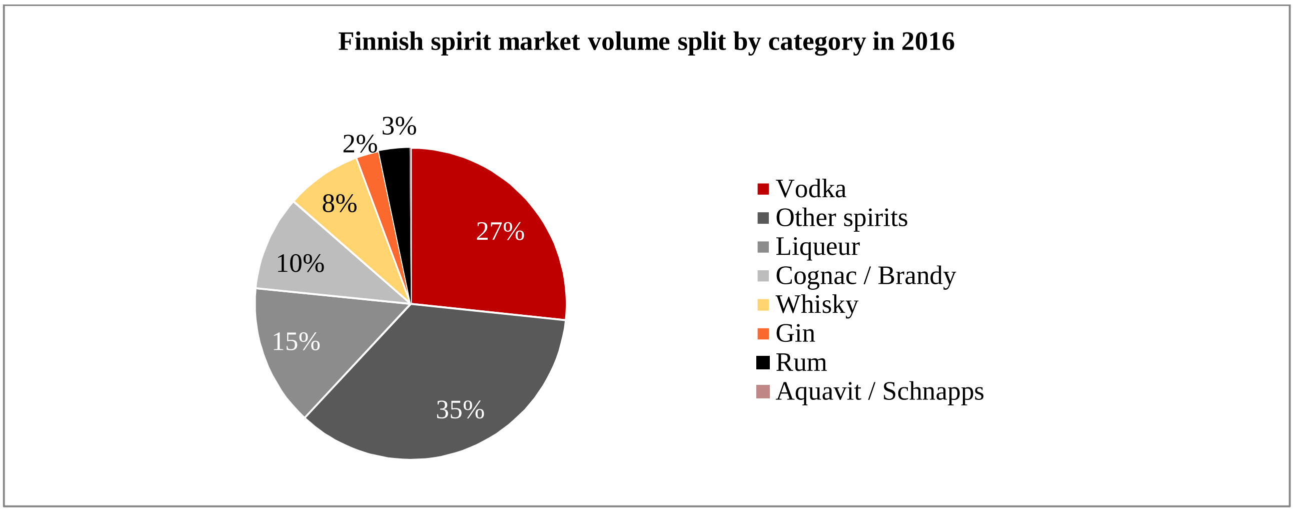
| | Whiskies | Rum | Gin |
|---|---|---|---|
| '17–'21E CAGR (market value) | 0.8% | 1.4% | 3.1% |

*Source: Euromonitor (May 2017).*

***Finnish spirits markets***

Spirits, and especially white spirits, have historically been a more popular category in Finland compared to other Nordic countries and constitute over 50 per cent of the total wine and spirits market value. Graph 8 illustrates the Finnish spirits market volume split by category. The largest sub-categories in Finland in terms of volume are vodka and other spirits[48], which have long traditions in the Finnish drinking culture. Other strong categories in the market include whisky and liqueurs. Recently, the spirits market has been in a slight decline as Finnish consumers have shifted consumption towards lower ABV products. Despite the decline of the total market, certain categories have experienced solid growth. For example, gin, flavoured spirits and rum categories have experienced the highest relative volume growth during 2014–2016 with a CAGR of 6.7, 7.3 and 1.2 per cent respectively.[49]

**Graph 8**




*Source: Management Consultant Analysis.*

*Finnish spirits market trends and outlook*

Euromonitor estimates that the Finnish spirit market value will decline at a CAGR of -1.6 per cent over 2017–2021. The key trends driving the market are expected to be similar in the rest of the Nordic region discussed in ("— *Nordic spirits market trends and outlook*"). Craft spirits are yet a rather young phenomenon in Finland, but, although still comprising a relatively small share of the total spirits market, the category is expected to grow in the future.[50] Market values for rum and gin categories are predicted to grow at a solid CAGR of around 1.2 and 6.1 per cent, respectively, over 2017–2021.[51]

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[46] Source: IWSR (2017), Forecast 2017-2021 Global Summary Report. According to the classification by IWSR, the prices (average retail price) of products in the premium and super-premium categories range between $20.00 and $49.99.
[47] Other growing category in the Nordics include liqueurs. Source: Euromonitor (May 2017).
[48] Other spirits include viina, which is traditional, unspiced white spirit, and is highly popular in Finland.
[49] Source: Management consultant analysis.
[50] Source: Euromonitor (May 2017).
[51] Source: Euromonitor (May 2017).

Even though the market outlook for vodka is diminishing as forecast, the Company's management believes that above-mentioned trends create growth pockets within the category for well positioned heritage products such as the Company's rebranded and redesigned Koskenkorva Vodka. Furthermore, in addition to Koskenkorva Vodka, the Company has several other strong brands in different categories which are discussed in more detail in the "— *Competitive landscape*" section. With its own and partner brands, the Company is present in almost all product categories in the Finnish spirits market.

Table 6 summarises the historical value development of the Finnish spirits market and the future market outlook.

**Table 6**

| EURm | 2013 | 2014 | 2015 | 2016 | 13–'16 CAGR | 17E–'21E CAGR |
|---|---|---|---|---|---|---|
| **Finland** | 1,149 | 1,110 | 1,090 | 1,061 | -2.6% | -1.6% |

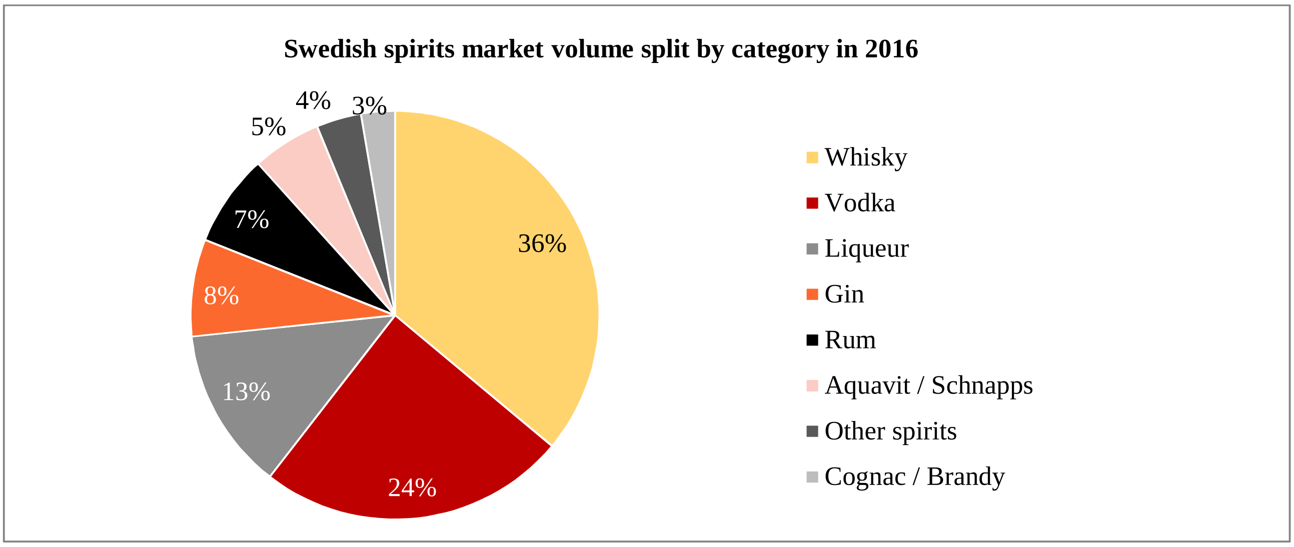
*Source: Euromonitor (May 2017).*

***Scandinavian spirits market***

The value of the overall Scandinavian spirits market has experienced incremental growth especially as the Norwegian and Danish markets have driven steady value growth in the region during 2013–2016. The overall Scandinavian spirits market value has grown at a CAGR of 1.6 per cent during 2013–2016.[52] The value growth has been strong especially in Denmark where the market reached a CAGR of 3.0 per cent during the period. In Sweden and Norway, the spirits market values have grown at a solid 0.8 and 1.6 per cent CAGR, respectively, over 2013–2016.[53] Recently, the fastest growing categories in volume in the Scandinavian region have been gin, liqueur and whisky with CAGRs of 5.8, 4.8 and 3.7 per cent respectively, over 2014–2016.[54]

Graph 9, Graph 10 and Graph 11 describe the spirits market volume split by category in Sweden, Norway and Denmark, respectively. In Sweden, whisky is the largest category, and together with vodka constitutes over 50 per cent of the total market volume. In Norway, vodka is the largest category but cognac and brandy are relatively popular compared to the other two Scandinavian countries. In Denmark, vodka and other spirits are the two largest categories, while aquavit/schnapps and rum are also relatively popular categories. Brown spirits, including brown coloured cask matured spirits such as cognac and whisky, are slightly more popular in Scandinavian markets compared to Finland. With its own and partner brands, the Company is present in almost all categories in the Scandinavian spirits market.

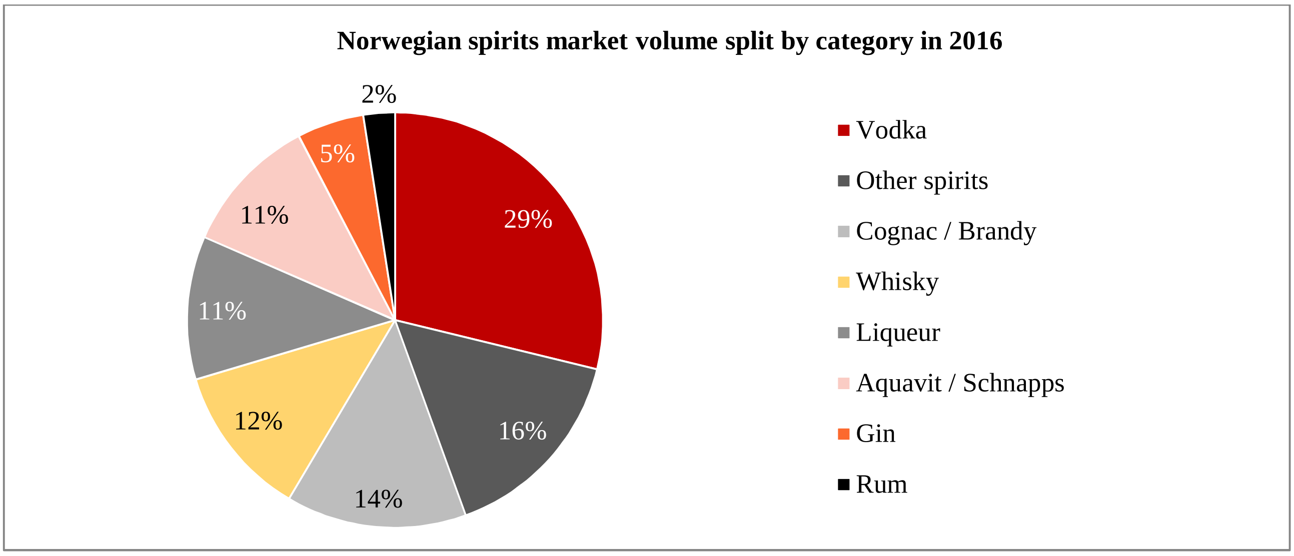
**Graph 9**




Source: *Management Consultant Analysis.*

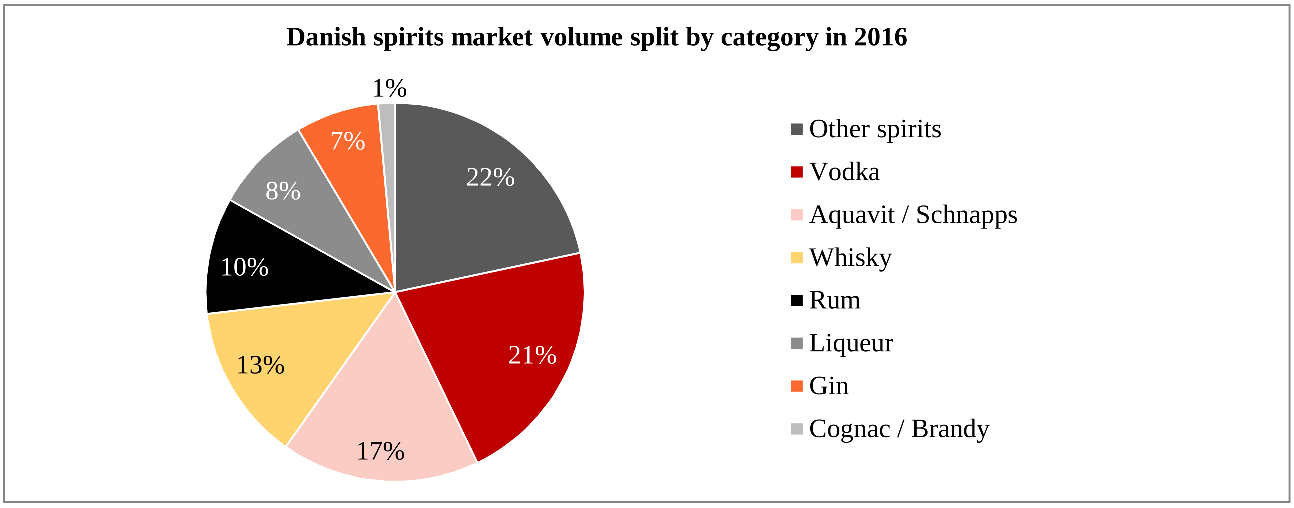
[52] Source: Euromonitor (May 2017).
[53] Source: Euromonitor (May 2017).
[54] Source: Management Consultant Analysis.

**Graph 10**




*Source: Management Consultant Analysis.*

**Graph 11**




*Source: Management Consultant Analysis.*

*Scandinavian spirits market trends and outlook*

In Scandinavia, the spirits markets' values are expected to experience stable growth in the near term. Euromonitor estimates that the overall Scandinavian spirits market value growth will reach a solid 0.7 per cent CAGR in 2017–2021. Sweden is predicted to see nearly a 1 per cent annual growth during the upcoming years while Norway and Denmark are expected to grow at a CAGR of 0.4 and 0.8 per cent, respectively. The key trends driving the market are expected to be similar to the rest of the Nordic region discussed in (see "— *Nordic spirits market trends and outlook*"). In Sweden, organic products have become increasingly popular recently.[55] In Norway, consumers' rising health consciousness, craftsmanship and local affiliation are strong driving trends. At the same time lower product prices have also begun to play a role to some extent in the Norwegians' consumption decisions.[56] As rum has experienced significant growth in the near term, the category is expected to grow especially in Sweden and Denmark following the Nordic future category outlook described in Table 5. The value of the Scandinavian rum market is expected to grow at a CAGR of 1.5 per cent over 2017–2021.[57] Similarly, gin and whisky are expected to remain on a strong growth path in the Scandinavian region

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[55] Source: Euromonitor (May 2017).
[56] Source: Euromonitor (May 2017).
[57] Source: Euromonitor (May 2017).

reaching a CAGR of around 2.5 and 1.0 per cent over 2017–2021, respectively.[58] The aquavit/schnapps category fits well into the demand for products with heritage and craftsmanship.[59]

Table 7 below summarises the historical value development of the Scandinavian spirits market and the future market outlook.

**Table 7**

| EUR m | 2013 | 2014 | 2015 | 2016 | 13–'16 CAGR | 17E–'21E CAGR |
|---|---|---|---|---|---|---|
| **Scandinavia** | 3,132 | 3,120 | 3,229 | 3,287 | 1.6% | 0.7% |

*Source: Euromonitor (May 2017).*

**Global and European spirits markets and key trends**

The total volume based global spirits market size is estimated to be around 28,197 million litres in 2016. National spirits, comprising the largest spirits category, constituted approximately 13,095 million litres of the total volume, although around 85 per cent of the national spirits volume was baijiu, which is a Chinese white spirit. National spirits are considered to be beverages that are consumed to a large extent only in one country or in a limited geographical area. In 2011–2016, the global spirits volume increased at a CAGR of approximately 0.6 per cent.[60] The global spirits market has grown moderately during the last years, although the relative share of spirits of the total alcohol consumption has increased in terms of volume.[61] Similarly to the Nordics, consumers in both mature and developing markets have traded up to premium and super-premium products. Premiumisation has also occurred within categories as consumers have switched for example from local unflavoured spirits to vodka. Standard and above categories, including craft spirits, have grown in volume at a CAGR of approximately 1.9 per cent over 2011–2016.[62] The trend has been particularly strong in gin, vodka and rum.[63] Furthermore, the revitalisation of the U.S. vodka market has provided solid support for the vodka category, as Eastern Europe, usually an important region especially for vodka, has been declining over the recent years.[64]

Although the market environment has remained highly competitive, the market has consolidated as the larger players have acquired smaller producers and brands. The acquisitions are targeted towards high growing categories, e.g. English gin, bourbon and tequila, as companies are actively looking for future big brands.

*Future global spirits market outlook and trend*

In addition to the premiumisation, the underlying market trend driving the global spirits market is a move away from local categories, such as Dutch gin, and a shift towards more international categories such as vodka and English gin. This does not necessarily mean shifting towards large international brands per se as the craftsmanship and locality are predicted to be driving trends especially in more developed markets such as in Europe. In other words, the consumption is shifting towards larger international product categories but at the same time consumers appreciate more products that can be considered craft products. There is no strict definition of what "craft" is but small batch production by independently owned distilleries are the key elements. Furthermore, urbanisation is expected to drive growth in the cocktail culture especially among young consumers looking for lower ABV products.[65]

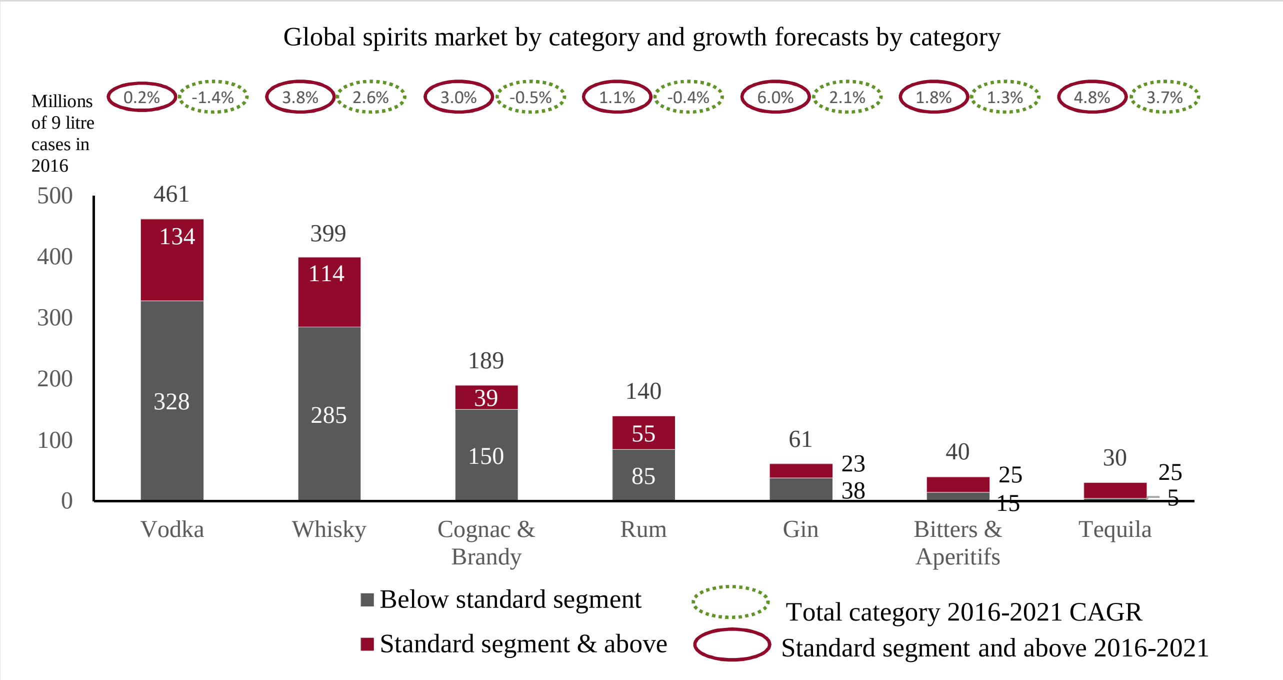
Of the spirits categories, cognac is expected to return to growth in China, which is the second largest cognac market in the world, and is predicted to boost the global growth outlook.[66] The cognac market in China is expected to grow at approximately 3.0 per cent CAGR from 2016 to 2021.[67] In Asia, China is not the only market showing signs of expansion in the cognac category, as new markets, especially in Southeast Asia, for example Taiwan and Vietnam, are expected to deliver strong growth in the category as well. However, China remains as an important region especially in value terms due to high demand for high-end products (VSOP and above).[68]

[58] Source: Euromonitor (May 2017).
[59] Source: Management Consultant Analysis.
[60] Source: IWSR (2017), Forecast 2017–2021 Global Summary Report. In terms of the total volume, the size of the global spirits market is expected to have been approximately 3,133 million 9-litre cases in 2016 and the national spirits accounted for approximately 1,455 million 9-litre cases of the total volume.
[61] Source: Euromonitor (September 2017).
[62] Source: IWSR (2017), Forecast 2017–2021 Global Summary Report.
[63] Source: Euromonitor (September 2017).
[64] Source: IWSR (2017), Forecast 2017–2021 Global Summary Report.
[65] Source: Euromonitor (September 2017).
[66] Source: Euromonitor (September 2017).
[67] Source: IWSR (2017), Forecast 2017–2021 Global Summary Report.
[68] Source: Euromonitor (May 2017).

Vodka is another category with a solid market outlook. Even though there has been a decline in Russia, other regions have seen potential as the premiumisation is predicted to be a strong growth driver in the category. As Graph 12 below illustrates, the standard and above segment in vodka is expected to outpace the overall category growth in volume over 2016–2021.[69] Furthermore, the regional differences are relatively significant as Europe, Latvia and Italy are expected to experience significant volume growth from 2016 to 2021 with approximately 4.3 and 3.1 per cent CAGR, respectively. Further, in the U.S, which is the second largest vodka market in volume, vodka is expected to grow at approximately a 0.3 per cent CAGR during the same period.[70]

Graph 12 and Graph 13 below demonstrate the global market outlook for spirits and global spirits volume split by geographic location. All large categories are expected to grow steadily in the standard and above segment and the growth is expected to be especially strong in the high-end whisky and gin categories. Geographically Asia constitutes nearly two thirds of the global spirits volume[71] while Europe is the third largest and North America the fourth largest market region.

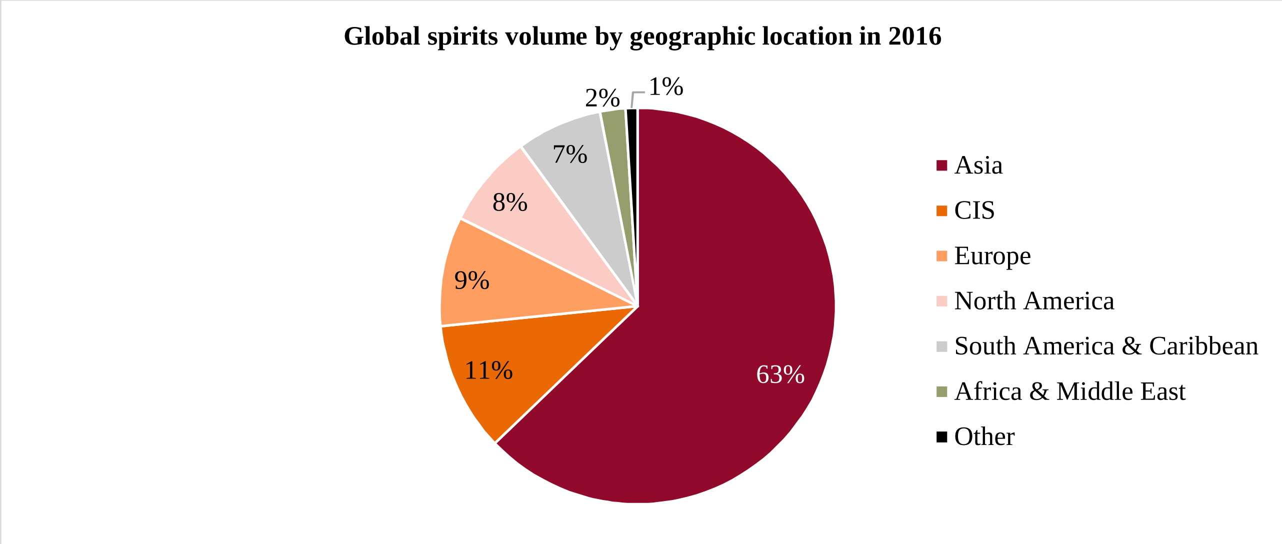
**Graph 12**




*Source: IWSR (2017), Forecast 2017–2021 Global Summary Report. Note: The standard segment and above includes prestige, ultra-premium, premium, and standard segments. The below standard segment includes value and Low-price segments. In whisky, the standard segment and above includes Scotch, US and Irish Whisky, while the rest are included in the below standard segment.*

[69] Source: IWSR (2017), Forecast 2017–2021 Global Summary Report.
[70] Source: IWSR (2017), Forecast 2017–2021 Global Summary Report.
[71] Asian volumes includes national spirits.

**Graph 13**




*Source: IWSR (2017), Forecast 2017–2021 Global Summary Report.*

**Baltic alcoholic beverage market and travel retail**

Estonia and Latvia belong to the Company's home market and they belong to the Finland & Exports segment as, similar to Finland, the consumer behaviour in both countries is skewed more towards spirits compared to the Scandinavian region. Both countries have rather low taxation levels, which has driven the alcoholic beverage prices to a significantly lower level compared to the Nordic countries. Lower price levels have attracted border trade, which has been especially apparent in Estonia, where Finns have traditionally travelled to purchase wine and spirits. However, Estonia has recently increased its excise tax level, which has shifted part of the border trade to Latvia. The Company operates in both countries covering also the border trade outlets.

In spirits, the key growth categories within the Baltic region include rum and US whisky, which are expected to grow with a CAGR of around 1.1 and 1.4 per cent, respectively, in volume over 2016–2021. Furthermore, in wines, champagne is predicted to reach 6.0 per cent CAGR in volume over 2016–2021.[72]

*Estonia*

The total market volume of the Estonian wine and spirits market in 2016 was approximately 35 million litres. Spirits constituted approximately 46 per cent of the total wine and spirits market volume. The total market volume declined by approximately 4.6 per cent in 2016. The Company's management estimates that the Company is the second largest player in Estonia with a 9.8 and 6.5 per cent market shares in spirits and wine based on value, respectively.[73] In addition, the Company has a presence in several large spirits categories in Estonia and it holds 11.6, 15.3, 60.0 and 1.9 per cent volume based market shares in vodka, cognac, aquavit/schnapps and whisky, respectively.[74]

*Latvia*

The total market volume of the Latvian wine and spirits market in 2017 was approximately 45 million litres. Spirits constituted approximately 52 per cent of the total wine and spirits market volume. The Latvian wine and spirits market has experienced significant growth recently as the total market volume grew by approximately 9.2 per cent in 2017. The growth has been especially strong in the spirits category, which grew over 13 per cent. The market growth is at least partly explained by the increased border trade driven by the Estonian tax increases. The Company's management estimates that it is one of the top 5 players in Latvia with 6.3 and 8.5 per cent market shares in wine and spirits, respectively. In addition, the Company has a presence in several large spirits categories in Latvia and it holds 13.1, 3.4 and 5.9 per cent volume based market shares in vodka, cognac and whisky, respectively.[75]

[72] Baltic region includes Estonia, Latvia and Lithuania, Source: IWSR (2017), Forecast 2017–2021 Global Summary Report.
[73] Source: IWSR (2016).
[74] Source: IWSR (2016).
[75] Source: The State Revenue Service, Latvia (2017).

*Travel retail*

Travel retail has traditionally been an important sales channel in the Nordic alcoholic beverage market as consumers are used to traveling abroad to purchase alcoholic beverages. In addition to a strong presence in the Nordic and Baltic regions, the Company has access to global travel retail through large international partners. The global duty free and travel retail market value has been growing steadily over the last 30 years and was predicted to reach nearly USD 78 billion in 2017.[76] Wine and spirits constituted approximately 16 per cent of the total market value indicating that the Company operates in a duty-free market with a value of approximately USD 12 billion. The global duty free and travel retail market value is expected to remain on a solid growth path in the future and the market is expected to grow at a CAGR of approximately 7 per cent from 2017 to 2025. In the Nordic and Baltic regions, wine and spirits constitute a significantly larger share of total duty-free market value with an approximately 33 per cent share.[77]

In the Nordic and Baltic Sea region, travel retail that takes place on cruise ships constitutes a significant share of the total travel retail market in value.[78] The Company is the third largest player in the Nordic and Baltic duty-free spirits market in volume.[79]

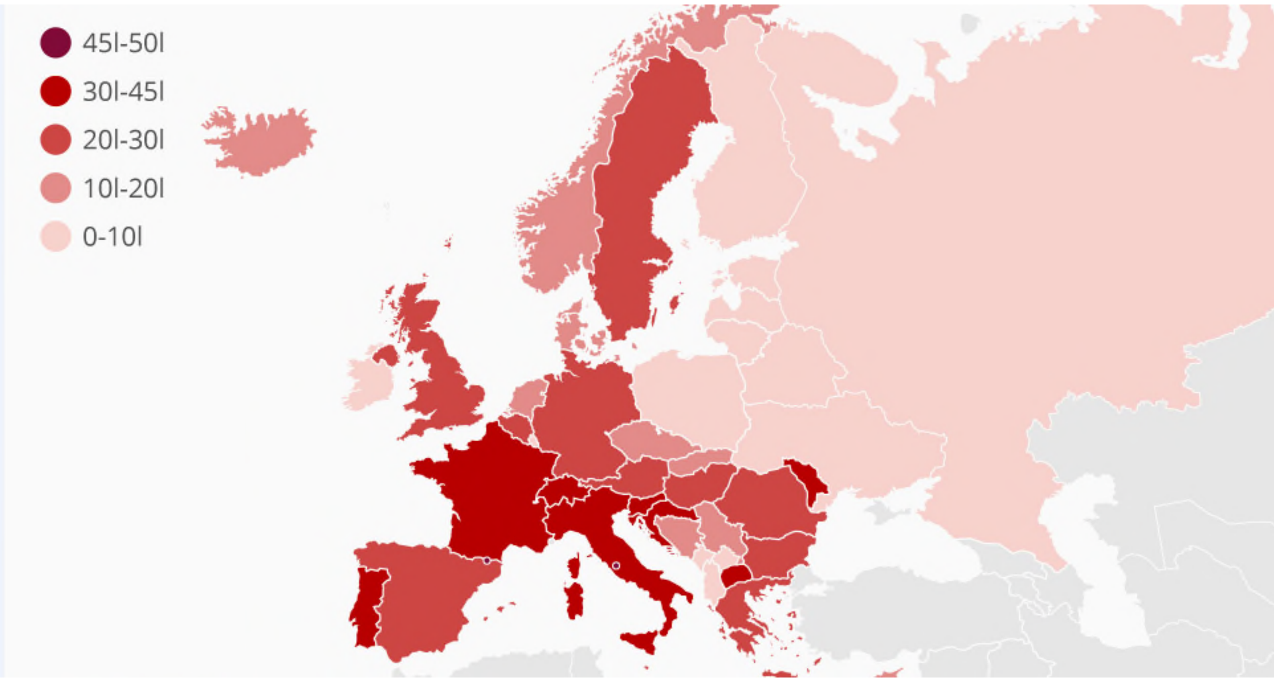
**Wine markets**

***Nordic wine markets***

The Nordic wine market has been characterised by solid growth during the past years. According to the Company's management, the market also possesses high potential, as the European drinking culture, which is usually strongly skewed towards wine, is expected to be reflected in Nordic consumer behaviour and expand the wine category in the region.

Graph 14 below illustrates the per capita wine consumption in Europe. On average, Nordic markets are clearly below average, especially in Finland. In Sweden, the wine consumption is close to the European level while in Norway and Denmark the wine culture is still developing.

**Graph 14**

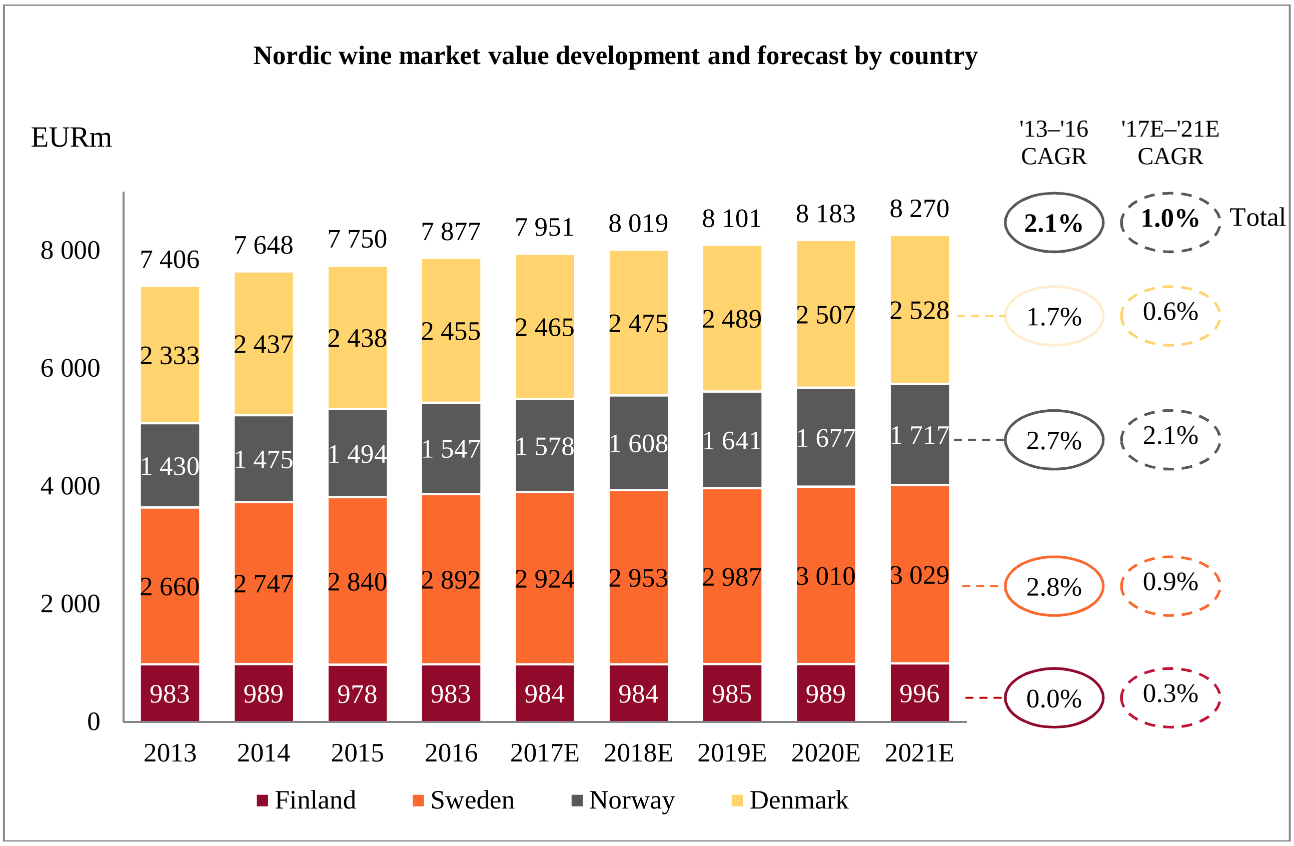



*Source: The Wine Institute (2015).*

[76] Source: Generation Research (2015).
[77] The total market value is USD 3.5bn. Source: Generation Research (2015).
[78] Source: Generation Research (2015).
[79] Source: IWSR (2016).

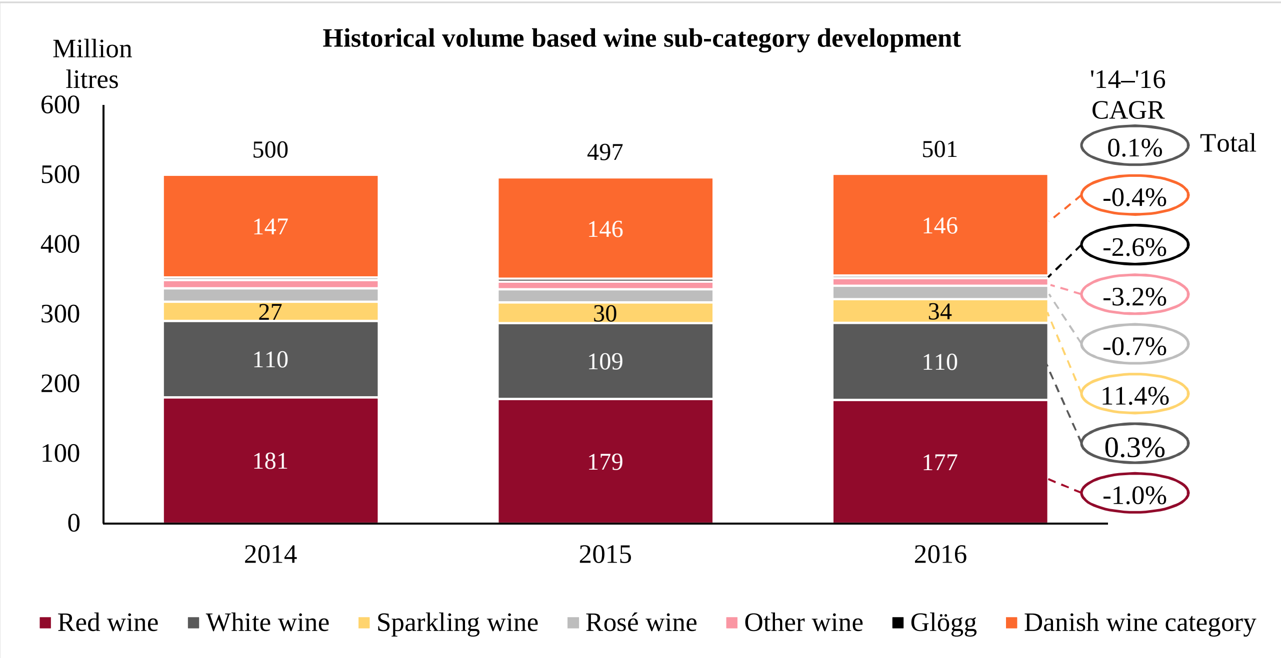
Graph 15 below illustrates the Nordic wine market value development in 2013–2016 and market outlook over 2017–2021. Graph 16 shows the wine sub-category development in 2014–2016 in the Nordics.

**Graph 15**




*Source: Euromonitor (May 2017).*

**Graph 16**




*Source: Management Consultant Analysis, Note: Danish wine category includes red, white and rosé wine categories. Other wine category includes for example fortified wines and non-alcoholic wines.*

As Graph 15 demonstrates, the Nordic wine market has experienced solid value growth during 2013–2016. Sweden, the largest wine market in the region, has grown with a CAGR of 2.8 per cent, while Norway has reached a CAGR of 2.7 per cent. The Danish wine market has experienced more moderate growth in value during the period. The market has grown steadily at a CAGR of 2.1 per cent. The values in the Graph include both on- and off-trade.

In 2016, the largest wine category was red wine and still wines, including red wine, white wine and rosé wine, constituted approximately 90 per cent of the total wine market volume. Sparkling and non-alcoholic wines have experienced the relatively largest sub-category volume growth with a CAGR of 11.4 and 2.7 per cent, respectively, during 2014–2016.

The consumption habits of Nordic wine consumers have been highly skewed towards off-trade as approximately 60 per cent[80] of the total market value is consumed in the off-trade market. The off-trade preference is even more obvious in volume as 88 per cent of the total market volume goes through the off-trade market.[81]

*Nordic wine market trends and outlook*

Key trends driving the Nordic wine market are up-trading and premiumisation, convenience, health and wellbeing, and sustainability. The consumers' increased health consciousness has driven the strong growth in low- and non-alcoholic wine categories included in the other wine category in Graph 16, even though the total category has declined.[82] As the volume development of the wine category has remained flat, the value has grown by approximately 2.1 per cent over 2013–2016,[83] and this indicates a shift in consumer preferences towards quality as well as reflects the effect of tax increases. As consumers are shifting to upgraded products, environmental aspects have also become increasingly important part of the consumption decision, which has driven the growth in the organic wine category. Furthermore, convenience has become an essential aspect for consumers, and therefore new packaging techniques[84] such as, according to the Company, for example bag-in-box and PET bottles have increased in popularity.

As summarised in Graph 15, the overall Nordic wine market value is expected to grow approximately at a CAGR of 1.0 per cent over 2017–2021. In terms of value, Norway is expected to experience the most significant growth with a 2.1 per cent CAGR, while Sweden, the largest wine market in the Nordics, is expected to reach a nearly 1 per cent CAGR during the period. Table 8 illustrates the value growth outlook for key wine categories in the Nordics. Sparkling wine is expected to experience the most significant value growth over 2017–2021 with a 4.5 per cent CAGR.

**Table 8**

| | Red wine | White wine | Rosé wine | Champagne | Sparkling wine |
|---|---|---|---|---|---|
| **17–'21E CAGR (market value)** | -0.1% | 1.8% | 2.3% | 3.0% | 4.5% |

*Source: Euromonitor (May 2017).*

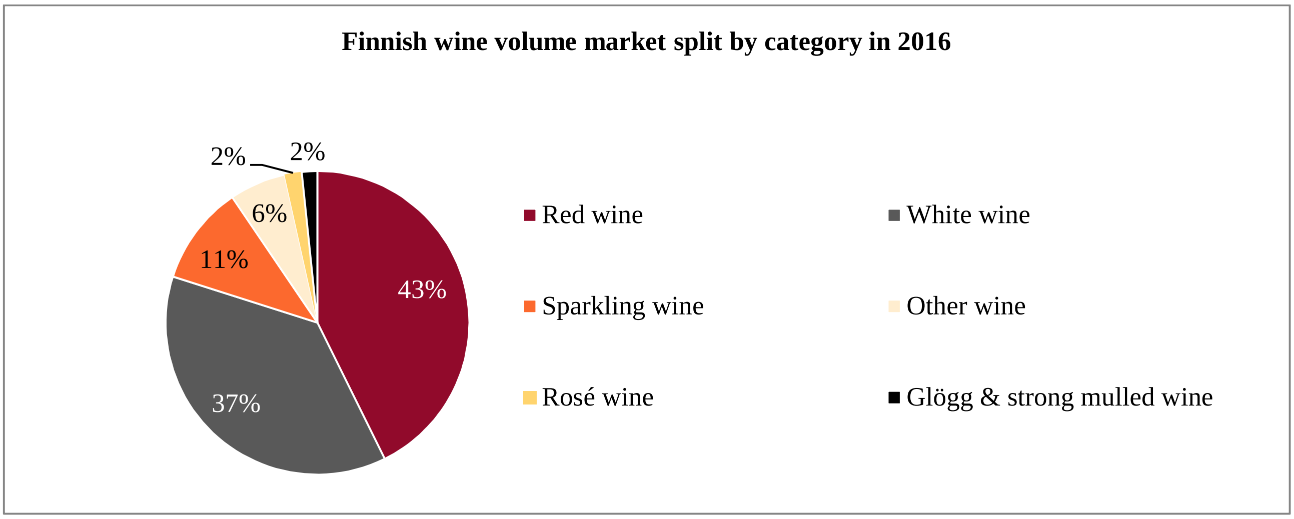
*Finnish wine markets*

Wine comprises slightly below 50 per cent of the total wine and spirits market value in Finland and the wine category has declined slightly in value during 2013–2016.[85] The largest wine categories in Finland are red wine with 43 per cent and white wine with 37 per cent of the total market volume.[86] The fastest growing categories in volume have been rosé and sparkling wine with a CAGR of approximately 7.8 and 3.7 per cent, respectively, over 2014–2016.[87]

[80] Source: Euromonitor (May 2017).
[81] Source: Euromonitor (May 2017).
[82] Source: Management Consultant Analysis.
[83] Source: Euromonitor (May 2017).
[84] Source: Management Consultant Analysis.
[85] Source: Euromonitor (May 2017).
[86] Source: Management Consultant Analysis.
[87] Source: Management Consultant Analysis.

Graph 17 below illustrates the total Finnish wine market volume split by categories in 2016.

**Graph 17**




*Source: Management Consultant Analysis.*

<u>Finnish wine market trends and future outlook</u>

Euromonitor estimates that the Finnish wine market value will grow at a 0.3 per cent CAGR over 2017–2021 The key trends driving the Finnish market are expected to be similar with rest of the Nordic region discussed in ("– *Nordic wine market trends and outlook*"). In Finland, consumption has traditionally been skewed towards spirits but the slowly changing drinking habits with increasing product appreciation and knowledge has led to an increase in several wine categories. The trend is expected to continue and create growth in the Finnish wine market. Of the wine categories champagne and sparkling wine are predicted to reach a CAGR of around 4.4 and 2.3 per cent in value, respectively, over 2017–2021. Furthermore, rosé wine is expected to experience significant value growth with a CAGR of approximately 7.3 per cent over the same period.[88]

Table 9 below shows the historical development and future outlook for the Finnish wine market.

**Table 9**

| EUR m | 2013 | 2014 | 2015 | 2016 | 13–'16 CAGR | 17E–'21E CAGR |
|---|---|---|---|---|---|---|
| **Finland** | 983 | 989 | 978 | 983 | 0.0% | 0.3% |

*Source: Euromonitor (May 2017).*

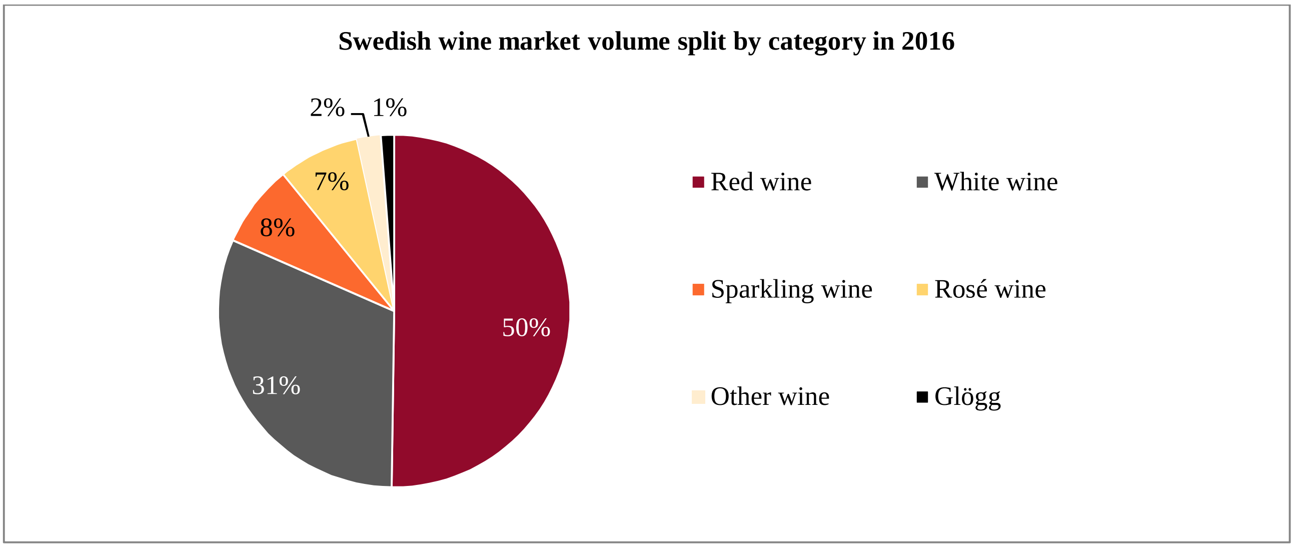
*Scandinavian wine markets*

The value of the Scandinavian wine market has developed strongly during 2013–2016 reaching a CAGR of 2.4 per cent. The region has traditionally been strong in wine and the category constitutes nearly 68 per cent of the Scandinavian regions' total market value for wine and spirits. [89] The largest sub-categories in wines are red and white wine, which together with rosé wine constitute over 90 per cent of the total market volume.[90] The most notably growing categories during the recent years have been sparkling and non-alcoholic wines, which have grown at an annual CAGR of 13.5 and 15.3 per cent in volume, respectively.[91]

Graph 18, Graph 19 and Graph 20 below illustrate the Scandinavian wine market volume split by category in Sweden, Norway and Denmark, respectively, in 2016. In Sweden and Norway, red wine is clearly the largest category. In Sweden, Glögg and rosé wines are relatively popular compared to Norway and Denmark. In Norway, red wine constitutes over half of the total market value and Denmark follows the overall Nordic trend as red, white and rosé wine constitute approximately 96 per cent of the total wine market volume.

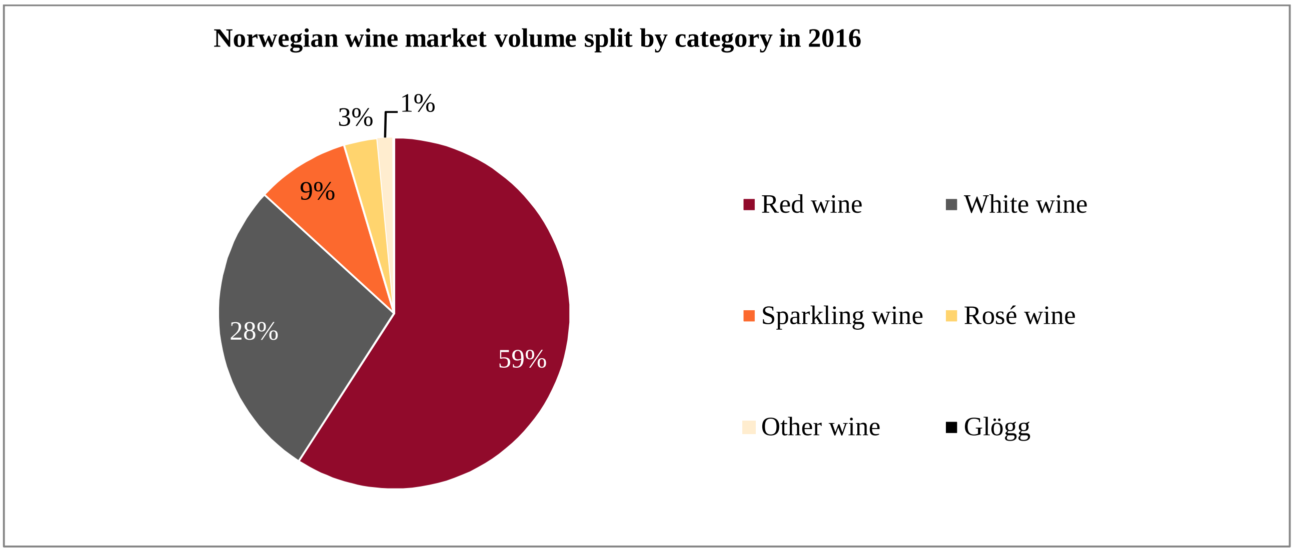
[88] Source: Euromonitor (May 2017).
[89] Source: Euromonitor (May 2017).
[90] Source: Management Consultant Analysis.
[91] Source: Management Consultant Analysis.

**Graph 18**



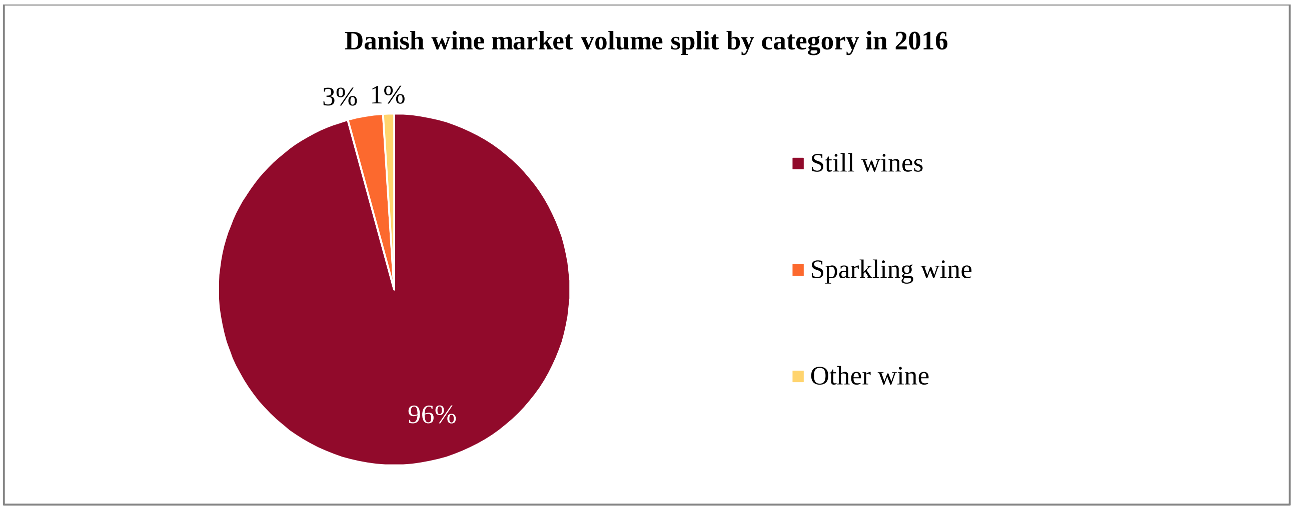

*Source: Management Consultant Analysis.*

**Graph 19**




*Source: Management Consultant Analysis.*

**Graph 20**




*Source: Management Consultant Analysis. Note: In Denmark, still wine includes red wine, white wine and rosé wine volumes (In 2016,* *the shares of red, white and rosé wines of the total market volume were approximately 62, 25 and 5 per cent, respectively. Source: Euromonitor (May 2017)).*

Scandinavian wine market future outlook and trends

Euromonitor estimates that the overall Scandinavian wine market value growth will reach a solid 1.1 per cent CAGR during the years 2017–2021.[92] Norway's wine market is expected to reach an approximately 2.1 per cent CAGR during the same time period, while wine markets in Sweden and Denmark are predicted to grow in value at a CAGR of 0.9 and 0.6 per cent, respectively. The key trends driving the Scandinavian market are expected to be similar to the rest of the Nordic region discussed in ("*— Nordic wine market trends and outlook*"). Health consciousness is predicted to remain as a driving trend creating further potential in the low- and non-alcoholic wine category. Organic wines have become increasingly popular recently among the Swedish consumers and environmental aspects are expected to become important for Danish consumers. Organic wines are predicted to grow significantly within the Scandinavian region. In Norway, consumers are looking for convenient packaging, and innovations such as bag-in-box wines are expected to increase in popularity especially in smaller sizes, such as 2.25 and 1.5 litres packages.[93] In the Scandinavian region, champagne and sparkling wine are expected to experience the most significant value growth with a CAGR of around 2.8 and 5.1 per cent, respectively, over 2017–2021. Furthermore, rosé and white wine categories support solid market value growth with a CAGR of approximately 2.0 and 1.9 per cent, respectively.[94]

Table 10 below summarises the historical development of the Scandinavian wine market value and future market outlook.

**Table 10**

| EUR m | 2013 | 2014 | 2015 | 2016 | 13–'16 CAGR | 17E–'21E CAGR |
|---|---|---|---|---|---|---|
| Scandinavia | 6,423 | 6,659 | 6,772 | 6,895 | 2.4% | 1.1% |

*Source: Euromonitor (May 2017*).

**Competitive landscape**

***The Nordic spirits markets***

The Company is the market leader in the overall Nordic spirits market measured in volume. The Company's overall market share including the off- and on-trade markets is approximately 28 per cent.[95] The spirits market has been characterised by a brand driven market structure, and brand loyalty has been a crucial part of the market dynamics, which, according to the Company's management, is expected to support strong brand houses such as the Company. Furthermore, with the Company's wide and strong brand portfolio, the Company is a leading player in many large categories and has significant market shares. For example, in vodka and whisky, the two largest spirits categories in volume, the Company is the Nordic market leader with approximately 36 and 23 per cent overall of the market shares of the total Nordic volume, respectively.[96] Furthermore, the Company holds an approximately 19 per cent market share in the cognac/brandy category. Additionally, the Company is the largest producer of Swedish aquavit in the Nordics and holds an approximately 34 per cent of the overall market share of the total aquavit/schnapps volume.[97]

In Finland, the Company is the spirits market leader with an approximately 55 per cent volume based overall market share. The Company is also the market leader in all largest categories including vodka, cognac/brandy, and whisky, with 71, 27 and 43 per cent overall market shares, respectively. Furthermore, in the growing gin category the Company holds a solid approximately 39 per cent market share.[98] The Company has several market leading brands in these categories and according to the Company's analysis, for example, Koskenkorva is the most sold brand in the vodka/viina category with an approximately 27 per cent market share of the total off-trade market volume. According to the Company's analysis, Leijona and Jaloviina supplement the Company's strong portfolio in the category with approximately 23 and 6 per cent off-trade volume-based market shares, respectively. In aquavit/schnapps, Skåne Akvavit holds an approximately 27 per cent market share of total off-trade market volume, according to the Company's analysis. The Company's key competitors in the Finnish spirits market include Pernod Ricard, Hartwa Trade, Arcus, William Grant & Sons, Diageo and Beverage Partners.

[92] Source: Euromonitor (May 2017).
[93] Source: Euromonitor (May 2017).
[94] Source: Euromonitor (May 2017).
[95] Source: Management Consultant Analysis.
[96] Overall includes off- and on-trade. Source: Management Consultant Analysis.
[97] Source: Management Consultant Analysis.
[98] Source: Management Consultant Analysis.

In Sweden, the Company is the spirits market leader with an approximately 26 per cent volume based overall market share. The Company is the market leader in most of the large categories including cognac/brandy, whisky and aquavit/schnapps with approximately 35, 26 and 67 per cent overall market shares, respectively. In addition, the Company is the market leader in the vodka category as the Company holds approximately 35 per cent of the overall market volume.[99] The Company has several market leading brands in these categories and according to the Company's analysis, for example, in the vodka category in the off-trade market, Explorer is the most sold brand with an approximately 22 per cent volume based market share. In cognac, Grönstedts is the most sold brand with an approximately 29 per cent market share of the total off-trade market volume according to the Company's analysis. In aquavit/schnapps, O.P. Anderson is according to the Company's analysis, the market leader with an over 23 per cent market share of the total off-trade market volume, and Skåne Akvavit holds approximately 13 per cent of the retail market. Furthermore, Explorer Gin, launched in 2016, has quickly achieved an approximately 5 per cent off-trade market share in the gin category, according to the Company's analysis. The Company's key competitors in the Swedish spirits market include Pernod Ricard, Diageo and Arcus.

In Norway, the Company has an established market position in spirits with an approximately 7 per cent volume based overall market share. Local producer Arcus, operating in its home market Norway, is the local market leader and the main competitor, although the competition in the market is partly more fragmented compared to Finland and Sweden.[100] According to the Company's management, this opens market potential for other companies to win market share in the key categories such as whisky, liqueurs, vodka and aquavit/schnapps. The Company holds approximately 12, 10, 8 and 7 per cent volume based overall market shares in these categories, respectively.[101] The Company's key competitors in the Norwegian spirits market include Arcus, Diageo and Pernod Ricard.

The Company holds an approximately 8 per cent volume based overall market share in the Danish spirits market. The Company has a strong presence especially in the cognac/brandy category in which it holds approximately 18 per cent market share. Furthermore, in the aquavit/schnapps category, the Company holds 34 per cent volume based overall market share.[102] The Company's key competitors in the Danish spirits market include Diageo, Hans Just and Pernod Ricard.

Tables 11 and 12 below summarize the Company's volume based overall (including on- and off-trade) market share in the Nordic markets and in the key spirits categories in 2016. Table 11 shows the Company's market shares in Nordic markets in overall spirits. Table 12 shows the Company's markets shares in the key subcategories.

**Table 11**

| Overall Nordic | Finland | Sweden | Norway | Denmark |
|---|---|---|---|---|
| **28%** | 55% | 26% | 7% | 8% |

*Source: Management Consultant Analysis.*

**Table 12**

| Category | Overall Nordic | Finland | Sweden | Norway | Denmark |
|---|---|---|---|---|---|
| Vodka | **36%** | 71% | 35% | 8% | 0 % |
| Cognac/brandy | **19%** | 27% | 35% | 3% | 18% |
| Aquavit / schnapps | **34%** | 41% | 67% | 7% | 34% |
| Whisky | **23%** | 43% | 26% | 12% | 1% |

*Source: Management Consultant Analysis.*

***Nordic wine markets***

The Company is the leader in the overall Nordic wine market by volume. The wine market is fragmented compared to the spirits market as there are several small producers, importers and distributors. This is apparent when comparing the market shares of the largest players between the wine and spirits markets. The Company's volume based overall market share is approximately 6 per cent while in spirits the market share is approximately 28 per cent.[103]

In Finland, the Company is the market leader with an approximately 20 per cent volume-based market share in the overall wine market. In the wine categories, the Company holds approximately 16, 24, 15 and 14 per cent volume based overall market shares in the red, white, sparkling and rosé wine categories, respectively. Furthermore, in the glögg category the

[99] Source: Management Consultant Analysis.
[100] Source: Management Consultant Analysis.
[101] Source: Management Consultant Analysis.
[102] Source: Management Consultant Analysis.
[103] Source: Management Consultant Analysis.

Company holds an approximately 67 per cent market share.[104] The Company's key competitors in the Finnish wine market include Pernod Ricard, Hartwa Trade, Solera and Concha y Toro.

The Company has an established market position (the fourth largest) in the fragmented Swedish market with an approximately 7 per cent volume based overall market share. The Company is especially strong in the glögg category, in which the Company is the clear market leader.[105] For example Blossa, The Company's iconic glögg brand, possess, according to the Company's analysis, an approximately 71 per cent market share of the Swedish off-trade market volume in the glögg category. In addition, the Company has a strong market presence especially in the white and rosé wine categories as the Company holds approximately 9 and 10 per cent volume based overall market shares respectively.[106] The Company holds an approximately 1 per cent volume based overall market share in the sparkling wine category.[107] The Company's key competitors in the Swedish wine market include Giertz, Oenoforos and Prime Wine.

In the Norwegian wine market, the Company has a solid approximately 4 per cent volume based overall market share. The Company is especially strong in the glögg category, in which it holds approximately 15 per cent market share. In addition, the Company has a strong market presence especially in the rosé wine category as it holds nearly an 11 per cent volume based overall market share in the category.[108] The Company holds an approximately 3 per cent volume based overall market share in the sparkling wine category.[109] The Company's key competitors in the Norwegian wine market include Arcus, Pernod Ricard and Einar A. Engelstad.

In Denmark, the Company holds approximately 1 per cent of the total wine market by volume.[110] The Company's key competitors in the Danish wine market include Co-op, Dansk Supermarked and AMKA.

Table 13 below illustrates the Company's volume-based market shares in the Nordic wine markets in 2016.

**Table 13**

| Overall Nordic | Finland | Sweden | Norway | Denmark |
|---|---|---|---|---|
| **6%** | 20% | 7% | 4% | 1% |

*Source: Management Consultant Analysis.*

***Overview of key alcoholic beverage competitors***

The market players in the Nordic wine and spirits market can be divided into three categories: Global wine and spirits companies, regional producers and importers and local spirits producers and wine importers. Table 14 below illustrates the key competitors in the Nordic wine and spirits market.

**Table 14**

| Key competitors | | |
|---|---|---|
| **Global wine and spirits companies** | **Regional producers and importers** | **Local spirits producers and wine importers** |
| Diageo | Arcus | Numerous local operators |
| Pernod Ricard | Solera | |

*Source: Company management*

Global wine and spirits companies consist of large global players, which operate nearly on all continents. Regional producers and importers include companies with clear geographic focus on the Nordic market. For example Arcus, a Norwegian alcoholic beverage company, operates mainly in the Company's home market. The third group consists of rather small local spirits producers and wine importers whose operations do not cover the whole Nordic region.

**Market overview of Altia Industrial**

The Company produces grain spirits for alcoholic beverages. In addition, technical ethanol for industrial purposes, starch and feed components are produced as by-products. All these products are derived from Finnish grain, mainly barley. Grain spirit is used for the Company's own brands and as a raw material for contract manufacturing. The production of

[104] Source: Management Consultant Analysis.
[105] Source: Management Consultant Analysis.
[106] Source: Management Consultant Analysis.
[107] Source: Management Consultant Analysis.
[108] Source: Management Consultant Analysis.
[109] Source: Management Consultant Analysis.
[110] Source: Management Consultant Analysis.

technical ethanol, starch and feed components as by-products from the distillation process allows the Company to utilise the grain entirely. Please see "*Business of the Company*" for further details.

The largest end-markets for the Company's technical ethanol are techno chemicals, fluids for geothermal heat pumps, in addition to the pharma and packaging industries. According to the Company's management, the market for technical ethanol has generally been relatively stable, but the market for heat transfer fluids is growing. In 2015, ground heat pumps were the main heating source in approximately 50 per cent of the new built houses in Finland and the share has been increasing steadily. Furthermore, the overall number of geothermal pumps has increased firmly and for example in 2017, nearly 8,000 new pumps were installed in Finland. Even though the number of the newly installed geothermal pumps declined from the previous year, the size of the delivered systems increased significantly. The market is expected to remain on a solid growth path as the Finnish Heat Pump Association ("SULPU") estimates that, in Finland alone, 200,000 oil-fired boilers, 100,000 hydronic heating systems and 500,000 electric heating systems are waiting for replacement decisions.[111] The Company's management estimates that the Company holds approximately 2/3 of the total geothermal fluids market in Finland. Export to Sweden and Norway has started. In Finland the Company's largest competitors in the technical ethanol market are Telko, Ineos and Cargill.

As another by-product of the grain spirit production process, the Company produces unmodified i.e. native starch. The starch is sold to Chemigate for modification, or directly to Finnish forest and food customers as native starch. The Company has 20 per cent ownership in Chemigate. The Company's management estimates the Finnish starch market amounted to approximately 250,000 tons, in 2017, including both modified and non-modified starch. The starch volumes produced by the Company have grown steadily year-by-year, and today the Company holds approximately 25 per cent of the market with approximately 64,000 tons of production in 2017. The starch market has generally been stable but the recent growth in paper and especially paperboard industries has increased the demand for starch. The Company's management expects the starch market to remain on a moderate growth path in the future as, e.g., growing e-commerce drives demand for paperboard. For example, the global consumption of containerboard and paperboard materials are expected to grow nearly 2 per cent a year from 2014–2030.[112] Although, the Company operates mainly in the Finnish market, the overall starch market is global, hence the world prices determine the pricing dynamic for the Company as well. However, the Finnish market is relatively small for the large international starch producers, which is why, despite the global competition, the Company has a rather stable market position. The other key suppliers in the starch market are Chemigate and large international starch producers such as Cargill and Roquette.

In addition to starch, another by-product of grain spirit production is a feed component used in animal feed. The Company has a cooperation agreement with A-Rehu, who is the only purchaser of the feed component produced by the Company on a continuing basis as part of its spirit production process. Please see "*Business of the Company*" for further details.

[111] Source: Finnish Heat Pump Association.
[112] Source: Pöyry (January 2016).

## BUSINESS OF THE COMPANY

### Overview of the Business

Altia is a leading Nordic alcoholic beverage company that operates in the wine and spirits markets in the Nordic countries, Estonia and Latvia.[113] The Company also has production in Cognac, France. The Company produces, imports, markets, sells and distributes both own and partner brand beverages and exports alcoholic beverages to approximately 30 countries, most of which are in Europe, Asia and North America. The Group comprises three business segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Within the Scandinavia segment the Company operates in Sweden, Norway and Denmark. The Altia Industrial segment comprises the Company's production of ethanol, starch and feed component, logistics, procurement and manufacturing operations as well as contract services. Together with the Finland & Exports and Scandinavia segments, i.e., the consumer brand operations, Altia Industrial improves the efficiency of the use of raw materials and production and logistics capacity.

The Company's business model is based on offering a strong portfolio of its own brands and a versatile range of international partner brands as well as providing services to its customers that utilise the Company's production, packaging and logistics capacity. In addition, by-products from the production process are sold to the Company's industrial customers. The Company's integrated operating model creates economies of scale in sourcing, production and distribution and the Company can take advantage of its shared operations, including consumer research, innovation, product development, overall know-how and effective use of centralized support functions. The Company's net sales in 2017 were EUR 359.0 million and comparable EBITDA was EUR 42.4 million. At the end of 2017, the Company had 703 employees.

The Company has a strong market position in the Company's home markets, which include Finland, Sweden, Norway, Denmark, Estonia, Latvia and travel retail. The Company's own brands include brands such as Koskenkorva, Chill Out, Blossa, Larsen, O.P. Anderson, Renault, Xanté, and Valhalla, which form the Nordic core brands, and local heritage brands such as Leijona and Jaloviina in Finland, Explorer and Grönstedts in Sweden, Brøndums and 1-Enkelt in Denmark and Saaremaa vodka in Estonia, which form the Company's local heritage brands. The Company's key partner brands include, among others, Bollinger, Finlandia Vodka, Jack Daniels's, Amarula, Codorníu, Robert Mondavi, Pasqua, Faustino, Trapiche, Nederburg, Tarapacá, Lindeman's and Penfolds. In addition to the import, marketing, sale and distribution of partner products, the Company also offers services related to product and brand development to its partners, as well as production and bottling at the Company's production plants.

The Company's head office is located in Helsinki, Finland. The Company has a distillery in Koskenkorva village in Finland, an aquavit distillery in Sundsvall, Sweden, alcohol beverage and technical ethanol plants in Rajamäki village in Finland, an alcohol beverage plant in Tabasalu municipality in Estonia, as well as warehouse operations and offices in the Company's home markets. The Company also has a cognac house with production, storage and cognac aging cellars in Cognac, France.

The Company covers all significant sales channels and its most significant customers and business partners are the Nordic alcohol retail monopolies, international alcoholic beverage companies, alcoholic beverage wholesalers, restaurants, travel retailers such as shipping and airline companies, grocery stores, and importers operating in export markets as well as industrial customers in Finland and Sweden. Within Finland, Sweden and Norway, important sales channels are the state retail monopolies (Alko, Systembolaget and Vinmonopolet), which accounted for 69 per cent of the Company's consumer product net sales in 2017. [114]

The following table presents a selection of the Company's key performance indicators for the years ended 31 December 2017, 2016 and 2015. See "*Certain matters — Presentation of Financial and Certain Other Information*" and "*Selected Consolidated Financial Information — Financial key figures*" for further information on the calculation of the Company's key performance indicators.

[113] The Company is the market leader in the combined Nordic wine and spirits markets as well as in Finland measured in volume.
[114] Breakdown of Finland & Exports and Scandinavia segments' net sales in 2017 based on unaudited management reporting.

| In EUR million, except for percentages | 1 January to 31 December<br>2017<br>(unaudited, unless otherwise indicated) | 2016<br>(unaudited, unless otherwise indicated) | 2015<br>(unaudited, unless otherwise indicated) |
|---|---|---|---|
| Net sales[1)] | 359.0 | 356.6 | 380.7 |
| Operating result[1)] | 26.1 | 46.3 | 25.3 |
| Comparable EBITDA[2)] | 42.4 | 40.8 | 38.0 |
| Comparable EBITDA, %[2)] | 11.8 % | 11.5 % | 10.0 % |

[1)] Audited.
[2)] Alternative performance measure. See "*Selected Consolidated Financial Information — Reconciliation of Alternative Performance Measures*".

The following table presents net sales of the Company by country for the years ended 31 December 2017, 2016 and 2015.

| In EUR million | 1 January to 31 December<br>2017<br>(audited) | 2016<br>(audited) | 2015<br>(audited, unless otherwise indicated) |
|---|---|---|---|
| Finland | 202.4 | 189.9 | 200.9 |
| Sweden | 96.1 | 96.6 | 101.1 |
| Norway | 23.7 | 26.7 | 27.3 |
| Denmark | 12.7 | 16.9 | 24.8 |
| Baltics | 19.7 | 24.1 | 24.5 |
| Other[2)] | 4.3 | 2.4 | 2.0 |
| **Total** | **359.0** | **356.6** | **380.7[1)]** |

[1)] Audited.
[2)] Other includes sales of Larsen S.A.S, which is located in France, directly to Travel Retail and Export customers.

### Key Strengths

The Company has identified the following key strengths that the management believes to provide it with a competitive advantage.

- Nordic market leader with iconic alcohol brands and a large wines portfolio.
- Experience and scale that provide a strong capacity to operate in the stable and profitable Nordic market.
- A clear strategy that builds profitable growth.
- An integrated operating model that creates economies of scale and synergies, and enables more sustainable production.
- An experienced management team delivering strategy effectively.
- Strong profitability and stable cash flow, and an attractive dividend policy.

***Nordic Market leader with iconic alcohol brands and a large wines portfolio***

The Company is the market leader in the combined Nordic wine and spirits markets as well as in Finland measured in volume.[115] In spirits, the Company is the market leader in Finland with an estimated 55 per cent market share and in Sweden with an estimated 26 per cent market share.[116] In vodka and whisky, the two largest spirits categories by volume, the Company is the Nordic market leader with approximately 36 (vodka) and 23 (whisky) per cent overall market shares, respectively.[117] Furthermore, the Company holds an approximately 19 per cent market share in the cognac and brandy category. Additionally, the Company is the largest producer of Swedish aquavit in the Nordics and holds an approximately 34 per cent overall market share of the total aquavit/schnapps volume.[118] See "*Market and Industry Overview — Competitive landscape*".

The Company has numerous spirits and wine brands such as Koskenkorva, Chill Out, Blossa, Larsen, O.P. Anderson, Renault, Xanté, and Valhalla, which form the Nordic core brands, and local heritage brands such as Leijona and Jaloviina

[115] Source: Management Consultant Analysis.
[116] Source: Management Consultant Analysis.
[117] Source: Management Consultant Analysis.
[118] Source: Management Consultant Analysis.

in Finland, Explorer and Grönstedts in Sweden, Brøndums and 1-Enkelt in Denmark and Saaremaa in Estonia. The Company believes that many of these brands respond well to both global and Nordic alcohol market trends (see "*— A clear strategy that builds profitable growth*"). The management believes that many of these brands with a long heritage are well positioned for international expansion. Most recently, the Company's Koskenkorva Vodka products won three gold medals and five silver medals in different categories in the Spirits Business Magazine's Vodka Masters 2017 competition and O.P. Anderson Original was awarded a gold medal in the White Spirits category at the International Spirit Challenge 2017. In addition, Valhalla was awarded a gold medal in the Spirits Business Magazine's Specialty Spirits Masters 2017 competition and silver in the Liqueur Masters 2017 competition.

The Company has a large wine portfolio with an assigned strategy to capitalise on the market growth potential especially in Sweden and Finland. The Company is the leader in the overall Nordic wine market with approximately 6 per cent market share.[119] In Finland, the Company is the market leader with an approximately 20 per cent market share[120] in the wine market and has a position in all fragmented Nordic markets as well as in the Baltic countries and travel retail. In addition to the Company's own wine brands, the Company's wine portfolio includes numerous well-known wine brands of its partners such as Codorníu, Pasqua, Faustino, Trapiche, Nederburg, Tarapacá, Robert Mondavi, Lindeman's and Penfolds.

***Experience and scale that provide strong capacity to operate on the stable and profitable Nordic market***

The Company has strong capacities to operate in the EUR 12.2 billion[121] Nordic wine and spirits market (Finland, Sweden, Denmark and Norway) where the majority of revenues are through state alcohol retail monopolies. The state retail monopoly markets in Finland, Sweden and Norway (Alko, Systembolaget and Vinmonopolet, respectively) have historically been relatively stable and have not been significantly affected by economic cycles. The monopolies' revenues have generally been growing during the past years and the total number of monopoly outlets has been increasing in Sweden and Norway and have been stable in Finland.[122] One of the characteristics of monopoly sales channels is that most of the base assortment is determined through structured tender processes and as long as the requirements of the tenders are fulfilled and a product ranking is maintained, the product will generally remain a part of the monopolies' base assortment and will be allocated appropriate shelf spacing.

A majority of the Company's consumer product net sales comes from the Nordic market, where the Company has a long experience in operating. The retail monopolies' objective is to conduct sales of alcoholic beverages so that social harm caused by alcohol misuse could be limited and therefore they are not purely motivated by profit. The unique pricing mechanism applied by the retail monopolies provides a price bracket within which producers and importers are able to offer new products. After a certain period of time, ranging from four to nine months after a listing has been obtained, companies are allowed to change the price a product is sold to the monopoly for. Further, due to the nature of Nordic retail monopolies as state-owned operators, sales to retail monopolies involve in practice no credit risks.

The management believes that the Company's wide assortment in different product and price categories, combined with the ability to adjust production and work with wine producers to make local solutions (agility in sourcing, production and distribution), supports the Company's ability to respond to the tender requirements. The Company has significant experience of preferences of the monopolies in terms of assortment and has vast local market knowledge and understanding of market trends, all of which are important success factors. The Company has also significant experience in operating in an environment with strict marketing restrictions. Retail monopolies and increasingly also other retail customers require compliance with principles of social responsibility from producers. For several years, the Company has complied with the ethical principles of amfori BSCI as required by the retail monopolies, and in 2017 it also decided to become a member of amfori in order to further improve the sustainability in its supply chains.

In spirits, the whisky, rum and gin categories have experienced the most significant growth during 2014–2016 while rosé and non-alcoholic wines have delivered similar growth in wines.[123] One of the principal drivers in the Nordic wine market has been the growth of demand in Sweden, yet the whole Nordic wine market has enjoyed steady value growth for the last three years.[124] In the future, the value of the Nordic wine market is expected to remain on a stable growth path with an estimated annual growth rate of 1.0 per cent for 2017–2021[125] driven by key trends such as premiumisation, environmentally-friendly packaging and ecological products as well as increasing demand for lower ABV products. In spirits, the value growth has been strong especially in Denmark, yet the whole Nordic spirits market has been characterised

[119] Source: Management Consultant Analysis.
[120] Source: Management Consultant Analysis.
[121] Total market value estimate in Finland, Sweden, Norway and Denmark including on and off trade; Source: Euromonitor (May 2017).
[122] Source: Alko, Systembolaget and Vinmonopolet.
[123] Source: Management Consultant Analysis.
[124] Source: Euromonitor (May 2017).
[125] Source: Euromonitor (May 2017).

by a stable value growth during 2013–2016.[126] The market value growth in the Nordic spirits is expected to remain moderate and stable.[127] For example, the overall Scandinavian spirits markets are expected to experience stable incremental growth in the near future with an estimated value growth, reaching a solid 0.7 per cent CAGR in 2017–2021[128] driven by increasingly popular trends such as premiumisation, appreciation of authenticity and locality, craftsmanship and organic products as well as the consumers' rising health consciousness.

***A clear strategy that builds profitable growth***

The Company has defined a strategy, which is targeted at delivering profitable growth. The growth strategy is based on growing Nordic core brands and strengthening strategic partnerships, channel expansion, executing a step change in wine initiatives and operational efficiency. See also "— *Business Strategy*". A common key element of the growth strategy is the Company's innovation capabilities. The Company has approximately 100 own innovation initiatives per year. In addition to the Company's own innovation pipeline, the Company develops new innovations in cooperation with its partners.

The Company has a strong foothold in different product and price categories, including value-for-money products and local heritage brands whose demand has been stable. In addition, key trends across the Nordic spirits and wine market provide tangible growth opportunities for the Company to continue to expand from current value-for-money products and local heritage brands. These trends include authenticity and up-trading, convenience, health & wellbeing and sustainability. Up-trading means product premiumisation, with consumers trading-up to premium brands and away from mid-priced alternatives. Consumers are also becoming more interested in craftsmanship trend influenced spirits, unique local products and the authenticity and heritage of the products. On the other hand, consumers are keen to find convenient packaging such as bag-in-box and other pouch and carton-based solutions. There is also a strong health & wellbeing trend with a focus on clean, high-quality raw materials, freshness and simplicity, driving towards the consumption of low-alcoholic products. Furthermore, the focus on sustainability across the Nordics is leading to an increasing demand for organic and fair trade wines. See "*Market and Industry Overview*". The management believes that the Company's scale, wide assortment, product innovation capabilities, market expertise and consumer knowledge places it in a good position to react to these trends by adjusting the Company's current portfolio accordingly and by pro-actively looking for and creating new market trends.

The Company has innovation capabilities in both spirits and wine. The Company's systematic development process has led to several new product launches, such as True Colours Cava, Jaloviina Myrsky and Explorer Gin. Other recent launches include, among others, Koskenkorva Vodka Sauna Barrel and RTDs, Jaloviina line extensions including Jaloviina Tammi and RTDs, vintage taste of Blossa, O.P. Anderson Klar and Petronella, as well as Xanté Sparkling. Strong brands enable the launch of line extensions, which usually increase demand in relation to the brand. Innovative product development capabilities as well as the ability to respond to the market trends together with a strong and stable portfolio of local heritage products create good preconditions for the Company to take advantage of the growth opportunities in the Nordic wine and spirits markets.

An essential part of the growth expectations are new innovations and the international potential of the Nordic core brands (such as Koskenkorva Vodka, O.P. Anderson and Larsen). For example, the recent innovative rebranding work on Koskenkorva Vodka has brought the Company several international awards and has raised interest in export markets and it is currently exported to approximately 30 countries. Exports to Russia are growing and the Company entered a new market in Kazakhstan in the first half of 2017. In August 2017, the Company signed a distribution agreement for Koskenkorva Vodka with Infinium Spirits to enter the U.S. market. Recently, the Company has also signed a distribution contract with Frederick Wildman and Sons to expand the O.P Anderson distribution into the U.S. and with AsiaEuro to begin the Larsen Cognac distribution in China and Hong Kong, Macau, Singapore, Malaysia and Indonesia.

In addition to the core brands, the Company has taken measures to grow new business with its current top partners by strengthening co-operation throughout the value chain. Furthermore, the Company believes that by concentrating resources on new products and co-operation models the Company may achieve growth in wines. For example, in autumn 2017, the Company started to represent Treasury Wine Estates' wine portfolio (including Penfolds and Lindeman's) on an exclusive basis in retail and HoReCa sales in Finland. The essential focus of the Company's channel expansion is the potential in e-commerce and retail. The management believes that Altia's consumer websites, such as folk-o-folk in Sweden and Viinimaa in Finland, are in a good position to capture the future market potential. The Company intends to continuously improve its digital know-how, for example by expanding its consumer interface by developing consumer web shops outside the Nordics.

[126] Source: Euromonitor (May 2017).
[127] Source: Euromonitor (May 2017).
[128] Source: Euromonitor (May 2017).

***Integrated operating model that creates economies of scale and synergies, and enables more sustainable production***

The Company's integrated operating model creates synergies and economies of scale. The Company aims to maximise profits through sharing and combining operations and resources between its own brands (i.e. ownership of the brands, the whole value chain and innovations), partner brands (i.e. products that the Company imports, sells and distributes) and Altia Industrial (providing efficient capacity utilisation through production, packaging and logistics services as well as the use and sale of by-products to the Company's industrial customers). The Company's operating model enables full capacity utilization and deeper cooperation with partners and brings agility and the capability in developing local solutions. In order to achieve the benefits offered by its operating model, the Company aims to actively leverage its shared operations, including sourcing, support functions and logistics. The benefits of the Company's business model are demonstrated, for example, when the Company is able to combine importing of the partner brand products with purchasing of bulk wines for its own brands from the same partners. This enables the Company to utilise its packaging and logistics capacity more efficiently, and to take advantage of both its product development and innovation capabilities as well as market knowledge for the benefit of its own brands and partner brands. See "*— The Company's Business Operations — General*".

Furthermore, sustainability is a crucial factor for the Company's business operations. The impact of this can be seen in both the Company's processes as well as in the products themselves. The operations at the Company's Koskenkorva plant are based on circular economy, making use of one-hundred per cent of the grain it uses as a raw ingredient through different outputs both for own operations and industrial customers, and ultimately through the Company's own bioenergy plant at the Koskenkorva plant. Environmental aspects are taken into account when choosing packaging materials. The aim is to reduce the amount of energy and water consumption and waste in production and local barley is used at the Koskenkorva plant. See also *"— The Company's Business Operation — Production — Koskenkorva Plant"* and *"— Environmental Matters"*.

Within the wine and spirits markets in the Nordics and globally, there is a strong health trend, focus on quality and authenticity, and rise of significance of the responsibility. Consumers seek for example more ecological or sustainable products, and lower alcohol beverages. With its integrated operating model, the Company believes it is well positioned to address these trends and promote the sustainability and environmentally-friendliness of its products and processes. See also "*— Corporate responsibility*".

***Experienced management team delivering on strategy effectively***

The executive management team has a proven record of creating and executing strategy. They have a strong and broad experience in the Nordic and Baltic alcohol markets as well as operating in a brand focused and trend driven market environment, which has been an important contributor to the Company's development and success. The CEO has relevant and extensive experience from the Carlsberg Group having worked there for 13 years before joining the Company in 2014. In 2014, briefly after appointing the new CEO, the Company launched a new strategy for 2014–2016 which aimed to improve the Company's profitability and shift its focus towards being a brand company. The current executive management team has increased profitability during the recent years as the comparable EBITDA has grown from 8.3 per cent in 2014 to 11.8 per cent[129] in 2017. The Board of Directors also has significant experience of operating in a listed company environment as well as understanding and having the capacity to resolve potential related challenges and opportunities.

***Strong profitability and stable cash flow, and an attractive dividend policy***

Since 2013, the Company has taken major strategic actions to improve its profitability by strengthening its own brands, streamlining its brand portfolio and improving the Company's presence in key channels. The Company has also focused on developing its operational efficiency by simplifying the Company structure and operations and improving capital efficiency.

Operations are characterised by stable and diversified revenue streams underpinned by the resilient consumption of wine and spirits. The Company has taken clear strategic initiatives to further expand its profitability. The Company believes that focusing on expanding profitability, carefully managed operational capital expenditure requirements and efficient working capital management support a high and stable cash flow that enables an attractive dividend yield. In 2017, the

[129] Under the statutory audited consolidated financial statements as at and for the year ended 31 December 2014, the Company's net sales were EUR 426.3 million, operating result was EUR -18.6 million and depreciation, amortisation and impairment was EUR 49.0 million. EBITDA included EUR 0.5 million of proceeds from sales of assets and EUR 5.5 million of restructuring costs, which the Company has considered as items affecting comparability. Therefore, comparable EBITDA in 2014 was EUR 35.5 million. The consolidated financial statements of 2014 has not been restated in 2017 due to a correction of the accounting treatment in a joint arrangement concerning earlier financial years. According to the view of the Company, the correction would not have affected operating profit in 2014.

Company’s result for the period amounted to EUR 18.3 million in 2017 and free cash flow amounted to EUR 37.1 million corresponding to a cash conversion rate (free cash flow to comparable EBITDA) of 87.6 per cent.

**Business Strategy**

The purpose of the Company’s strategy and operations is to develop a new, modern and responsible Nordic drinking culture, which the Company summarises in the phrase – “Let’s Drink Better”. The Company’s vision is to be a beverage brand company that seeks growth through strong consumer understanding as well as by developing the market. The Company targets to be an important partner for state retail monopolies and to create positive value development in all markets.

The Company’s strategy is focused on creating sustainable and profitable growth. The Company pursues a long-term improvement in the results of the Company’s operations through a continuous renewal of the Company’s selection of products and ways of working. The Company has identified the following five megatrends: authenticity, sustainability, health consciousness, premiumisation and convenience, which have been important pillars in forming the strategy. Based on these trends, the Company has defined the following five strategic streams and key focus areas.

***Grow the Company’s Nordic core brands***

Growing the Company’s Nordic core brands requires building brand equity (brand awareness and consumer perception, preference and loyalty), communication and presence through the right channels and expanding into new consumer groups, occasions and markets. The Company focuses on innovation and product development as well as marketing and developing the Company’s core brands. Growth is expected to come from both volume (through an increased Nordic and Baltic presence, new channels and exports) and price (through premiumisation and improved positioning in all markets and exports) in the long term. According to the Company’s internal sales reporting, the Company’s net sales increased 0.8 per cent from 2016 for the Nordic core brands in 2017. The Company’s net sales decreased 2.7 per cent from 2016 for the local heritage brands, which was due to changes in taxation in Estonia, which consequently had a significant effect on the sales of the Saaremaa brand. The Company’s net sales growth for the exports channel was 40.2 per cent between 2017 and 2016.[130]

The Company has defined a growth strategy for each of its eight Nordic core brands:

- With regards to Koskenkorva, the Company aims to build brand equity through an effective digital strategy. The Company targets growth by expanding into new markets and focusing on exports. The recent rebranding work of Koskenkorva Vodka has brought the Company several international awards and opened new distribution channels. The Company entered the U.S. market with Koskenkorva Vodka in autumn 2017. The Company also targets to grow the value of the brand by taking advantage of premiumisation.

- The Company is strengthening its Chill Out brand image and quality perception in order to increase sales of the brand’s core range and to achieve a market leading position as a contemporary lifestyle wine brand within the Nordic region. The Company targets to attract the consumer market with a renewed consumer and category driven approach by providing the consumers of Chill Out with innovations including seasonal design editions and new packaging designs.

- Blossa provides an opportunity for the Company to grow in value through continuous premiumisation. The Company aims to target marketing efforts in order for Blossa to become a primary choice in the warm winter drink category in the Nordic countries. Furthermore, the Company aims to focus on driving category growth through product innovation by creating new consumption occasions with new products and line extension.

- With Larsen, the Company targets growth mainly in exports and seeks to expand into new markets. Recently, the Company has signed a distribution agreement with AsiaEuro to expand the Larsen distribution in China, Hong Kong, Macau, Singapore, Malaysia and Indonesia. The Company strives to reach new consumers, especially younger consumers, by extending the brand as well as the cognac category to new occasions. Furthermore, the Company is targeting to achieve a stable presence in all relevant HoReCa markets.

- O.P. Anderson provides the Company with an opportunity to combine strong heritage with new consumption trends. The Company aims to target its marketing efforts to introduce new means of consumption (mixology and cocktails) focusing especially on on-trade. The Company also aims to reinforce the brand’s presence in relevant communication channels. Furthermore, the Company aims to accelerate its geographical expansion and grow exports. In autumn 2017, the Company made a distribution agreement with O.P. Anderson to the U.S. markets.

[130] The breakdown of the net sales is based on unaudited management reporting.

The Company aims to focus in its product innovation on new low ABV and RTD products as well as other commercial and seasonal products.

- The Company's primary target with Renault is to strengthen the brand's position as a timeless cognac brand in the Nordic market and to grow in exports. The Company also seeks to leverage Renault's brand quality in terms of pricing strategy.

- With Xanté, the Company aims to focus on innovating cross-category products with the aim of offering unexpected taste combinations. The Company aims to promote the brand's awareness by focusing on relevant digital media. Furthermore, the Company is targeting to expand to global distribution through travel retail. An example of a recent innovation is Xanté Sparkling wine, which was launched in 2017 on the Swedish market.

- Valhalla provides the Company with an opportunity to increase its penetration in the shot category in the Nordic markets. The Company strives to increase awareness of the Valhalla brand and encourage consumer trials through a new design and communication strategy as well as to attract new customers through its pricing strategy. The Company targets to expand the brand's on-trade and off-trade distribution as well as to utilise the brand's potential by building exports through new market openings.

***Execute a step change in wines***

The Company's focus is on driving growth of its own wine brands portfolio by aiming to offer new products, brands and packaging. The Company targets to disrupt the growing wine segment with innovations such as differentiated concepts, packaging and wine styles, by creating new wine-based categories based on trends and insights. An example of this is the product launch of Xanté Sparkling in the aromatised wine category, which also responds to the demand for lower ABV beverages. The Company also targets to grow its share in the "old world" wine category, i.e. wines from Italy, Spain and France. The focus is on the Swedish and Finnish markets. The Company aims to concentrate resources and investments and improve its marketing effectiveness to develop and launch new innovative products that appeal to consumers and deliver growth especially in aromatized and "old world" wines in Systembolaget and Alko.

True Colours Cava is one example of an innovative product in the wine category. In February 2017, the Company launched new True Colours Cava sparkling wine which was part of an international project in association with a charity organisation Regnbågsfonden to promote human rights and solidarity. True Colours Cava was a new product launch which combined premiumisation with distinctive packaging by linking a high quality premium product to social responsibility and values promoted by the brand. Furthermore, towards the end of the year 2016, the Company launched the Wine Gallery - Suomi Finland 100 wine series to celebrate the jubilee year of Finnish independence. In addition, the Company targets to achieve growth by increasing the level of cooperation with partners. In 2017, the Company's net sales increased 1.4 per cent from 2016 for the Company's own wine brands.[131]

***Strengthen the Company's strategic partnerships***

The Company aims to strengthen its strategic partnerships by focusing on growing business with its key partners and increasing co-operation throughout the value chain. The Company aims to increase co-operation with key partners by leveraging the Company's key competencies (sales and marketing as well as consumer and market insights). The Company aims to develop new business and co-operation models throughout the value chain through collaboration with its own brands through innovation and liquid product development, wine packaging and contract services. The Company aims to deepen its partnerships by extending its collaboration to new countries in the Company's home markets. The development of new seasonal products is a good example of collaboration with partners in which products are developed through a partnership model with wide collaboration, cross-learning and knowledge sharing in order to respond to local preferences better than before.

Another example of strengthening the partnerships are the distribution collaboration agreements. The Company and Brown-Forman renewed their agreements on the distribution of Brown-Forman's core brands in Sweden, Finland and Norway in February 2016. Under the agreements, the Company will continue as Brown-Forman's exclusive distributor in all sales channels in these countries. In October 2016, the Company also expanded its cooperation with Distell International by becoming the exclusive distributor of Distell's Scotch whiskies in retail and on-trade sales in Finland, Sweden, Norway and Denmark and in travel retail in the Nordics and the Baltic countries. Further, in August 2017 the Company and Treasury Wine Estates made a distribution agreement regarding the Treasury Wine Estates' wine brands, such as Penfolds and Lindeman's. Under the agreement, the Company is the exclusive distributor of Treasury Wine Estates' wine portfolio in retail and on-trade sales in Finland. The Company entered into collaboration regarding the import and distribution of J. García Carrión's wine brands in Sweden. The Company is an exclusive representative of J.

[131] The net sales growth is based on unaudited management reporting.

García Carrión's wine portfolio in Sweden as of 2018. The Company's other key partners include significant wine producers such as Codorníu, Constellation Brands, Bodegas Faustino, Grupo Peñaflor, VSPT Wine Group and Pasqua. In 2017, the Company's net sales increased 4.8 per cent from 2016 for the twelve largest partners.[132]

***Channel expansion***

The Company's strategy with regards to channel expansion includes developing the Company's retail business and developing new web shops. The Company has presence in and access to the retail customer segment, and its key initiatives are building and strengthening the retail organisation and creating a value driven portfolio with retail targeted products (low- and non-alcoholic beverages and RTD products, such as Jaloviina Long Drink RTD) as well as with marketing that supports the sale of retail targeted products. The Company also aims to drive presence, visibility and sales on all relevant e-commerce platforms, such as Folk o folk in Sweden and Viinimaa in Finland, and to increase its presence and visibility in on-trade sales channels with the Company's core brands. The Finnish website Viinimaa offers information about the storage of wines, different wine areas as well as limited information on spirits. The site also includes direct links to Alko's web store. The Viinimaa website had 37,500 site visits on average per month in 2017. Folk o folk is a website for Swedish consumers to familiarize themselves with the Company's products. The site also includes direct links to Systembolaget's web store. Folk o folk had 81,000 site visits on average per month in 2017. The Company is continuously developing its digital strategy with the view of expanding its consumer interface, for example by further developing new consumer web shops outside the Nordics.

The Alcohol Act is expected to support the Company's position in the Finnish market, as the renewed Alcohol Act has resulted in the removal of the limitation regarding the method of production of alcoholic beverages sold in the retail channel and this enables the Company to use its spirit brands in ethanol based products sold in retail stores. This means 2,200 new point of sales for up to 5.5 per cent ABV alcoholic beverages and the ability to launch new RTD products that utilize the Company's well-known brands. Furthermore, the renewed Alcohol Act permits the Company to also present beverages containing more than 22 per cent ABV, such as its key spirit brands, on its websites. The Company expects these amendments to further increase the recognition of the Company's core brands.

***Fund and enable growth – continuous comprehensive efficiency and performance***

In addition to the growth initiatives, the Company focuses on continuously improving its overall efficiency. In the first instance, this includes improving efficiency and finding new capabilities in the supply chain. Agility, flexibility and quality of operations are key elements in improving efficiency and ensuring productivity. The Company will pursue the development of new innovative packaging, materials and technology. Furthermore, the Company strives to improve its operational efficiency through improved capital efficiency, and new organisational ways of working through simplified company structure, operations and support functions, as well as digitalisation. In addition, the Company strives to improve efficiency through continuous cost reduction and product portfolio optimisation.

For example, in 2016, the Company decided to divest its feed processing business at the Koskenkorva plant, to increase the focus and improve the overall efficiency of the plant. The Company has also divested its non-core facilities and other assets as well as, for example, restructured its production and logistics operations in Rajamäki. The Company outsourced its logistics services in Norway in 2012 and in Denmark and Latvia in 2017. Further, the Company has improved its operations, for example, through a new flexible production line in Rajamäki, enabling improved innovation opportunities for the Company's own products and its partners' brands.

***Active brand portfolio management***

To support the abovementioned organic strategic streams, the Company continues its active brand portfolio management and development, which includes potential selective acquisitions and/or divestments in line with the Company's past acquisitions. Examples of these are the acquisition of Chill Out and Blossa wine brand portfolios and a portfolio of Swedish and Danish heritage spirits brands. See "*— History*" for further information. The Company's overall objective is to sustainably and continuously increase profits through a combination of organic growth and selective corporate acquisitions as well as through operational efficiency and performance measures.

**Financial Targets**

The Company's Board of Directors has adopted the following financial targets in connection with the Listing. These financial targets constitute forward-looking statements that are not guarantees of future financial performance. The Company's actual results of operations could differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including but not limited to those described under "*Certain Matters — Forward-Looking Statements*", "*Risk Factors*" and "*Operating and Financial Review — Key Factors Affecting the Results of*

[132] The net sales growth is based on unaudited management reporting.

*Operations*". Any financial targets discussed herein are targets only and are not, and should not be viewed as forecasts, projections, estimates or views of the Company's future performance.

The long-term financial targets of the Company are:[133]

- Profitable growth:
    - Comparable EBITDA margin target to reach 15 per cent in the long-term.
    - Annual net sales growth of 2 per cent over time (CAGR).
- Dividend policy: A dividend pay-out ratio of 60 per cent or above of the result for the period.
    - The Company aims to pursue an active dividend policy, and result of the period not considered necessary to grow and develop the Company will be distributed to the shareholders.
- Capital structure: The Company's target is to keep reported net debt in relation to comparable EBITDA below 2.5x in the long-term.
    - The capital structure should enable flexibility and allow the Company to capture strategic opportunities while maintaining a solid financial position.

The Company's long-term financial targets are based on a number of assumptions, such as assumptions as to the development of the economy in the Nordic and Baltic countries and the development of the Company's business operations, launches of new products and retaining key partner and customer accounts. These assumptions underlying the Company's financial targets may not prove to be correct and the results of the Company's operations may deviate significantly from the financial targets due to these and other factors described under, among other factors, "*Certain Matters — Forward-Looking Statements*", "*Risk Factors*" and "*Operating and Financial Review — Key Factors Affecting the Results of Operations*"

For information regarding the Company's financial performance in 2015–2017, see "*Selected Consolidated Financial Information*" and "*Operating and Financial Review*".

**History**

***Early history and origins***

The roots of the Company can be traced back to 1888 when a yeast plant was established in Rajamäki, Finland by a group of Finnish engineers. The plant manufactured compressed yeast and in the same process also spirits, ether and vinegar. After Finland's independence in 1917, the Prohibition Act was issued in 1919 and the state of Finland acquired the ownership of the plant. A public utility, named Valtion Alkoholiliike, was established to produce alcohol for medicinal, technical and scientific purposes during the Finnish Prohibition Act 1919–1932. In 1932, when the Prohibition Act was abolished, a state-owned monopoly company Oy Alkoholiliike Ab was established. Oy Alkoholiliike Ab ran a monopoly for producing and trading in alcoholic beverages in Finland either by itself or by granting production and selling licences. In 1968 mild beer and other mild alcoholic beverages were allowed to enter grocery stores.[134]

***Division between retail sales and production business***

During 1969–1995, the Company operated under the name Oy Alko Ab, and held the exclusive monopoly rights for the production and trade of wine and strong spirits in Finland.[135] In 1995, after Finland joined the European Economic Area (EEA), the monopolies relating to foreign trade as well as the production and wholesale monopoly of alcohol were dismantled. Oy Alko Ab was divided into independent subsidiaries and the parent company was named Alko Group Ltd. The group consisted of three subsidiaries; the industry and production focused Primalco Inc, the special store chain Alko Inc. – responsible for the retail stores – and Arctia Inc., responsible for the restaurant business. In 1997 Alko Group Ltd. established an additional subsidiary for the distribution and wholesale of alcohol brands in the Baltic Sea area: Havistra Inc.[136] In 1999, the final division between retail and production business was carried out and the retail store chain Alko

[133] The potential impacts of the IFRS 15 and IFRS 9 standards, adopted on 1 January 2018, and IFRS 16 standard to be adopted on 1 January 2019 are not reflected in the Company's long-term targets. The Company continues to assess the impact of the implementation of the new standards and updates these targets, if needed.
[134] Source: Häikiö, Martti: *Alkon historia*. Alko Plc and Otava Publishing Company Ltd, 2007; Kauppila, Olli: *Rajamäen tehtaat 1888–1988. 100-Vuotiskirja*. Alko Plc, 1988; *Altia's History*, Altia Corporation Annual Report 2007.
[135] Source: Häikiö, Martti: *Alkon historia*. Alko Plc and Otava Publishing Company Ltd, 2007; Kauppila, Olli: *Rajamäen tehtaat 1888–1988. 100-Vuotiskirja*. Alko Plc, 1988;. *Viinapolttimosta monialayritykseksi: Katsaus Alko-Yhtiöiden historian*; Altia Group, 1999.
[136] Source: Häikiö, Martti: *Alkon historia*. Alko Plc and Otava Publishing Company Ltd, 2007; *Viinapolttimosta monialayritykseksi: Katsaus Alko-*

Inc. was transferred under the Ministry of Social Affairs and Health, regaining its retail monopoly status. Meanwhile the new Altia Group, consisting of the two subsidiaries Primalco Oy and Havistra Oy, under the Ministry of Trade and Industry, was established. The origins of Altia Industrial can be traced back to 1983 when a decision was made to start operating the Koskenkorva plant as a multiproduct plant.

***Revised strategy***

In 2000, the Altia Group revised its strategy and sold the premium brand Finlandia Vodka in a phased process to the US based company Brown-Forman Corporation, with a precondition that Brown-Forman would continue to buy the production services of Finlandia Vodka from the Company until 2017, a contract which has later on been extended to 2025. The selling of the Finlandia Vodka brand changed the business focus of the Company – whereas Finlandia Vodka had earlier been at the centre of the Company's strategic objectives, the Company now aimed to become a full alcoholic beverage brand company and a leading operator in the Nordic and Baltic region. In 2002, the remaining subsidiaries of the Altia Group were merged with the parent company and the name was changed to Altia Plc.

***Acquisitions***

Aiming at achieving an established position in the Nordic alcoholic beverage business, the Company acquired the Scandinavian Beverage Group in 2004, which was a Nordic group consisting of subsidiaries selling and importing alcoholic beverages. The acquisition made the Company a significant alcoholic beverage operator in the Nordic region, and almost doubled its net sales and 1.5-folded the Company's logistics operations in the region. The Company had been active in Estonia for some time already and it strengthened its position in the Baltic market furthermore in 2006 by acquiring SIA Mobil Plus ADV, the second largest operator in the Latvian alcoholic beverage industry.[137]

The Company acquired the leading Swedish cognac brand, Grönstedts, in 2009. In 2010, the Company acquired a portfolio of wine brands including Chill Out and Blossa, and a portfolio of Swedish and Danish heritage spirits including O.P. Anderson, 1-Enkelt, Skåne Akvavit and Explorer Vodka together with a production premises in Svendborg (Denmark) and logistic centres in Odense (Denmark) and in Stockholm (Sweden), previously owned by Vin & Sprit. The acquisition expanded the Company's business operations significantly and strengthened its position in Sweden and Denmark. At the end of 2010, the Company acquired the Renault cognac brand. In 2012 the Company made new brand acquisitions in the form of Xanté cognac liqueur and a Latvian vodka portfolio including Arsenitch, the Company's first vodka with Russian origins. In 2013 the Company acquired Larsen S.A.S in France, including the Larsen cognac trademark together with cognac inventories, aging cellars and production facilities.

***Divestments and restructurings***

Since 2013, the Company has taken strategic actions to improve its profitability by strengthening its own brands and reducing the number of brands and partners while, at the same time, focusing more on core brands and partners. The Company has also improved its presence in relevant channels as well as focused on improving operational efficiency by simplifying the Company structure and operations and improving capital efficiency. The Company has achieved cost reductions in production and logistics, and for example in 2013, Altia decided to relocate its wine and glögg production and packaging from Svendborg, Denmark, to Rajamäki, Finland. The production site in Latvia was closed in 2014 and production moved to Tabasalu, Estonia. Altia's whole outsourced cognac production including liquid purchase, maturation stock, liquid handling and bottling was rearranged in 2014–2015 under Larsen S.A.S. The Company has gradually since 2015 divested its plant and logistics centre in Svendborg, Denmark and the operations were closed down and the real property was divested in 2017. In 2016, the Company divested its feed processing business at Koskenkorva, to increase the focus and improve the overall efficiency of the Koskenkorva plant. In 2017, the Company decided to outsource its warehousing operations in Latvia and Denmark.

**The Company's Business Operations**

***General***

The Company's business model is based on offering a strong portfolio of the Company's own brands and a versatile range of international partner brands. In addition, the Company provides customers with contract services which utilize the Company's production, packaging and logistics capacity. In addition to the production, export and import of alcoholic beverages, the Company's business operations include industrial products, such as grain spirit for the beverage industry, technical ethanol, starch and feed components.

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*Yhtiöiden historian*; Altia Group, 1999.

[137] Source: *Altia's History*, Altia Corporation Annual Report 2007.

**Graph 21**


In its own brands, the Company is actively leveraging its shared operations, including sourcing, support functions, logistics, product development, innovation and know-how. The operations of Altia Industrial enable flexible and agile production and the use of efficient bottling and packaging facilities for nearly all Altia brands. With respect to the Company's own and partner brands, the benefits of the Company's business model are demonstrated when the Company is able to take advantage of its long experience and extensive knowledge of local consumer preferences and behaviour in developing, branding, packaging and marketing of new products to support business that benefits both the Company and its partners. With respect to partner brands and industrial services, the benefits are demonstrated, for example, when the Company is able to combine importing brand products and bulk wines from the same partners. This results in scale advantages and enables the Company to utilise its product development and know-how as well as packaging and logistics capacity more efficiently by packing bulk wines, in addition to glass bottles, in bag-in-box containers and PET bottles at the Rajamäki plant. In addition, providing more extensive services to partners as well as mere distribution strengthens the cooperation relationship. Having own brand operations and production plants, the Company is able to differentiate itself from companies that only operate as distributors, and thereby provide more services to its partners.

The Company has three reporting segments:

- Finland & Exports;
- Scandinavia; and
- Altia Industrial.

The Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Within the Scandinavia segment the Company operates in Sweden, Norway and Denmark. The Altia Industrial segment comprises the Company's production of ethanol, starch and feed component, logistics, procurement and manufacturing operations, as well as contract services. Together with the Finland & Exports and Scandinavia segments, i.e., the consumer segments, Altia Industrial improves the efficiency of the use of raw materials and production and logistics capacity.

The following table presents net sales of the Company by business segment for the years ended 31 December 2017, 2016 and 2015.

| **In EUR million** | **1 January to 31 December** | | |
|---|---|---|---|
| | **2017 (audited)** | **2016 (audited)** | **2015 (unaudited, unless otherwise indicated)** |
| Finland & Exports | 133.9 | 133.9 | 137.0 |
| Scandinavia | 123.7 | 127.4 | 133.2 |
| Altia Industrial | 101.3 | 95.2 | 110.6 |
| **Total** | **359.0** | **356.6** | **380.7**[1)] |

[1)] Audited.

The following table presents the Company's net sales by product category[1)] based on unaudited internal sales reporting for the years ended 31 December 2017, 2016 and 2015.

| In EUR million | 1 January to 31 December 2017 (unaudited, unless otherwise indicated) | 2016 (unaudited, unless otherwise indicated) | 2015 (unaudited, unless otherwise indicated) |
|---|---|---|---|
| Spirits | 125.9 | 129.0 | 129.8 |
| Wine | 124.7 | 125.1 | 132.9 |
| Other beverages [2)] | 8.4 | 8.3 | 7.1 |
| Industrial products and services | 101.3 | 95.2 | 110.6 |
| Other | -1.3 | -1.1 | 0.4 |
| **Total[3)]** | **359.0** | **356.6** | **380.7** |

[1)] The breakdown of net sales by product category is based on unaudited internal sales reporting. In 2017, the net sales in the internal sales reporting differed from the reported net sales in the financial statements by EUR 1.3 million, in 2016 EUR 1.1 million and in 2015 EUR 0.4 million. The differences were mainly due to the different treatment of exchange rate differences between the internal reporting and the financial statements, and they have been presented on the line "Other".
[2)] Includes soft drinks and water.
[3)] Audited.

The Company's net sales are balanced in terms of business segments and product sales as well as in terms of the Company's own and partner brands. The consumer product net sales[138] are almost equally divided between the Finland & Exports and the Scandinavia segments. The consumer product net sales are almost equally divided between wines and spirits and are also geographically balanced.

### *Product and Service Offering*

The Company's Nordic core brands include Koskenkorva, Chill Out, Blossa, Larsen, O.P. Anderson, Renault, Xanté and Valhalla. These brands are important for the Company both locally and internationally, and constitute approximately 52 per cent of Altia brands' net sales in 2017. The Company's local heritage brands are of local importance and include Leijona and Jaloviina in Finland, Explorer and Grönstedts in Sweden, Brøndums and 1-Enkelt in Denmark and Saaremaa vodka in Estonia. They constitute approximately 17 per cent of the Altia brands' net sales in 2017.

According to the Company it has presence in all relevant categories. Koskenkorva is one of the leading vodka brands in the Nordics and also has export potential as indicated by the recent distribution agreements signed by the Company for Koskenkorva Vodka. The brand has also won international awards (such as gold in International Spirits Challenge 2016 and gold in Vodka Masters 2017 in the ultra-premium, Scandinavian and flavoured category). Explorer in Sweden is a local heritage brand, in respect of which the Company has recently commenced to meet the recent consumer trends by launching Explorer Vodka in a PET bottle and Explorer Ekologisk Gin. In cognac, the Company's strongest brands are Larsen and Renault. Grönstedts and Monopol are well-known local brands in Sweden and Finland, respectively. Apart from vodka and cognac, the Company has significant presence in aquavit/schnapps as the Company is the largest producer of Swedish aquavit in the Nordics.[139] The Company's key brands in the category include O.P. Anderson and Skåne Akvavit in Sweden and Brøndums in Denmark. O.P. Anderson is the most sold brand in the aquavit and schnapps category in Sweden[140], which is the third largest aquavit and schnapps market by volume in the Nordics.[141] In addition, O.P. Anderson also possesses export potential as demonstrated by the newly signed distribution agreement to the U.S. In liqueurs, Xanté has recently experienced a line extension with Xanté Sparkling wine introduced under the brand name. Valhalla is the Company's herb liqueur and expands the Company's portfolio into the shot category. Valhalla was awarded a gold medal in the Spirits Business Magazine's Speciality Spirits Masters 2017 competition and silver in the Liqueur Masters 2017 competition. Other brands include, among others, Lord Calvert (whisky), Latitude 55 (whisky) and Saaremaa (vodka). The distribution agreements regarding the Company's own brands are typically in force for a few years' initial period and thereafter, in one-year renewal periods or until further notice, unless the agreement is discontinued.

The key Altia wine brands include Blossa which belongs to the market leading glögg brands in the Nordics, and Chill Out which has established market presence especially in Sweden and Finland. In addition, the Company's own brands include products with an established foothold in stable local markets, such as Magyar Feher Bor, St. Elmo, Luna Negra, El Tiempo and Ballet in Finland, as well as Aussie, True Colours and Patchwork in Sweden.

[138] The net sales of the Finland & Exports and Scandinavia segments.
[139] Source: Management Consultant Analysis.
[140] Source: Systembolaget (2017).
[141] Source: Management Consultant Analysis.

The Company has a wide assortment of partner brands from approximately 150 partners. The Company's key partner spirits brands include, for example, Finlandia Vodka, Amarula, Jack Daniels, Fernet Branca, Boulard, Black Velvet and Bunnahabhain. Key wine brands of the Company's partners include, for example, Bollinger, Codorníu, Pasqua, Faustino, Trapiche, Nederburg, Tarapacá, Robert Mondavi, Lindeman's and Penfolds. The Company's twelve largest partners accounted for approximately 63 per cent of the partner brands' net sales in 2017.[142] The partner agreements are typically in force for an initial period of two to three years and thereafter they continue to be in force normally until further notice or in one to three one-year renewal periods at a time, unless the agreement is discontinued.

The Company distils grain spirit from Finnish barley for the basis of many of the Company's own spirit beverages and for Finlandia Vodka. The share of spirits that is not used in the production of alcoholic beverages is processed and made into technical ethanol. In addition, starch and feed components are produced as by-products of the distillation process. Technical ethanol, starch and feed components are sold to the Company's various industrial customers. The Company also offers contract manufacturing services to its customers. Contract manufacturing services agreements are typically in force for a few years, which may be followed by the possibility for a renewal period.

The following table presents the Company's net sales split by Altia brands, partner brands and Altia Industrial[1)] based on internal sales reporting for the years ended 31 December 2017, 2016 and 2015.

| | 1 January to 31 December | | |
|---|---|---|---|
| **In EUR million** | **2017 (unaudited, unless otherwise indicated)** | **2016 (unaudited, unless otherwise indicated)** | **2015 (unaudited, unless otherwise indicated)** |
| Altia brands | 155.2 | 157.0 | 157.9 |
| Partner brands | 103.8 | 105.4 | 111.8 |
| Altia Industrial | 101.3 | 95.2 | 110.6 |
| Other | -1.3 | -1.1 | 0.4 |
| **Total[2)]** | **359.0** | **356.6** | **380.7** |

[1)] The breakdown of net sales is based on unaudited internal sales reporting. In 2017, the net sales in the internal sales reporting differed from the reported net sales in the financial statements by EUR 1.3 million, in 2016 EUR 1.1 million and in 2015 EUR 0.4 million. The differences were mainly due to the different treatment of exchange rate differences between the internal reporting and the financial statements and they have been presented on the line "Other".
[2)] Audited.

Approximately 60 per cent of the Finland & Exports and Scandinavia segments' net sales were from the Altia brands and the rest is from partner brands in 2017.

### *Production*

The Company has six plants, three in Finland, one in Sweden, one in Estonia and one in France. The Company's distillery and starch plant is located in Koskenkorva village, in Southern Ostrobothnia, Finland, and the aquavit distillery in Sundsvall, Sweden. The Company's alcohol beverage plants are located in Rajamäki (Finland) and Tabasalu (Estonia). The Company's technical ethanol plant is also located in Rajamäki. Furthermore, the Company has cognac production, storage and aging cellars in Cognac, France. In addition to the production plants, the Company has its own or third-party operated warehouse operations in all of its operating countries: Finland, Estonia, Latvia, Sweden, Denmark, Norway and France. See also "*— Property, Plant and Equipment*" for further information.

*Koskenkorva plant*

Altia's Koskenkorva plant is located in the village of Koskenkorva in Ilmajoki in Southern Ostrobothnia. The plant consists of a distillery and starch plants that are integrated via an automated production control system. The whole integrated plant is largely automatized. In addition to grain spirit and technical ethanol, the plant produces several by-products, such as starch and raw materials for animal feed. The Koskenkorva plant is certified to produce organic grain spirits for alcoholic beverages.

The Koskenkorva plant is a modern production plant where the raw materials are used efficiently utilising advanced production technology and processes. Production takes place in a continuous 24/7 process 350 days a year. The plant had 36 employees at the end of 2017.

The plant consumes more than 200 million kilos of Finnish barley per year, which represents approximately 15 per cent of the total barley harvest in Finland and more than 30 per cent of the barley sold in Finland. The Company consumed

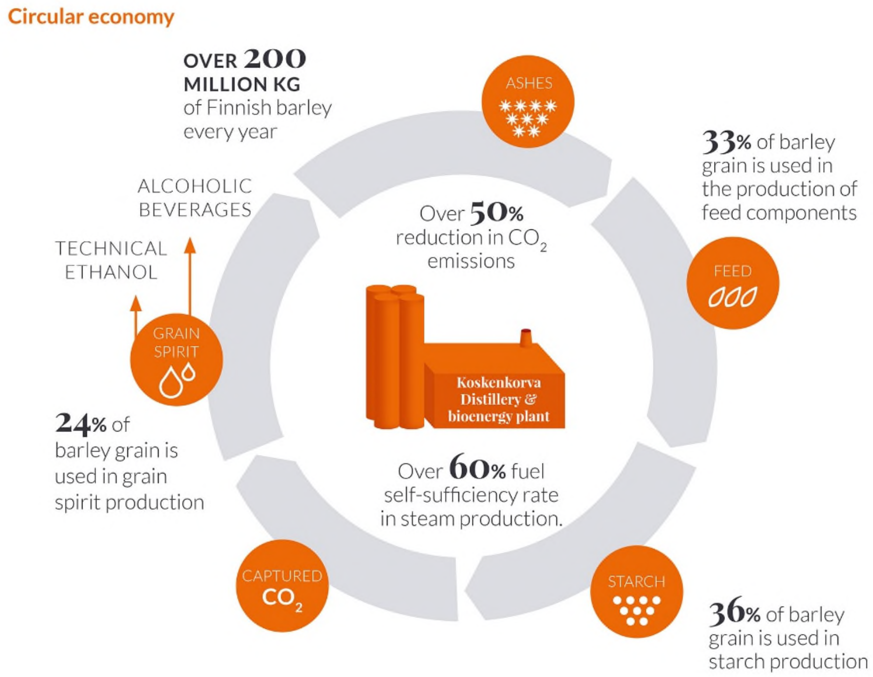
[142] The breakdown of the net sales is based on unaudited management reporting.

206 million kilos of Finnish barley in 2017. The barley was used to produce approximately 22.9 million kilos of grain spirit in 2017, 64.5 million kilos of starch and 59.8 million kilos of raw material for animal feed in 2017. Grain spirit made from Finnish barley is the raw material for Altia's alcoholic beverages and for Finlandia Vodka. The Company is the only producer of Finlandia Vodka in the world. The Company also provides grain spirits to beverage customers.

The Company has recently increased the Koskenkorva plant's annual starch capacity. According to the Company, the Koskenkorva plant is the largest starch plant in the Nordic countries and the only producer of barley starch in the world. Barley starch is used as a binding agent in the paper and paperboard industries, as a fermentation and freshness agent in beer production, and in other food industry applications. In the integrated starch-ethanol process, large starch molecules are used in barley starch manufacturing while small starch molecules are distilled as ethanol. The Company has been able to increase its starch production without increasing the proportional output of ethanol, which is important to maintain cost-efficient capacity utilisation at the plant.

In addition to production, the Koskenkorva plant carries out research and development work to find additional, new product applications to increase the overall added value of the plant, for example with respect to barley protein. The Koskenkorva plant is also involved in development work to replace oil-based binding agents in the paper and paperboard industries with a renewable raw material.

The Company's Koskenkorva plant is based on the bio and circular economy, making use of one-hundred per cent of the grain it uses as a raw ingredient. The carbon dioxide generated in the distillation process is captured and used for example in greenhouse cultivation. The grain husk that would otherwise not be used in the plant's production is incinerated in the plant's own bioenergy power plant, which supplies steam to the Koskenkorva plant. The Company's self-sufficiency in fuels for steam production is 65 per cent. With the establishment of the bioenergy power plant, the Koskenkorva plant has managed to more than halve its carbon emissions. The Company has a permit for the use of ash from the bioenergy power plant as fertilizer.




*Aquavit distillery in Sundsvall*

The Company established a new distillery in 2017 in Sundsvall, Sweden, after which all of the Company's Swedish aquavit distillate production is concentrated in the O.P. Anderson Distillery. The distillery operates in collaboration with the pharmaceutical company Unimedic. It combines all the main stages of the aquavit concentrate production in one location: spice distillation, spice extraction, blending of ingredients and barrel maturation of the aquavits. The core of the aquavit production process is the distillation. The Company distils aquavit batches by using copper pots, which are central to the original method for making aquavit distillate. After liquid aging that takes place in barrels, the aquavit concentrates are delivered to the Company's Rajamäki plant, where grain spirit produced in Koskenkorva and water are added. After mild filtration, the finished aquavit is bottled.

*Alcoholic beverage plant in Rajamäki*

The Company produces wines and spirits at its alcoholic beverage plant in Rajamäki. At the end of year 2017, the Rajamäki plant produced approximately 744 stock keeping units. With the exception of cognac, brandy and some speciality products (Cognac and Tabasalu products), the Company's own products are bottled at the Rajamäki plant. The flexible technology at the Rajamäki plant facilitates various packaging methods: the plant has six packaging lines for bottles and two for bag-in-box containers. The Rajamäki alcoholic beverage plant had in total 212 employees at the end of 2017. The production can work up to three shifts. In 2017, the Rajamäki plant produced approximately 63.4 million litres of beverages. According to the Company, the plant is the second largest alcoholic beverage plant in the Nordics by production volume.

In addition to the grain spirit from the Koskenkorva plant, the Company's spirits products are based on clean spring water, which is used as an ingredient as such without any chemical purification or filtration. The spring water in Rajamäki has been used for the production of beverages since 1888, when operations began in the Rajamäki plant area. The Company preserves the quality of the spring water in its nearby areas by owning all the wells and land as well as by restricting construction in the area. The Company has also established conservation areas. Comprehensive quality monitoring applies to production and processing of all beverages at the Rajamäki plant.

The Company's quality assurance system includes a broad range of samples, checks and laboratory measurements at different stages of production. The Rajamäki plant has been qualified in accordance with several international standards, including ISO 9001 (Quality management system), ISO 14001 (Environmental management system), OHSAS 18001 (Occupational health and safety management system) and ISO 22000 (Food safety management). In addition, the Company has a Fairtrade Certificate that covers the Rajamäki plant as well as a certificate for the production of organically produced alcoholic beverages.

The Company's wine production process starts from sourcing the correct bulk wine from the local wineries around the globe. Bulk wine arrives at Rajamäki in containers. The Company processes the wines in different phases preserving the original characteristics of each type of wine. Of the annual products processed at the Rajamäki plant, approximately 68 per cent are packaged in glass bottles, 17 per cent in PET bottles made of recycled plastic and 15 per cent in bag-in-box containers.

Customer Service and Logistics is one of the core areas of the Company's business operations. The Company uses third party warehouse operations in certain markets (Denmark, Latvia, Norway and France) and it has several of its own logistics centres (Estonia, Sweden and Finland), and it also sells warehousing services to the Company's customers. By combining warehousing and transportation of its own products with those of its customers, the Company has achieved benefits of scale in logistics. The Company's total logistics volume was approximately 123 million litres in 2017. The Rajamäki plant's distribution centre handles logistics for the Company across Finland, along with global warehouse and delivery services for Finlandia Vodka. The main delivery channels in Finland are Alko, HoReCa customers, contract manufacturing clients and Altia's other logistics centres.

*Technical ethanol plant in Rajamäki*

The technical ethanol plant processes technical ethanol mainly from the Koskenkorva plant, solvents and their mixtures for a broad range of industrial needs. The Company's Naturet ethanol-based geothermal fluids are produced at the Rajamäki technical ethanol plant. The Company has a wide selection of ethanol-based products that are available as tanker-lorry deliveries or as pre-packaged deliveries. The plant is suited for storing and processing combustible fluids.

*Alcoholic beverage plant in Tabasalu*

The Company's Tabasalu plant is located approximately 15 kilometres from Tallinn, the capital of Estonia. The Tabasalu plant has two bottling lines. The plant bottles beverages for the Baltic markets and for private label customers. The plant had 34 employees at the end of 2017. The distribution of the Company's products in Estonia and shipping of the goods to the Company's other markets is handled in the Tabasalu plant. The Tabasalu plant has an ISO 9001 (quality management system) certificate.

*Cognac production and aging cellars in Cognac*

The Company owns Larsen S.A.S in Cognac, France, which operates the production of all of the Company's cognac brands including liquid sourcing, maturation, storage, blending and bottling of the finished products. Cognac can be produced only from the wine grapes grown in the Cognac AOC region according to the *appellation d'origine controlee (AOC)* regulation governed by French law. Wine grapes are produced at six tightly defined cognac-producing regions (*crus*), and the wine produced from these regions is distilled to *eau-de-vie*. The Company sources different *crus* of distilled *eau-de-vie* liquids through contracts with wine growers, distilleries and traders.

The Company's cognac stock includes three types of liquids. The major part of the inventory consists of maturation and ageing inventory, containing liquid in oak casks with different *crus* and ages. The blending inventory for the finished products consists of *eau-de-vies* of different ages and *crus*, which are blended, and the liquid produced is gradually diluted to 40 per cent ABV. The finished goods inventory consists of bottled cognac products for different brands and different grades. VS (Very Special) designates a blend in which the youngest *eau-de-vie* of cognac has been aged for at least two years in barrels. V.S.O.P. (Very Superior Old Pale) or Reserve designate a blend in which the youngest *eau-de-vie* of cognac is aged for at least four years in barrels. XO (Extra Old) or Napoléon currently designate a blend in which the youngest *eau-de-vie* of cognac is aged for at least six years. The minimum maturation age of the youngest *eau-de-vie* for cognac used in an XO blend will be increased to ten years in April 2018. The Napoléon designation will remain with a minimum age of six years. Hors d'âge (Beyond Age) is a designation, which BNIC states is equal to XO, but in practice the term is used by producers to market a high-quality product beyond the official age scale. With its existing aging stock, the Company can operate in all quality grades.

The Company has systematically developed its cognac production after the acquisition of Larsen S.A.S. After the take-over of Larsen S.A.S., the Company started to insource all its existing cognac operations to Larsen S.A.S related to the production of Renault, Grönstedts and Monopol cognacs. The distribution of Larsen S.A.S. products was merged with the Company's existing distribution setup. By the end of 2013, the Company had consolidated its local liquid warehouses and ensured the continuation of *eau-de-vie* liquid supply with new contracts with local distillers and wine farmers. This enabled better utilization of local liquid warehouse facilities made available by the acquisition. The blending process was consolidated in 2014, which enabled the in-house liquid production for all cognacs. Bottling and local distribution was consolidated in the beginning of 2016, after which all operations started to be controlled by the local team. The Company continues to operate with external partners for certain warehousing and bottling services.

*Whiskey production in Ireland*

The Company has agreed on production cooperation for Irish whiskey with the Irish Walsh Whiskey Distillery. The cooperation agreement covers the production, aging and warehousing of artisan Irish whiskey. The production takes place at the Royal Oak distillery of Walsh Whiskey Distillery in Ireland.

***Sourcing***

The Company's sourcing is organised by different specialised sourcing category teams, which enables both economies of scale benefits and flexible and fast execution for product innovation. The Company's sourcing categories include sourcing of packaging materials and raw materials for production as well as indirect sourcing, wine bulk sourcing, and barley sourcing. The largest categories in volume are the sourcing of finished goods and indirect sourcing. The Company sources bulk wine, *eau-de-vie* for cognac blends, whiskey, barley, herbs and spices, enzymes and other raw materials as well as glass and PET bottles, labels, capsules, bag-in-box containers, shippers and other packaging materials from suppliers.

The Company is a significant purchaser of domestic barley in Finland. In 2017, the Company used 206 million kilograms of barley at its Koskenkorva plant, from approximately 1,500 farmers, directly or through grain handling companies. The Company's barley consumption has increased in recent years, mainly due to the increasing demand for barley starch for the paper and paperboard industries. Even though the Company has taken certain measures to ensure the availability of Finnish barley through contract cultivation and cooperation with grain producers and grain handling companies, the Company may also need to use other grains than barley in case of insufficient harvest or other crop failures.

At the Rajamäki plant, the Company uses spring water in the production of its spirit beverages. The spring water in Rajamäki is of high quality and fulfils the quality requirements without any chemical or mechanical processing. The quality of the water is examined regularly from samples both by an external laboratory and internally by the Company. The Company preserves the water abstraction areas by owning wells and the surrounding land as well as by limiting construction in the area. The Company has also established environmental protection areas in the region.

The Company has a wine sourcing team that operates around the world in wine regions looking for suitable wines, which are then shipped in bulk to the Company's alcohol beverage plant in Finland. The Company utilises its partners' supplier base also for the supply of bulk wines for its own brands. The Company imports approximately 17 million litres of wine annually. The Company has joined Business Social Compliance Initiative (BSCI), a business-driven initiative to improve working conditions in supply chains worldwide. See "— *Corporate responsibility*" for further information.

The production of cognacs is handled locally in France according to the traditions of cognac production. For its cognac production the Company purchases *eau-de-vie* liquid, which has been distilled from wine sourced from the local vineyards. Barrels for aging are sourced locally in France.

Spices such as caraway, anise and fennel are sourced for example in Sweden and used, for example, in aquavits and glöggs. The Company also uses organic spices for the Swedish aquavit distillation process.

With respect to indirect sourcing, the Company mainly sources transportation services, outsourced warehousing services in Norway, Denmark and Latvia as well as marketing, media and design services. In terms of capital goods, the Company sources equipment, construction and fixed assets.

***Product Innovation***

The Company's systematic product development system has enabled several successful product launches. Annually, the Company has approximately 100 of its own innovation initiatives. The launch of products proceeds from idea generation and concept creation to product development, production and finally to product launch. The process takes up to four months at the fastest for smaller projects, such as label changes, and from twelve to eighteen months for larger projects requiring, for example, production changes or new machinery or contracts. The Company's operating result included research and development expenditures of EUR 3.4 million in 2017, EUR 3.6 million in 2016 and EUR 3.4 million in 2015. See "*Risk Factors — New products and line extensions are an important part of the Company's growth strategy, and success of the launch of new products and line extensions as well as the success of existing products is uncertain*."

The innovation streams in which the Company operates can be divided into five categories. First, the Company aims to introduce new brands and products to the market by creating completely new products or by stretching the existing brands. With new products and brands the Company aims to attract new consumers and create new occasions. One of the key focus areas in this line is on low- and non-alcoholic products such as non-alcoholic wines. Second, the Company seeks to extend lines within existing products and brands. The Company is currently focusing on utilising the opportunities created by the renewed Alcohol Act and more specifically the liberated retail channel for ethanol based RTDs. Third, following the current market trend, the Company aims to develop premium products to capture the growth potential created by the premiumisation trend. Fourth, the Company aims to renovate its existing portfolio and provide customers with new designs and packaging. With the new design, the Company aims to attract consumers by providing them with new value adding elements to the brand such as environmental aspects using PET bottles made of recycled plastic. Fifth, the Company is focusing on innovative marketing and new business models. By providing consumers with innovative e-commerce platforms as well as easier and more convenient click and collect online purchase opportunities the Company aims to widen its market access and improve its ability to reach wider consumer groups.

The Company's innovation strategy covers three different levels:

- Product extensions that respond to consumers' current needs and utilise existing production capacity and know-how;
- Strategic innovations that make a shift to new product categories or pursue new consumers and introduce new ways of working; and
- Game-changing innovations that create new consumer needs and product categories and which require new ways of working.

The Company's future target is that approximately 60 per cent of product launches will be product extensions, 35 per cent strategic innovations and 5 per cent game-changing innovations.

Examples of the Company's recent innovations are set out below:

- The True Colours Cava sparkling wine was launched in February 2017. True Colours was a new product launch, which combined premiumisation with distinctive packaging by linking a high quality premium product to social responsibility, and the opportunity as a consumer to take a stand for the rights of the LGBT community and values promoted by the brand. The success of the cooperation has been demonstrated by favourable sales growth and the wine producer partner licensing the brand for further distribution of the product.

- Koskenkorva Vodka was rebranded in May 2016 with a vision to create an attractive product especially for export markets. As a part of the rebranding process a new bottle and design were introduced to illustrate Koskenkorva's origins and heritage as well as craftsmanship. The new Koskenkorva Vodka products include three flavours: Blueberry Juniper, Lemon Lime Yarrow and Sauna Barrel – vodka aged for six months in charred oak barrels. The rebranding also included new RTD products with flavours Village Tea and Blueberry Tonic.

- Jaloviina is a spirit made of cognac, neutral grain spirit and water. The core Jaloviina product family consists of the traditional Jaloviina variants originating from 1932, which has later been extended. In recent years, the Company has extended the product family by launching the new line extensions Jaloviina Myrsky, Kaski, and Tammi. Jaloviina Kaski was launched in September 2015 and Jaloviina Myrsky in February 2017, whereas Jaloviina Tammi was launched to celebrate the centenary year of Finland's independence. The new line extensions have increased the overall sales of the Jaloviina product family. Furthermore, in 2017 the Company launched Jaloviina Long Drink RTD which creates possibilities to address the retail potential created by the renewed Alcohol Act.

- Every winter since 2003, Blossa has launched a new vintage flavour, and every year the label has been given a unique design. The Blossa 2017 vintage flavour was inspired by India and included tropical spices to complement the traditional glögg spices. The Company is seeking to expand traditional season for the consumption of the Blossa products by introducing new product variants and non-alcoholic products.

- O.P. Anderson Klar was launched in March 2013 and includes classic O.P. Anderson spices combined with fresh notes. O.P. Anderson Petronella was launched in June 2016 and it is targeted especially for female consumers. O.P. Anderson Klar was awarded a silver medal in the International Spirits Challenge 2017.

- Nordic Spirits Lab Gin was launched in November 2016. It is a distilled hybrid gin with aquavit botanicals.

- The Xanté aromatised sparkling wine, Xanté Sparkling, was launched in 2017 as a new line extension to the Xanté liqueur.

- To respond to packaging trends relating to environmental attributes and recyclability, the Company has launched PET bottles, which are bottles made of recycled polyethylene terephthalate, and which reduce the amount of waste. An example of a launch of a product in a PET bottle is Explorer Vodka which was launched in a re-designed bottle in 2016. In addition, the Company continuously aims to develop bag-in-box packaging alternatives to meet customer preferences especially in Finland and Sweden.

***Sales and Marketing***

The marketing of alcoholic beverages is highly regulated in Finland, Sweden and Norway. In addition to the legal requirements, the Company is voluntarily committed to promoting responsible consumption and marketing alcoholic beverages in a responsible manner in accordance with the guidelines by spiritsEUROPE, the European spirits industry body. Experience in permitted ways to promote products, local presence as well as being on top of local trends are key success factors. For marketing its products, the Company utilises several channels within the legal framework for doing so, such as product design, packaging and taste; social media; advertisements and promotions at duty-free retailers and HoReCa; consumer fairs; and press coverage in editorial content.

The Company reaches consumers online through different channels and offers an opportunity to follow current trends. The Finnish website Viinimaa serves consumers by offering information on the storage of alcoholic beverages and wine areas. It also introduces consumers to the Company's wines and spirits and provides wine recommendations for different occasions. The site includes direct links to Alko's web store. Viinimaa had 37,500 site visits per month on average in 2017. Folk o folk is a website for Swedish consumers to familiarize themselves with the Company's products. The site allows customers to search for products, learn about them and it also offers information about seasonal trends. The site also includes direct links to Systembolaget's web store. Folk o folk had approximately 81,000 site visits per month on average in 2017. Nordic Spirits lab is a pan-Nordic community promoting collaborative experimentation, bringing together experts and innovators to innovate new drinks, concepts and services, and create insight of future consumer trends.

With respect to partner brands, the Company offers brand development services, regular market research, and product communications, and is able to create client-specific products including distilling, bottling, logistics and customer service. See also "*Regulation Related to Alcoholic Beverages —Marketing*" for further information.

*Pricing*

The Company aims to be present across all the most relevant price points with the correct consumer prices in markets to capture any shifts in consumer trends and preferences.

The pricing of Nordic state-owned retail monopolies consists of four parts: the supplier price, the gross margin of the monopoly, the alcohol tax and the value added tax. The retail monopolies' pricing is usually more transparent and predictable compared to the other retail sales markets. Suppliers are informed in advance of the pricing rules for each product category. The pricing is principally based on predetermined gross margins which allow a supplier to calculate how the resulting consumer prices are set to the desired price category. See "*Market and Industry Overview — Operating environment — The Nordic state retail monopoly markets – Finland Sweden and Norway — State retail monopoly assortments and route to market*" for further information on retail monopolies' pricing methods.

In the retail monopolies there are two to three periods annually for to which the producers can revise their prices. However, in Alko, products in fixed and available-for-order assortments have a price lock-up of four months after they have been added to the assortment for the first time (eight months after 5 June 2018). In Sweden, the corresponding period is nine months and in Norway it is six months. The Company reassesses the prices of its products continuously and evaluates detailed data received from the monopolies on the volumes and sales, based on which the Company can assess the optimal pricing strategy in each product segment. The Company's scale, local presence, strong brands, long experience and extensive knowledge of consumer behaviour with respect to changes in pricing in different price categories facilitate the pricing of the Company's products so that their competitiveness can be maintained.

**Business segments**

The Group comprises three business segments: Finland & Exports, Scandinavia and Altia Industrial. The Finland & Exports and Scandinavia segments conduct the import, sale and marketing of wine, spirits and other beverage product categories. The Altia Industrial segment contains the Company's production of ethanol, starch, feed, logistics, procurement and manufacturing operations as well as contract services.

***Finland & Exports***

*Main products and services*

The Company's Finland & Exports segment operates in Finland, the Baltics and travel retail. The travel retail includes sales in duty-free stores at airports and on cross-border ships, trains and airplanes operating in the Nordics selling alcoholic beverages to passengers. In addition, the Company exports its brands to approximately 30 countries and is actively seeking new markets to expand into. Export operations are mainly conducted through distributors.

The main brands of this segment locally are Koskenkorva, Leijona, Jaloviina, Valhalla, Chill Out, Blossa, Renault, Larsen and Saaremaa. The Company has over 55 per cent market share in the Finnish spirits market including on- and off-trade.[143] Finland and the Baltic countries belong to the vodka region, which is reflected in the Company's brand portfolio as Leijona and Koskenkorva are the most sold brands in Finland. Leijona and Jaloviina are mainly sold in Finland while Saaremaa is an established vodka brand in Estonia.

- *Koskenkorva Viina* is the most sold clear spirit brand in Finland.[144] Koskenkorva was launched in 1953, and the traditional 38 per cent ABV variant was the most sold product at Alko during 1980–2015.

- *Leijona Viina* is the most sold individual spirits beverage in Finland.[145] Leijona Viina was introduced to the Finnish market in 1995.

- *Jaloviina* is a liquor made of cognac, neutral grain spirit and water. The original Jaloviina originates from 1932, but the product family has later been extended, most recently to also include the more premium line extensions, Jaloviina Myrsky, Kaski, and Tammi, as well as new Jaloviina Long Drink RTDs, which create possibilities to address the retail potential created by the renewed Alcohol Act.

The Company is the market leading wine producer and importer in Finland and the Company holds approximately a 20 per cent market share.[146] Glögg forms a significant share of the wine market in Finland and Blossa has a strong foothold in the market. The Company has also introduced its own Chill Out wine selection, which is among the best-selling wine brands at Alko.[147]

Travel retail is an important sales channel especially in the Nordic countries mainly due to differing alcohol tax rates between countries, and the Company has strong presence in travel retail. For example, Finnish consumers commonly travel to Estonia, and increasingly also to Latvia, and Swedish consumers travel to Denmark and Germany, to purchase less expensive wines and spirits. The most popular products in travel retail are spirit brands, in which category the Company is one of the leading producers.[148] Travel retail provides the Company with an established channel to communicate its brands. Travel retail constitutes the major part of the Company's target market for travel retail and exports.

Furthermore, Koskenkorva Vodka, O.P. Anderson and Larsen possess significant export potential. The Company has taken several measures to address the export market potential including, among other things, the rebranding of

[143] Source: Management Consultant Analysis.
[144] Source: Alko 2017.
[145] Source: Alko 2017.
[146] Source: Management Consultant Analysis.
[147] Source: Alko 2017.
[148] Source: IWSR (2016).

Koskenkorva Vodka. The Company's largest export countries in 2017 in terms of net sales were Russia, China, the United States, Armenia, Spain, Iceland, Germany and Canada.

*Key financials*

The following presents the key performance indicators of the Finland & Exports segment for the years ended 31 December in 2017, 2016 and 2015.

| **In EUR million, except for percentages** | **1 January to 31 December** | | |
|---|---|---|---|
| | **2017 (audited, unless otherwise indicated)** | **2016 (audited, unless otherwise indicated)** | **2015 (unaudited)** |
| Net sales | 133.9 | 133.9 | 137.0 |
| Comparable EBITDA | 19.6 | 20.2 | 20.3 |
| Comparable EBITDA, % | 14.6 %[1)] | 15.0 %[1)] | 14.9 % |

[1)] Unaudited.

The following table presents the Finland & Exports segment's net sales split between spirits, wine and other beverages categories[1)] based on internal sales reporting for the years ended 31 December 2017, 2016 and 2015.

| **In EUR million** | **1 January to 31 December** | | |
|---|---|---|---|
| | **2017 (unaudited, unless otherwise indicated)** | **2016 (unaudited, unless otherwise indicated)** | **2015 (unaudited)** |
| Spirits | 76.1 | 76.9 | 78.0 |
| Wine | 56.3 | 55.8 | 58.1 |
| Other beverages | 1.3 | 1.2 | 1.0 |
| Other | 0.2 | 0.0 | -0.1 |
| **Finland & Exports total** | **133.9[2)]** | **133.9[2)]** | **137.0** |

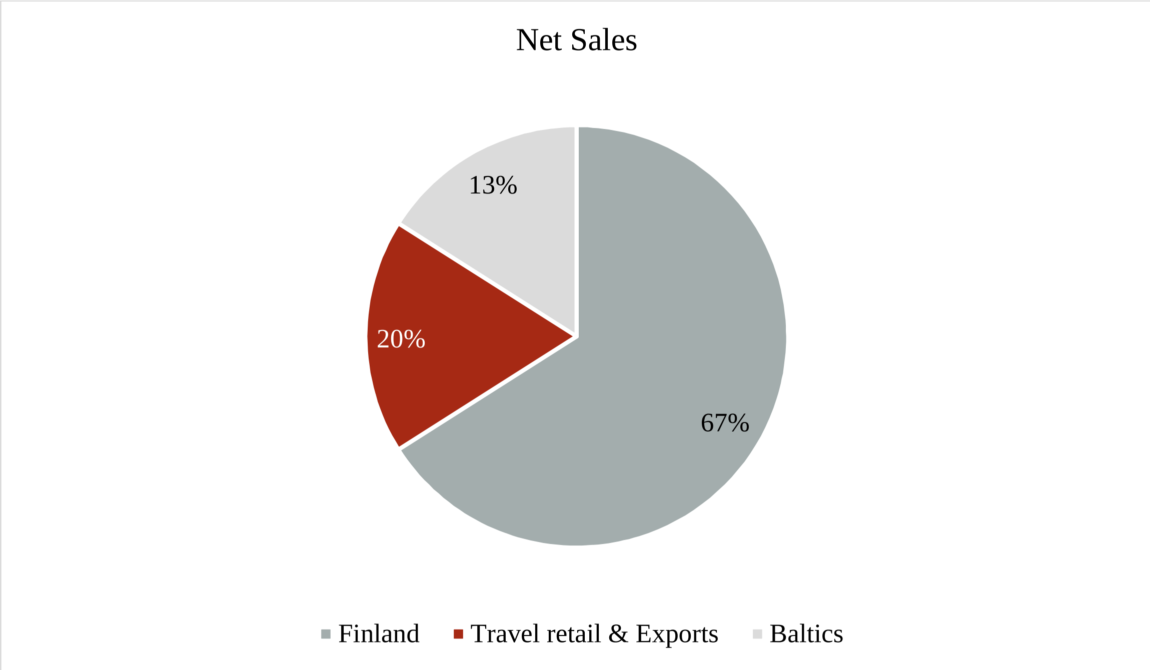
[1)] The breakdown of net sales by product category is based on unaudited internal sales reporting. In 2017, the net sales in the internal sales reporting differed from the reported net sales in the financial statements by EUR 0.2 million, in 2016 EUR 0.0 million and in 2015 by EUR 0.1 million. The differences were mainly due to the different treatment of exchange rate differences between the internal reporting and the financial statements and they have been presented on the line "Other".
[2)] Audited.

The following table presents the Finland & Exports segment's net sales mix[1)] based on internal sales reporting for the years ended 31 December 2017, 2016 and 2015.

| **In EUR million** | **1 January to 31 December** | | |
|---|---|---|---|
| | **2017 (unaudited, unless otherwise indicated)** | **2016 (unaudited, unless otherwise indicated)** | **2015 (unaudited)** |
| Altia brands | 86.0 | 85.9 | 86.2 |
| Partner brands | 47.7 | 48.0 | 50.9 |
| Other | 0.2 | 0.0 | -0.1 |
| **Finland & Exports total** | **133.9[2)]** | **133.9[2)]** | **137.0** |

[1)] The breakdown of net sales by brands (Altia brands and partner brands) is based on unaudited internal sales reporting. In 2017, the net sales in the internal sales reporting differed from the reported net sales in the financial statements by EUR 0.2 million, in 2016 EUR 0.0 million and in 2015 by EUR 0.1 million. The differences were mainly due to the different treatment of exchange rate differences between the internal reporting and the financial statements and they have been presented on the line "Other".
[2)] Audited.

The following chart presents the Finland & Exports segment's net sales split by geographic locations for the year ended 31 December 2017.[149]




*Customers*

The sales channels and key customers of the Finland & Exports segment are Alko and retail, wholesale and the HoReCa channel, travel retail and border trade. The Finnish retail monopoly Alko is the largest customer of the Company in the Finnish market. Due to the highly regulated nature of the Finnish market, retail has remained a rather small channel in terms of sales but is still an important channel for low- and non-alcoholic products. Furthermore, the renewed Alcohol Act is expected to increase the relevance of the channel. The largest customers in the Finnish retail channel include the large retail chains Kesko and S Group. The Company's largest wholesale customers include Kespro and Heinon Tukku. The HoReCa channel offers brand visibility and thus plays an important role in brand building. The customer base in HoReCa channel is fragmented as there are a few significant operators but the rest of the business is highly fragmented and includes a large number of small operators such as bars, restaurants, hotels and companies providing catering services.

In the Baltics, the Company's customer base is fragmented. In Estonia, the Company's focus has been in border trade, but it is increasingly aiming to concentrate on domestic retail channels in Estonia. In Latvia, Rimi and Maxima are some of the Company's key customers in the retail sector.

Important customers in the travel retail channel include shipping and airline companies such as Tallink Silja, Viking Line, Finnair and Finavia as well as large travel retailers such as Dufry and Heinemann.

In exports, the Company's key customers are its main distributors, Nesco in Russia, Infinium Spirits and Frederick Wildman and Sons in the United States and AsiaEuro in China.

*Key focus areas and execution of strategy*

The Company focuses on the continuous development of its Nordic core brands. Due to the popularity of spirits among Finnish and Baltic consumers as well as the fact that spirits constitute a relatively large share of travel retail and export sales, the Company's strategic focus has turned towards the spirits category in the segment. Hence, in recent years, the Company has focused on innovative product development in Finland and has launched new products under locally well-established brands. For example, in 2017, the Company launched line extensions Jaloviina Myrsky and Jaloviina Tammi. The Company also has the capability to launch new ethanol-based RTDs to address the significant retail potential created by the renewed Alcohol Act.

In addition to swift product development in the spirit category, the Company also aims to strengthen its position as a wine market leader in Finland to capture the potential of the Finnish wine market and to improve its position at higher price points. The key strategic initiatives include improving access to quality wines through developing and strengthening

[149] The breakdown of net sales is based on unaudited internal sales reporting.

cooperation with wine producers and taking advantage of an experienced wine sourcing team and the Company's integrated operation model. As a recent example of a new wine launch, the Company launched Finland 100 special edition wines in celebration of Finland's centenary of independence.

A part of the Company's growth strategy is the expansion into new markets. The Company's focus in its expansion plans is to identify attractive markets the Company could enter through the distribution network of an established local partner. The Company's strategy is to increase investments in exports in line with increased sales. The Company believes that the Company's strong Nordic core brands and especially Koskenkorva, Larsen and O.P. Anderson, possess potential in new countries within the Company's existing markets as well as export potential, as they are expected to fit well into the current global market trends for spirits. As global spirits trends highlight craftsmanship as well as authenticity, the re-branded Koskenkorva Vodka has raised interest especially in large Western markets which is demonstrated by the recently signed distribution agreement for the U.S. Furthermore, the Company aims to capitalize on the potential of the Asian markets, especially in China, with the help of the Company's cognac portfolio. The Company has steadily built its presence in travel retail, which the Company believes place it in a good position in respect to the potential expansion into new markets. The Company aims to utilise the current trends in spirits by seeking an opportunity to expand its aquavit portfolio into new channels. O.P. Anderson is the oldest aquavit in Sweden and its production respects the old craftsmanship traditions. O.P. Anderson is the flagship aquavit in the Company's portfolio and the new distribution agreement for the U.S. opens an opportunity for the category to expand further outside the Nordics.

To further increase profitability, the Company is actively seeking to maintain an optimal sales mix in Alko by continuously evaluating and developing its product portfolio at the correct price points.

***Scandinavia***

*Main products and services*

The Company's Scandinavia segment operates in Sweden, Norway and Denmark. The main brands of this segment are O.P. Anderson, Explorer, Grönstedts, Blossa, Chill Out, Larsen and Xanté. Explorer and Grönstedts are part of the Company's local heritage brands in Sweden, and Brøndums and 1-Enkelt are part of the Company's local heritage brands in Denmark.

- *Explorer* is the most sold vodka in Sweden.[150] Explorer was launched in 1958. In 2016, the Company launched Explorer with a new design in the environmentally friendly PET bottle. The Company also launched new organic Explorer gin under the brand in March 2017 and it has quickly achieved a considerable market share in the gin category.[151]

- *Grönstedts* is the most sold cognac brand in Sweden.[152] The Grönstedts brand derives from the Swedish wine trader Johan Daniel Grönstedts who started to import and blend cognac under his own name in 1846. The product family consists of several cognac varieties and occasional seasonal products. Recently, the Company has launched a new ready mixed cocktail drink under the brand, Grönstedts Sidecar.

- *Brøndums* is a traditional aquavit from Aalborg in Denmark that derives from 1840. The Brøndums product family was extended with the launch of two new flavoured *Kryddersnapse* beverages with the aim to introduce the beverage for new consumption occasions.

- *1-Enkelt* is an herb liqueur launched in 2001 and it is mainly targeted at the Danish market.

The Company's wine portfolio, led by the flagship product Blossa, provides the Company with a good position in the steadily growing and potential wine market. Since 2003, the Company has launched a new Blossa vintage edition for the Christmas season each year. Furthermore, as the largest wine market in Nordics, the Swedish market acts as a trend setter for other Nordic wine markets, which is why the Company closely follows the recent Swedish consumer trends. In February 2017, the Company launched the new True Colours Cava sparkling wine, which was part of an international project in association with the charity organisation Regnbågsfonden to promote human rights. Furthermore, environmental issues and sustainability have become increasingly important aspects to Scandinavian consumers and the Company has aimed to respond to the trend by increasing its presence in the new organic wine assortments as well as adapting old brands to meet the new trends.

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[150] Source: Systembolaget (2017).
[151] Source: Systembolaget (2017).
[152] Source: Systembolaget (2017).

*Key financials*

The following presents the Scandinavia segment's key performance indicators for the years ended 31 December 2017, 2016 and 2015.

| In EUR million, except for percentages | 1 January to 31 December | | |
|---|---|---|---|
| | 2017 (audited, unless otherwise indicated) | 2016 (audited, unless otherwise indicated) | 2015 (unaudited) |
| Net sales | 123.7 | 127.4 | 133.2 |
| Comparable EBITDA | 11.5 | 10.4 | 11.9 |
| Comparable EBITDA, % | 9.3 %[1] | 8.2 %[1] | 8.9 % |

[1] Unaudited.

The following table presents the Scandinavia segment's net sales[1] split between spirit, wine and other beverages categories based on internal sales reporting for the years ended 31 December 2017, 2016 and 2015.

| In EUR million | 1 January to 31 December | | |
|---|---|---|---|
| | 2017 (unaudited, unless otherwise indicated) | 2016 (unaudited, unless otherwise indicated) | 2015 (unaudited) |
| Spirits | 49.8 | 52.1 | 51.8 |
| Wine | 68.5 | 69.3 | 74.8 |
| Other beverages | 7.0 | 7.2 | 6.1 |
| Other | -1.5 | -1.1 | 0.4 |
| **Scandinavia total** | **123.7[2]** | **127.4[2]** | **133.2** |

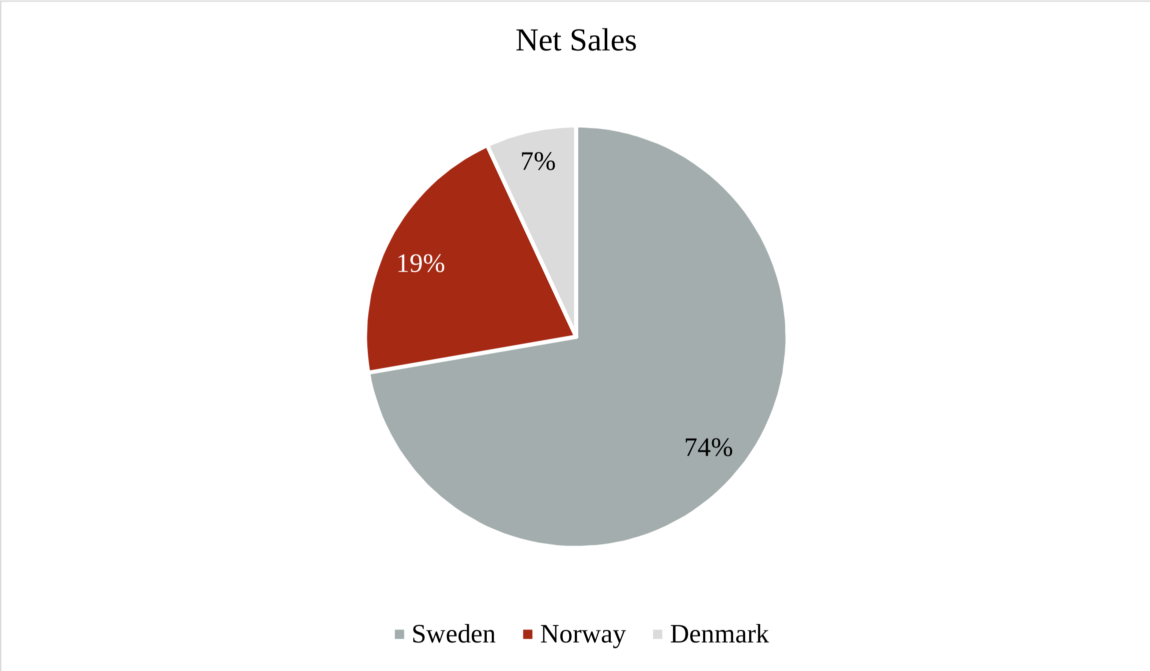
[1] The breakdown of net sales by product category is based on unaudited internal sales reporting. In 2017, the net sales in the internal sales reporting differed from the reported net sales in the financial statements by EUR 1.5 million, in 2016 EUR 1.1 million and in 2015 EUR 0.4 million. The differences were mainly due to the different treatment of exchange rate differences between the internal reporting and the financial statements and they have been presented on the line "Other".
[2] Audited.

The following table presents the Scandinavia segment's net sales[1] mix based on internal sales reporting for the years ended 31 December 2017, 2016 and 2015.

| In EUR million | 1 January to 31 December | | |
|---|---|---|---|
| | 2017 (unaudited, unless otherwise indicated) | 2016 (unaudited, unless otherwise indicated) | 2015 (unaudited) |
| Altia brands | 69.2 | 71.2 | 71.7 |
| Partner brands | 56.0 | 57.4 | 61.0 |
| Other | -1.5 | -1.1 | 0.4 |
| **Scandinavia total** | **123.7[2]** | **127.4[2]** | **133.2** |

[1] The breakdown of net sales by brands (Altia brands and partner brands) is based on unaudited internal sales reporting. In 2017, the net sales in internal sales reporting differed from the reported net sales in the financial statements by EUR 1.5 million, in 2016 EUR 1.1 million and in 2015 EUR 0.4 million. The differences were mainly due to the different treatment of exchange rate differences between the internal reporting and the financial statements and they have been presented on the line "Other".
[2] Audited.

The following chart presents the Scandinavia segment's net sales split for the year ended 31 December 2017.[153]




*Customers*

The sales channels and key customers of the Scandinavia segment are the state retail monopolies, and the retail, wholesale and HoReCa channels. Due to regulatory differences the Company's customer base in the Scandinavia segment differs significantly between countries. The state retail monopolies Systembolaget and Vinmonopolet are the largest customers in Sweden and Norway, respectively, while the Company's customer base in Denmark consists of retailers. Due to the highly regulated nature of the Swedish and Norwegian markets, the retail has remained a rather small channel in terms of alcohol sales but is still an important sales channel for non- and low-alcoholic products. The largest customers in the Swedish and Norwegian retail include large retail chains such as ICA and Coop. The Company's largest wholesale customers include Martin & Servera and Menigo in Sweden and Vinhuset and Asko in Norway. In Denmark the Company's sales are concentrated on retail with customers such as Dagrofa and Dansk Supermarked. The HoReCa channel offers brand visibility and thus plays an important role in brand building. Similarly to the Finland & Exports segment, the customer base in the Swedish and Norwegian HoReCa channel is highly fragmented and includes bars, restaurants, hotels and companies providing catering services.

*Key focus areas and execution of strategy*

The Company's aim is to grow and develop its Nordic core brands and increase their presence on the Scandinavian market. Some of these brands already have an established position in the markets, and O.P. Anderson and Blossa are clear market leaders in their categories in Sweden.[154] The Company seeks to establish its other core brands in the Scandinavian markets by means of new concepts, consumer insights and rebranding. Focusing resources to promote the Nordic core spirits and wine brands in the on-trade channel and digital marketing will be among key vehicles the Company aims to utilise in the expansion.

Due to size and growth of the wine category in Scandinavian markets as well as its relative share of the segment's net sales, the Company is seeking to strengthen its presence within the region's wine market, especially in Sweden, which is the largest of the Scandinavian wine markets. The Company targets to strengthen its strategic partnerships through increasing co-operation throughout the value chain. To this end, the Company intends to leverage its key competences and to provide innovation, product development, distribution, marketing and packaging services to its key partners, develop new cooperation models and extend the scope of distribution to cover several countries simultaneously. In the beginning of 2017, the Company expanded its partnership with Constellation Brands by expanding collaboration on the Charles Smith wine brand to Sweden and Norway. In 2017, the Company also expanded its partnership with Grupo Peñaflor in Sweden, Norway and Estonia. To respond better to consumer preferences in the Scandinavian market, the Company is seeking to complement its partner brand portfolio in Scandinavia especially with respect to popular wines

[153] The breakdown of net sales is based on unaudited internal sales reporting.
[154] Source: Systembolaget (2017).

from France, Spain and Germany. In line with its strategy, the Company aims to create new wines in upcoming categories, such as aromatized wines, and focusing to grow its share in "old world" wines, i.e. wines from Italy, Spain and France.

In terms of channel expansion, the retail channel and launch of RTDs continue to be important for the Company in Denmark and Norway. In Sweden, the Company will focus on driving presence, visibility and sales through the Folk o folk website.

***Altia Industrial***

*Main products and services*

Altia Industrial is a Nordic operator providing its industrial customers with high-quality products and services. The Company's core expertise includes processing renewable agricultural raw materials and their efficient utilisation in the Company's manufacturing processes and products. The Company uses Finnish grain, mainly barley, which is the focus of its operations. The Company also uses other renewable raw materials in its products to ensure its ability to constantly provide the customers with a quality product at a reasonable price. Altia Industrial consists of industrial services, industrial products and supply chain operations.

Altia Industrial's product and service offering is described below. Industrial products consist of barley starch, grain sprits, technical ethanol, Naturet geothermal fluids and feed components. Industrial services consist of contract manufacturing and warehousing services.

- *Barley starch* is used in the food industry, brewing and technical applications as well as a binding and coating agent in the paper and paperboard industries. Barley starch produced for the paper and paperboard industries is pure, non-modified, i.e. native starch, which provides a platform for any type of modifications, such as enzymatic or chemical solutions, in accordance with customer specifications. Barley starch is also used in food applications, e.g. in beer production.

- *Grain spirits* are used in the beverage industry.

- *Technical ethanol and solvents* are produced to meet the needs of a wide range of industries, including pharmaceutical, healthcare, chemical and techno chemical industries. The Company is able to provide a broad selection of products and packaging methods.

- *Naturet geothermal fluids* are ethanol-based fluids that are used for heat transfer and cooling systems in geothermal heating.

- *Feed components* are produced on a continuing basis as a part of the Company's grain spirit distillation process.

- A broad range of *contract manufacturing services* are provided for leading wine and spirits companies and also for producers and retailers of ethanol and solvent products. For customers in the alcoholic beverage industry, the Company offers a comprehensive range of services, from distilling to bottling, logistics and customer service. The packaging services in Rajamäki range from wines to spirits, with various packaging and size options. Products for the Company's contract manufacturing clients represent a significant part of the production at the Company's plants in Koskenkorva and Rajamäki.

The Company's supply chain processes include distillation, bottling as well as customer service and logistics. Distillation includes distillation operations, starch and feed component production, maintenance, procurement, technology and the production master data. Bottling includes sourcing and procurement, liquid production, packaging, maintenance, technology and the production master data. Customer Service and Logistics includes inbound transportation, internal warehouse operations, outsourced logistics operations, sales and operations planning, trading goods procurement, customer service operations, transportation management and intercompany material flows. The supply chain manages all the production and logistics operations and plants of the Company.

The Company has six production plants, three in Finland, and one in Sweden, Estonia and France, respectively:

- The Company's starch plant and distillery are located in Koskenkorva in Southern Ostrobothnia, Finland.

- The Aquavit distillery is located in Sundsvall, Sweden.

- The Company's alcoholic beverage plants are located in Rajamäki, Finland, and Tabasalu, Estonia.

- The technical ethanol plant is located in Rajamäki.

- The aging cellars and packaging operations for cognac are located in Cognac, France.

See also "*The Company's Business Operations — Production*" and "*— Property, Plant and Equipment*" for further information. In addition to the production plants, the Company has warehouses in several of its operating countries: Finland, Estonia, Latvia, Sweden and Denmark.

*Key financials*

The following table presents the Altia Industrial segment's key performance indicators for the years ended 31 December 2017, 2016 and 2015.

| | 1 January to 31 December | | |
|---|---|---|---|
| **In EUR million, except for percentages** | **2017 (audited, unless otherwise indicated)** | **2016 (audited, unless otherwise indicated)** | **2015 (unaudited)** |
| Net sales | 101.3 | 95.2 | 110.6 |
| Comparable EBITDA | 12.5 | 8.4 | 8.9 |
| Comparable EBITDA, % | 12.3 %[1)] | 8.8 %[1)] | 8.1 % |

[1)] Unaudited.

The following table presents the Altia Industrial segment's net sales split[1)] for the years ended 31 December 2017, 2016 and 2015.

| | 1 January to 31 December | | |
|---|---|---|---|
| **In EUR million** | **2017 (unaudited, unless otherwise indicated)** | **2016 (unaudited, unless otherwise indicated)** | **2015 (unaudited)** |
| Industrial products | 48.6 | 43.1 | 45.0 |
| Industrial services | 52.7 | 52.1 | 65.6 |
| **Altia Industrial total** | **101.3[2)]** | **95.2[2)]** | **110.6** |

[1)] The breakdown of net sales (industrial products and industrial services) is based on accounting and is unaudited.
[2)] Audited.

Technical ethanol accounted for 31 per cent and starch and feed component 69 per cent of the segment's industrial products net sales in the year ended 31 December 2017.[155] The majority of net sales in the Altia Industrial segment comes from Finland and only a small part from Sweden and Estonia.

*Customers*

The Company's key industrial customer agreements include cooperation, production and supply agreements concerning the supply of grain spirits and technical ethanol as well as certain by-products from the Koskenkorva plant.

Grain spirit made from Finnish barley is the raw material for the Company's alcoholic beverages, including Finlandia Vodka. Since 2000, the Company has had a long-term exclusive production services agreement with Brown-Forman regarding the production of Finlandia Vodka, which will remain in force until 2025. The Company is the only producer of Finlandia Vodka in the world. Finlandia Vodka is blended and bottled at the Company's alcohol beverage plant in Rajamäki. In 2017, the agreement with Brown-Forman accounted for a major part of net sales of industrial services under the Altia Industrial segment. In addition, the Company's industrial services customers include significant wine producers such as Codorníu, Constellation Brands, Bodegas Faustino, Distell and Grupo Peñaflor.

For technical ethanol products, the Company's key customers are fairly evenly divided in several industries, including the techno chemical and chemical industries, industries that exploit geothermal fluids as well as pharmaceutical and the packing industries. The largest of these customer groups is the techno chemical industry. Naturet geothermal fluids are sold to drilling contractors, heating, ventilation, and air conditioning wholesalers and other companies involved in geothermal and similar heating systems.

[155] The breakdown of net sales is based on unaudited internal sales reporting.

Customers purchasing barley starch are, among others, Chemigate, which purchases a significant part of the Company's native starch, UPM, Stora Enso, Metsä Board and Olvi. The Company is a minority shareholder in Chemigate, which modifies starch for the forest industry.

The feed component produced at the Koskenkorva plant is sold to A-Rehu. A-Rehu is the only purchaser of the feed component the Company produces on a continuing basis as a part of its distillation process. There is a continuous flow of the animal feed component from the Company's process directly to A-Rehu's process.

*Key focus areas and execution of strategy*

Within the industrial products, the Company aims to increase the share of native starch customers and direct customer relations, which would enable the cost-efficient growth of starch production. The Company also aims to continue the growth of the customer base for geothermal fluids and to expand the customer base of pharmaceutical customers, which could increase the production of technical ethanol, improve the net sales of the Company and reduce the production costs of grain spirit. The Company has established a dedicated industrial sales channel and sales and marketing team to develop marketing capabilities and further aims to grow exports. The Company is also investigating possibilities for developing new business that is based on the use of barley proteins.

The Company seeks to deepen its relationships with selected key wine partners and is growing contract services for wine packaging operations by developing its expertise in wine quality, as well as wine handling and packaging. The Company also strives to maintain production, logistics and service excellence with regard to the Finlandia Vodka services provided to Brown-Forman.

The Company targets continuous improvement in its supply chain efficiency. The Company aims to drive down operational costs by means of efficiency and production improvements. The target is also to increase capacity use by capitalising on the Company's integrated operating model of sourcing as well as utilising automation and digitalisation of its production processes and IT systems.

The Company targets to expand its supply chain capabilities. Agility, flexibility and quality of operations are the key elements for enhancing the productivity of the supply chain. Additionally, the measures include developing wine quality, improving production capabilities for low and non-alcohol products and deploying new flexible packaging and sleeving capabilities.

Key strategic initiatives at the Koskenkorva plant include:

- Improvement of production efficiency – continuous development of technology and automation to increase the production volumes of the Koskenkorva plant, optimisation of energy use and development of water use process, as well as improvement of the operational efficiency by streamlining operations and arranging direct shipments from Koskenkorva;

- Development of raw material sourcing – development of the utilisation of alternative raw materials (e.g. wheat) in end-products in case of failure in the supply of barley, and development of e-commerce solution for sourcing grain;

- Capacity and volume expansion – opening bottlenecks to enlarging the starch output capacity as well as development of production process to optimize the manufacturing of technical ethanol;

- New product development streams – creating gluten-free starch and new outbounds for food applications that are based on the use of barley proteins.

Key strategic initiatives at the Rajamäki plant include:

- Driving down operational costs through focusing on agility, flexibility and quality of operations and by improving and ensuring efficiency and productivity;

- Investing in digitalisation and automation of production lines and implementing and leveraging new integrated IT systems;

- Building operational capabilities in flexible packaging, the sleeving line and wine quality;

- Investing in extended liquid production and blending capabilities to support production of low and non-alcohol production;

- Continuous improvements and investments in innovative packaging, new technology and materials in order to improve beverage production capabilities.

**Property, Plant and Equipment**

The most significant property, plant and equipment include manufacturing and warehouse buildings (such as distilleries, production and ageing cellars, alcohol beverage plants and warehousing operations), the real property owned by the Company and machinery and equipment related to the alcoholic beverage industry. The real property owned by the Company is located in Finland, Estonia, Latvia and France. In addition to the Company-owned plants, the Company has leased office spaces for its sales, marketing and administrative operations in Helsinki, Stockholm, Oslo, Copenhagen and Riga, as well as a storage facility in France. The fixed-term lease agreements expire within different periods of time and according to some of the fixed-term lease agreements, the tenant has the first priority to lease the leased area for another lease period. Some of the lease agreements include an obligation for the Company to restore the premises to their original purpose of use at the end of the lease term. In addition, according to the land lease agreement regarding an electrical substation in Koskenkorva, the Company is obliged to remove buildings, structures, equipment and other assets owned by the Company, as well as to clean up the leased area.

The following table sets forth the Company's production plants as on the date of this Offering Circular:

| Location | Principal activities | Equipment | Owned/ Leased |
|---|---|---|---|
| Koskenkorva, Finland | Distillery | Grain reception equipment, storage silos, distilling equipment, starch production equipment, power plants | owned |
| Sundsvall, Sweden | Distillery | Distilling equipment, warehouse stock | owned |
| Rajamäki, Finland | Alcohol beverage plant | Tanks, liquid handling equipment, bottling and packaging lines, warehouse equipment and stock | owned |
| Rajamäki, Finland | Technical ethanol plant | Tanks, distilling equipment, packaging lines and equipment | owned |
| Tabasalu, Estonia | Alcohol beverage plant | Tanks, bottling lines, warehouse stock | owned |
| Cognac, France | Production and aging cellars | Tanks, liquid handling equipment, bottling lines, warehouse stock | owned |
| Brunna, Sweden | Alcohol beverage warehouse | Warehouse stock | owned |

**Intellectual Property**

The Group owns a large portfolio of trademarks and copyrights, know-how and confidential information relating to its business. The Group owns material trademarks relating to all of its own brands and is therefore dependent on the maintenance and protection of its trademarks. Brands are among the most important assets in the alcoholic beverage industry, since a strong brand provides a significant competitive advantage to its owner. The Group aims to register and protect its brands in the markets in which the brands are sold. The Group's intellectual property rights are handled centrally. The registered trademarks are mostly held by the Company, and some trademarks are registered by local Group companies, including e.g. Altia Denmark A/S, Altia Sweden AB, Altia Latvia SIA, Altia Eesti AS and Larsen S.A.S. The Group holds approximately 1,000 trademark registrations covering, among other things, the Company's more than 250 active brands, including its core brands Blossa, Chill Out, Koskenkorva, Valhalla, Renault, O.P. Anderson, Xanté and Larsen, as well as the local heritage brands, such as Explorer, Grönstedts, Jaloviina, Brøndums, Leijona, Saaremaa and 1-Enkelt. The Company has registered certain designs relevant for its business, including, e.g., the ornament of the True Colours bottle (registered in EU and Norway, application pending in USA and Canada), and Koskenkorva Vodka bottle (registered in EU, Norway, USA, application is pending in Canada).

The Company also has proprietary secrets, technology, know-how, processes and other intellectual property rights that are not registered, which the Company aims to protect through confidentiality measures. The Company considers its beverage and ingredient recipes as trade secrets.

In addition, the Company has registered approximately 220 domain names, including the domain names: altia.fi, altia.se, altia.no, altia.lv, altia.ru, viinimaa.fi, folkofolk.se, nordicspirits.com, and several domain names containing the names of most of the Company's core brands.

**Corporate responsibility**

For the Company, responsibility is both a strategic priority and a key success factor in its business. The aim of the Company's efforts in the area of responsibility is to build a sustainable long-term business for the Company. The Company also wants to promote a new, modern and responsible Nordic drinking culture in its countries of operation. The Company has summarised its purpose "Let's Drink Better". Better drinking can be interpreted as, for example, higher quality, moderate in quantity, more social and more environmentally lighter operations and products.

The focus areas of the Company's responsibility work have been determined in a materiality analysis and are divided into four cornerstones of responsibility: Altia & Customers, Altia & Society, Altia & Environment and Altia & Employees. These cornerstones are based on the Company's purpose and strategy, stakeholder expectations, the Company's own operating principles and codes of conduct, as well as the amfori BSCI Code of Conduct, which in turn are based on international agreements such as the International Labour Organization (ILO) conventions and declarations, the United Nations (UN) Guiding Principles on Business and Human Rights, as well as guidelines for multinational enterprises of the Organization for Economic Co-operation and Development (OECD).

The Company is a member of amfori and participates in amfori BSCI to improve the social performance of its supply chains. According to the Company's management, the Company is currently the only wine and spirits importer in the Nordic and Baltic countries which is a member of amfori BSCI. The Company also participates in amfori BSCI's Sustainable Wine Programme. The Company is in the process of implementing an amfori BSCI compliance requirement (including freedom of association, prohibition of child labour and forced labour, non-discrimination, working hours, occupational health and safety etc.) in its agreements with suppliers of wine, raw materials and packaging materials, and partners, as well as parties offering contract manufacturing services. Compliance with amfori BSCI guidelines is supervised, amongst other means, by amfori BSCI audits, which are planned by utilising the amfori BSCI country risk classification. From 2018 onwards, Altia will arrange audits also by itself. Furthermore, the Company has created its own Code of Conduct for Suppliers and Subcontractors and, starting from 2017, the requirements of the Code are being implemented as part of contracts with suppliers. To promote accountability and foster a responsible company culture, the Company has also set up an external whistleblowing channel for all parties operated by an independent organization to encourage reporting of any suspected violations of its business principles, laws or ethically sustainable courses of action.

During the past few years, the Company has increased the share of organic, Fairtrade, low-alcohol and non-alcoholic products in its portfolio. See also "*— Key Strengths — Integrated operating model that creates economies of scale and synergies, and enables more sustainable production*".

**Environmental Matters**

The Company's environmental impacts relate mostly to the Company's own production operations at the Koskenkorva and Rajamäki plants in Finland and the Tabasalu plant in Estonia. The production volumes at the plant in Cognac, France and the related environmental impacts are smaller compared to the other plants. Most important permits relating to environmental matters are environmental permits pursuant to the Environmental Protection Act concerning the operations of the Rajamäki and Koskenkorva plants. In addition, the Company has water abstraction permits pursuant to the Water Act for water abstraction relating to the operations at the plants. The permits are valid until further notice.

The Company's key environmental aspects are defined in assessments of environmental aspects conducted at three-year intervals. In the assessment conducted in 2015, the most significant environmental aspects were identified as energy consumption, water consumption, waste water and waste generation. Environmental indicators were defined to support the reduction of these most significant environmental impacts, with plant-specific reduction targets set for the three-year period 2016–2018. In the future, plant-specific targets will be set annually. The indicators and attainment of environmental targets is monitored on a monthly basis. Actions to reach the environmental targets are defined for each production plant in the environmental programs prepared on an annual basis. The environmental objectives of the Koskenkorva plant were updated in 2016 to correspond to the situation following the divestment of the feed processing business. The facility in Cognac was included in the target-setting process in 2017 with one of the four indicators extended to Cognac starting from the year 2018.

Wastewater quality is monitored at Koskenkorva and Rajamäki frequently by measuring the chemical oxygen demand (COD) in wastewater samples. In addition, samples are taken in accordance with the official sampling plan in order to analyse the biochemical oxygen demand (BOD) and other limits in the environmental permits. In 2017, the organic load of the wastewater increased both at Rajamäki and Koskenkorva and the indicator for the environmental objective increased at both plants. At Koskenkorva, the increase was due to changes made in A-Rehu's processes and Altia's increased production volumes. At Rajamäki, the monthly average biochemical oxygen demand exceeded the limits specified in the environmental permit twice during 2017, in August and in September due to the production of glögg, which took place for a very limited period during autumn 2017 and had the most significant effect on the increase. In addition, the daily limit specified in the environmental permit was exceeded twice during autumn. No penalties were imposed for exceeding the permit provisions or neglecting environmental laws or regulations during 2017.

The Company signed its first voluntary Energy Efficiency Agreement in 2008 and successfully completed the targets set during the contract period of 2008–2016. In 2017, the Company joined the new contract period of this agreement, which will continue until 2025. The Company's target during the new contract period is an energy consumption reduction of 10 per cent by the year 2025, compared to consumption in the beginning of 2014.

The Company has made numerous efforts to increase the Company's energy efficiency and the effects of the measures are monitored continuously. At Koskenkorva, which accounts for most of the Company's energy use, the implemented measures include for example replacing external energy use by biomass power plant steam production through increased de-husking of the barley, lowering of room temperatures and disconnecting the heating during the summer. At Rajamäki room temperatures in logistics and warehousing areas have been lowered, overall equipment efficiency has been increased, new more energy efficient air conditioning equipment has been installed in the material warehouse and old lamps are gradually being replaced by LED lamps. Environmental management systems at the Koskenkorva plant, the Rajamäki alcoholic beverage plant, the technical ethanol unit and the Helsinki head office have been certified in accordance with the ISO 14001 standard. Environmental systems are developed by means of regular internal and external audits. In addition, the Company's Rajamäki alcoholic beverage plant has also been certified according to the ISO 22000 food safety management standard.

The bioenergy power plant at the Koskenkorva plant, which began its full-scale operations in January 2015, uses barley husk as its primary fuel. The use of renewable fuel has helped the Koskenkorva plant reduce its fossil carbon dioxide emissions by 56 per cent and increase its self-sufficiency in terms of fuel in steam generation to 65 per cent compared to the year 2014. In 2016, a preliminary permit was received for the use of ash from the bio power plant as fertilizer and it was approved as a fertilizer in 2017. Thus, it can be used without processing on fields, also in spring water areas. See also "*— The Company's Business Operations — Production — Koskenkorva plant*".

The Company encourages its contract farmers to optimize the efficiency of their operations and use production inputs sensibly, in accordance with the good agricultural practises. An example is the Company's commitment to the Baltic Sea Action Group (BSAG), which protects the Baltic Sea, covering the years from 2015 to 2017.

The Company aims to increase the efficiency of its logistics by combining the volumes of the Company's own products and its partners' products as well as by operating close to customers. Packing of wines close to destination markets reduces the environmental impacts arising from the transport from their countries of origin. The Company's environmental expenses did not have a significant impact on the result for the year 2017 and on the financial position.

**Occupational Health and Safety Matters**

The Company's health and safety management system has been certified in accordance with the OHSAS 18001 standard. The certification covers the Koskenkorva plant, the Rajamäki alcoholic beverage plant and the technical ethanol business operations, as well as the head office operations in Helsinki.

The Company's goal is to reduce accidents and absences caused by sickness and accidents. To achieve this goal, measures are defined annually for different locations, including the plants and logistics centres that are not covered by the certification. The facility in Cognac was included in the planning process in 2017. The programs focus on areas such as reporting and training for the investigation of close call situations, occupational safety training and safety walks, updating of induction training material, improvement of ergonomics, and reduction of overtime hours.

The accident frequency and sickness absence rates are monitored in all of the Company's operating countries. In 2017, the sickness absence rate was 3.3 per cent. The accident frequency (the number of accidents per one million working hours) for accidents requiring at least one day of absence was 11. There were no fatal work-related accidents in 2017.

**Information technology**

The IT systems of the Company cover all major aspects of its business, including production, product management, warehousing, logistics, human resources, finance and other administrative systems. The IT systems used by the Company are procured and licensed from third parties. The most material IT systems of the Company are the enterprise resource planning system, warehouse management systems, manufacturing execution system and production planning system.

The Company processes personal data mainly of its employees, job applicants, consumers and representatives of business partners. Data protection regulation sets out provisions on the requirements for processing personal data and on data security, and specifies the responsibilities of the controller and the processor of personal data. The Company's data security processes aim to appropriately protect and process the personal data information it possesses, to comply with the relevant laws, regulations and contractual provisions, to identify possible threats and data security risks as well as to safeguard the accuracy and correctness of the data and the reliability and efficiency of the Company's data processing.

The Company has sourced backups for the data in the systems it regards as critical to its business operations in real time or on a daily basis. The Company aims to protect its IT systems from unauthorized access by using a variety of means, and the Company regularly retains external experts to verify the Company's IT security and to evaluate investments in and upgrades to the Company's IT systems.

### Organisation and Personnel

*Group legal structure and significant subsidiaries*

At the date of this Offering Circular, the Company consists of the parent company Altia Plc and several subsidiaries and associated companies in different countries. The parent company of the Group, Altia Plc, is responsible for, among other things, the management of the Group as well as treasury and accounting functions, HR, legal affairs and corporate communications. The business operations of the Group are carried out by several of Altia Plc's local subsidiaries that employ local resources and operating models. In addition to Finland, the Company operates mainly in Sweden, Norway, Denmark, Latvia, Estonia and France.

On 31 December 2017, the Company had a total of 23 subsidiaries. The following table presents the subsidiaries of the Company along with respective ownership shares of the Company on 31 December 2017.

| **Subsidiaries of the Company** | **Consolidated shareholding and voting right (per cent)** | **Country of incorporation** |
|---|---|---|
| *Group companies* | | |
| A-Beverages Oy | 100 | Finland |
| Altia Eesti AS | 100 | Estonia |
| Altia Denmark A/S | 100 | Denmark |
| Altia Holding Sweden AB | 100 | Sweden |
| SIA Altia Latvia | 100 | Latvia |
| Altia Norway AS | 100 | Norway |
| Altia Sweden AB | 100 | Sweden |
| Altia Sweden Services AB | 100 | Sweden |
| Alpha Beverages Oy | 100 | Finland |
| Best Buys International AS | 100 | Norway |
| BevCo AB | 100 | Sweden |
| Bibendum AB | 100 | Sweden |
| Bibendum AS | 100 | Norway |
| ExCellar Oy | 100 | Finland |
| Harald Zetterström oy/ab | 100 | Finland |
| Interbev AS | 100 | Norway |
| Larsen SAS | 100 | France |
| Philipson & Söderberg AB | 100 | Sweden |
| Prime Wines Oy | 100 | Finland |
| Premium Wines AS | 100 | Norway |
| Ström AS | 100 | Norway |
| Vinuversum AB | 100 | Sweden |
| Oy Wennerco Ab | 100 | Finland |
| | | |
| *Joint arrangements and associated companies* | | |
| Roal Oy | 50 | Finland |
| Palpa Lasi Oy | 25.53 | Finland |

*Employees*

The Company had a total of 703 employees as of 31 December 2017. Company employs employees on fixed-term contracts especially at the Rajamäki plant mainly due to seasonality. The number of such employees is during 2017 was 51 on average.

The following table presents the Company's employees per country for 31 December 2017, 2016 and 2015.

| | As of 31 December | | |
|---|---|---|---|
| **Number of employees per country** | **2017** | **2016** | **2015** |
| Finland | 411 | 448 | 470 |
| Sweden | 117 | 125 | 131 |
| Denmark | 21 | 30 | 40 |
| Norway | 29 | 32 | 31 |
| Latvia | 37 | 58 | 60 |
| Estonia | 65 | 80 | 84 |
| France | 23 | 24 | 26 |
| **Total** | **703** | **797** | **842** |

The following table presents the Company's employees per business segment as at 31 December 2017.

| **Number of employees per Business segment** | **31 December 2017** |
|---|---|
| Finland & Exports | 96 |
| Scandinavia | 86 |
| Altia Industrial | 405 |
| Parent company | 116 |
| **Total** | 703 |

## Material Agreements

Except as set forth below, the Company has not entered into (i) material agreements outside of its ordinary course of business during the two financial years immediately preceding the date of this Offering Circular or (ii) other agreements outside its ordinary course of business based on which a company belonging to the Group would have material obligations or rights as at the date of this Offering Circular that are material from the Group's perspective. For further information on transactions carried out by the Company with its related parties, see "*Major Shareholders and Related party Transactions*".

### *Production services agreements between Brown-Forman Finland Ltd and the Company*

The Company and its affiliates have entered into a number of agreements with Brown-Forman and its affiliates, including a long-term production services agreement since 2000, which was renewed on 30 May 2008 and has later been amended (the "**Production Services Agreement**"). The most recent amendment concerning key provisions of the Production Services Agreement was made in April 2017.

The Production Services Agreement relates to production services provided by the Company for the production of Finlandia Vodka products (all products excluding RTD products; "**FV Products**"). The distillation of the grain spirit used in FV Products will take place at the Company's Koskenkorva plant and other processing, blending and bottling at the Rajamäki plant. Throughout the duration of the Production Services Agreement, Brown-Forman will purchase all of its requirements for FV Products from the Company. The Production Services Agreement expires on 31 December 2025. Negotiations for the possible extension of the agreement must commence no less than 24 months prior to the expiration of the agreement i.e. on 31 December 2023, at the latest.

Brown-Forman may terminate the Production Services Agreement for all products or any of them on 36 months' notice in the event that control of Altia Plc is acquired by another person (other than a person controlled by the State of Finland). Further, in such circumstances, Brown-Forman also has the right to request the Company to supply finished vodka or ethanol in bulk instead of the bottled product in addition to certain exceptional circumstances relating to, for example, to the Company not being able to meet agreed supply requirements. However, the Company is obliged to supply vodka or ethanol in bulk only for such a period as such exceptional circumstances remain in force.

The Company has also under the Production Services Agreement committed to obtain contractual undertakings with respect to the continued supply of FV Products in case significant distillery or bottling assets of the Company are transferred or divested.

***Senior Facilities Agreement***

On 13 December 2017, the Company entered into an unsecured EUR 75 million term loan and a EUR 60 million revolving credit facilities agreement with OP Corporate Bank plc as coordinating mandated lead arranger, OP Corporate Bank plc, Handelsbanken Capital Markets, Svenska Handelsbanken AB (publ) and Nordea Bank AB (publ) Finnish Branch as mandated lead arrangers and bookrunners, and OP Corporate Bank plc, Nordea Bank AB (publ) Finnish Branch and Svenska Handelsbanken AB (publ), Branch Operation in Finland as original lenders (the "**Senior Facilities Agreement**"). For further information on the Senior Facilities Agreement, see "*Operating and Financial Review — Liquidity of the Company — Senior facilities agreement*".

**Insurance**

The Company has insurance policies covering aspects of its operations and risks to be insured therein, such as property, damage and business interruption, liability insurances as well as cargo insurance and employer's statutory insurances. The Company believes that its existing insurance policies are adequate, in terms of both the amounts covered and the conditions of coverage, so as to be able to cover the major risks of its business, taking into account the cost of the insurance coverage and the potential risks to business operations. However, there can be no assurance that no losses will be incurred or that this coverage will be sufficient to cover the damages in the event of a significant claim. See "*Risk Factors — The Company's insurance cover may prove insufficient*".

**Legal Proceedings**

The Company becomes involved from time to time in various claims and legal proceedings arising in the ordinary course of business, such as employee claims, disputes with suppliers and clients, and proceedings initiated by public authorities. Except as stated below, the Company is not as of the date of this Offering Circular and, has not been within the past twelve months, party to any material administrative, legal or arbitration proceeding that may have or have had a significant effect on the financial position or profitability of the Company, and the Company is not aware of any such proceedings pending or threatened. The Company notes, however, that the outcome of legal proceedings can be extremely difficult to predict, and the Company offers no assurances in this regard.

The Company has objected to the requirements proposed by Livsmedelsverket (the Swedish National Food Agency ("**NFA**")) for the technical file for the geographic indication "Svensk Akvavit", i.e. "Swedish Aquavit". The proposed requirements have been submitted by the NFA to the European Commission ("**Commission**") for adoption and inclusion into Regulation (EC) No. 110/2008. Following correspondence between the Commission and the NFA, the NFA has submitted amended technical files to the Commission. The Company has appealed all of the NFA's decisions on the technical files to the Uppsala Administrative Court. The technical file submitted by the NFA to the Commission includes the following requirements which Altia opposes: (i) that Swedish Aquavit must be made using Swedish neutral ethyl alcohol and Swedish water, and (ii) that the dilution of Swedish Aquavit with Swedish neutral ethyl alcohol and Swedish water must take place in Sweden. Altia has opposed these requirements as they may constitute barriers to trade, are new and do not reflect current practice in for the significant proportion of Swedish Aquavit produced. The Uppsala Administrative Court is awaiting the Commission's decision before it rules on the matter. In February 2018, in accordance with the claims by the Company, the Uppsala Administrative Court ruled on the matter stating that there are no grounds to pass a judgement on two appeals concerning NFA's decisions, as the proposal to the Commission has already been partially amended in accordance with the Company's claims. The appeal is still pending in the Uppsala Administrative Court of those claims that the Company opposes. The Company is investigating the options it has for appeal and further action in the matter, should the outcome of the Commission and the Swedish Courts be negative. The proposed requirements would, if adopted by the Commission, require substantial changes to the Company's production process of its aquavit products to the extent that the Company wants to use the geographical indication "Svensk Akvavit" ("Swedish Aquavit"). See also "*Risk Factors — Changes in the legislation concerning alcoholic beverages could increase the Company's costs or limit its business activities*".

# SELECTED CONSOLIDATED FINANCIAL INFORMATION

## Historical Financial Information of the Company

The following tables present selected consolidated financial information for the Company as at and for the financial years ended 31 December 2017, 2016 and 2015. The financial information presented below has been derived from the Company's audited consolidated financial statements as at and for the financial years ended 31 December 2017, 2016 and 2015. Certain of the historical financial information as at and for the years ended 31 December 2016 and 2015 presented in this Offering Circular differs from the historical financial information in Altia's audited statutory consolidated financial statements adopted by the Annual General Meeting of Shareholders due to restatements made in 2017 according to "*IAS 8—Accounting Policies, Changes in Accounting Estimates and Errors*".

The Company's consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union.

The selected financial information provided herein should be read together with "*Certain matters — Presentation of Financial and Certain Other Information*", "*Operating and Financial Review*" and the Company's audited consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 included elsewhere in this Offering Circular.

### *Consolidated Income Statement*

| | **1 January to 31 December** | | |
|---|---|---|---|
| | **2017** | **2016 (restated)** | **2015 (restated)** |
| **In EUR million** | | **(audited)** | |
| **Net sales** | **359.0** | **356.6** | **380.7** |
| Other operating income | 8.3 | 12.6 | 10.0 |
| Materials and services | -202.0 | -197.0 | -217.2 |
| Employee benefit expenses | -52.0 | -36.6 | -54.7 |
| Other operating expenses | -72.9 | -74.8 | -79.1 |
| Depreciation, amortisation and impairment | -14.2 | -14.5 | -14.4 |
| **Operating result** | **26.1** | **46.3** | **25.3** |
| Finance income | 4.5 | 1.3 | 0.8 |
| Finance expenses | -6.4 | -3.4 | -3.6 |
| Share of profit in associates and income from interests in joint operations | 0.9 | 0.9 | 0.9 |
| **Result before taxes** | **25.0** | **45.0** | **23.4** |
| Income tax expense | -6.7 | -9.0 | -5.2 |
| **Result for the period** | **18.3** | **36.1** | **18.1** |
| **Result for the period attributable to:** | | | |
| Owners of the parent | 18.3 | 36.1 | 18.1 |
| **Earnings per share for the result attributable to owners of the parent, EUR** | | | |
| Basic and diluted | 0.51 | 1.00 | 0.50 |

### *Consolidated Statement of Comprehensive Income*

| | 2017 | 2016 (restated) | 2015 (restated) |
|---|---|---|---|
| **Result for the period** | **18.3** | **36.1** | **18.1** |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurements of post-employment benefit obligations | -0.0 | -0.4 | 5.8 |
| Related income tax | 0.0 | 0.1 | -1.2 |
| Total | -0.0 | -0.4 | 4.6 |
| **Items that may be reclassified to profit or loss** | | | |
| Cash flow hedges | 1.4 | 0.1 | -0.0 |
| Available-for-sale financial assets | 0.6 | - | - |
| Translation differences | -4.0 | -2.7 | 1.5 |
| Income tax related to these items | -0.3 | -0.0 | 0.0 |
| Total | -2.3 | -2.6 | 1.5 |
| Other comprehensive income for the period, net of tax | -2.3 | -3.0 | 6.1 |
| **Total comprehensive income for the period** | **16.0** | **33.1** | **24.3** |

| | | | |
|---|---|---|---|
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | 16.0 | 33.1 | 24.3 |

### *Consolidated Balance Sheet*

| | As at 31 December | | |
|---|---|---|---|
| | **2017** | **2016 (restated)** | **2015 (restated)** |
| **In EUR million** | | **(audited)** | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 82.1 | 83.1 | 84.4 |
| Other intangible assets | 34.4 | 36.7 | 40.7 |
| Property, plant and equipment | 67.4 | 70.0 | 74.6 |
| Investments in associates and interests in joint operations | 7.6 | 7.6 | 7.6 |
| Available-for-sale financial assets | 1.4 | 0.8 | 0.8 |
| Other receivables | 1.0 | 0.3 | 0.5 |
| Deferred tax assets | 1.0 | 4.6 | 10.7 |
| **Total non-current assets** | **194.8** | **203.1** | **219.2** |
| **Current assets** | | | |
| Inventories | 94.5 | 96.3 | 101.2 |
| Trade and other receivables | 53.9 | 63.8 | 59.1 |
| Current tax assets | 2.8 | 1.4 | 3.5 |
| Cash and cash equivalents | 52.4 | 68.0 | 76.3 |
| **Total current assets** | **203.6** | **229.6** | **240.2** |
| **TOTAL ASSETS** | **398.4** | **432.7** | **459.3** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 60.5 | 60.5 | 60.5 |
| Fair value reserve | 0.6 | - | - |
| Hedge reserve | -0.3 | -1.4 | -1.6 |
| Translation differences | -16.0 | -12.3 | -9.6 |
| Retained earnings | 92.0 | 144.5 | 119.3 |
| **Total equity** | **136.8** | **191.3** | **168.6** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 17.7 | 20.7 | 23.2 |
| Borrowings | 89.1 | 64.9 | 88.4 |
| Provisions | - | – | 1.3 |
| Employee benefit obligations | 1.3 | 1.8 | 21.6 |
| **Total non-current liabilities** | **108.2** | **87.4** | **134.5** |
| **Current liabilities** | | | |
| Borrowings | 11.0 | 7.8 | 8.3 |
| Provisions | - | 1.3 | 2.1 |
| Trade and other payables | 137.4 | 142.7 | 143.5 |
| Current tax liabilities | 5.0 | 2.2 | 2.4 |
| **Total current liabilities** | **153.4** | **154.1** | **156.3** |
| **Total liabilities** | **261.6** | **241.5** | **290.7** |
| **TOTAL EQUITY AND LIABILITIES** | **398.4** | **432.7** | **459.3** |

*Consolidated Statement of Cash Flows*

| In EUR million | 2017 | 2016 (restated) | 2015 (restated) |
|---|---|---|---|
| | 1 January to 31 December | | |
| | | (audited) | |
| **Cash flow from operating activities** | | | |
| Result before taxes | 25.0 | 45.0 | 23.4 |
| Adjustments | | | |
| Depreciation, amortisation and impairment | 14.2 | 14.5 | 14.4 |
| Share of profit in associates and income from investments in joint operations | -0.9 | -0.9 | -0.9 |
| Net gain on sale of non-current assets | -1.6 | -4.3 | -2.7 |
| Finance income and costs | 1.9 | 2.2 | 2.8 |
| Settlement gain of defined benefit obligation | - | -16.5 | – |
| Other adjustments | 0.5 | -0.1 | 0.6 |
| | 14.1 | -5.1 | 14.1 |
| Change in working capital | | | |
| Change in inventories, increase (-) / decrease (+) | 1.2 | 4.9 | 2.4 |
| Change in trade and other receivables, increase (-) / decrease (+) | 9.4 | -4.4 | 15.1 |
| Change in trade and other payables, increase (+) / decrease (-) | -2.6 | 0.1 | -13.8 |
| Change in provisions, increase (+) / decrease (-) | -1.3 | -2.1 | 0.1 |
| Change in working capital | 6.7 | -1.6 | 3.9 |
| Settlement of defined benefit obligation | – | -4.1 | – |
| Interests paid | -1.7 | -1.8 | -2.2 |
| Interests received | 0.3 | 0.3 | 0.3 |
| Other finance income and expenses paid | -2.2 | -0.3 | -0.7 |
| Income taxes paid | -4.6 | -2.9 | -3.9 |
| Financial items and taxes | -8.2 | -4.8 | -6.5 |
| **Net cash flow from operating activities** | **37.6** | **29.4** | **34.8** |
| **Cash flow from investing activities** | | | |
| Payments for property, plant and equipment and intangible assets | -11.9 | -8.7 | -11.3 |
| Proceeds from sale of property, plant and equipment and intangible assets | 2.6 | 4.5 | 1.0 |
| Payments for available-for-sale financial assets | – | -0.0 | – |
| Proceeds from sale of available-for-sale financial assets | 0.0 | – | 1.7 |
| Repayment of loan receivables | 0.3 | 0.2 | 0.2 |
| Interest received from investments in joint operations | 0.9 | 0.9 | 0.9 |
| Dividends received | 0.2 | 0.1 | 0.1 |
| **Net cash flow from investing activities** | **-7.8** | **-3.1** | **-7.4** |
| **Cash flow from financing activities** | | | |
| Changes in commercial paper program | – | – | -13.0 |
| Proceeds from borrowings | 100.0 | – | 30.0 |
| Repayment of borrowings | -72.5 | -22.5 | -60.2 |
| Dividends paid and other distributions of profits | -70.5 | -10.4 | – |
| **Net cash flow from financing activities** | **-43.0** | **-32.9** | **-43.2** |
| **Change in cash and cash equivalents** | **-13.2** | **-6.6** | **-15.8** |
| Cash and cash equivalents at the beginning of the period | 68.0 | 76.3 | 91.1 |
| Translation differences on cash and cash equivalents | -2.5 | -1.6 | 1.0 |
| Change in cash and cash equivalents | -13.2 | -6.6 | -15.8 |
| **Cash and cash equivalents at the end of the period** | **52.4** | **68.0** | **76.3** |

### *Consolidated segment information*

| | 1 January to 31 December | | |
|---|---|---|---|
| | 2017 (audited) | 2016 (audited) | 2015 (unaudited, unless otherwise indicated) |
| **In EUR million** | | | |
| **Net sales, external** | | | |
| Finland & Exports | 133.9 | 133.9 | 137.0 |
| Scandinavia | 123.7 | 127.4 | 133.2 |
| Altia Industrial | 101.3 | 95.2 | 110.6 |
| **Group net sales, external** | **359.0** | **356.6** | **380.7**[1)] |
| | | | |
| **Comparable EBITDA** | | | |
| Finland & Exports | 19.6 | 20.2 | 20.3 |
| Scandinavia | 11.5 | 10.4 | 11.9 |
| Altia Industrial | 12.5 | 8.4 | 8.9 |
| Other | -1.1 | 1.9 | -3.2 |
| **Group comparable EBITDA** | **42.4** | **40.8** | **38.0** |
| Total items affecting comparability | -2.1 | 19.9 | 1.7 |
| **Group EBITDA** | **40.3** | **60.8** | **39.7** |
| Depreciation, amortisation and impairment | 14.2 | 14.5 | 14.4[1)] |
| **Group operating result** | **26.1** | **46.3** | **25.3**[1)] |

[1)] Audited.

### *Financial key figures*

| | 1 January to 31 December or as at 31 December | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **In EUR million, unless otherwise indicated** | (unaudited, unless otherwise indicated) | | |
| Net sales[1)] | 359.0 | 356.6 | 380.7 |
| Operating result[1)] | 26.1 | 46.3 | 25.3 |
| Operating margin, % | 7.3 | 13.0 | 6.6 |
| EBITDA | 40.3 | 60.8 | 39.7 |
| EBITDA margin, % | 11.2 | 17.0 | 10.4 |
| Comparable operating result | 28.2 | 26.4 | 23.6 |
| Comparable operating margin, % | 7.8 | 7.4 | 6.2 |
| Comparable EBITDA | 42.4 | 40.8 | 38.0 |
| Comparable EBITDA margin, % | 11.8 | 11.5 | 10.0 |
| Items affecting comparability | -2.1 | 19.9 | 1.7 |
| Invested capital | 236.9 | 264.0 | 265.3 |
| Return on equity (ROE), % | 11.1 | 20.0 | 11.6 |
| Return on invested capital (ROI), % | 8.0 | 14.4 | 7.6 |
| Borrowings | 100.1 | 72.8 | 96.7 |
| Net debt | 47.7 | 4.7 | 20.4 |
| Gearing, % | 34.9 | 2.5 | 12.1 |
| Equity ratio, % | 34.3 | 44.2 | 36.7 |
| Net debt / Comparable EBITDA | 1.1 | 0.1 | 0.5 |
| Trade working capital | 11.0 | 17.5 | 16.8 |
| Trade working capital / Net sales, % | 3.1 | 4.9 | 4.4 |
| Net working capital | 11.0 | 16.1 | 13.4 |
| Net working capital / Net sales, % | 3.1 | 4.5 | 3.5 |
| Free cash flow | 37.1 | 30.6 | 30.6 |
| Cash conversion, % | 87.6 | 74.8 | 80.4 |
| Gross capex | 11.9 | 8.7 | 11.3 |
| Gross capex / Net sales, % | 3.3 | 2.4 | 3.0 |
| Earnings per share, basic, EUR[1)] | 0.51 | 1.00 | 0.50 |
| Equity per share, EUR | 3.80 | 5.32 | 4.69 |
| Number of outstanding shares at the end of the period (1,000 shares) | 35,960 | 35,960 | 35,960 |
| Average number of personnel | 762 | 829 | 879 |
| Number of personnel at the end of the period | 703 | 797 | 842 |

[1)] Audited.

***The definitions and reasons for the use of financial key indicators***

| Key figure | Definition | Reason for the use |
|---|---|---|
| Operating margin, % | Operating result / Net sales | Operating result shows result generated by the operating activities. |
| EBITDA | Operating result before depreciation and amortization | EBITDA is the indicator to measure the performance of the Group. |
| EBITDA margin, % | EBITDA / Net sales | |
| Comparable operating result | Operating result excluding items affecting comparability | Comparable EBITDA, comparable EBITDA margin, comparable operating result and comparable operating margin are presented in addition to EBITDA and operating result to reflect the underlying business performance and to enhance comparability from period to period. Altia believes that these comparable performance measures provide meaningful supplemental information by excluding items outside normal business, which reduce comparability between the periods. |
| Comparable operating margin, % | Comparable operating result / Net sales | |
| Comparable EBITDA | EBITDA excluding items affecting comparability | |
| Comparable EBITDA margin, % | Comparable EBITDA / Net sales | |
| Items affecting comparability | Material items outside normal business, including as net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings as well as the Group's major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and the Group's costs related to other corporate development. | Comparable EBITDA is an internal measure to assess performance of Altia and key performance measure at segment level together with Net Sales.<br><br>Comparable EBITDA margin is also one of Altia's financial targets. Comparable EBITDA is commonly used as a base for valuation purposes outside the Company and therefore important measure to report regularly. |
| Invested capital | Total equity + Borrowings | Base for ROI measure. |
| Return on equity (ROE), % | Result for the period / Total equity (average of the first and last day of the period) | This measure can be used to evaluate how efficiently Altia has been able to generate results in relation to the total equity of the Company. |
| Return on invested capital (ROI), % | (Result for the period + Interest expenses) / (Total equity + Non-current and current borrowings) (average of the first and last day of the period) | This measure is used to evaluate how efficiently Altia has been able to generate results in relation to the total investments made to the Company. |
| Borrowings | Non-current borrowings + Current borrowings | Net debt is an indicator to measure the total external debt financing of the Group. |
| Net debt | Borrowings – cash and cash equivalents | |
| Gearing, % | Net debt / Total equity | Gearing ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's indebtedness. Important measure for the loan portfolio. |
| Equity ratio, % | Total equity / Total assets – Advances received | Equity / assets ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's capital used in the operations. |
| Net debt / Comparable EBITDA | Net debt / Comparable EBITDA | The level of Net debt / Comparable EBITDA is one of Altia's financial targets and shows the financial risk of the Company. |
| Trade working capital | Inventories + Trade and other receivables – Trade and other payables | The working capital related key performance indicators are useful |

| | | |
|---|---|---|
| Net working capital | Trade working capital – Non-current provisions – Current Provisions | measures for management to monitor the level of direct net working capital tied to the operations and changes therein. |
| Change in working capital | Change in working capital as presented in consolidated statement of cash flows | |
| Net working capital / Net sales, % | Net working capital / Net sales | |
| Free cash flow | Comparable EBITDA – Change in working capital – Gross capex | Free cash flow provides information about the cash that the Company is able to generate after the capital expenditures. |
| Cash conversion, % | Free cash flow / Comparable EBITDA | Cash conversion presents shown how much of EBITDA turns into free cash flow. Indicates also capacity to pay dividend and / or generate funds for acquisitions or other transactions. |
| Gross capex | Payments for property, plant and equipment and intangible assets as presented in the consolidated statements of cash flows | Gross capex provides additional information of the cash flow needs of the operational investments. |
| Gross capex / net sales, % | Gross capex / Net sales | Provides measure and benchmark on the investment level of the Company. |

***Reconciliation of Alternative Performance Measures***

| | 1 January to 31 December | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| **In EUR million, except for percentages** | **(unaudited, unless otherwise indicated)** | | |
| **Items affecting comparability** | | | |
| Net gain of defined benefit obligation | – | 16.3 | – |
| Net gains or losses from business and assets disposals | 1.3 | 4.2 | 2.7 |
| Restructuring costs | -1.1 | -0.6 | -1.0 |
| Costs related to a planned stock exchange listing | -2.4 | – | – |
| **Total items affecting comparability** | **-2.1** | **19.9** | **1.7** |
| **Comparable EBITDA** | | | |
| Operating result[1] | 26.1 | 46.3 | 25.3 |
| Depreciation, amortisation and impairment[1] | 14.2 | 14.5 | 14.4 |
| **EBITDA** | **40.3** | **60.8** | **39.7** |
| Less: Total items affecting comparability | 2.1 | -19.9 | -1.7 |
| **Comparable EBITDA** | **42.4** | **40.8** | **38.0** |
| % of net sales | 11.8 | 11.5 | 10.0 |
| **Comparable EBIT** | | | |
| Operating result[1] | 26.1 | 46.3 | 25.3 |
| Less: Total items affecting comparability | 2.1 | -19.9 | -1.7 |
| **Comparable EBIT** | **28.2** | **26.4** | **23.6** |
| % of net sales | 7.8 | 7.4 | 6.2 |
| **Free cash flow** | | | |
| **Comparable EBITDA** | **42.4** | **40.8** | **38.0** |
| Change in working capital[1] [2] | 6.7 | -1.6 | 3.9 |
| Payments for property, plant and equipment and intangible assets[1] [2] | -11.9 | -8.7 | -11.3 |
| **Free cash flow** | **37.1** | **30.6** | **30.6** |
| % of comparable EBITDA (Cash conversion) | 87.6 | 74.8 | 80.4 |

[1] Audited.
[2] As presented in consolidated statement of cash flows.

## OPERATING AND FINANCIAL REVIEW

*The following review of the Company's results of operations and financial position should be read in conjunction with "Certain Matters — Presentation of Financial and Certain Other Information" and the Company's audited consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 included in the F-pages to this Offering Circular. The Company's audited consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 have been prepared in accordance with IFRS. This review contains forward-looking statements, which are subject to risks and uncertainties. The actual results of the Company may deviate considerably from those contained in such forward-looking statements as a result of factors discussed below and elsewhere in this Offering Circular, particularly in section "Risk Factors".*

### Overview

Altia is a leading Nordic alcoholic beverage company that operates in the wine and spirits markets in the Nordic countries, Estonia and Latvia.[156] The Company has production also in Cognac, France. The Company produces, imports, markets, sells and distributes both its own and its partners' brand beverages and exports alcoholic beverages to approximately 30 countries, most of which are in Europe, Asia and North America. The business operations of the Group are organised in three distinct business segments based on geographical location, consumer preferences and the nature of the business. These are: Finland & Exports, Scandinavia and Altia Industrial. The Finland & Exports and Scandinavia segments focus on consumer product sales comprising importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Within the Scandinavia segment the Company operates in Sweden, Norway and Denmark. The internal operations of the Finland & Exports and Scandinavia segments have synergy gains and economics of scale. The Altia Industrial segment comprises the Company's production of ethanol, starch and feed component, logistics, procurement and manufacturing operations as well as contract services. See "*Business of the Company — Business Segments*" for more information on the Company's business segments.

In the future, the Company will publish a financial statements bulletin and a midyear review, and a business review for the first three and nine months of the financial year in accordance with IAS 34 standard.

### Key Factors Affecting the Results of Operations

#### *General*

The key factors that have affected the Company's results of business operations during the review periods described in the following review and analysis, and which may continue to affect the Company's result of business operations in the future, include, but are not limited to, the following:

- General economic conditions;
- Demand, trends and consumer behaviour;
- Seasonal variation;
- Competition;
- The Company's operational efficiency;
- Price development of the Company's products;
- Pricing and availability of raw materials;
- Demand for industrial products;
- Changes in currency exchange rates;
- Regulatory and tax changes.

[156] The Company is the market leader in the combined Nordic wine and spirits markets as well as in Finland measured in volume.

Several drivers discussed below have previously been volatile and many of them have been beyond the Company's control, which makes it difficult to predict the Company's future performance, and its past performance will not necessarily be indicative of its future performance.

***General economic conditions***

The prevailing economic conditions and changes in consumer preferences may affect the Company's field of business and, as such, be reflected in the Company's results of operations. The macroeconomic and financial market conditions especially in the Company's home markets in Northern Europe are factors affecting the demand for the Company's products. In addition, market conditions in Russia and the Baltic, central Eastern European region, China and the United States may impact the demand for the Company's export services.

Principally, changes in general economic conditions have a limited impact on the demand for the Company's products as the Company operates in a rather stable market and has a large portfolio of products in different product and price segments. The market environment in which the Company operates is fairly stable because the state retail monopoly markets and the alcohol consumption in Finland, Sweden and Norway have historically not been significantly affected by economic cycles.[157] Economic fluctuation is usually reflected more strongly in consumers' purchasing power and spending behaviour, such as in consumer preferences between the product categories, brands and price segments. For example, during economic expansion and growth periods, in general the segments for premium wines and spirits develop better than average. General economic conditions may also affect the Company's sales volumes to HoReCa customers, grocery stores, travel retailers and wholesalers as sales to such customers are dependent on consumers' purchasing power and spending behaviour. On the other hand, an economic slowdown and other negative economic developments may affect consumer choices and put additional financial stress on the Company's customers and suppliers in the Nordics as well as in export markets. Even though the national alcoholic beverage retailing monopolies in Finland, Sweden and Norway can be seen as a lower credit risk customer than other customers, negative economic developments can negatively impact the Company's ability to collect its receivables in a timely manner, or at all, for example from its partners.

***Demand, trends and consumer behaviour***

Consumer behaviour and preferences in the alcoholic beverage markets are affected by several factors, including changes in purchasing power, the age structure of consumers, changes in consumer preferences regarding the geographical origin of wines, the popularity of different spirit types and lifestyle trends. Segmentation of consumer groups into smaller special groups as well as demand for the novelties are still continuing, for which the Company aims to actively analyse consumer trends to foresee future consumer preferences. Changes in consumption habits of alcoholic beverages and consumer preferences can occasionally occur fast. Therefore, cold summers or unusually warm temperatures in the winter season can result in temporary changes to consumer preferences and impact the demand for certain types of alcoholic beverages the Company produces and distributes.

Product innovation is a significant part of the Company's strategy for future growth, and the Company aims to respond to and foresee future changes and trends in a timely manner. The Company has a strong foothold in different product and price categories, including value-for-money products, premium products and local heritage brands whose demand has been stable. Although Nordic wine and spirits markets are expected to remain fairly stable with relatively moderate growth, key trends such as authenticity and up-trading, convenience, health & wellbeing and sustainability provide growth opportunities for the Company to continue to further develop and expand the Company's current product portfolio. For further information on the key trends, see "*Business of the Company — Key Strengths — A clear strategy that builds profitable growth*". For example, the trend of growing numbers of consumers favouring lighter or non-alcoholic beverages is already visible and is a part of the Company's strategy. On the other hand, rapid changes in demand for alcoholic beverages in general or in a specific category might increase or reduce the consumption of a certain product category or the consumption of alcoholic beverages as a whole, and therefore the Company must be able to react to these changes rapidly. Such changes may positively or negatively affect the Company's results and profitability.

The Company's success depends on the strength of its brands. Foreseeing and building business on new consumer trends as well as maintaining and strengthening the Company's brand image and reputation through a high-quality product portfolio are one of the key factors affecting the Company's results of operations also in the future. The Company's own products and the products of the Company's partners are sold on the consumer market in which the quality, visibility and reputation of product brands have substantial effects on their attractiveness for consumers. To maintain the Company's customer and partner relationships and to continue being competitive in the future, and thereby ensure continued demand, it is important for the Company to maintain delivery reliability, a high-quality product portfolio as well as its service level.

[157] Source: OECD (2017).

### *Seasonal variations*

There are substantial seasonal aspects affecting the Company's net sales and profitability during the year, namely holiday and seasonal consumer buying patterns, especially at the end of the year during Christmas and New Year, but also during other key holidays such as Easter, the 1st of May and Midsummer. The Company typically generates a large amount of its revenue and cash flow during the fourth quarter of each financial year driven by the Glögg category as well as the Christmas and New Year season sales in general with higher consumption and gift purchases of more premium wine and spirits. On the other hand, the Company's revenue is generally lower in the first quarter of each financial year. Profitability follows a similar pattern of seasonality to net sales, and it increases towards the end of the year especially due to the sales of Blossa as well as seasonal sales, taking place in the end of the year.

The following table presents the Company's quarterly net sales for the year ended 31 December 2017:

| **In EUR million** | **2017 (unaudited, unless otherwise indicated)** |
|---|---|
| 1 January to 31 March (Q1) | 73.4 |
| 1 April to 30 June (Q2) | 91.3 |
| 1 July to 30 September (Q3) | 84.5 |
| 1 October to 31 December (Q4) | 109.8 |
| **Full-year net sales[1)]** | **359.0** |

[1)] Audited.

The Company aims to actively mitigate the seasonal risks. The Company's aim is to benefit from the seasonal consumption peaks while at the same time expanding the product categories typically associated with a particular season outside that season. For example, the Company has taken measures to expand its core brands into new occasions, e.g., by introducing the Blossa product portfolio relating to winter season. The Company also aims to continue penetration of new markets outside the Nordics to reduce the impact of seasonal effects.

The seasonal variations have resulted in significant fluctuations also in net working capital during the financial year, with Company's net working capital requirements at their highest before Christmas, Easter and Midsummer. Net working capital needs in the first quarter of the year are typically driven by lower operating revenue, payable alcohol taxes, VAT and due trade payables arising from the Christmas selling period in the fourth quarter. In the third quarter, the Company generally purchases and produces large amounts of products, such as Blossa Glögg in the lead up to the Christmas season and thus utilises a significant amount of cash from operations for its working capital needs. If sales during the peak selling periods are weaker than estimated, it could leave the Company with a substantial amount of unsold seasonal products. In such an event, the Company might have to record inventory write-offs, which could result in a significant reduction in results, and, consequently, a significant deterioration in full-year earnings. See also "*Risk factors — As a large part of the Company's net sales is generated during the last two months of the year due to the seasonal variations, any event affecting consumer demand or the Company's ability to supply products during that period could affect the Company's results adversely*".

### *Competition*

The wine and spirits sale and distribution industry in the markets in which the Company operates is intensely competitive. Despite the regulated nature of the state retail monopoly markets, all international brand houses are generally present, together with their regional and local producers and representatives, as well as hundreds of smaller importers (particularly in the wine industry), in all key markets where the Company operates. The Company's distribution business is also very competitive with hundreds of importers operating in the market. The principal factors affecting the Company's competitive position among the customers, consumers and partners include its brand strength, product range, pricing, product quality, innovation and new product offering, distribution capabilities, knowledge, and the capabily and resources to create successful partnerships as well as the ability to foresee and respond to changing consumer preferences and demand. The effect of these factors varies depending on the market and the product.

A turnover of partners is a characteristic feature in the wine and spirits sale and distribution industry. The management of the Company believes that Altia has a strong competitive position with regard to maintaining and gaining partnerships. In 2017, Altia entered important new partnership and distribution agreements. In autumn 2017, the Company started to represent the wine portfolio of Treasury Wine Estates' (including e.g. Penfolds and Lindeman's) on an exclusive basis in retail and HoReCa sales in Finland. Further, in August 2017, the Company signed a distribution agreement for Koskenkorva Vodka with Infinium Spirits to enter the U.S. market. The Company's twelve largest partners accounted for

63 per cent of the net sales of Company's partner products in the year ended 31 December 2017, and the year-on-year net sales growth of these top partners was 5 per cent. The Company aims to strengthen its strategic partnerships and to grow business with its key partners with even broader co-operation and by applying broader business models. Gaining new customers, partners or distributors or, on the other hand, loss of agreements can affect the net sales and profitability of the Company's operations. In addition, pricing or other activities related to competing products can have an impact on the sale and distribution of the Company's products and services.

***The Company's operational efficiency***

*Divestments and streamlining measures*

In line with its strategy, the Company continuously aims to improve its operational efficiency by, for example, improving its supply chain productivity at the Koskenkorva and Rajamäki production plants and through improved materials management and technology. The Company has undergone a number of changes in the pursuit of operational efficiency improvements.

The Company has focused on improving operational efficiency by simplifying the Company structure and operations and improving capital efficiency. The Company has achieved efficiency and cost reductions in production and logistics. In 2016, the Company decided to divest its feed processing business at Koskenkorva, to increase the focus and improve the overall efficiency of the Koskenkorva plant. The Company has also divested non-core facilities and other assets as well as restructured its production and logistics operations in Rajamäki, Finland, for example. Furthermore, logistics services were outsourced in Denmark and Latvia in 2017.

During the review period, the Company streamlined its organization to better serve its customers and partners as well as to react faster to changing needs of customers and consumers. The Company has also invested in brand building, innovation and the development of sales operations and sales channels. Support functions were also streamlined and, for example, finance function was centralized to improve efficiency and control. Efficiency improvement and cost reduction measures played an important role in profitability improvement in the review period. Divestments of non-core businesses and assets contributed to the strong balance sheet position achieved during the review period.

*Category management*

Since 2013, the Company has taken strategic actions to create a platform for stable development of competitiveness and profitability. One of the key elements in the Company's commercial strategy has been a focus and resource allocation on its key brands and partners. The effective category management process has aimed to adapt its assortment to meet the preferences of its local customers and ensure that the Company's product offering is price-competitive, supports inventory turnover and improves the Company's profitability. Consequently, focusing on key brands and partners has resulted in a reduction in the number of the Company's stock keeping units from approximately 6,000 to approximately 3,500 and the number of its partners from approximately 600 to approximately 150.

While focusing and allocating resources on the key brands and partners and supporting the portfolio with marketing and sales force efforts, the Company actively reviews the scope of its portfolio and mix in different product and price categories and adjusts its product portfolio, when necessary, to reflect changes in the market and competitive environment as well as consumer preferences. With these measures, the Company aims to gain continuous competitiveness and profitability. Over the past years, the rationalisation has significantly reduced the net sales of the Company but the reduced assortment has increased operational efficiency, which has had a positive effect on the Company's profitability.

*Optimal capacity utilization*

The Company's production and supply chain consists of the Koskenkorva distillery, an aquavit distillery in Sundsvall in Sweden, an alcohol beverage and technical ethanol plants in Rajamäki, an alcohol beverage plant in Tabasalu in Estonia, and cognac production and aging cellars in Cognac in France. In addition to the production plants, the Company has its own or third-party operated warehouse operations in all of its operating countries: Finland, Estonia, Latvia, Sweden, Denmark and Norway.

The Koskenkorva plant is efficient due to the unit's own production, innovative use of material streams and outbounds, and a bio power plant in Koskenkorva. The demand for the end products, i.e. grain spirit, technical ethanol, starch and animal feed components, enable the Company to maintain optimal capacity utilization at the plant and extract benefits of its integrated production process. Production volume is always a combination of the products. Therefore, significant changes in demand for one of the end products cannot be fully reflected in production because of the interdependence with the other streams. For example, increased demand for starch could not be supplied without gaining additional volumes of grain spirit or technical ethanol. With respect to logistics, several local logistics operations have been outsourced to improve flexibility. Due to the versatile range of different products, bottles and packaging concepts, production planning is critical to ensure efficiency and to ensure the targeted costs of the goods sold. Disruptions or low capacity utilisation at the Company's production plants could result in downtime on the machines and thereby have an adverse effect on the Company's profitability.

***Price development of the Company's products***

The Company operates in four different end markets: the State retail monopoly markets, retail, wholesale and HoReCa and travel retail and exports. The pricing of the Company's products is affected by demand in the end markets, portfolio management, tendering processes in retail monopolies, competition, the cost of raw materials and production, cost management and efficiency measures, as well as the overall financial targets. There are significant price differences between the Company's home markets caused by varying alcohol tax levels, which may also affect pricing decisions for the products.

The pricing of the Nordic state retail monopolies consists of four elements: the supplier price, monopoly mark-up, alcohol taxes and VAT. The state retail monopolies' pricing is transparent, and the price is generally determined in tendering processes. The pricing is principally based on predetermined gross margins, which allows a supplier to calculate how the resulting consumer prices are set to their desired price points. The Company reassesses the prices of its products continuously and evaluates detailed data received from the monopolies on the volumes and sales, based on which the Company can determine the optimal pricing strategy in each product segment. The Company's products are priced in a competitive way by utilising scale, local presence, strong brands, long experience and extensive knowledge of consumer reactions with respect to changes in pricing in different price points.

The behaviour of the Company's large customers and partners has in the past and could in the future have an impact on the Company's profitability through pricing pressure. When determining contract prices, the Company must make assumptions and estimates about, for example, levels of competition and pricing of other producers in its markets and future costs and resources required to provide a particular product or service.

***Pricing and availability of raw materials***

The Company's main raw materials are barley, bulk wine, *eau-de-vie* for cognac, whiskey, spring water, as well as other ingredients needed for a variety of different alcoholic beverages. The Company also purchases packaging materials, such as glass and PET bottles, corks and paper board for secondary packaging of the Company's own brands, as well as raw materials that are used in production of industrial products and services under the Company's Altia Industrial segment. The Company is exposed to price volatility with respect to each of these materials. Fluctuations in raw material prices can affect the Company's profitability at least in the short term, as they are not immediately reflected in the prices of the Company's products.

Costs of raw materials and packaging materials used for the Company's products may be affected by various reasons, such as global supply and demand, fuel and transport costs, weather conditions, agricultural uncertainty, crop failures, and governmental import and export controls. In 2017, the Company purchased approximately 206 million kilos of Finnish barley. The market price of barley fluctuates significantly year by year due to several factors, such as weather conditions. Similarly, the cost of the wine that the Company imports is also exposed to price volatility, driven by changes in supply and demand. For example, 2017 was an unfavourable crop year both in Finland and in Southern Europe negatively affecting the availability of barley and wine, respectively, and thus, their price levels. The price risk of barley has not been hedged due to lack of effective derivative instruments available. The cost of packaging materials varies over time, typically following world price indexes that are based on crude oil or pulp prices, amongst other things. The availability of raw materials procured by the Company is usually ensured through framework agreements as well as arrangements with wholesalers. In exceptional circumstances, for example due to the effects of climate change, the Company could use certain alternative raw materials for the production of alcoholic beverages as well as packaging.

One of the most significant cost items for the Company is electricity. The Company purchases electricity straight from the Nord Pool Spot markets as a delivery tied to the spot price of the Finnish price area. Fluctuations in the market price of electricity are likely to affect the Company's total operating costs. The price risk is managed by following the Company's principles for electricity procurement. For more information on the Company's exposure to fluctuations in electricity price, see "*— Financial Risk Management — Price risk associated with commodities — Electricity*".

***Demand for industrial products***

In addition to alcoholic beverages, the Company produces barley starch, technical ethanol and solvents, geothermal fluids and animal feed components as by-products for its industrial customers. In 2017, the Company's net sales for the industrial products and services (i.e. the Altia Industrial segment) accounted for 28.2 per cent of the Company's total net sales.

Technical ethanols and solvents are produced to meet the needs of a wide range of industries, including pharmaceutical, healthcare, chemical and technochemical industries. Further, a considerable share is used to produce fluids for geothermal heat pumps. Barley starch is used by the food industry, as well as for brewing and technical applications and as a binding and coating agent in the paper and paperboard industries. General economic conditions affect the demand for industrial products and therefore the end use of the products the Company is supplying. The starch market has generally been stable but the recent growth in paper and especially paperboard industries has increased the demand for starch. According to the Company management, the market for technical ethanol has been relatively stable, but the market for heat transfer fluids is growing. The Company also aims to continue the growth of the customer base of geothermal fluids and to expand the customer base of pharmaceutical customers, which could increase the production of technical ethanol, improve the net sales of the Company and reduce the production costs of grain spirit.

***Changes in currency exchange rates***

The Company operates in the Nordics and exports its products to several other countries, and, accordingly, it generates a portion of its sales and incurs a part of its expenses in currencies other than the euro. In addition, the Company has assets in currencies other than the euro. Accordingly, fluctuations in foreign currency exchange rates can affect the Company's financial position and results of operations positively or negatively. The Company's exposure to foreign exchange rates consists of transaction exposure and translation exposure. Fluctuations in currency exchange rates against the euro, particularly that of the Swedish krona, the Norwegian krone, U.S. dollar and Australian dollar have had, and are likely to continue to have, a significant impact on the Company's reported figures. For more information on the Company's exposure to fluctuations in currency exchange rates, see "*— Financial Risk Management — Currency risk*".

***Regulatory and tax changes***

The Company's business is subject to, and impacted by, extensive laws and regulations. See "*Regulation related to Alcoholic Beverages*" and "*Risk Factors — Risks Related to the Highly Regulated Nordic Alcohol Market*" for further details on the Company's regulatory environment. These laws may change from time to time, which can have a direct impact on the Company or the changes can affect the Company's customers or the markets they serve. Such regulatory changes could include, for example, changes to legislation regarding state-owned retail monopolies, the number of monopoly outlets or categories of products that need to be sold through monopoly outlets, regulations relating to the production, sale and marketing of the Company's products, such as labelling requirements, alcohol tax, or the passing of laws or regulations that seek to restrict or have the effect of restricting consumer access to alcohol.

While regulation may adversely affect the Company's business, it may also offer opportunities to develop new products, gain competitive advantage as well as deepen relationships with the customers. For example, the Finnish renewed Alcohol Act allows selling ethanol based RTDs in grocery stores as of January 2018. The Company believes that the renewed Alcohol Act will create new possibilities for the retail segment and offer an opportunity to expand the blended RTD product market, and therefore it could have a positive impact on the Company's results of operations. For more information on risks related to future changes in legislation, see "*Risk Factors — Risks Related to the Highly Regulated Nordic Alcohol Market*".

Excise taxes related to alcohol are the taxes with heaviest impact on the Company's operational activities. For example, in Finland the Government is expecting that the tax increase made in January 2018 will increase the earnings from alcohol tax by EUR 100 million per year. The excise duty increase is allocated as follows: mild, fermented beverages such as ciders 10.7 per cent, wine 13.0 per cent, beer 10.9 per cent, spirits 5.0 per cent, intermediate products (fortified wines) 9.5 per cent and ethyl alcohol (spirituous beverages and non-fermented RTD products) 5.0 per cent. Demand for the Company's products is sensitive to fluctuations in excise taxes, since excise taxes generally constitute the largest component of the sales price of alcoholic beverages. In Nordic countries, increase in alcohol taxation and differences in consumer prices between neighbouring countries have increased the share of cross-border and tax-free sales. The tax and excise regimes applicable to the Company's operations have in the past resulted, and could result in the future, in temporary increases or decreases in revenue that are responsive to the timing of any changes in excise taxes. Although these taxes are not included in the Company's net sales, changes in taxes may affect the Company's price setting as the Company needs to consider whether and to what extent it will reflect such changes in the sales prices of its alcohol products. The Company may pass on increases in excise taxes to consumers, and revise prices above or below the amount needed to reflect tax changes for certain brands, which thus may result in higher or lower net sales.

**Recent Events**

There has been no significant change in the Company's financial or trading position between 31 December 2017 and the date of this Offering Circular.

## Future Outlook

*The following future outlook constitutes forward-looking statements that are not guarantees of future financial performance and the Company's actual financial performance could differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including but not limited to those described under "Certain Matters — Forward-Looking Statements", "Risk Factors", and "– Key Factors Affecting the Results of Operations". The Company cautions prospective investors not to place undue reliance on these forward-looking statements.*

The positive trend in Altia's core brand portfolio is expected to continue. Cost increases on key raw materials and expansion in exports impact profitability development. The Group's comparable EBITDA is expected to improve or be at the 2017 level.

There has been no material adverse change in the future outlook of the Company since the publication of the last audited financial statements.

### *Basis of the guidance*

Altia's guidance is based on the estimates and assumptions made by the Company's management as regards the development of the Company's net sales, EBITDA and operating environment. The guidance is based on market forecasts of alcohol beverages, which the Company utilises especially when formulating long-term forecasts. It is also based on the volume development, in particular with respect to the Company's core brands, and the growth expectations on innovations, partner business as well as exports and travel retail.

The key factors affecting net sales and operating profit, in which Altia can affect, are product portfolio management, pricing, product quality, innovation and new products, functioning of the logistics, knowledge, capabilities and resources to create successful partnerships, continuous monitoring of costs and efficiency, as well as the ability to foresee and respond to changing consumer preferences and demand.

Factors beyond Altia's control are mainly related to the competitors' actions, general economic development and the consumer confidence that may affect demand in both consumer products and industrial products. In addition to these factors, failure to reach the expected sales set for the most significant products for reasons independent of the Company or termination of the cooperation with the largest partners may affect the Company's expected results in the short term. Also other general risk factors in the industry and business, the availability and fluctuation in prices of raw materials due to crop seasons and weather conditions, fluctuation in the consumer demand of the products, currency exchange fluctuations as well as regulatory and tax changes are also beyond Altia's control.

The independent auditor's assurance report on the profit forecast is included in Appendix B of this Offering Circular.

## Explanation of the Key Items in the Income Statement

### *Net sales*

Net sales are generated by the sale of the Company's own products and partner brands, contract manufacturing and sale of industrial products. Net sales are comprised of the fair values determined on the basis of the consideration received or to be received for products or services sold less discounts given, indirect taxes, excise tax, deposit and recycling fees and exchange rate differences.

### *Other operating income*

Other operating income consists mainly of rental income from idle buildings due to the divestment of businesses or other reasons. It also contains gains of sale of property, plant and equipment, intangible and other assets as well as income from sale of energy, water and steam to other industrial operators at both the Rajamäki and Koskenkorva plants as well as the income from the sale of carbon dioxide at the Koskenkorva plant.

### *Materials and services*

Material and services consist of the cost of goods sold, i.e. the cost of barley, wine, different spirits, liquids, spring water as well as other ingredients and raw materials needed for a variety of different drinks, as well as production costs which are caused by converting raw materials into finished goods or goods in progress, changes in inventories, scrapping and obsolescence costs and logistics costs.

***Employee benefit expenses***

Employee benefits expenses consist of wages, salaries and pension expenses arising from defined benefit plans and defined contribution plans and other personnel expenses, including social security payments and statutory insurance expenses.

***Other operating expenses***

Other operating expenses mainly consist of rental expenses, marketing expenses, variable sales expenses, energy costs, repair and maintenance expenses, as well as various purchased or outsourcing services related to IT, administration and operations.

***Depreciation, amortisation and impairment***

Depreciation, amortisation and impairment includes the depreciation of property, plant and equipment and the amortisation of the intangible assets, such as trademarks and IT licences as well as any impairment charges related to property, plant and equipment or intangible assets.

***Finance income***

Finance income includes interest income from financial assets recognised at fair value through profit or loss, loans and other receivables, as well as foreign exchange gains on financial assets and dividend income.

***Finance expenses***

Finance expenses mainly consist of interest expenses related to financial liabilities at amortised cost, derivatives under hedge accounting (interest rate risk), forward points on FX-forwards and pension liability as well as foreign exchange losses of financial assets and other finance expenses.

***Share of profit in associates and income from interests in joint operations***

During the periods presented, the share of profit in associates and income from interests in joint operations consists of the annual minimum dividend received by the Company from its investment in Roal Oy, a joint arrangement with ABF Overseas Limited.

***Income tax expense***

Income tax expense consists of income taxes recognised for the year, taxes related to previous years and the change of deferred taxes during the year. Deferred tax assets and liabilities are principally recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from property, plant and equipment and intangible assets, tax loss carry forwards and fair value allocations made in connection with the business combinations.

**Results of Operations**

***General***

The following is a review of the Company's results of business operations for the years ended 31 December 2017, 2016 and 2015. In this review, the segment information for all periods presented is based on the Company's current segments and the review of segments is based on the key indicators (net sales and comparable EBITDA) used by the management to measure the performance of the segments. There are currently three segments: Finland & Exports, Scandinavia and Altia Industrial. The segment information for the financial years ended 31 December 2017 and 31 December 2016 presented herein is derived from the audited consolidated financial statements for the respective financial years, included in this Offering Circular. The segment information for the year ended 31 December 2015 is derived from the Company's internal management reporting and thus is unaudited.

The following table presents a summary of the Company's consolidated income statement for the years ended 31 December 2017, 2016 and 2015. The information in this table should be read in conjunction with the Company's audited consolidated financial statements for the years ended 31 December 2017, 2016 and 2015 included in this Offering Circular.

| In EUR million | 1 January to 31 December 2017 | 2016 (restated) (audited) | 2015 (restated) |
|---|---|---|---|
| **Net sales** | **359.0** | **356.6** | **380.7** |
| Other operating income | 8.3 | 12.6 | 10.0 |
| Materials and services | -202.0 | -197.0 | -217.2 |
| Employee benefit expenses | -52.0 | -36.6 | -54.7 |
| Other operating expenses | -72.9 | -74.8 | -79.1 |
| Depreciation, amortisation and impairment | -14.2 | -14.5 | -14.4 |
| **Operating result** | **26.1** | **46.3** | **25.3** |
| Finance income | 4.5 | 1.3 | 0.8 |
| Finance expenses | -6.4 | -3.4 | -3.6 |
| Share of profit in associates and income from interests in joint operations | 0.9 | 0.9 | 0.9 |
| **Result before taxes** | **25.0** | **45.0** | **23.4** |
| Income tax expense | -6.7 | -9.0 | -5.2 |
| **Result for the period** | **18.3** | **36.1** | **18.1** |

***Financial year 2017 compared to the financial year 2016***

*Net sales*

The Company's net sales were EUR 359.0 million in the year ended 31 December 2017, an increase of EUR 2.4 million, or 0.7 per cent, as compared to EUR 356.6 million in the year ended 31 December 2016. The increase was mainly due to strong demand for industrial products in the Altia Industrial segment, as well as the continued good level of sales of both Altia's core brands and core partner products in Finland, travel and retail, exports and Sweden. The sales volume of consumer products[158] decreased, which was partially compensated for by the positive impact of the product mix and pricing on the net sales. Net sales were negatively impacted by exchange rate fluctuations of the Swedish and Norwegian krona (approximately EUR -2.1 million).

The following table presents the Company's net sales by segment for the years ended 31 December 2017 and 2016.

| External net sales by segment In EUR million | 1 January to 31 December 2017 (audited) | 2016 (audited) | Percentage change % |
|---|---|---|---|
| Finland & Exports | 133.9 | 133.9 | -0.0 |
| Scandinavia | 123.7 | 127.4 | -2.9 |
| Altia Industrial | 101.3 | 95.2 | 6.4 |
| **Group total** | **359.0** | **356.6** | **0.7** |

Net sales from the Finland & Exports segment were EUR 133.9 million for both years ending 31 December 2017 and 31 December 2016. All markets in the segment grew except for Estonia where the excise tax changes had a negative impact on the net sales. Increased sales volumes in travel and retail as well as exports through new market openings and the increased distribution of Altia's own core brands had a positive effect on the net sales of the segment.

Net sales from the Scandinavia segment were EUR 123.7 million in the year ended 31 December 2017, a decrease of EUR 3.7 million, or 2.9 per cent, as compared to EUR 127.4 million in the year ended 31 December 2016. The decrease was mainly due to the negative development of partner product portfolios, particularly in Norway and unfavourable changes in exchange rates, which impacted net sales by approximately EUR -2.1 million.

Net sales from the Altia Industrial segment were EUR 101.3 million in the year ended 31 December 2017, an increase of EUR 6.1 million, or 6.4 per cent, as compared to EUR 95.2 million in the year ended 31 December 2016. The increase was mainly due to strong demand for industrial products and an increased starch production capacity at the Koskenkorva plant following an investment made by the Company.

[158] Products of the Finland & Exports and Scandinavia segments.

*Other operating income*

The Company's other operating income was EUR 8.3 million in the year ended 31 December 2017, a decrease of EUR 4.3 million, or 34.2 per cent, as compared to EUR 12.6 million in the year ended 31 December 2016. The decrease was mainly due to increased gains on sales of the Company's assets recognised in 2016 than in 2017 due to the Company selling a larger amount of its non-core assets in 2017 than in 2016. In 2017, other operating income included a gain of EUR 1.3 million relating to the sale of real property of the Svendborg plant in Denmark, which was considered as an item affecting comparability for the year ended 31 December 2017. In 2016, other operating income included gains in total of EUR 4.2 million relating to the divestment of the feed processing business at the Koskenkorva plant to A-Rehu and the divestment of the steam distribution network at the Rajamäki plant. Both capital gains are considered as items affecting comparability for the year ended 31 December 2016.

*Materials and services*

The Company's materials and services costs were EUR 202.0 million in the year ended 31 December 2017, an increase of EUR 5.0 million, or 2.5 per cent, as compared to EUR 197.0 million in the year ended 31 December 2016. The increase was mainly due to increased production volumes in the Altia Industrial segment.

*Employee benefit expenses*

The Company's employee benefit expenses were EUR 52.0 million in the year ended 31 December 2017, an increase of EUR 15.5 million, or 42.4 per cent, as compared to EUR 36.6 million in the year ended 31 December 2016. In 2016, employment benefit expenses included a gain of EUR 16.5 million on the settlement of defined benefit obligation, which is considered to be an item affecting comparability for the year ended 31 December 2016. In conjunction with changes to statutory pension security, the Company switched from a voluntary defined benefit pension insurance that was ended at the beginning of 1994 to a defined contribution system. At the same time, the Company discontinued annual index-based increases and decided to implement a significant one-time increase in pension benefits instead. In addition, employee benefit expenses included restructuring costs to a total of EUR 1.1 million, and expenses related to the planned stock exchange listing of EUR 0.9 million in 2017, as well as restructuring costs of EUR 0.6 million in 2016, which are considered to be items affecting comparability.

Employee benefit expenses excluding items affecting comparability were EUR 50.1 million in the year ended 31 December 2017 and EUR 52.4 million in the year ended 31 December 2016, i.e. a decrease of EUR 2.3 million. The decrease was mainly due to a decrease in the number of the Company's employees in 2017.

*Other operating expenses*

The Company's other operating expenses were EUR 72.9 million in the year ended 31 December 2017, a decrease of EUR 1.8 million, or 2.5 per cent, as compared to EUR 74.8 million in the year ended 31 December 2016. The decrease was mainly due to reductions in the Company's cost structure as a result of divestments of the Company's non-core assets as well as adopted efficiency measures.

*Depreciation, amortisation and impairment*

The Company's depreciation, amortisation and impairment losses were EUR 14.2 million in the year ended 31 December 2017, a decrease of EUR 0.3 million, or 1.8 per cent, as compared to EUR 14.5 million in the year ended 31 December 2016. Depreciation of property, plant and equipment was EUR 8.7 million in the year ended 31 December 2017 and EUR 8.9 million in the year ended 31 December 2016. Amortisation of intangible assets was EUR 5.5 million in the year ended 31 December 2017 and EUR 5.6 million in the year ended 31 December 2016. Amortisation of intangible assets included the amortisation of EUR 4.4 million considering brands acquired in connection with the business acquisitions made in previous years in the year ended 31 December 2017, and EUR 4.3 million in the year ended 31 December 2016.

*Operating result*

The Company's operating result was EUR 26.1 million in the year ended 31 December 2017, a decrease of EUR 20.2 million, or 43.7 per cent, as compared to EUR 46.3 million in the year ended 31 December 2016. The decrease was mainly due to a net gain of EUR 16.3 million on the settlement of defined benefit obligation, which is considered to be an item affecting comparability for the year ended 31 December 2016.

The operating result for the year ended 31 December 2017 included items affecting comparability of EUR -2.1 million in total and the operating result for the year ended 31 December 2016 included similar items of EUR 19.9 million in total. The items affecting comparability for the year ended 31 December 2017 were a gain of EUR 1.3 million on the sales of non-core assets, restructuring costs of EUR 1.1 million relating to changes in supply chains, support functions and organisational changes in segments as well as cost of EUR 2.4 million related to the contemplated Listing. The items affecting comparability for the year ended 31 December 2016 were a net gain of EUR 16.3 million on the settlement of defined benefit obligation, gains of EUR 4.2 million from the sale of non-core assets as well as real estate, and restructuring costs of EUR 0.6 million relating to employee benefit expenses.

*EBITDA and Comparable EBITDA*

The following table presents the Company's EBITDA and Comparable EBITDA by segment for the years ended 31 December 2017 and 2016.

| | **1 January to 31 December** | | |
|---|---|---|---|
| **In EUR million** | **2017** (audited) | **2016** (audited) | **Percentage change %** |
| **EBITDA** | | | |
| **Group total** | **40.3** | **60.8** | **-33.7** |
| **Items affecting comparability** | | | |
| **Group total** | **2.1** | **-19.9** | **-** |
| **Comparable EBITDA** | | | |
| **Group total** | **42.4** | **40.8** | **3.8** |
| Finland & Exports | 19.6 | 20.2 | -3.0 |
| Scandinavia | 11.5 | 10.4 | 10.6 |
| Altia Industrial | 12.5 | 8.4 | 48.5 |
| Unallocated and adjustments | -1.1 | 1.9 | - |

The Company's EBITDA was EUR 40.3 million in the year ended 31 December 2017, a decrease of EUR 20.5 million, or 33.7 per cent, as compared to 60.8 million in the year ended 31 December 2016. The decrease was mainly due to the items affecting comparability, which were EUR 19.9 million positive in 2016 and EUR 2.1 million negative in 2017, as described above in connection with the Company's operating result. The Company's comparable EBITDA was EUR 42.4 million in the year ended 31 December 2017, an increase of EUR 1.5 million, or 3.8 per cent, as compared to EUR 40.8 million in the year ended 31 December 2016. The increase was mainly due to the adopted efficiency measures as well as streamlining measures. In addition, the increase was supported by pricing efforts, the positive effect of the product mix, and premiumisation. Comparable EBITDA was negatively impacted by the reduced sales volumes of especially for partner wine brands.

In 2017, the Company's comparable EBITDA included EUR -1.1 million of adjustments and items not allocated to segments. In 2016, the Company's comparable EBITDA included EUR 1.9 million of adjustments and items not allocated to segments.[159]

Comparable EBITDA from the Finland & Exports segment was EUR 19.6 million in the year ended 31 December 2017, a decrease of EUR 0.6 million, or 3.0 per cent, as compared to EUR 20.2 million in the year ended 31 December 2016. The decrease was mainly due to reduced sales volumes in Estonia and increases in fixed costs.

Comparable EBITDA from the Scandinavia segment was EUR 11.5 million in the year ended 31 December 2017, an increase of EUR 1.1 million, or 10.6 per cent, as compared to EUR 10.4 million in the year ended 31 December 2016. The increase was mainly due to increased efforts in marketing and adopted efficiency measures.

Comparable EBITDA from the Altia Industrial segment was EUR 12.5 million in the year ended 31 December 2017, an increase of EUR 4.1 million, or 48.5 per cent, as compared to EUR 8.4 million in the year ended 31 December 2016. The increase was mainly due to high capacity utilisation at the Koskenkorva plant, high contract manufacturing volumes at the Rajamäki alcoholic beverage plant and efficiency measures in the supply chain.

[159] Expenses allocated to the segments relate to shared functions or business support services and are based on budgeted amounts. Variances from the budgeted amounts can result in either unforeseen incurred overruns or savings. These variances are not allocated to the segments in internal reporting and in the segment reporting they are presented as the item "Unallocated and adjustments". In addition, the item "Unallocated and adjustments" includes certain unallocated headquarter costs.

*Finance income and expenses*

The Company's net finance expenses were EUR 1.9 million in the year ended 31 December 2017, a decrease of EUR 0.2 million, or 10.0 per cent, as compared to EUR 2.2 million in the year ended 31 December 2016. The decrease was mainly due to decreased interest expenses.

*Income tax expense*

The Company's income tax expense was EUR 6.7 million in the year ended 31 December 2017, a decrease of EUR 2.2 million, or 24.9 per cent, as compared to EUR 9.0 million in the year ended 31 December 2016. The decrease was mainly due to a decrease in the Company's taxable income. As at 31 December 2017, the effective tax rate was 27.0 per cent compared to 19.9 per cent as at 31 December 2016. The increase in the effective tax rate was mainly due to a reassessment of deferred tax liability in Estonia.

*Result for the period*

The Company's result for the period was EUR 18.3 million in the year ended 31 December 2017, a decrease of EUR 17.8 million, or 49.3 per cent, as compared to EUR 36.1 million in the year ended 31 December 2016. The decrease was mainly due to a gain on the settlement of defined benefit obligation in 2016, which is considered to be item affecting comparability for the year ended 31 December 2016.

***Financial year 2016 compared to the financial year 2015***

*Net sales*

The Company's net sales were EUR 356.6 million in the year ended 31 December 2016, a decrease of EUR 24.1 million, or 6.3 per cent, as compared to EUR 380.7 million in the year ended 31 December 2015. The decrease was mainly due to the discontinuation of the industrial services operations at the Svendborg plant in Denmark and due to the divestment of the animal feed processing business at the Koskenkorva plant as well as strategic streamlining of the Company's product portfolio.

The following table presents the Company's net sales by segment for the years ended 31 December 2016 and 2015.

| | **1 January to 31 December** | | |
|---|---|---|---|
| **External net sales by segment** | **2016** | **2015** | **Percentage change %** |
| **In EUR million** | **(audited)** | **(unaudited, unless otherwise indicated)** | |
| Finland & Exports | 133.9 | 137.0 | -2.2 |
| Scandinavia | 127.4 | 133.2 | -4.3 |
| Altia Industrial | 95.2 | 110.6 | -13.9 |
| **Group total** | **356.6** | **380.7[1)]** | **-6.3** |

1) Audited.

Net sales from the Finland & Exports segment were EUR 133.9 million in the year ended 31 December 2016, a decrease of EUR 3.0 million, or 2.2 per cent, as compared to EUR 137.0 million in the year ended 31 December 2015. The decrease was mainly due to measures to consolidate the Company's product portfolio and decreased sales volumes, which was partially compensated by the positive impact of product mix and pricing on the net sales.

Net sales from the Scandinavia segment were EUR 127.4 million in the year ended 31 December 2016, a decrease of EUR 5.7 million, or 4.3 per cent, as compared to EUR 133.2 million in the year ended 31 December 2015. The decrease was mainly due to changes in the Company's product portfolio and decreased sales volumes, which were partially compensated for by the positive impact of the product mix and pricing on the net sales. In addition, the decrease was due to unfavourable changes in exchange rates impacting net sales by approximately EUR -2.2 million.

Net sales from the Altia Industrial segment were EUR 95.2 million in the year ended 31 December 2016, a decrease of EUR 15.4 million, or 13.9 per cent, as compared to EUR 110.6 million in the year ended 31 December 2015. The decrease was mainly due to discontinued industrial services operations at the Svendborg plant in Denmark and divestment of the animal feed processing business at the Koskenkorva plant. Lower contract manufacturing volumes as well as the effect of barley prices on the sales prices in the starch and feed business also affected the segment's net sales.

*Other operating income*

The Company's other operating income was EUR 12.6 million in the year ended 31 December 2016, an increase of EUR 2.5 million, or 25.2 per cent, as compared to EUR 10.0 million in the year ended 31 December 2015. The increase was mainly due to gains of EUR 4.2 million from the divestment of the feed processing business at the Koskenkorva plant to A-Rehu and the divestment of the steam distribution network at the Rajamäki plant, both considered as items affecting comparability for the year ended 31 December 2016. In 2015, other operating income included a gain of EUR 2.7 million comprising gains from sales of non-core assets, real estate and property considered as an item affecting comparability for the year ended 31 December 2015.

*Materials and services*

The Company's materials and services costs were EUR 197.0 million in the year ended 31 December 2016, a decrease of EUR 20.2 million, or 9.3 per cent, as compared to EUR 217.2 million in the year ended 31 December 2015. The decrease was mainly due to discontinued industrial services at the Svendborg plant in Denmark, the divestment of the animal feed processing business at the Koskenkorva plant and the divestment of steam distribution network at the Rajamäki plant, lower production volumes as well as production and sourcing efficiencies.

*Employee benefit expenses*

The Company's employee benefit expenses were EUR 36.6 million in the year ended 31 December 2016, a decrease of EUR 18.1 million, or 33.2 per cent, as compared to EUR 54.7 million in the year ended 31 December 2015. The decrease was mainly due to a gain of EUR 16.5 million on the settlement of defined benefit obligation, which is considered an item affecting comparability for the year ended 31 December 2016. For more information, see section "*— Financial year 2017 compared to the financial year 2016 — Employee benefit expenses*" above. The Company's employee benefit expenses also decreased due to adopted efficiency measures in the Company. In addition, employee benefit expenses included restructuring costs to a total of EUR 0.6 million in 2016 and EUR 1.0 million in 2015, which are considered items affecting comparability.

Employee benefit expenses excluding items affecting comparability were EUR 52.4 million in the year ended 31 December 2016 and EUR 53.7 million in the year ended 31 December 2015, i.e. a decrease of EUR 1.2 million. The decrease was mainly due to a reduction in the number of the Company's employees in 2016.

*Other operating expenses*

The Company's other operating expenses were EUR 74.8 million in the year ended 31 December 2016, a decrease of EUR 4.4 million, or 5.5 per cent, as compared to EUR 79.1 million in the year ended 31 December 2015. The decrease was mainly due to reductions in the Company's cost structure as a result of divestments of the Company's non-core assets and adopted efficiency measures.

*Depreciation, amortisation and impairment*

The Company's depreciation, amortisation and impairment losses were EUR 14.5 million in the year ended 31 December 2016, an increase of EUR 0.1 million, or 0.5 per cent, as compared to EUR 14.4 million in the year ended 31 December 2015. Depreciation of property, plant and equipment was EUR 8.9 million in the year ended 31 December 2016 and EUR 8.8 million in the year ended 31 December 2015. Amortisation of intangible assets was EUR 5.6 million in the years ended 31 December 2016 and 2015. Amortisation of intangible assets included the amortisation of EUR 4.3 million concerning brands acquired in connection with the business acquisitions made in previous years in the year ended 31 December 2016, and EUR 4.5 million in the year ended 31 December 2015.

*Operating result*

The Company's operating result was EUR 46.3 million in the year ended 31 December 2016, an increase of EUR 21.0 million, or 83.2 per cent, as compared to EUR 25.3 million in the year ended 31 December 2015. The increase was mainly due to a net gain of EUR 16.3 million on the settlement of defined benefit obligation in 2016, which is considered an item affecting the comparability for the year ended 31 December 2016.

The Company's operating result for the year ended 31 December 2016 included items affecting comparability for a total of EUR 19.9 million whereas the operating result for the year ended 31 December 2015 included such items for a total of EUR 1.7 million. The items affecting comparability for the year ended 31 December 2016 were: a net gain of EUR 16.3 million on the settlement of defined benefit obligation, gains of EUR 4.2 million from the sale of non-core assets as well as real estate, and restructuring costs of EUR 0.6 million related to employee benefit expenses. The items affecting comparability for the year ended 31 December 2015 were a gain of EUR 2.7 million from sales of non-core assets, real estate and movable property and restructuring costs of EUR 1.0 million relating to employee benefit expenses and strategic changes to the product portfolio.

*EBITDA and Comparable EBITDA*

The following table presents the Company's EBITDA and Comparable EBITDA by segment for the years ended 31 December 2016 and 31 December 2015:

| | 1 January to 31 December | | |
|---|---|---|---|
| **In EUR million** | **2016** | **2015** | **Percentage change %** |
| | **(audited)** | **(unaudited)** | |
| **EBITDA** | | | |
| **Group total** | **60.8** | **39.7** | **53.1** |
| **Items affecting comparability** | | | |
| **Group total** | **-19.9** | **-1.7** | **-** |
| **Comparable EBITDA** | | | |
| **Group total** | **40.8** | **38.0** | **7.5** |
| Finland & Exports | 20.2 | 20.3 | -0.9 |
| Scandinavia | 10.4 | 11.9 | -12.5 |
| Altia Industrial | 8.4 | 8.9 | -6.0 |
| Unallocated and adjustments | 1.9 | -3.2 | - |

The Company's EBITDA was EUR 60.8 million in the year ended 31 December 2016, an increase of EUR 21.1 million, or 53.1 per cent, as compared to EUR 39.7 million in the year ended 31 December 2015. The increase was mainly due to the items affecting comparability described above in connection with the Company's operating result. The Company's comparable EBITDA was EUR 40.8 million in the year ended 31 December 2016, an increase of EUR 2.9 million, or 7.5 per cent, as compared to EUR 38.0 million in the year ended 31 December 2015. The increase was mainly due to pricing efforts and the positive effects of the product mix as well as adopted efficiency measures. On the other hand, the decrease in sales volumes and discontinued operations in Denmark had a negative impact on the comparable EBITDA.

In 2016, the Company's comparable EBITDA included EUR 1.9 million of adjustments and items not allocated to segments, such as certain unallocated headquarter costs. In 2015, the Company's comparable EBITDA included EUR -3.2 million of adjustments and items not allocated to segments.[160]

Comparable EBITDA from the Finland & Exports segment was EUR 20.2 million in the year ended 31 December 2016, a decrease of EUR 0.2 million, or 0.9 per cent, as compared to EUR 20.3 million in the year ended 31 December 2015. The stable performance was a result of pricing efforts and positive impacts of the product mix, as well as adopted efficiency measures compensating for the negative impact of product portfolio changes and the volume decrease.

Comparable EBITDA from the Scandinavia segment was EUR 10.4 million in the year ended 31 December 2016, a decrease of EUR 1.5 million, or 12.5 per cent, as compared to EUR 11.9 million in the year ended 31 December 2015. The decrease was mainly due to a decrease in sales volume because of product portfolio changes, changes in the cost structure and unfavourable changes in exchange rates.

Comparable EBITDA from the Altia Industrial segment was EUR 8.4 million in the year ended 31 December 2016, a decrease of EUR 0.5 million, or 6.0 per cent, as compared to EUR 8.9 million in the year ended 31 December 2015. The decrease was mainly due to lower contract manufacturing volumes because of the discontinuation of industrial services operations at the Svendborg plant in Denmark.

*Finance income and expenses*

The Company's net finance expenses were EUR 2.2 million in the year ended 31 December 2016, a decrease of EUR 0.6 million, or 23.1 per cent, as compared to EUR 2.8 million in the year ended 31 December 2015. The decrease was mainly due to decreased amount of loan and interest expenses.

[160] Expenses allocated to the segments relate to shared functions or business support services and are based on budgeted amounts. Variances from the budgeted amounts can result in either unforeseen incurred overruns or savings. These variances are not allocated to the segments in the internal reporting and in the segment reporting they are presented as the item "Unallocated and adjustments". In addition, the item "Unallocated and adjustments" includes certain unallocated headquarter costs.

*Income tax expense*

The Company's income tax expense was EUR 9.0 million in the year ended 31 December 2016, an increase of EUR 3.7 million, or 71.2 per cent, as compared to EUR 5.2 million in the year ended 31 December 2015. The increase was mainly due to the increase in the Company's taxable result. In 2016, the effective tax rate was 19.9 per cent, compared to 22.4 per cent in 2015. The decrease was mainly due to dynamic impacts of tax rates between different countries of operations and of the formation of result, which was mainly driven by the settlement of defined benefit obligation in Finland.

*Result for the period*

The Company's result for the period was EUR 36.1 million in the year ended 31 December 2016, an increase of EUR 17.9 million, or 98.8 per cent, as compared to EUR 18.1 million in the year ended 31 December 2015. The increase was mainly due to a gain on the settlement of defined benefit obligation in the year ended 31 December 2016, as well as increased gains on sales of assets.

## Liquidity and Capital Resources

### *General*

The Company's financial condition and liquidity is and will continue to be influenced by a variety of factors, including:

- its ability to generate cash flows from its operations;
- the level of its outstanding indebtedness and the indebtedness of the Company, and the interest payable on such indebtedness, which affects its net financial expense;
- its ability to continue to borrow funds from financial institutions; and
- its external growth funding requirements.

The Company's primary funding requirements consist of its working capital needs, capital expenditure, servicing its indebtedness, in addition to its operating activities and taxes.

The Company's principal source of liquidity on an ongoing basis is expected to be cash generated from its operating activities. In addition, the Company's ability to generate cash depends on its future operating performance, which, in turn, depends to some extent on general economic, financial, industry and other factors, many of which are beyond its control. See "*Risk Factors*."

Although the Company believes that its expected cash flows from operating activities, together with available borrowings under its Financing Agreements, will be adequate to meet its anticipated liquidity and debt service needs, it cannot assure that its business will generate sufficient cash flows from its operating activities or that future debt financing will be available to it in an amount sufficient to enable it to pay its debts when due or to fund its other liquidity needs.

### *Cash flows*

The following table presents the cash flow data of the Company for the periods indicated:

| | **1 January to 31 December** | | |
|---|---|---|---|
| | **2017** | **2016 (restated)** | **2015 (restated)** |
| **In EUR million** | | **(audited)** | |
| **Cash flow from operating activities** | | | |
| Result before taxes | 25.0 | 45.0 | 23.4 |
| Adjustments | 14.1 | -5.1 | 14.1 |
| Change in working capital | 6.7 | -1.6 | 3.9 |
| Settlement of defined benefit obligation | - | -4.1 | - |
| Financial items and taxes | -8.2 | -4.8 | -6.5 |
| **Net cash flow from operating activities** | **37.6** | **29.4** | **34.8** |
| **Net cash flow from investing activities** | **-7.8** | **-3.1** | **-7.4** |
| **Net cash flow from financing activities** | **-43.0** | **-32.9** | **-43.2** |
| Change in cash and cash equivalents | -13.2 | -6.6 | -15.8 |
| **Cash and cash equivalents at the end of the period** | **52.4** | **68.0** | **76.3** |

*Net cash flow from operating activities*

The net cash flow from operating activities was EUR 37.6 million for the year ended 31 December 2017, an increase of EUR 8.2 million, as compared to EUR 29.4 million for the year ended 31 December 2016. The increase was mainly due to positive developments in the working capital.

The net cash flow from operating activities was EUR 29.4 million for the year ended 31 December 2016, a decrease of EUR 5.4 million, as compared to EUR 34.8 million for the year ended 31 December 2015. The decrease was mainly due to a payment relating to the settlement of defined benefit obligation.

*Net cash flow used in investing activities*

The net cash flow used in investing activities was EUR 7.8 million for the year ended 31 December 2017, an increase of EUR 4.7 million, as compared to EUR 3.1 million for the year ended 31 December 2016. The increase was mainly due to investments in production plants and IT systems as well as lower proceeds from sales of non-core assets.

The net cash flow used in investing activities was EUR 3.1 million for the year ended 31 December 2016, a decrease of EUR 4.3 million, as compared to EUR 7.4 million for the year ended 31 December 2015. The decrease was mainly due to a reduction in the amount of investments made by the Company in 2016 compared to 2015, as well as an increase in proceeds from the sale of property, plant and equipment and intangible assets.

*Net cash flow used in financing activities*

The net cash flow used in financing activities was EUR 43.0 million for the year ended 31 December 2017, an increase of EUR 10.1 million, as compared to EUR 32.9 million for the year ended 31 December 2016. The increase was mainly due to a payment of extra dividends of EUR 60.1 million as well as entering into the Senior Facilities Agreement (as defined below) in December 2017.

The net cash flow used in financing activities was EUR 32.9 million for the year ended 31 December 2016, a decrease of EUR 10.3 million, as compared to EUR 43.2 million for the year ended 31 December 2015. The decrease was mainly due to the changes in the Company's loan portfolio made in 2015.

***Liquidity of the Company***

*General*

As at 31 December 2017, the Company's cash and cash equivalents amounted to EUR 52.4 million. The cash and cash equivalents include bank deposits and other highly liquid investments with maturities of three months or less on the acquisition date. As at the date of this Offering Circular, the Company has unused credit facilities amounting to EUR 40.0 million.

*Senior facilities agreement*

On 13 December 2017, the Company entered into a Senior Facilities Agreement, consisting of an unsecured EUR 75 million term loan and EUR 60 million revolving credit facility, with OP Corporate Bank plc as the coordinating mandated lead arranger, OP Corporate Bank plc, Handelsbanken Capital Markets, Svenska Handelsbanken AB (publ) and Nordea Bank AB (publ), Finnish Branch as mandated lead arrangers and bookrunners, and OP Corporate Bank plc, Nordea Bank AB (publ), Finnish Branch and Svenska Handelsbanken AB (publ), Branch Operation in Finland as original lenders. The Company drew down a EUR 20 million term loan facility and a EUR 55 million term loan facility on 18 December 2017, as well as a EUR 10 million revolving credit facility on 21 December 2017. Pursuant to the Senior Facilities Agreement, amounts drawn down under the Senior Facilities Agreement may be utilised for refinancing the previous senior loan facilities of the Company, refinancing other existing financial indebtedness of the Company, financing dividend payments (on or before 31 December 2017) and financing the general corporate purposes of the Group. The Company refinanced its indebtedness under the previous EUR 200.5 million senior loan facilities entered into on 17 December 2013 with Danske Bank A/S as co-ordinator, Nordea Bank Finland Plc (currently Nordea Bank AB (publ)) as the agent, and Danske Bank A/S, Handelsbanken Capital Markets, Svenska Handelsbanken AB (publ), Nordea Bank Finland Plc (currently Nordea Bank AB (publ)) and Pohjola Bank Plc as original lenders, and under the previous EUR 30 million bilateral loan agreement with Svenska Handelsbanken AB (publ), Branch Operation in Finland dated 7 April 2015, by borrowing under the Senior Facilities Agreement. In addition, the amounts drawn down under the Senior Facilities Agreement were used for the payment of extra dividends amounting to EUR 60.1 million in December 2017. As at the date of this Offering Circular, the Company has drawn down EUR 30.0 million under the revolving credit facility of the Senior Facilities Agreement.

The EUR 20 million term loan facility drawn down under the Senior Facilities Agreement terminates on 9 January 2022, and will be repaid in yearly instalments of EUR 5 million starting on 9 January 2019. The EUR 55 million term loan facility terminates on 9 January 2023 unless it is extended by one year pursuant to the terms of the Senior Facilities Agreement and is repaid in full on its termination date. The EUR 60 million revolving credit facility terminates on 9 January 2023 unless it is extended by one year pursuant to the terms of the Senior Facilities Agreement. Amounts drawn down under the revolving credit facility fall due on the last day of the applicable interest period and may be drawn down again after repayment. Interest on amounts drawn under the term loan facilities and the revolving credit facility is determined in reference to the EURIBOR and are defined as the sum of the applicable margin and EURIBOR. The margin for each of the facilities depends on the gearing covenant.

The Senior Facilities Agreement contains a financing covenant relating to gearing, according to which the ratio of net-interest bearing debt to the consolidated equity of the Company must not exceed 120 per cent. Compliance with the gearing covenant is monitored quarterly. The Senior Facilities Agreement contains other customary covenants, including covenants regarding compliance with laws and sanctions, negative pledges, restrictions on mergers, acquisitions and disposals, restrictions on granting loans and guarantees, restrictions on change of business, and restrictions on subsidiary indebtedness. The Senior Facilities Agreement contains customary events of default and customary terms on acceleration situations including payment defaults, breach of the financing covenant and breach of other provisions of the Senior Facilities Agreement as well as on cross-default. In addition, the Senior Facilities Agreement contains customary representations and information undertakings.

The Senior Facilities Agreement contains a change of control clause, which entitles each a lender to cancel its commitment and request repayment of all its share of the loans outstanding, as well as not to fund new utilisations. The change of control clause is triggered by any person or persons acting in concert, directly or indirectly, other than the Republic of Finland, (i) gaining control of the shares representing more than fifty (50) per cent of the capital and voting rights in the Company, or (ii) after the Listing if the Company ceases to be listed on the Helsinki Stock Exchange (other than in case the Republic of Finland at any time owning shares representing more than fifty (50) per cent of the capital and voting rights in the Company).

*Other loan facilities*

On 13 December 2017, the Company entered into a EUR 15 million premium loan agreement with Varma Mutual Pension Insurance Company concerning borrowing a part of the Company's statutory employee pension (TyEL) insurance contributions. The premium loan has a maturity of ten (10) years and its principal is amortised biannually beginning on 25 July 2018. Interest on the loan amount is also paid biannually and is defined as the sum of the margin and the 10-year TyEL reference rate from time to time. The premium loan is secured by a guarantee as for one's own debt issued by Garantia Insurance Company Ltd on 13 December 2017. The Company has given a counterindemnity to Garantia Insurance Company Ltd pursuant to which the Company undertakes to repay the guarantor any amounts it is required to pay to Varma Mutual Pension Insurance Company under the guarantee.

To fund its short-term financing needs, the Company agreed on 21 May 2012 on a domestic unsecured commercial paper program with Pohjola Bank Plc, Nordea Bank Finland Plc (currently Nordea Bank AB (publ)), Sampo Bank Plc and Svenska Handelsbanken AB (publ), Branch Operation in Finland. Under the commercial paper program, the Company may issue commercial paper notes in an aggregate nominal amount of EUR 100 million. As at the date of this Offering Circular, the Company had short-term interest-bearing liabilities amounting to EUR 0.0 million under the commercial paper program.

For the purpose of the Company's liquidity management, the Company agreed on 16 May 2013 with Nordea Bank AB (publ) on a global cash pooling arrangement for the Company and its subsidiaries, where the Company is the top account holder. The Company further agreed on 20 May 2013 with Nordea Bank AB (publ) on a credit facility in the amount of EUR 20 million related to the cash pooling arrangement, which was decided to be reduced to EUR 10 million in December 2017. As at the date of this Offering Circular, the credit facility was unused.

*Net debt*

The following table sets forth the Company's net debt as at the dates indicated:

| | As at 31 December | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **In EUR million** | (audited, unless otherwise indicated) | | |
| **Non-current borrowings** | | | |
| Loans from financial institutions | 74.7 | 64.8 | 87.2 |
| Loans from pension institutions | 14.3 | - | - |
| Finance lease liabilities | 0.2 | 0.1 | 1.2 |
| **Total** | **89.1** | **64.9** | **88.4** |
| **Current borrowings** | | | |
| Loans from financial institutions | 10.0 | 7.5 | 7.5 |
| Loans from pension institutions | 0.8 | - | - |
| Finance lease liabilities | 0.2 | 0.3 | 0.8 |
| **Total** | **11.0** | **7.8** | **8.3** |
| **Total borrowings** | **100.1** | **72.8** | **96.7** |
| **Less: Cash and cash equivalents** | **-52.4** | **-68.0** | **-76.3** |
| **Net debt[1)]** | **47.7** | **4.7** | **20.4** |

[1)] Unaudited.

## Consolidated Balance Sheet Data

*Equity*

The following table sets forth the Company's equity as at the dates indicated:

| | As at 31 December | | |
|---|---|---|---|
| **In EUR million** | 2017 | 2016 (restated) | 2015 (restated) |
| | | (audited) | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 60.5 | 60.5 | 60.5 |
| Fair value reserve | 0.6 | - | - |
| Hedge reserve | -0.3 | -1.4 | -1.6 |
| Translation differences | -16.0 | -12.3 | -9.6 |
| Retained earnings | 92.0 | 144.5 | 119.3 |
| **Total equity** | **136.8** | **191.3** | **168.6** |

The total equity as at 31 December 2017 amounted to EUR 136.8 million, a decrease of EUR 54.5 million, or 28.5 per cent, as compared to EUR 191.3 million as at 31 December 2016. The decrease was mainly due to a payment of extra dividends amounting to EUR 60.1 million in December 2017 and a payment of the dividend amounting to EUR 10.4 million in spring 2017. Result for the period amounting to EUR 18.3 million for the year ended 31 December 2017 included in retained earnings increased the equity as at 31 December 2017.

The total equity as at 31 December 2016 amounted to EUR 191.3 million, an increase of EUR 22.7 million or 13.4 per cent, as compared to EUR 168.6 million as at 31 December 2015. The increase was primarily due to the result of the period amounting to EUR 36.1 million for the year ended 31 December 2016, which included a gain on settlement of the defined benefit obligation. In addition, the equity as at 31 December 2016 decreased due to a dividend payment in spring 2017 amounting to EUR 10.4 million.

### *Goodwill, other intangible assets and property, plant and equipment*

The following table sets forth the book values of Company's goodwill, other intangible assets and property, plant and equipment as at the dates indicated:

| **In EUR million** | **As at 31 December** | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| | | **(audited)** | |
| Goodwill | 82.1 | 83.1 | 84.4 |
| Other intangible assets | 34.4 | 36.7 | 40.7 |
| Property, plant and equipment | 67.4 | 70.0 | 74.6 |

The Company's goodwill has arisen as a result of previous business acquisitions. Goodwill is not amortised but is tested annually for possible impairment. The Company has not recognised any impairment losses to goodwill during the presented periods. The changes in goodwill during the presented periods are caused by exchange rates impacts.

The Company's other intangible assets mainly consist of trademarks, patents, IT systems and programmes. The most significant trademarks are Renault, Larsen, Xanté, Blossa, Chill Out, Explorer, Grönstedts, Bröndums and 1-Enkelt. The Company's property, plant and equipment mainly consists of plant and warehouse buildings, land, as well as machine and equipment used for alcohol beverage industry. Changes in other intangible assets and property, plant and equipment are mainly due to depreciations. For more information on the Company's depreciation, amortisation and impairment, see "*Depreciation, amortisation and impairment*" in the analysis of the result of operations between the years above. For more information on the annual capital expenditure, see "*— Capital Expenditure*" below.

### *Capital Expenditure*

Gross capital expenditure for the year ended 31 December 2017 totalled EUR 11.9 million, representing 3.3 per cent of the Company's net sales. The investments were related to continuation of the renewal of the Rajamäki plant and the development of information systems. The Rajamäki investments included strategic efficiency and capability developments, such as a new production line for smaller batch production, as well as maintenance investments. The largest projects relating to information systems were the Enterprise Resource Planning (ERP) system roll out for the Rajamäki plant together with several other systems, such as the Manufacturing Execution System (MES) supporting the efficiency and quality of operations. Investments at the Koskenkorva plant were directed towards increasing the starch production capacity. In addition, the Company established a new distillery in 2017 in Sundsvall, Sweden, and since then all of the Company's Swedish aquavit distillate production has been concentrated in one facility, the O.P. Anderson Distillery.

Gross capital expenditure for the year ended 31 December 2016 totalled EUR 8.7 million, representing 2.4 per cent of the Company's net sales. Capital expenditure during the reporting period was primarily related to the renewal of the Rajamäki plant and digitalisation.

Gross capital expenditure for the year ended 31 December 2015 totalled EUR 11.3 million, representing 3.0 per cent of the Company's net sales. Capital expenditure during the reporting period was primarily related to the modernisation of the old power plant at the Koskenkorva plant as well as the improving operating efficiency at the Rajamäki plant.

The Company does not have other significant investment projects in progress which are material to its business operations. Furthermore, the Company has not made any final decisions on any other significant investment projects that would not have started as of yet.

The Company's ongoing investment projects are funded with funds generated from its own operating activities.

### *Net Working Capital*

The following table sets forth the Company's net working capital as at the dates indicated:

| | As at 31 December | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| **In EUR million** | **(audited, unless otherwise indicated)** | | |
| Inventories | 94.5 | 96.3 | 101.2 |
| Trade and other receivables | 53.9 | 63.8 | 59.1 |
| Trade and other payables | -137.4 | -142.7 | -143.5 |
| **Trade working capital** | **11.0[1)]** | **17.5[1)]** | **16.8[1)]** |
| Non-current provisions | - | – | -1.3 |
| Current Provisions | - | -1.3 | -2.1 |
| **Net working capital** | **11.0[1)]** | **16.1[1)]** | **13.4[1)]** |
| of net sales, % | 3.1%[1)] | 4.5%[1)] | 3.5%[1)] |

[1)] Unaudited.

The Company's net working capital has been positive during all the review periods of the historical financial information. Net working capital is an indication of the Company's liquidity and also affects its results of operations, and is, among other factors, affected by changes in inventory and trade receivables and payables as a result of seasonality and terms of payment, as well as supply chain management. Despite the nature of the business, the management of the net working capital is efficient. The Company ensures the optimal level of net working capital with its selling of trade receivables program as well as inventory management. The selling of trade receivables program is an efficient tool for the Company to manage its trade receivables and to affect the required working capital by reducing net indebtedness.

The Company has an ongoing selling of trade receivables program with Alko in Finland and Systembolaget in Sweden, which both are state-owned companies and thus lower credit risk customers than other customers. As at 31 December 2017, the Company's sold trade receivables amounted to EUR 83.6 million (EUR 85.6 million as at 31 December 2016). Selling of trade receivables is subject to seasonality as the value of receivables during the first and the third quarter of the year are typically below the average whereas the second and the fourth quarter are above average. The Company will be reporting the value of sold receivables regularly. Sold trade receivables are derecognised from the balance sheet as the receivable is sold and the price has been received. At the time of sale, the Group derecognises the trade receivables as the contractual rights to these cash flows expire and all the related substantial risks and rewards have been transferred outside the Group. The costs related to the sold receivables are recognised in the Group's income statement.

The level of inventories is managed efficiently by estimating the changes in demand and seasons carefully, despite the long distances and times for the delivery of purchased wines. Inventory optimization requires that an appropriate inventory level is maintained due to possible long lead times. The value of the Company's *eau-de-vie* inventory, a derivative of distilled white wine that is aged to produce cognac, and cognac inventory changes over time, and at the end of 2017 the inventory amounted to EUR 45.3 million. The cognac inventory also brings its own special characteristics to the management of inventories. Determination of the desired levels and mix of qualities and ages of its inventory, especially of *eau-de-vie* and bulk wine, is subject to estimates and assumptions on the future consumption.

Altia's business is subject to seasonality, which has resulted in fluctuations in the Company's net working capital over the financial year. The Company's net working capital requirements are typically at their highest before Christmas, Easter and summer. See "*— Key Factors Affecting the Results of Operations — Seasonal variations*".

### *Employee benefit obligations*

The employee benefit obligations in Altia's balance sheet amounted to EUR 1.3 million as at 31 December 2017, EUR 1.8 million as at 31 December 2016 and EUR 21.6 million as at 31 December 2015. Altia has defined benefit pension plans for supplementary pension in Norway and France. In Finland, Altia's voluntary defined benefit pension was changed into a defined contribution system at the end of 2016.

The Company has had a defined benefit pension plan for supplementary pensions continuing the pension coverage provided by the Alko Pension Fund, which was closed at the beginning of 1994. As there were significant amendments to the statutory employee pension coverage, the Company and employees' representatives reviewed the supplementary pension coverage together and decided to propose to the Board of Directors of the Company that supplementary pensions earned by 1 January 2017 should be fixed and the insurance changed to a defined contribution plan. At the same time, it was agreed that the Company would no longer fund future annual index increases to pensions. Until the change, the supplementary pensions had followed the employee pension index so that the Company had annually paid the insurance contribution required for the increases. In 2015 and 2016, the increases in the employee pension have remained relatively low (0% in 2016 and 0.39% in 2015). The Company's Board of Directors decided that instead of an increase based on the employee pension index, the supplementary pensions would be increased by 4.5% on 1 January 2017, and after this lump-sum compensation the pensions will be increased in accordance with an increase decision made annually by the insurance company. Following the arrangement, the Company no longer has any deferred pension obligations based on Finnish supplementary pensions under IFRS standards (IAS 19). Consequently, the Company's employee benefit expenses in 2016 included a gain of EUR 16.5 million on the settlement of the defined benefit obligation. The cash flow effect from the arrangement amounted to EUR -4.1 million in 2016.

**Contractual Obligations and Off Balance Sheet Arrangements**

***Collaterals and commitments***

The following table contains the Company's collaterals and commitments as at the dates indicated:

| | As at 31 December | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| **In EUR million** | | **(audited)** | |
| Collaterals given on behalf of Group companies | | | |
| Mortgages | 18.5 | 18.5 | 18.5 |
| Guarantees | 6.4 | 8.0 | 8.5 |
| **Total collaterals** | **24.9** | **26.5** | **27.0** |
| Operating lease obligations | | | |
| Less than one year | 4.8 | 5.0 | 6.6 |
| Between one and five years | 11.5 | 12.2 | 12.8 |
| More than five years | 0.9 | 2.5 | 4.9 |
| Total operating lease obligations | 17.1 | 19.8 | 24.3 |
| Other commitments | 19.7 | 26.1 | 25.5 |
| **Total commitments** | **36.8** | **45.9** | **49.8** |

Collaterals given on behalf of the Group companies are all regulatory obligations. Collaterals given for regulatory obligations are mortgages and collaterals which are required in the industry against taxes and payments collected from the products, such as relating to alcohol taxes. Most bank guarantees have been drawn under bank guarantee facilities with Danske Bank A/S, Branch Operations in Finland and Svenska Handelsbanken AB (publ), Branch Operations in Finland. Operating lease obligations consist of office, cars and forklift rental commitments. Other commitments are mainly purchase commitments for wines and cognacs.

***Subsidies and governmental grants***

*Investment aid for the Koskenkorva bio power plant*

Based on a decision made by the Ministry of Economic Affairs and Employment of Finland on 21 November 2012, the Company has received investment aid of EUR 1.5 million for an investment on the Koskenkorva bio power plant. The Company received the last part of the investment subsidy on 12 February 2016. The investment aid is subject to restrictions on the use and sale of the assets financed by the investment aid for a period of five years after the receipt of the last part of the investment aid, i.e. until February 2021.

***Emission allowances***

The Company participates in the European Union emission trading scheme, where it has been granted a certain number of carbon dioxide emission allowances for a certain period of time, free of charge. The Company discloses its carbon dioxide emission allowances granted free of charge on net basis. Following from this, the Company does not recognise in the balance sheet the granted emission allowances, nor the obligation to deliver allowances corresponding to the realised emissions. The Company does not recognise income or expenses arising from emission allowances through profit or loss when the emission allowances granted are sufficient to cover the obligation to deliver allowances corresponding to the amount of emissions made. If the realised emissions exceed the granted emission allowances, the obligation arising from the excess emissions is recognised at fair value as a liability in the balance sheet at the reporting date. If the realised emissions fall below the granted emission allowances, the difference is not recognised in the balance sheet but it is disclosed in the notes to the financial statements, measured at fair value.

The Company's actual emissions were below the emission allowances granted in 2015, 2016 and 2017.

**Financial Risk Management**

The aim of Altia's financial risk management is to ensure the Group's financial stability and availability of sufficient financing options in different market situations. In addition, the aim is to support the business operations to identify business-related financial risks and their management, and to hedge against material financial risks.

The Group is exposed to various market risks. Changes in these risks affect the Company's assets, liabilities and anticipated transactions. The risks are caused by changes in interest rates, currencies and commodity market prices. Selected derivative instruments can be used to manage the risks resulting from these market risks. The Company mainly hedges against risks that impact the Group's cash flow, and, if deemed appropriate, also certain foreign currency denominated items in the balance sheet. Derivatives are solely used to hedging against the above-mentioned risks. As of 1 January 2018 IAS 39 hedge accounting principles and IFRS 9 will be applied to certain interest rate, foreign exchange as well as electricity derivatives. Financial risk management is executed as part of the Group's risk management, according to the Risk Management Principles approved by the Board of Directors. The Company's principles aiming towards financial, credit and operational continuity form the basis for financial risk management. The Company defines market risk as a risk where the fair values of financial instruments or future cash flows fluctuate as a result of changes in market prices. The most significant market risks for the Group are currency risk, interest rate risk and price risks related to barley and electricity.

***Currency risk***

The Company is exposed to currency risks resulting from export and import, intra-group trade across borders of the euro-area, as well as from internal loans and investments in foreign subsidiaries. The objective of the Group's currency risk management is to limit the uncertainties associated with foreign exchange rates and their effect on the Group's profit, cash flows and balance sheet.

Transaction risk is caused by foreign currency denominated items in the balance sheet and future cash flows related to sales, purchases and return of capital. Transaction risk management aims to hedge the Group's profit against the effects of changes in foreign exchange rates. The objective is to hedge 60–80% of highly probable commercial cash flows. The average hedging ratio has remained at the target level. Hedging transactions are executed with forward exchange contracts or options for the following 12 months at the most, predominantly following the pricing periods of customers. The Company may apply cash flow hedge accounting to foreign exchange derivatives. Intra-group loan arrangements are hedged by 100% and hedge accounting is not applied to these arrangements.

Translation risk is mainly caused by the parent company's foreign currency denominated net investments in foreign subsidiaries, which cause a translation difference in equity in the Group's balance sheet upon consolidation. The Group Treasury regularly analyses the translation risk and reports any material issues to the management. The most significant net investments are denominated in the Swedish and Norwegian kroner. The translation risk has not been hedged.

***Interest rate risk***

The objective of interest rate risk management is to minimise the impact of fluctuations arising from interest rate changes on the Group's profit. Altia refinanced its loan portfolio in December 2017 and all existing loans were early repaid. At 31 December 2017, the total nominal amount of loans was EUR 100.0 million and was divided as follows:

- EUR 20.0 million loan matures in January 2022 with annual EUR 5 million instalments. The interest rate on the loan is based on three-month market rate. Currently these interest payments are not hedged.

- The EUR 55.0 million portion of the loan matures in January 2023 subject to one year extension option. The interest rate on the loan is based on three-month market rate. Altia has hedged these interest payments to fixed interest rate by using an interest rate derivative amounting to EUR 20 million. Hedge accounting principles are applied to this interest rate derivative. The hedge has been regarded as effective.

- The EUR 15.0 million pension loan matures in January 2028. The interest rate is fixed for the whole loan period.

- The EUR 10 million short term loan matures in March 2018. The interest rate on the loan is three-month market rate. The interest payment is not hedged.

The maximum amount under Altia's domestic commercial paper program is EUR 100 million. There were no issued commercial papers as at 31 December 2017, 2016 and 2015.

Altia's maximum limit for sale of trade receivables amounts to approximately EUR 145 million and is approved by Board of Directors. The sold trade receivables are derecognised at the time of trade with no obligation to repurchase. The related costs are recognised in other financial expenses. The trade receivables are current receivables and the related interest rate risk is not hedged.

***Price risk associated with commodities***

*Barley*

In 2017, the Company used approximately 206 million kilos of Finnish barley to produce ethanol and starch. The availability of high-quality domestic barley is ensured with contract cultivation and cooperation with grain growers and grain handling companies. The market price of barley fluctuates significantly year by year as a result of various factors that affect the Finnish barley supply and demand and is therefore considered a significant risk for Altia. The price risk has not been hedged with derivative instruments.

*Electricity*

Strong increase in the market price of electricity is a significant risk for the Company. The risk is managed by following the Company's principles for electricity procurement. These principles determine the hedging limits, within which the electricity price risk is hedged. The hedges are done with OTC-derivatives of Nasdaq OMX Oslo ASA. The hedging service for electricity procurement has been outsourced.

At the end of 2017, the hedging ratio for deliveries for the next 12 months was 67.6 per cent (2016: 68.3 per cent and 2015: 80.7 per cent), in line with the set targets. In 2017, the total exposure was EUR 2.5 million and average hedging ratio was 70.0 per cent. Cash flow hedge accounting in accordance with IAS 39 is applied to the hedges against electricity price risk, and hedge effectiveness is tested quarterly. The ineffective portion at the end of 2017, EUR -0.1 million (2016: EUR -0.1 million and 2015: EUR 0.2 million) is recognised within financial costs. The Company purchases its electricity straight from the Nord Pool Spot markets as a delivery tied to the spot price of the Finnish price area.

***Liquidity risk***

In order to manage the liquidity risk, the Company continuously maintains sufficient liquidity reserves, which at the end of 2017 comprised Group's EUR 10 million overdraft facility and a EUR 60 million revolving credit facility. As of December 2017, EUR 10 million from revolving credit facility was in use. The revolving credit facility matures in January 2023 subject to one year extension option.

***Credit risk***

The objective of the Company's credit risk management is to minimise the losses if one of the Group's counterparties fails to meet its obligations. The principles of credit risk management are described in the Group's credit policy. Credit risks are caused by a counterparty not fulfilling its contractual payment obligations or the counterparty's credit rating changing in a manner that affects the market value of the financial instruments it has issued.

The maximum amount of credit risk is equal to the carrying amount of the Group's financial assets. No significant risk concentrations relate to trade receivables. The aim is to minimise credit risks by active credit management and by taking into account customers' credit rating when determining the payment term of invoices. Adoption of the impairment model relating to expected credit losses under IFRS 9 implemented by the Group as of 1 January 2018 will not have a material effect on the amount of credit loss provisions due to the nature of Altia's receivables and customer portfolio. The credit loss provision on the balance sheet as at 31 December 2017 amounted to EUR 270 thousand and the amount will decrease by EUR 70 thousand following of the adoption of the standard.

***Capital risk management***

The target of the Company's capital management is to secure an effective capital structure that offers the Company a continuous access to the capital markets despite the volatility of the industry. Although the Company does not have a public rating, the Company aims to obtain a capital structure comparable to that of other companies in the industry that have investment rating. The Board of Directors monitors the Group's capital structure regularly.

The Company monitors its capital based on gearing (the ratio of interest-bearing net liabilities to equity). Interest-bearing net liabilities consist of the loans less cash and cash equivalents. The current level of gearing is distinctly lower than the limit determined in the Group's loan terms. During the business cycle, the Company's net gearing is likely to fluctuate, and the objective is to retain a sufficiently strong capital structure to secure the Group's financing needs.

**Accounting Policies Requiring Management Judgement and Key Sources of Estimation Uncertainty**

The preparation of financial statements requires the use of accounting estimates, which by definition, seldom equal the actual results. In addition, management makes judgements in applying accounting policies.

Estimates made in the preparation of the financial statements, and related assumptions, are based on the management's best knowledge at the reporting date. Consequently, the realised results can differ from the estimates. Any changes in estimates and assumptions are recognised when the estimates and assumptions are corrected.

Altia's most significant areas in which the management has exercised judgement are presented below. For more information on applied accounting policies, see notes to the Company's audited financial statements for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 included elsewhere in this Offering Circular.

***Impairment testing***

The preparation of calculations for the impairment testing of goodwill requires estimates regarding the future. The management's estimates and related critical uncertainties are related to the components of the recoverable amount calculation, including the discount rate, the terminal growth rate and development of the net sales and operating result, including estimated cost levels of main raw materials and energy. The discount rates reflect current assessments of the time value of money and relevant market risk premiums reflecting risks and uncertainties for which the future cash flow estimates have not been adjusted. The discount rates used, expected net sales growth rates and profitability levels, including sensitivity analyses, are presented in Note 2.1 to the Company's audited financial statements for the periods ended 31 December 2017, 31 December 2016 and 31 December 2015 included in this Offering Circular.

***Useful lives of trademarks***

Altia's trademarks have been acquired in connection with business acquisitions and recognised originally at fair value and are subsequently amortised on a straight-line basis over the estimated useful lives. Management has estimated the useful lives of trademarks to be in a range from 10 to 15 years. However, the actual useful life may be shorter or longer than the estimated range depending on the market trends and customer behaviour.

***Defined benefit pension obligations***

The Group has defined benefit pension plans for supplementary pension in Norway and France. In Finland, the Company switched from the voluntary defined benefit pension to a defined contribution system in 2016. In defined benefit pension plans, the amount of the pension benefit at retirement is calculated on the basis of salary, years of service and life expectancy. The Norwegian and French pension plans cover only few employees, thus the related pension liabilities are not material for the Group. The Finnish supplementary pensions, which were changed in the end of 2016, mainly concern pensions already begun and paid-up policies, for which the Company's obligation is mainly limited to costs related to the increases in index.

Measurement of defined benefit pension obligation and plan assets is based on the actuarial assumptions made by management. These include e.g. the discount rate used in calculating the present value of the obligation, future salary and pension level, expected return on plan assets and the turnover of personnel included in the plan. Changes in the actuarial assumptions, as well as differences between expected and realised values result in actuarial gains and losses.

***Deferred tax assets***

Judgment is required in assessing whether deferred tax assets are recognised on the balance sheet. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These future cash flow estimates depend on estimates of future sales volumes, price levels of main raw materials, capital expenditure and other components affecting profitability of the operations. These estimates and assumptions are subject to risk and uncertainty, hence it is possible that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of any other tax losses and temporary differences not yet recognised. Altia's ability to generate taxable profit is also subject to general economic, financial, competitive, legislative and regulatory factors that are beyond its control. If Altia generates lower future taxable profits than what management has assumed in determining the amounts of the recognised deferred tax assets, the assets would become impaired, either partly or in full. Accordingly, amounts recognised in balance sheet could potentially be reversed through profit and loss. Changes in circumstances may also result in recognition of deferred tax assets for tax losses not yet recognised as an asset.

**Adoption of New or Amended IFRS Standards and Interpretations Applicable in Current and Future Reporting Periods**

In the consolidated financial statements included in this Offering Circular, Altia has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date of each standard and interpretation or, if the date is other than the first day of the reporting period, from the beginning of the subsequent reporting period.

***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 Revenue from Contracts with Customers is the new revenue standard, which Altia will apply for reporting periods beginning on 1 January 2018. The new standard will replace IAS 18 and IAS 11 standards and the related interpretations. The IASB has also issued clarifications to IFRS 15. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The new standard includes a five-step process that Altia will apply for contracts with customers before revenue is recognised.

The steps that will be required to be followed for revenue recognition are the following and comprise the basis for the analysis Altia has completed as part of the adoption process for the new standard:

1. identifying the contract
2. identifying the performance obligations
3. determining the transaction price
4. allocation of the transaction price to each performance obligation (to each distinct good or service promised to the client) on a relative stand-alone selling price basis
5. recognising the revenue when (or as) the performance obligation is satisfied by transferring the good or service to the client.

Altia's revenue comprises mainly sales of alcoholic products, which consists of a portfolio of Altia's own brands and international partner brands. Altia imports, sells and distributes wine, spirits and other beverage products to monopolies, hotels, restaurants, catering business, retail business, whole sale customers and export, border traffic and sea traffic customers. Altia also provides its industrial partners with solutions and services. Altia sells industrial products such as ethanol, starch and feed components and offers contract manufacturing services from distillation to bottling and customer services & logistics to its industrial customers.

Altia has assessed the impacts of the new revenue standard and has not identified any significant differences arising from IFRS 15 criteria compared to current practice:

*Identifying performance obligations:*

In the alcoholic products and industrial product sales each delivered product or batches of products are distinct performance obligations and the customer contracts do not typically contain a separate promise for transportation service. Accordingly, even when the control of the goods transfers to the customer before shipment, Altia does not arrange for the goods to be shipped and does not offer any other transportation or handling service to its customers. If control does not transfer to the customer before shipment, the transportation service is a fulfilment activity and not a distinct service. Accordingly, the transportation service is not a separate performance obligation to be accounted for separately from the sale of goods. In its partner supplier agreements, which entitle Altia to distribute partners' products, Altia acts as a principal towards the end customer having control over the product, discretion in establishing prices and owning the inventory. Accordingly, revenue recognised is the gross amount to which Altia is entitled to in these product sales.

In the contract services to Altia's industrial customers the contracts essentially include of a single performance obligation, being a series of distinct services such as contract manufacturing services, customer services, logistics and warehousing. In these arrangements Altia does not have any control over the product or inventory risk.

*Determining the transaction price:*

Contracts with customers typically include several variable considerations (volume discounts, bonuses, marketing support such as slotting fees, sanctions relating to certain predetermined KPIs or Altia's failure to timely perform its obligations, product returns, differences between a standard cost price and actual costs etc.). Under IFRS 15, an entity needs to estimate the variable consideration and include in the transaction price an amount that fulfils the highly probable criterion.

However, Altia has already under the current revenue recognition standards estimated the variable considerations as part of its revenue recognition process. In addition, Altia has been able to reliably estimate the outcome and therefore, management's view is that the highly probable criterion is typically met. Further, the amount of realised sanctions is immaterial and therefore, no adjustments to the transaction price will be needed at transition.

With respect to right of return clauses Altia has currently recognised revenue for the transferred products in the amount of consideration to which it expects to be entitled and a refund liability related to the products that are expected to be returned. However, Altia has recognised the corresponding amount of products subject to return to its inventory balances. Current measurement treatment complies with IFRS 15, however instead of recognising the value for goods expected to be returned to inventory, Altia will need to recognise a separate asset on its balance sheet reflecting the right to receive the goods. Under IFRS 15, slotting fees are recognised as a reduction of revenue. Currently the amounts are recognised as expenses. The identified classification differences in regards to returns and slotting fees are not material for Altia.

*Allocation of the transaction price:*

In general the prices represent the stand-alone selling prices and accordingly there is no need to allocate standalone selling price. Further, management view is that the allocation of discounts to each elements in the contract would not result any differences in the amount or timing of revenue recognised because the control of all ordered goods transfers at the same time. In the contract services requirements to allocate variable consideration to a distinct service within the series are met and therefore Altia allocates and recognizes variable consideration in the period it has the contractual right to the fee.

*Recognising revenue:*

Based on the analysis conducted to date, management does not expect significant changes to the timing of revenue recognition as a result of adopting IFRS 15. Altia does not have any incremental costs of obtaining a contract (e.g. sales bonuses) or contract costs to fulfil a contract which would be eligible for capitalisation under IFRS 15. However, there will be new revenue disclosures that Altia will report under the new guidance.

Altia adopts the standard on 1 January 2018 using the modified retrospective method which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

***IFRS 9 Financial Instruments***

Altia has reviewed its treasury policy and hedging activities and the classification and measurement of its financial assets and liabilities as part of its implementation of IFRS 9 Financial Instruments and is expecting the following impact from the adoption of the new standard on 1 January 2018. As disclosed below, the initial application of IFRS 9 is not expected to have a material impact on Altia's financial statements due to the nature of Altia's financial instruments and risk management policies.

*Classification and measurement*

IFRS 9 requires that all financial assets are subsequently measured at amortised cost, FVOCI or FVPL based on the business model for managing the financial assets and their contractual cash flow characteristics.

The financial assets held by the Group include the following:

- Altia has joint control over Roal Oy but the option right held by the other shareholder represents in substance a receivable. This debt receivable due to the nature of the agreement is currently classified as fair value through profit and loss and accordingly, it will continue to be classified as FVPL following the adoption of IFRS 9.

- Other receivables comprise solely of a deferred consideration receivable relating to a real estate that Altia sold in 2017. This receivable will be classified as hold to collect as the cash flows from the receivable comprises solely of payments of principal and interest.

- Accounts receivables currently classified as held-to-maturity and measured at amortised cost meet the conditions for classification at amortised cost under IFRS 9.

- Altia's current available-for-sale financial assets comprising of equity investments will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The derecognition rules under IFRS 9 are a continuum of the provisions of IAS 39 Financial Instruments: Recognition and Measurement. Altia's factoring process is on a non-recourse basis i.e. all rights related to the sold account receivables are transferred to the buyer. The derecognition criteria of IAS 39 continue to be fulfilled under IFRS 9.

Accordingly, Altia does not expect the new guidance to affect the classification and measurement of these financial assets.

*Impairment*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than on an incurred credit loss basis as was the case under IAS 39.

The new impairment model requirement applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new impairment model will result in earlier recognition of losses. Based on the assessments Altia has undertaken to implement an ECL model, the impact of applying IFRS 9 is considered insignificant.

Altia's available-for-sale assets are measured at fair value and the fair value of these assets is not significant. As described above, other receivables consisting of a purchase price receivable with contractual cash flows and Altia expects to collect the cash flows in full on this item as payments of principal and interest have been made in the agreed payment schedule.

The loss allowance for account receivables is based on the aging of the accounts receivable and regional portfolios. Receivables more than 120 days due will be impaired with a 50% expected loss rate. The receivables of the monopolies in Finland and Sweden are excluded due to the nature of the customer and related credit risk (government entities). Forward-looking macro-economic information has been included in the analysis.

Based on the assessments undertaken to date, two-year historical bad debts have amounted to approximately EUR 160 thousand per annum. The bad debt provision for trade receivables on the balance sheet date amounts to EUR 270 thousand whereas the estimated provision under the ECL model is approximately EUR 200 thousand. Accordingly, the adoption of the ECL model will effectively result in a decrease in the loss provision. Altia will adjust the opening balance of its retained earnings for the impact, however the overall impact from the implementation of the new ECL model impact is considered to be immaterial due to the nature of Altia's receivables and customer portfolio.

*Financial liabilities*

Adoption of IFRS 9 will not have an impact on Altia's classification and measurement of financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and Altia does not have such liabilities.

*Debt modification*

Under IFRS 9 when a financial liability measured at amortised cost is modified without the transaction resulting in a derecognition event, a gain or loss should be recognised directly in profit or loss. These modified rules do not have an impact for Altia as it has not changed the terms and conditions for any existing borrowings that would have resulted in modification accounting under IAS 39.

*Hedge accounting*

The new hedge accounting rules will align the accounting for the hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The group applies hedge accounting for certain interest rate, foreign currency and electricity derivatives. The group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9. For cash flow foreign currency hedges under IFRS 9, Altia will designate the full fair value of the forward contract to the hedge relationship and accordingly, will no longer bifurcate the forward points for separate recognition through the P/L. This is a change Altia has selected at the adoption date, however, the effect is considered to be insignificant. IFRS 9 allows hedging a component of the risk. This change will increase the effectiveness of the electricity hedges. The fair value of the electricity hedges as of 31.12.2017 was EUR 253 thousand with no material ineffectiveness. The interest rate swaps hedge the floating rate borrowings and the current hedge relationships continue under IFRS 9 with no change.

*Disclosures*

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of Altia's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

***IFRS 16 Leases***

IFRS 16 Leases is effective on 1 January 2019. The new standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The new lease standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for the majority of Altia's lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest cost and depreciation, so our key metrics like EBITDA will change.

Operating cash flows presented in the cash flow statement will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflect interest cost will continue to be presented as operating cash flows.

Based on Altia's preliminary impact assessment, the implementation of IFRS 16 will increase the property, plant and equipment in its balance sheet, mainly due to current operating leases of premises, warehouses, cars and forklifts. Altia does not expect the impact to be material due to the nature and a moderate number of off-balance sheet leases. As at 31 December 2017, the off-balance sheet lease obligations amount to EUR 17.1 million. In the consolidated income statement, the operating expense will decrease, while depreciation and interest costs will reflect an increase as the lease expense is no longer classified as an operating expense. This will lead to an improvement in EBITDA. The Group is in the process of assessing its lease portfolio and quantifying the impact of adopting IFRS 16 and will continue to report on the expected impact in its financial reports.

Altia expects to implement the standard by using a simplified approach (modified retrospective approach), where comparative figures will not be restated. Altia will recognise the accumulated effect of adopting IFRS 16 as an adjustment to equity at the beginning of 2019. Furthermore, Altia expects to use the other available reliefs to the widest possible extent, including the exclusion of leases with a term to maturity of less than 12 months and low-value leases.

# BOARD OF DIRECTORS, MANAGEMENT AND AUDITORS

## General

Pursuant to the provisions of the Companies Act and the Articles of Association of the Company, the management and governance of the Company are divided between the shareholders, the Board of Directors and the chief executive officer of the Company (the "**CEO**"). In addition, the Executive Management Team assists the CEO in the operations of the Company.

The shareholder participates in the administration and management of the Company through resolutions passed at the General Meetings of Shareholders. The General Meeting of Shareholders of the Company is convened upon notice given by the Board of Directors. In addition, a General Meeting of Shareholders of the Company is held when requested in writing by the auditor of the Company or by shareholders representing at least one-tenth of all the Shares in order to discuss a certain matter.

## Corporate Governance

In addition to applicable laws, the rules and recommendations of the Helsinki Stock Exchange, and the Articles of Association, the Company complies with the Finnish Corporate Governance Code 2015 and does not deviate from any of its recommendations. The Finnish Corporate Governance Code 2015 is issued by the Finnish Securities Market Association, and it is publicly available on the website of the Finnish Securities Market Association at www.cgfinland.fi.

## Shareholders' Nomination Board

As of the Listing of the Company, a Shareholders' Nomination Board ("**Nomination Board**") consisting of the largest shareholders of the Company (or persons appointed by such shareholders) has been established for an indefinite period for annually preparing proposals concerning the election and the remuneration of the members of the Board of Directors to the following Annual General Meeting.

The Nomination Board consists of three (3) physical persons nominated by the shareholders as members. The members represent the Company's three (3) largest shareholders who (i) represent the largest number of votes of all shares in the Company on the first banking day of the September each year (the "**Value Day**") as determined on the basis of the shareholder register of the Company maintained by Euroclear Finland Ltd; and (ii) wish to nominate a member to the Nomination Board.

If two or more shareholders have the same number of shares and cannot all have the right to nominate one of the members of the Nomination Board, the right to nominate is determined by drawing lots between such shareholders by the Chairman of the Board of Directors.

The Chairman of the Board of Directors acts as an expert member in the Nomination Board (the Chairman of the Board of Directors is not an official member of the Nomination Board and does not have any voting rights, but he/she has the right to attend the meetings of the Nomination Board and receive material for such meetings). It is the duty of the Chairman of the Board of Directors to ask each of the three (3) largest shareholders to nominate one member to the Nomination Board. If a shareholder does not wish to exercise his or her right to nominate a member to the Nomination Board, the nomination right will be transferred, in accordance with the shareholder register, to the next largest shareholder who would not otherwise be entitled to nominate a member to the Nomination Board.

If a shareholder, who would have the obligation to notify the Company of certain changes in shareholding under the Finnish Securities Markets Act (flagging obligation), presents a written request directed to the Board of Directors by the Value Day, the holdings of a corporation or a foundation controlled by such shareholder or such shareholder's holdings in several funds or registers will be combined when calculating the nomination right. A holder of nominee-registered shares will be taken into account when determining the composition of the Nomination Board if the holder of nominee-registered shares presents a written request concerning the issue directed to the Board of Directors by the Value Day.

Each shareholder entitled to nominate a member to the Nomination Board shall endeavour to elect a person who has the qualifications and experience necessary to meet the responsibilities and duties of Nomination Board. The term of office of the members of the Nomination Board ends when the next Nomination Board is elected.

## Board of Directors

Pursuant to the Articles of Association, the Company's Annual General Meeting of Shareholders elects a minimum of three and a maximum of seven members to serve on the Board of Directors each year. The Annual General Meeting also elects the Chairman and the Vice Chairman of the Board of Directors. The term of office of the members of the Board of

Directors ends at the close of the next Annual General Meeting of Shareholders following their election. Should the Chairman or Vice Chairman of the Board of Directors resign or become otherwise unable to act as Chairman or Vice Chairman during their term of office, the Board of Directors shall have the right to elect a new Chairman or Vice Chairman from among its members for the remaining term of office.

The Board of Directors has established and adopted a written charter for its work to complement the Articles of Association and applicable laws and regulations. The charter of the Board of Directors describes the nomination process of the Board of Directors, meeting practices, duties and the division of tasks within the Board of Directors

The Board of Directors is responsible for the Company's administration and the appropriate organization of its operations. The Board of Directors is also responsible for the appropriate arrangement of the supervision of the Company's accounts and finances. The Board of Directors decides on Group wide significant matters of principal importance.

The Board appoints and dismisses the CEO, supervises his or her actions, and decides on his or her remuneration and other terms and conditions of service. The Board of Directors also makes decisions on the strategy, investments, organization and financial affairs of the Company. The Board constitutes a quorum when half of the members are present. When this proportion is calculated, disqualified members are excluded.

The Board of Directors convenes in accordance with a schedule agreed in advance and as required. The Board of Directors also receives current information on the operations, finances and risks of the Group in its meetings. Meetings of the Board of Directors are attended by the CEO, the Chief Financial Officer (the "**CFO**") and the General Counsel (who acts as secretary to the Board). Members of the Executive Management Team and other representatives of the Company attend Board meetings at the invitation of the Board. Minutes are kept of all meetings. The Board annually conducts a self-assessment of its activities and working practices.

The following table presents the members of the Board of Directors as at the date of this Offering Circular:

| **Name** | **Year of birth** | **Position** | **Appointed to the Board of Directors** |
|---|---|---|---|
| Sanna Suvanto-Harsaae | 1966 | Chairman of the Board of Directors (since 2015) | 2013 |
| Kim Henriksson | 1968 | Member of the Board of Directors | 2015 |
| Annikka Hurme | 1964 | Member of the Board of Directors | 2010 |
| Tiina Lencioni | 1971 | Member of the Board of Directors | 2017 |
| Jukka Ohtola | 1967 | Member of the Board of Directors | 2018 |
| Torsten Steenholt | 1969 | Member of the Board of Directors | 2017 |
| Kai Telanne | 1964 | Vice Chairman of the Board of Directors (since 2018), member of the Board of Directors | 2016 |

Based on an evaluation of independence, all the members of the Company's Board of Directors are considered to be independent of the Company. The members of the Board of Directors are independent of the Company's major shareholder, excluding Jukka Ohtola who is not independent of the Company's major shareholder. Jukka Ohtola serves as a Ministerial Adviser in the Ownership Steering Department of the Finnish Prime Minister's Office.

**Sanna Suvanto-Harsaae** (born 1966) has been the Chairman of the Board of Directors of Altia since 2015 and a member of the Board of Directors since 2013. She currently serves as the Chairman of the Boards of Directors of Babysam A/S, Danske Koncept Restauranter A/S, Best Friend Group Oy, Best Friend AB, Best Friend Danmark A/S, BoConcept A/S, BoConcept Holding A/S, Workz A/S, TCM Group A/S, TCM Group Invest ApS, Footway Group AB (publ), Vital Petfood Group A/S, TMK A/S, VPG Holding A/S, Best VPG Holding A/S, Basa Holding A/S and Layout Holdco A/S. She also serves as a member of the Boards of Directors of SAS AB (publ), Paulig Ltd, Oy Palejo Ab, Upplands Motor AB, Broman Group Oy, Best Sales A/S and CEPOS (Center for Political Studies). Previously, she served as the Chairman of the Board of Directors of Health & Fitness Nordic AB and as a member of the Board of Directors of CCS Healthcare AB, Clas Ohlson AB (publ), Buy Aid Group A/S, Odder Barnevognsfabrik A/S, Marketing Clinic Denmark A/S and Go

Care A/S. She holds a Bachelor of Science degree in Business Administration from Lund University. She is a Finnish and a Danish citizen.

**Kim Henriksson** (born 1968) has been a member of the Board of Directors of Altia since 2015. He is currently Partner at the financial advisory firm Access Partners. He also serves as the member of the Boards of Directors of Access Partners Oy, APG Advisory AB, APG Holding AB and Nokkila Konsult & Förvaltnings AB. Previously, he served as the Chief Financial Officer at Munksjö Group during which time he also held positions as member of the Boards of Directors of Munksjö Oyj and Ahlstrom-Munksjö AB. Prior to that, he served with the title of Managing Director at the investment bank Morgan Stanley. He holds a Master of Science degree in Economics from the Hanken School of Economics. He is a Finnish and Swedish citizen.

**Annikka Hurme** (born 1964) has been a member of the Board of Directors of Altia since 2010 and the Vice-Chairman of the Board of Directors during 2015–2018. She currently serves as the Chief Executive Officer of Valio Ltd. She also serves as a member of the Boards of Directors of Apetit Plc, Valio Mutual Insurance Company, the East Office of Finnish Industries Oy and the Finnish Food and Drink Industries' Federation (ETL) as well as a member of the Supervisory Board of Suomen Messut Osuuskunta. Previously, she served as the Executive Vice President of Valio Ltd. She holds a Master of Science degree in Food Sciences from the University of Helsinki. She is a Finnish citizen.

**Tiina Lencioni** (born 1971) has been a member of the Board of Directors of Altia since 2017. She currently serves as the General Counsel at Marimekko Corporation. She is also a member of the Board of Directors of Marimekko Services Oy, Keskinäinen Kiinteistö Oy Marikko and Marimekko AB. She also serves as a Director (Geschäftsfuehrer) in Marimekko GmbH and as a Director in Marimekko UK Limited. She holds a Master of Laws degree from Leibniz Universität Hannover and has passed an EEA aptitude examination for the Master of Laws level at the University of Helsinki. She is a Finnish citizen.

**Jukka Ohtola** (born 1967) has been a member of the Board of Directors of Altia since 2018. He currently serves as a Ministerial Adviser in the Ownership Steering Department of the Finnish Prime Minister's Office. He also serves as a member of the Boards of Directors of Motiva Oy, Meritaito Ltd. and Kemijoki Oy as well as the CEO and the member of the Board of Directors of JPO Capital Oy. Previously, he served as a member of the Boards of Directors of the State Business Development Company (Vake Oy), SoteDigi Oy, Ekokem Oy, Raskone Ltd., Boreal Plant Breeding Ltd. and Mint of Finland Ltd. He holds a Master of Science degree in Economics from the Helsinki School of Economics and a CEFA qualification (Certified EFFAS Financial Analyst) from the Hanken School of Economics. He is a Finnish citizen.

**Torsten Steenholt** (born 1969) has been a member of the Board of Directors of Altia since 2017. He currently serves at bioscience company Chr. Hansen A/S as Executive Vice President, Global Operations and is Chief Executive Officer at Chr. Hansen Finland Oy. Previously he served as the Senior Vice President, Product Supply at Chr. Hansen A/S. Prior to joining Chr. Hansen, he served as Vice President, Production for Carlsberg Denmark A/S and Chief Operating Officer for Unicer SGPS, Portugal's leading beverage company. He has also worked as Head of Production for Carlsberg UK Ltd. He is a member of the Board of Directors of CO-RO A/S, CO-RO HOLDING A/S and CO-ROs Fond. Previously, he served as a member of the Board of Directors of Jep Petersen Spedition A/S. He holds a Master of Science degree in Pharmacy from the Royal Danish School of Pharmacy, a Master of Science degree in Chemical Research from University College London and a Master Brewer Diploma from the Scandinavian School of Brewing. He is a Danish citizen.

**Kai Telanne** (born 1964) has been a member of the Board of Directors of Altia since 2016 and the Vice-Chairman of the Board of Directors since 2018. He currently serves as the Chief Executive Officer at Alma Media Corporation. He also serves as a Vice-Chairman of the Board of Directors of Varma Mutual Pension Insurance Company as well as a member of the Board of Directors of Teleste Corporation and Tampere Chamber of Commerce & Industry. In addition, he serves as the Chief Executive Officer and Chairman of the Boards of Directors in several companies belonging to the Alma Media Group. Previously, he served as the Chairman of the Board of Directors of Talentum Oy and Pohjois-Suomen Media Oy. He holds a Master of Science degree in Economics from the University of Tampere. He is a Finnish citizen.

**Business Address**

The business address of the Board of Directors, the CEO and the Executive Management Team is Altia Plc, P.O. Box 350, FI-00101 Helsinki, Finland, and the telephone number is: +358 207 013 013.

**Committees of the Board of Directors**

The Board of Directors may establish specific committees to assist the Board of Directors in the preparation and performance of the Board of Directors' duties and responsibilities and determine their sizes, compositions and tasks. The Board of Directors has established the following two committees: the Audit Committee and the Human Resources Committee. The Board of Directors has adopted written charters for each permanent committee setting forth the purposes, composition, operations and duties of each committee as well as the qualifications for committee membership. The Board elects the members and the chairman of the committees from among its members.

In addition to the Audit Committee and Human Resources Committee, the Board of Directors may in individual cases appoint ad hoc committees for the preparation of specific matters. Such ad hoc committees do not have Board of Directors approved rules of procedure and the Board of Directors does not release information on their term, composition, number of meetings or the members' attendance rates.

The committees of the Board of Directors do not have independent decision-making authority in matters within the competence of the Board of Directors, but it assists the Board of Directors by preparing such matters. The committees of the Board of Directors regularly report on their work to the Board of Directors.

***Audit Committee***

The Audit Committee has a minimum of three members. The majority of the Audit Committee members must be independent of the Company, and at least one must be independent of the Company's significant shareholders.

The Audit Committee as a whole must have the expertise and experience required for the performance of the duties and responsibilities of the Audit Committee. Without limiting the applicable requirements, desirable qualifications for Audit Committee members include appropriate understanding of accounting practices and financial reporting gained through education or experience in performing or overseeing related functions. At least one Audit Committee member must have competence in accounting or auditing and the Audit Committee members as a whole must have competence relevant to one or several of the sectors in which the Company operates.

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for the Company's financial reporting process and in monitoring the statutory audit of the Company and assists the Board in its oversight of matters pertaining to financial reporting, internal control, internal audit and risk management, and by making proposals on such matters to the Board of Directors.

In addition, the duties of the Audit Committee include preparatory work on the decision on electing the auditor, the evaluation of the independence of the auditor, particularly the provision of related services to the Company and carrying out other tasks assigned to it by the Board. Among its other duties, the Audit Committee monitors the efficiency of the system of internal control and risk management, and the audit process. Kim Henriksson serves as the Chairperson of the Audit Committee and Sanna Suvanto-Harsaae and Tiina Lencioni serve as members of the Audit Committee. Kim Henriksson has competence in accounting or auditing.

***Human Resources Committee***

The Human Resources Committee has a minimum of three members. The majority of the Human Resources Committee members must be independent of the Company. The Human Resources Committee must possess the expertise and experience required for the performance of the duties and responsibilities of the Human Resources Committee. The CEO or any other person in the Company's management may not be a member of the Human Resources Committee.

The Human Resources Committee assists the Board by reviewing and preparing matters related to the remuneration principles of the Company, the performance and remuneration the Executive Management Team and personnel as well as executive management appointments and reviewing appropriate succession planning procedures for executive management, and by making proposals on such matters to the Board of Directors.

Sanna Suvanto-Harsaae serves as the Chairman of the Human Resources Committee and Annikka Hurme and Kai Telanne serve as members of the Human Resources Committee.

***Members of the Committees***

The Company's Board of Directors re-confirmed the composition of the Audit and Human Resources Committee on 12 January 2018 as follows: Kim Henriksson serves as the Chairman of the Audit Committee, with Sanna Suvanto-Harsaae and Tiina Lencioni serving as members. Sanna Suvanto-Harsaae serves as the Chairman of the Human Resources Committee, with Annikka Hurme and Kai Telanne serving as members.

According to the charters of the Audit and Human Resources Committee, the General Counsel of the Company shall act as the Secretary of the Audit and Human Resources Committee.

**CEO**

The CEO is responsible for managing, supervising and controlling the business operations of the Company. Further, the CEO is responsible for the day-to-day executive management of the Company in accordance with the instructions and orders given by the Board of Directors. In addition, the CEO ensures that the accounts of the Company comply with Finnish law and that its financial affairs have been organised in a reliable manner. The duties of the CEO are governed primarily by the Finnish Companies Act. The CEO must provide the Board of Directors and its members with the information necessary for the performance of the duties of the Board Directors.

The CEO prepares issues for decision by the Board of Directors, develops the Company in line with the targets agreed with the Board of Directors and ensures proper implementation of the decisions of the Board of Directors. The CEO is also responsible for ensuring that the Company is managed in compliance with applicable laws and regulations. The CEO is not a member of the Board of Directors, but attends the meetings of the Board of Directors and has the right to speak at the meeting, unless the Board of Directors decides otherwise with regard to a particular subject matter.

Pekka Tennilä (born 1969) has served as the Company's CEO since 2014.

**Executive Management Team**

The Executive Management is chaired by the CEO and comprises of other members of the senior management appointed by the Board. The Executive Management Team meets regularly to address matters concerning the entire Group. The Executive Management Team is not a decision-making body of the Company. It assists the CEO in the implementation of the Group strategy and in operational management. The Executive Management Team is responsible for managing the Company's core business operations as a whole, which requires planning of various development processes, Group principles and Group practices, as well as monitoring the development of financial matters and Group business plans.

The following table presents the members of the Executive Management Team as at the date of this Offering Circular:

| **Name** | **Year of birth** | **Position** | **Appointed** |
|---|---|---|---|
| Pekka Tennilä | 1969 | CEO | 2014 |
| Janne Halttunen | 1970 | Senior Vice President, Scandinavia | 2017 (member of the Executive Management Team since 2015) |
| Kari Kilpinen | 1963 | Senior Vice President, Finland & Exports | 2017 |
| Kirsi Lehtola | 1963 | Senior Vice President, HR | 2016 |
| Matti Piri | 1969 | Senior Vice President, CFO | 2013 |
| Kirsi Puntila[1)] | 1970 | Senior Vice President, Marketing | 2016 |
| Hannu Tuominen | 1958 | Senior Vice President, Altia Industrial | 2009 (member of the Executive Management Team since 2008) |

[1)] Kirsi Puntila is currently on parental leave. During her absence, her duties have been taken over by Saija Moisio (Innovation Director).

**Pekka Tennilä** (born 1969) has been the Chief Executive Officer of Altia since 2014 and a member of the Executive Management Team since 2014. He joined the Company in 2014. Previously, he served as the Chief Executive Officer, Baltics at Carlsberg Group, and has also held other managerial positions at Carlsberg Group. He holds a Master of Science degree in business, majoring in International Marketing from the Turku School of Economics. He is a Finnish citizen.

**Janne Halttunen** (born 1970) has been the Senior Vice President, Scandinavia since 2017 and a member of the Executive Management Team since 2015. He joined the Company in 2009 as the Managing Director of Oy Wennerco Ab. Previously, he served as the Company's Senior Vice President, Partner Business and Export; as the Director, Business Development; Managing Director, Partner Brands, as well as a member of the Board of Directors of Craft & Cask Ltd. In addition, he has held several managerial positions at British American Tobacco. He holds a Master of Business Administration degree from the University of Jyväskylä. He is a Finnish citizen.

**Kari Kilpinen** (born 1963) has been the Senior Vice President, Finland & Exports since 2017 and a member of the Executive Management Team since 2017. He joined the Company in 1997 and has served as the Director of Altia Finland since 2009. He currently acts as a private entrepreneur at Rib n Roll. He holds a Bachelor's degree in Hospitality Management from Haaga Institute Polytechnic and a Master of Business Administration degree from Henley, University of Reading. He is a Finnish citizen.

**Kirsi Lehtola** (born 1963) has been the Senior Vice President, HR since 2016 and a member of the Executive Management Team since 2016. She joined the Company in 2016. Previously, she served as HR Director, Insurance and Wealth Management at OP Financial Group as well as Head of HR, Group HR Services, and Senior Vice President, HR, Publication Paper and Finland at Stora Enso Oyj. She has also been a member in the Advisory Committee of Finnish Forest Industries Federation. She holds a Master of Laws degree from the University of Turku with court training. She is a Finnish citizen.

**Matti Piri** (born 1969) has been the Senior Vice President, CFO since 2013 and a member of the Executive Management Team since 2013. He joined the Company in 2013. He also serves as a member of the Board of Directors of Roal Oy. Previously, he has served as the Vice President Finance & Control as well as Acting Chief Financial Officer at Neste Oil Oyj and as a deputy member of the Board of Directors of Chemigate Oy. In addition, he has held several managerial positions at MARS Inc and Effemex Europe. He holds a Master of Science degree in Business Management from the University of Jyväskylä. He is a Finnish citizen.

**Kirsi Puntila** (born 1970) has been the Senior Vice President, Marketing since 2016 and a member of the Executive Management Team since 2016. She joined the Company in 2014. Previously, she served as the Spirits Category Director of the Company and the Marketing Director of Altia Brands in Stockholm. She has also served as the Global Marketing Manager (Absolut vodka flavours and Kahlua liqueur) of The Absolut Company (Pernod Ricard S.A). She holds a Master of Science degree in Economics from the University of Vaasa, Post Graduate Certificate from Sup de Cop Rennes, France and Diploma in International Marketing Management (rated in IATTO, International Association of Trade Training Organizations) from Fintra, International Business School. She is a Finnish citizen.

**Hannu Tuominen** (born 1958) has been the Senior Vice President, Altia Industrial (previously Industrial Services and Supply Chain) since 2009 and a member of the Executive Management Team since 2008. He joined the Company in 2008. He also serves as the Chief Executive Officer and a member of the Board of Directors of Testudo Oy and is a member of the Boards of Directors of Roal Oy and ECV Group Ltd as well as a member of the Board of Directors and Managing Director of Integnor Oy. He is also a deputy member of the Board of Directors of Bostads Ab Ripan. Previously, he served as the Chairman of the Board of Directors of A-Pullo Oy, and was a member and a deputy member of the Board of Directors of Chemigate Oy and deputy member of the Board of Directors of Palpa Lasi Oy. He also served Vaisala Corporation as Production Director and Division Director in 1992–2007. In addition, he has previously worked in several managerial positions at Fiskars Power Systems Oy. He holds a Master of Science degree in Engineering from Lappeenranta University of Technology. He is a Finnish citizen.

### Litigation Statement Concerning the Company's Directors and Officers

On the date of this Offering Circular, none of the members of the Board of Directors or the Executive Management Team nor the CEO of the Company have in the previous five years:

- been convicted in relation to fraudulent offences,
- held an executive function, has been included in the executive management, or been a member of the administrative management or supervisory bodies of any company or has acted as a general partner with individual liability in a limited partnership at the time of or preceding any bankruptcy, administration of an estate or liquidation, or
- been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including any designated professional bodies) or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

### Conflicts of Interests

Provisions regarding conflicts of interest of the members of the Board of Directors are set forth in the Companies Act. Pursuant to chapter 6, section 4 of the Companies Act, a member of the board of directors may not participate in the handling of a contract between himself and the company. Nor may a member of the Board of Directors participate in handling a contract between the company and a third party, if he may thereby receive a material benefit, which may be in conflict with the interests of the company. The above provisions on contracts shall correspondingly apply to other transactions and court proceedings. The aforementioned provisions also apply to the CEO.

To the knowledge of the Company, the members of the Board of Directors, the Executive Management Team or the CEO do not have any conflicts of interests between their duties towards the Company and their private interests and/or their other duties.

In addition, there are no family relationships between the members of the Board of Directors, the CEO and the members of the Executive Management Team.

**Management Remuneration**

***Compensation of the Members of the Board of Directors***

Pursuant to the Articles of Association, the General Meeting of Shareholders determines the remuneration payable to the members of the Board of Directors. At the Annual General Meeting of Shareholders held on 5 March 2018, it was resolved that the Chairman of the Board of Directors would be paid a monthly remuneration of EUR 2,750 (EUR 33,000 annually), the Vice Chairman of the Board of Directors a monthly remuneration of EUR 1,800 (EUR 21,600 annually) and each other member of the Board of Directors a monthly remuneration of EUR 1,450 (EUR 17,400 annually). In addition, attendance fee of EUR 600 per each Board and committee meeting is paid to the members of the Board of Directors residing in Finland and EUR 1,200 to the members of the Board of Directors residing abroad.

The remuneration of the members of the Board of Directors for the financial year 2017 is presented in the following table:

| **In EUR thousand** | **1 January to 31 December 2017 (unaudited)** |
|---|---|
| Sanna Suvanto-Harsaae | 61 |
| Kim Henriksson | 37 |
| Annikka Hurme | 32 |
| Tiina Lencioni (since 21 March 2017) | 21 |
| Kai Telanne | 26 |
| Torsten Steenholt (since 15 December 2017) | - |

The members of the Board of Directors are not included in the incentive schemes of the Company and no shares or option rights, or other special rights have been given or granted as remuneration to the members of the Board of Directors.

No pension benefits have been granted in favour of the members of the Board of Directors.

***Remuneration of the Executive Management Team and the CEO***

The Company's Board of Directors decides on the total remuneration of the CEO and, on the proposal of the CEO, the remuneration for the other members of the Executive Management Team, taking into account the recommendations of the Human Resources Committee of the Company.

The remuneration of the Executive Management and the CEO consists of a monthly salary, customary fringe benefits and incentives as in force from time to time.

The remuneration paid for the Executive Management Team is presented under section "*Major Shareholders and Related Party Transactions*".

No shares or option rights have been given or granted as remuneration to the members of the Executive Management Team or to the CEO. Moreover, no signing or stay bonus has been granted to the CEO or the other members of the Executive Management Team.

The pension benefits of the Company's CEO and the other members of the Executive Management Team are determined in accordance with law and customary practice. The Company has no active supplementary pension or insurance plans provided for the CEO nor for the other members of the Executive Management Team. The retirement age of the CEO of the parent company is 63 years.

**Management Contracts**

The CEO's contract of service may be terminated on a mutual six (6) months' notice. Upon termination of the contract by the Company, without reasons comparable to those stipulated in the Finnish Employment Contracts Act (55/2001, as amended) that entitle an employer to terminate employment on grounds relating to the employee, the CEO shall be entitled to receive a one-off severance payment equivalent to six (6) months' salary at the moment of termination in addition to the salary for the notice period. However, in the event of the CEO's material breach of the obligations under the CEO's contract of service, the Company is entitled to terminate the contract of service immediately, upon notice, with no payment obligation of any kind. The CEO's contract of service shall expire without a separate notice at the end of the month during which the CEO reaches 63 years of age.

The Executive Management Team members' employment contracts may be terminated on a mutual six (6) months' notice. When the Executive Management Team member's employment is terminated by the Company for reasons other than a material breach of the employee's duties, the Executive Management Team member shall be entitled to receive a one-off severance payment equivalent to six (6) months' salary at the moment of termination in addition to the salary for the notice period.

**Management Holdings**

Based on the share and shareholders' register of the Company, the members of the Board of Directors, the CEO and the Executive Management Team do not hold, on the date of this Offering Circular, any of the Company's shares.

**Incentive Schemes**

The members of the Board of Directors are not included in the Company's incentive schemes.

The Company's Board of Directors decides annually on the Group's principles of remuneration, the basis and targets for performance bonuses as well as their maximum amounts. The Board of Directors also annually evaluates the performance of the CEO and the other members of the Executive Management Team and decides on their total remuneration taking into account the recommendations of the Human Resources Committee. The remuneration of the Executive Management Team and the CEO currently consists of a monthly salary, customary fringe benefits, the short-term incentive (STI) plan for 2017, and the long-term incentive (LTI) scheme for 2017–2019, as well as a one-off reward described below. The Board of Directors decides only after the Listing on the possible extension of the Group's short-term incentive (STI) plan for 2018 to also include the CEO and other members of the Executive Management Team taking into account the Listing and the one-off reward paid to the CEO and the other members of the Executive Management Team as well as the limitations on the maximum levels of remuneration provided in the Government Resolution described below.

Altia applies the statement of the Ministerial Committee on Economic Policy on remuneration for management and personnel of state-owned companies, as included in the Government Resolution on State-Ownership Policy adopted on 13 May 2016 by the Government.

*The short-term incentive (STI) plan for 2017*

According to the short-term incentive (STI) plan for 2017, the CEO's and the Executive Management Team members' target level for the incentive is 30% of their annual gross base salary and they have the possibility to a personal annual bonus of 60% of their annual gross base salary as a maximum. The target objectives for the performance in relation to the short-term incentive (STI) plan for 2017 are based on Group business objectives with a weight of 70% as well as on personal objectives with a weight of 30%. The operational target of the short-term incentive (STI) plan for 2017 is to improve the net sales and operating profit.

The possible incentives under the short-term incentive (STI) plan for 2017 are based on the increase in the Company's comparable operating result (increase after the paid bonuses). However, no incentive shall be paid, should the minimum level set for the group level performance objective not be achieved. The possible incentives are paid in cash annually by the end of April following the end of the performance period, provided that the employment or service agreement of the participant is in force at the time of the incentive payment. The Board of Directors can, however, at any time at its discretion decide to amend the terms and conditions of the incentive plan.

*The long-term incentive (LTI) scheme for 2017–2019*

The long-term incentive (LTI) scheme for 2017–2019 is based on the Company's comparable EBITDA as well as on individual business and performance targets. The purpose of the long-term incentive (LTI) scheme for 2017–2019 is the long-term favourable development of shareholder value and net sales. The long-term incentive (LTI) scheme consists of separate schemes starting in 2017–2019, the duration of each of which is three years. The CEO's and the Executive Management Team members' target level for the incentive is 20% of their annual base salary and they have the possibility to a personal annual bonus of 40% of their annual base salary as a maximum. The possible incentives are paid in cash during the years 2020–2022 on a date determined by the Company once the Company's financial statements of the last year of the three-year period have been audited. A precondition for the payment of the incentive is that the CEO's or the Executive Management Team member's employment or service is continuing with the Company.

In connection with the change of control event in the Company, the Board of Directors determines on its sole discretion whether and in which manner this will possibly affect the long-term incentive (LTI) scheme for 2017–2019. If the long-term incentive (LTI) scheme for 2017–2019 is terminated by the Board of Directors, the participants in this scheme shall be paid a time-based proportion of their earnings under the scheme or possibly already earned rewards not yet paid by the time of the termination. The Board of Directors can, however, at any time at its discretion decide to amend the terms and conditions of the incentive scheme.

*The One-off Reward*

The Board of Directors has decided on the payment of a one-off reward to the CEO and members of the Executive Management Team. The persons entitled to the reward are committed as a prerequisite for the reward to personally investing a sum, after taxes and other deductions, corresponding to the net sum of the received reward in the Company by subscribing to the Personnel Shares in the Personnel Offering. The reward payable to the CEO is approximately 300,000 euros and to the other members of the Executive Management Team approximately 754,630 euros in total. The Board of Directors can resolve at any given time, at its discretion, to set restrictions or additional conditions in relation to the one-off reward.

**Auditors**

Pursuant to Article 8 of the Company's Articles of Association, the Company must have one auditor, which must be an approved auditing firm. The term of the Auditor of the Company shall end at the close of the Annual Meeting following the election. The Company has appointed PricewaterhouseCoopers Oy, Authorised Public Accountants as its auditor. PricewaterhouseCoopers Oy has appointed Ylva Eriksson, Authorized Public Accountant, as the auditor with the principal responsibility.

The consolidated financial statements as at and for the years ended 31 December 2017 and 2016 have been audited by PricewaterhouseCoopers Oy, Authorised Public Accountants, with Ylva Eriksson, Authorized Public Accountant, as the principal auditor. The consolidated financial statements as at and for the year ended 31 December 2015 have been audited by KPMG Oy Ab, Authorised Public Accountants, with Jari Härmälä, Authorized Public Accountant, as the auditor with the principal responsibility.

# MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

On the date of this Offering Circular, the State of Finland is the sole shareholder of the Company.

Decision-making relating to State shareholdings and ownership steering in State majority-owned companies and in State's affiliate companies is governed by the State Shareholdings and the Ownership Steering Act (1368/2007, as amended, the "**Ownership Steering Act**"). According to the Ownership Steering Act, an authorisation of the Parliament is required, if the State ceases to be the sole shareholder, renounces its majority shareholding in a company or if the State's proportion of votes carried by all of a company's shares decreases to one third or lower. In connection with the supplementary budget consideration in June 2014, the Parliament gave its authorisation for the State to dispose its entire holdings in the Company.

The Company is not aware of event or arrangements following the Share Sale and the Personnel Offering that may in the future lead to a change of control in the Company. The shares held by the State of Finland can be transferred by the decision of the Government to the State Business Development Company Vake Oy.

## Ownership Steering by the Finnish Government and the Government Resolution on State-Ownership Policy

### *The Resolution on State Ownership Policy and the State Business Development Company*

Ownership Steering Act governs the decision-making in ownership steering. The highest decision-making power in the ownership steering policy is vested in the Parliament. The State ownership steering and the ownership policy are based on the Government programme, which outlines the key objectives and principles for the term of the Government. The Government resolution on the State ownership policy, in turn, provides principles and policies for day-to-day ownership steering. On 13 May 2016, the Government of the Prime Minister Juha Sipilä published the Government resolution on the State ownership policy "Making the balance sheet work – Growth-generating ownership policy" (the "**Resolution on the State Ownership Policy**"), which proclaims that the State ownership is a tool of active social renewal.

The State's corporate assets are divided into holdings in companies operating on a commercial basis and special assignment companies entrusted with a specific State-defined mission. For some of the holdings in commercial companies, strategic interests are defined by the relevant ministries. With regard to companies whose strategic interest is not defined, the State's ownership relates to financial interest. Financial interest does not constitute permanent ground for ownership, but instead, the capital committed to companies that are owned merely for a financial interest should be allocated at the best possible time to facilitate growth in the national economy more effectively. No limit is established by the Parliament for the State holdings in companies of financial interest, and decisions regarding their ownership structure can be made by the Government. Currently no strategic interest within the meaning of the State ownership steering is defined for Altia and the Company is considered a company of financial interest in the State ownership.

The Resolution on the State Ownership Policy provides, amongst others, that in the management of the State's assets, the state aims to maximise the overall financial and social performance. The financial performance is built up of the long-term development of the value of companies and the distribution of profits. As part of the Resolution on the State Ownership Policy, it was resolved on the changes necessary in the State's ownership strategy, which include, among others, releasing capital for creating something new. This entails that the State as an owner should stake out evolutionary paths for the companies in which it holds interests in order to generate growth, which might also require changes in the ownership structure. When it is no longer necessary, in terms of the economy as a whole, for the State to own a company to the current extent, capital can be released for creating something new.

In addition, the changes in ownership strategy include establishment of the State business development company to provide the State-owned companies with an evolutionary path for their renewal and for the development of their ownership structure. The business development company is an actor that is outside the on-budget entities. The State Business Development Company Vake Oy was incorporated in 2016. The new board of directors of the State Business Development Company commences its operations in March 2018. The board of directors of the company is first to start up the operations of the company and to define the operating principles and investment policy as well as to appoint the managing director of the company. In accordance with the Resolution on the State Ownership Policy, the State's shareholder control is exercised through the Government by the State Business Development Company with respect to the companies of financial or strategic interest the Parliament has authorised the renouncement of holdings. The Resolution on the State Ownership Policy provides that the Shares in Altia may be transferred through capital contribution to the State Business Development Company upon the decision by the Government, however, such decision has not been made by the date of this Offering Circular. In the Share Sale, the State of Finland sells the Shares it holds. The State of Finland has committed in connection with the Share Sale, during the period that will end on the date that falls 180 days from the Listing, without the prior written consent of the Global Coordinator, not to offer or sell any remaining Shares it holds. The lock-up does not apply to measures related to transfer of the Shares to the State Business Development

Company Vake Oy. Irrespective of whether the remaining Shares are held by the State or the State Business Development Company, any disposal of the Shares requires a decision by the Government.

The Government will make the strategic decisions on the ownership and development of the assets of the State Business Development Company. The operations of the State Business Development Company and the division of responsibilities between the owner and the State Business Development Company's board of directors is specified in the operational guidelines of the State Business Development Company. The task of the State Business Development Company is to make the capital invested by the State in the companies to circulate actively, create new businesses and carry out corporate transactions. The decisions on the State Business Development Company's holdings are made by the minister responsible for ownership steering and the Government plenary session. The decisions and authorisations on the State Business Development Company's holdings are prepared and presented for the minister responsible for ownership steering and the Government plenary session by the Ownership Steering Department in the Prime Minister's Office.

***State ownership steering***

According to the Ownership Steering Act, the State ownership steering refers to the exercising of the State's right to vote in general meetings as well as to other measures by which the State as a shareholder contributes to companies' administration and operating principles. State ownership steering emphasizes the compliance with good corporate governance. Decision-making in the issues of State ownership steering within the authority of the parliament and the Government and other significant decisions are subject to approval by the Ministerial Committee on Economic Policy. In addition, the Ministerial Committee on Economic Policy issues guidelines and statements supplementing the Resolution on the State Ownership Policy, when necessary. The State requires that companies, in which it exercises control, adhere to such guidelines and statements, and the State encourages that they are also applied in affiliate companies. According to the Resolution on the State Ownership Policy, the boards of directors of State-owned companies are responsible for the application of the guidelines and are responsible to the State-owner for adherence to the guidelines.

The Ownership Steering Department of the Prime Minister's Office is responsible for the preparation of ownership steering policies and consistency of the policies as well as coordinates collaboration between the ministries. Under all circumstances, decisions-making relating to ownership policy is vested in the minister responsible for ownership steering and the Government, and decision-making relating to business operations is vested in the companies' own organs.

Ownership steering is based on independent owner-strategic influence and financial analysis, as well as preparation based on these. The State is an active owner. According to the Resolution on the State Ownership Policy, the boards of directors and the management of State-owned companies are responsible for discussing with the significant shareholders about matters related to the development of the shareholder value or other important matters concerning the shareholders. Respectively, the State as an owner carries out dialogue with the companies within the framework of legislation and with due consideration to other shareholders.

From the State ownership's perspective, the central decision-making body of the companies is the company's board of directors. Altia has established the Shareholders' Nomination Board to prepare the proposals concerning the composition, election and the remuneration of the members of the Board of Directors to the following Annual General Meeting (see more information "*– Board of Directors, Management and Auditors — Shareholders' Nomination Board*"). The most important task of the Shareholders' Nomination Board is to ascertain that the Board of Directors and its members have adequate expertise, knowledge and qualification. The Shareholders' Nomination Board prepares the proposals concerning the number of the members of the Board of Directors, composition of the Board of Directors and remuneration of the members of the Board of Directors and the committees to the General Meeting. The number of the members of the Board of Directors and their remuneration are resolved as well as the Chairman, Vice-Chairman and members of the Board of Directors are elected at the Annual General Meeting.

***State ownership steering's policy on remuneration***

The remuneration statement attached to the Resolution on the State Ownership Policy outlines the executive remuneration of the State-owned companies. According to the statement, management and personnel remuneration is a tool for the company's board of directors that is used to seek growth in the company's value. Well-planned remuneration is based on indicators relevant to the company and directs the activities in the desired direction. State-owned companies must be able to hire management and personnel under competitive terms. As an owner, the State always requires remuneration to be reasonable and fair. The company's board of directors resolves on the remuneration of the management and personnel. As an owner, the State does not make decisions on remuneration.

In remuneration of the companies' board members, the State adheres to the principles of transparency, moderation and market consistency. When deciding on the remuneration of board members, the requirements imposed by the company's market situation and the international nature of the work carried out by the board as well as the requirement of increasing the shareholder value must be taken into account.

According to the statement on the remuneration, fixed salary of the managing director and the members of the executive management teams must be defined in terms of a total salary that includes all the benefits for which the employer incurs any expenses. As an owner, the State's position is that supplementary pensions are not to be used as a form of remuneration. If the company has other owners, the company's board of directors decides on supplementary pension. The supplementary pension payment exceeding the level referred to in the Employees Pensions Act must be on a cash basis. The pension benefits must be based on the fixed monthly salary.

The objectives constituting the basis of performance bonuses to be paid in addition to the fixed total salary must be demanding and the beneficiary must be able to influence the attainment of the objective with their own contribution. The total amount of variable remuneration for listed companies and comparable unlisted companies in the State's ownership steering is at most 50 per cent of the beneficiary's fixed annual salary each year. If the performance of the company and the beneficiary is exceptionally good, the total maximum amount of the payable remuneration may annually be at most 120 per cent of the fixed annual salary. However, the State does not approve remuneration schemes that include stock options or other instruments that require the issuance of new shares.

In the State's view, new employment contracts to be concluded by listed companies and comparable unlisted companies should not specify levels of compensation where the combined pay for the notice period and the severance package exceeds the regular 12 months' pay.

**Related Party Transactions**

The Company's related party companies include the subsidiaries, associated companies and joint operations. Related party also include the Board of Directors, the CEO, the members of the Executive Management Team and their family members as well as entities controlled or jointly controlled by these persons, as well as the State of Finland, which owns 100 % of the shares in the Company. Also entities that are controlled or jointly controlled by, or are associates of the State, are related parties of Altia. Altia has applied the exemption to report only material transactions with the government related entities. Transactions with related parties are entered into on market terms. Altia has related party transactions on a continuous basis with its major customer Alko. Transactions with Alko as well as other material transactions with state-owned companies have been presented below under Other companies considered related parties.

The Company's subsidiaries have been presented in this Offering Circular under "*Business of the Company — Organisation and Personnel*".

### *Related Party Transactions*

The following tables present transactions with the Company's related parties in between 1 January 2015 and 31 December 2017:

| In EUR million | IFRS, 1 January to 31 December | | |
|---|---|---|---|
| | **2017 (audited)** | **2016 (audited)** | **2015 (audited)** |
| Sales of goods and services | | | |
| Associates and joint operations | 1.0 | 1.3 | 2.8 |
| Other companies considered related parties[1] | 82.8 | 82.9 | 88.9 |
| **Total** | **83.8** | **84.2** | **91.7** |
| Purchases of goods and services | | | |
| Associates and joint operations | 2.1 | 2.5 | 2.7 |
| Other companies considered related parties[1] | 4.1 | 4.8 | 5.3 |
| **Total** | **6.2** | **7.3** | **8.1** |
| Outstanding balances from sales and purchases of goods and services | | | |
| Trade receivables | | | |
| Associates and joint operations | 0.2 | 0.0 | 0.2 |
| Other companies considered related parties[1] | 2.8 | 7.3 | 2.9 |
| Trade payables | | | |
| Associates and joint operations | 0.0 | 0.3 | 0.3 |
| Other companies considered related parties[1] | 0.1 | 0.3 | 0.4 |
| | | | |
| Management remuneration | | | |
| CEO | | | |
| Salaries and other short-term employee benefits | 0.3 | 0.3 | 0.3 |
| Performance bonus and the bonuses from long-term incentive plan | 0.3[2] | 0.1 | 0.0 |
| Pension benefits | 0.1 | 0.1 | 0.1 |
| **Total** | **0.7** | **0.5** | **0.4** |
| Members of the Executive Management Team (CEO not included) | | | |
| Salaries and other short-term employee benefits | 1.9[3] | 1.5 | 1.4 |
| Pension benefits | 0.3 | 0.2 | 0.2 |
| **Total** | **2.2** | **1.7** | **1.6** |
| Members and deputy members of the Board of Directors | 0.2 | 0.2 | 0.2 |

[1] Other companies considered related parties includes companies in which the ownership of the State of Finland is over 50 %.
[2] Total remuneration for the CEO in 2017 includes an additional bonus of EUR 0.2 million for exceptionally good performance.
[3] Total remuneration for other members of the Company's Executive Management Team includes an additional bonus of a total of EUR 0.5 million for exceptionally good performance.

In 2018, the Company has not had significant related party transactions out of the ordinary course of business by the date of this Offering Circular.

# DESCRIPTION OF THE SHARES AND SHARE CAPITAL

## General Information

The registered name of the Company is Altia Oyj in Finnish, Altia Abp in Swedish and Altia Plc in English. The Company is domiciled in Helsinki, Finland, its registered address is Kaapeliaukio 1, FI-00180 Helsinki, Finland and the telephone number of the Company is +358 207 013 013. The Company is a Finnish public limited liability company subject to the laws of Finland. The business identity code of the Company is 1505555-7. The accounting period of the Company is the calendar year.

The Company was registered with the Finnish Trade Register of the Finnish Patent and Registration Office (the "**Trade Register**") on 4 January 1999.

Pursuant to Article 2 of the Articles of Association, the Company's line of business is to by itself or through the group companies engage in 1. the manufacture, import, and sale of alcoholic beverages and products with an alcohol base; 2. the manufacture, import, and sale of other drinks; 3. the manufacture, import, and sale of ethanol and products with an ethanol base; 4. the manufacture and sale of other biotechnical and cosmetic, toiletry and detergent products; 5. the manufacture and sale of agricultural food and feed component; 6. the manufacture and sale of products made of renewable resources; 7. the training related to these industries, as well as the sale of the technology and the planning and laboratory services. The Company may own and possess real estate and securities.

## Shares and Share Capital

On the date of this Offering Circular, the Company's registered share capital is EUR 60,480,378.36 and the Company has 35 960 000 shares issued. The Company has one class of shares, and each share carries one vote at the Company's General Meeting of Shareholders. The Shares of the Company do not have nominal value. The Shares of the Company have been entered in the Euroclear Finland book-entry securities system. The ISIN code of the shares is FI4000292438. The Shares are freely transferrable.

The Company will submit a listing application with the Helsinki Stock Exchange to list the Shares on the Official List of the Helsinki Stock Exchange. The trading in the Shares is expected to commence on the prelist of the Helsinki Stock Exchange on or about 23 March 2018 and on the Official List of the Helsinki Stock Exchange on or about 27 March 2018. The Personnel Shares will be applied to be admitted for trading later, on or about 28 March 2018. The share trading code of the Shares is ALTIA.

The Company or its subsidiaries do not hold any shares in the Company on the date of this Offering Circular.

## Changes to the Shares Prior to the Listing

The Board of Directors of the Company has on 13 December 2017 resolved to cancel all of the series L shares which were held in treasury by the Company and upon registration of such cancellation the Company no longer had any series L shares. The sole shareholder of the Company resolved on 15 December 2017 to combine the Company's series A and series L shares to single share series and to amend the Articles of Association to reflect the changes. The Company's shares were incorporated into the book-entry securities system on 19 January 2018.

## History of Share Capital

The following table sets forth a summary of the changes in the Company's share capital and the number of Shares from 1 January 2015 to the date of this Offering Circular:

| Date of decision | Arrangement | Number of Shares after the arrangement | Share capital (EUR) | Date of Trade Register registration |
|---|---|---|---|---|
| Situation as of 1 January 2015 | | Series A shares: 35,960,000<br>Series L shares: 25,003<br>Total: 35,985,003 | 60,480,378.36 | 26 April 2007 |
| 13 December 2017<br>15 December 2017 | Cancellation of the series L shares and combination of the share series | Total: 35,960,000 | 60,480,378.36 | 21 December 2017 |

**Current Authorisations**

The sole shareholder of the Company resolved on 22 February 2018 to authorise the Board of Directors to resolve on a issuance of Shares, against payment, in one or several instalments, for the purposes of a Personnel Offering in connection with the Share Sale and the Listing. Based on the authorisation, up to 300,000 new shares in the aggregate can be offered for subscription, corresponding to approximately 0.8 per cent of the Shares in the Company. The Board of Directors has the right to resolve on other terms and conditions of the issuance of Shares subject to following restrictions: the shares may be offered in deviation from the pre-emptive right of the shareholders (directed issue) so that the issuance of shares may be directed to the permanent employees and the members of the Executive Management Team of the Company; the subscription price for new shares in the Personnel Offering can be lower than the Sale Price of the Sale Shares in the Public Share Sale, however, no more than 10 per cent lower than the Sale Price in the Public Share Sale; and, as a precondition for participation in the Personnel Offering, the subscribers must undertake a lock-up, which will be specified in more detail later on in the terms and conditions of the Personnel Offering, and which is valid for 365 days from the Listing for part of the members of the Executive Management Team and for 180 days from the Listing for part of other personnel. The approval of the subscriptions made in the Personnel Offering and the completion of the Personnel Offering are conditional to the Share Sale being completed in accordance with the terms and conditions to be specified in more detail later on in connection with the Listing. In addition, the authorisation includes the right to resolve on whether the Subscription Price of the Shares will be recorded, in its entirety or in part, in the reserve for invested non-restricted equity or as an increase of the Company's share capital. The authorisation is effective until 30 June 2018 at the latest.

**Shareholders' Rights**

***Shareholders' Pre-Emptive Subscription Right***

Pursuant to the Companies Act, the shareholders of a Finnish limited liability company have a pre-emptive right to subscribe for the company's new shares, option rights and convertible bonds in proportion to the number of shares in a company they already hold unless otherwise provided in the resolution of the General Meeting of Shareholders or the Board of Directors resolving on such issue. Pursuant to the Companies Act, a resolution that deviates from the shareholders' pre-emptive rights must be approved by at least two thirds of all votes cast and shares represented at a General Meeting of Shareholders. In addition, pursuant to the Companies Act, such a resolution requires that the Company has a weighty financial reason to deviate from the pre-emptive rights of shareholders. In addition, pursuant to the Companies Act, a resolution on a share issue without payment waiving the shareholders' pre-emptive rights requires that there is an especially weighty financial reason for the company and in regard to the interests of all shareholders in the company.

Certain foreign shareholders may not necessarily be able to exercise their pre-emptive subscription rights in the Company's future offerings due to the legislation and regulations of their own country.

In the Personnel Offering, new Shares will be offered in deviation from the shareholders' pre-emptive subscription right. See also "*Risk Factors — Risks related to the Shares, the Share Sale and the Personnel Offering — Certain foreign shareholders may not necessarily be able to exercise their subscription rights"* and "*Background and Reasons for the Contemplated Listing and Use of Proceeds*".

***General Meetings of Shareholders***

Pursuant to Companies Act, the shareholders exercise their decision-making power concerning the company's matters at the General Meetings of Shareholders. Pursuant to the Companies Act, the Annual General Meeting of Shareholders of a company shall be held annually within six months of the end of the financial year.

Pursuant to the Companies Act and the Company's Articles of Association, the Annual General Meeting of Shareholders shall resolve on matters including, amongst others, the following:

- adoption of the financial statements and consolidated financial statements,
- granting discharge from liability to the members of the Board of Directors and the CEO,
- use of profit shown in the balance sheet,
- election of members of the Board of Directors, and
- election of auditors.

Furthermore, an authorisation for the Board of Directors to resolve on a share issue or issue of other special rights entitling to shares and amendments to the Articles of Association also require the resolution of a General Meeting of Shareholders. In addition to Annual General Meetings of Shareholders, Extraordinary General Meetings of Shareholders may also be held if required. Subject to the nature of the matter to be resolved, the provisions of the Companies Act regarding qualified majority, as described below, shall be applied.

The General Meeting of Shareholders handles the matters required by the Companies Act or the Articles of Association or presented to it by the Board of Directors. As a general rule, the General Meeting of Shareholders is summoned by the Board of Directors. If a shareholder or shareholders of a company controlling at least 10 per cent of the shares or the company's auditor request in writing that a certain matter be handled at a General Meeting of Shareholders, the Board of Directors must summon a General Meeting of Shareholders within one month from the arrival of the request. Under the Companies Act, a shareholder may submit a written request to the Board of Directors to include on the agenda for the next General Meeting of Shareholders any matter falling within the competence of the General Meeting of Shareholders, provided that the request is submitted in good time so that it can be included in the notice to the meeting. In a listed company, a request is always considered to be on time, if it is submitted at the latest four weeks prior to the giving of the notice to a meeting.

The proposal by the Shareholders' Nomination Board for the composition of the Board of Directors shall be included in the notice of the General Meeting of Shareholders. The same applies to a proposal for the composition of the Board of Directors made by shareholders with at least 10 per cent of the votes carried by the Shares, provided that the candidates have given their consent to the election and the Company has received information on the proposal sufficiently in advance so that it may be included in the notice of the General Meeting. The proposal by the Board of Directors for the auditors of the company will be published in connection with the notice to the General Meeting of Shareholders.

Under the Articles of Association of the Company, the shareholders of the Company are summoned to a General Meeting of Shareholders by publishing the notice on the Company's website. The notice shall be published no earlier than three (3) months and no later than three (3) weeks prior to the General Meeting of Shareholders, in any event no later than nine (9) days prior to the Record Date (as defined below) of the General Meeting of Shareholders.

Under the Articles of Association, a shareholder must notify the Company of his or her intention to attend the meeting no later than on the date mentioned in the notice to the meeting, which date may be no earlier than ten (10) days prior to the meeting.

Pursuant to the Companies Act, only the shareholders who have been entered in the Company's shareholders' register maintained by Euroclear Finland eight working days before a General Meeting of Shareholders (the "**Record Date**") have the right to attend the General Meeting of Shareholders. A holder of nominee-registered shares has the right to participate in a General Meeting of Shareholders by virtue of such shares based on which he or she on the Record Date would be entitled to be registered in the shareholders' register of the company held by Euroclear Finland. The right to participate in a General Meeting of Shareholders requires, in addition, that the shareholder on the basis of such shares has been registered into the temporary shareholders' register of the company held by Euroclear Finland. The notification of temporary entry into the shareholders' register shall be made no later than on the date specified in the notice to the General Meeting of Shareholders, which must be after the Record Date.

Pursuant to the Companies Act, a shareholder may participate in a General Meeting of Shareholders in person or by way of proxy representation. A proxy representative shall produce a dated proxy document or otherwise in a reliable manner demonstrate his or her right to represent a shareholder at a General Meeting of Shareholders. When a shareholder participates in the General Meeting of Shareholders by means of several proxy representatives representing the shareholder based on shares at different securities accounts, the shares based on which each proxy representative represents the shareholder shall be identified in connection with the registration for the General Meeting of Shareholders. In addition, each shareholder or proxy representative may have an assistant present at the General Meeting of Shareholders.

***Voting Rights***

A shareholder may attend and vote at a General Meeting of Shareholders personally or by way of proxy representation. Each share confers the right to cast one (1) vote at a General Meeting of Shareholders. If a holder of a nominee-registered share wishes to attend a General Meeting of Shareholders and exercise the voting rights attached to such share, the holder must be notified for a temporary entry in the company's shareholders' register. The notification for temporary entry into the shareholders' register shall be made no later than on the date specified in the notice to the General Meeting of Shareholders, which must be after the Record Date. There are no quorum requirements for the General Meetings of Shareholders in the Companies Act or the Company's Articles of Association.

At a General Meeting of Shareholders, resolutions generally require the approval of the majority of the votes cast. However, certain resolutions, such as amending the Articles of Association, a directed share issue and, in certain cases, a resolution regarding the merger or demerger of the company, require a majority of two-thirds of the votes cast and of the shares represented at the General Meeting of Shareholders. In addition, certain resolutions, such as a mandatory redemption of the shares by a company in deviation from the shareholdings of the shareholders, require a consent of all shareholders.

***Dividend and Other Distribution of Funds***

Under the Companies Act, dividends on shares of a Finnish company may only be paid after the General Meeting of Shareholders has adopted the company's financial statements and resolved on the distribution of dividend. As a general rule, the General Meeting of Shareholders may not decide to distribute assets in excess of what the Board of Directors has proposed or accepted. Pursuant to the Companies Act, the distribution of dividends shall be based on the latest adopted and audited financial statements. A company may also pay an interim dividend based on the earnings of the ongoing financial year if an Extraordinary General Meeting of Shareholders adopts new audited financial statements. The payment of dividends requires the approval of the majority of the votes cast at a General Meeting of Shareholders. The General Meeting of Shareholders may also authorise the Board of Directors to resolve on the distribution of dividends. Pursuant to the Articles of Association of the Company, the shares of the Company entitle their holders to equal rights to dividend and other distributable funds (including the distribution of the Company's assets in dissolution) after the shares are entered in the Trade Register.

Pursuant to the Companies Act, the shareholders' equity is divided into restricted and unrestricted equity. The division has significance when determining the amount of distributable funds. Share capital and revaluation surplus, fair value reserve and revaluation reserve pursuant to the Finnish Accounting Act (1336/1997, as amended) are restricted equity. The premium fund and reserve fund established prior to the entry into force of the Companies Act are restricted equity as provided by the Act on the Implementation of the Companies Act (625/2006, as amended). Other reserves and the profit for the financial year and retained earnings from the previous financial years are unrestricted equity. The amount of any dividend or other distribution of assets is limited to the amount of distributable funds. However, no funds may be distributed if at the time of resolving on the distribution it is known or it should be known that the company is insolvent or that the distribution will result in insolvency. Distributable funds include the profit for the financial year, retained earnings from previous years and other unrestricted equity, less reported losses and the amount required by the company's Articles of Association to be left undistributed. The distributable funds shall be adjusted as appropriate by the amount of founding costs, research costs and certain development costs capitalised in the balance sheet pursuant to the Act on the Implementation of the Companies Act.

A dividend or other distribution of assets may not exceed the amount proposed or approved by the Board of Directors unless requested at the Annual General Meeting of Shareholders by shareholders representing at least ten per cent of the issued shares of a company. If such a request is presented, and sufficient distributable funds are available as described above, the dividend paid shall equal at least one-half of a company's profit for the financial year, less the amount required by a company's Articles of Association to be left undistributed. The shareholders may request dividend for a maximum amount of eight per cent of the total shareholders' equity of a company. Any dividend for the financial year distributed prior to the Annual General Meeting of Shareholders shall be deducted from the distributable amount. Dividend and other distributions are paid to shareholders or their nominees that are included in the shareholders' register on the relevant Record Date. The shareholders' register is maintained by Euroclear Finland through relevant book-entry account operators. Under the Finnish book-entry securities system, dividends are paid by account transfers to the accounts of the shareholders appearing in the register. All shares of the Company entitle their holders equal rights to dividend and other distributions of the Company (including in an event of dissolution of the Company). The date of expiry of the dividend is normally three years from the payment date of the dividend.

Under the Companies Act, a company may acquire or redeem its own shares. Decisions on the acquisition or redemption of a company's own shares must be made by the General Meeting of Shareholders and require at least two thirds of the votes cast and the shares represented at the meeting. The General Meeting of Shareholders may also authorise the Board of Directors to decide on an acquisition of a company's own shares using the unrestricted equity for a specific period of time, which cannot exceed 18 months. Own shares may be acquired in a proportion other than that of the shares held by the shareholders only if there is a weighty financial reason for the company to do so. As a general rule, own shares may be redeemed in a proportion other than that of the shares held by the shareholders only by the consent of all shareholders. In a public company, the decision to acquire or redeem own shares or to accept them as pledge may not be made if the treasury shares in the possession of, or held as pledges by, the company and its subsidiaries would exceed ten per cent of all shares. Shares held by a company or its subsidiaries shall not be entitled to participate in the General Meeting of Shareholders or to dividend distribution.

*Mandatory Tender Offer and Redemption Obligation*

The Securities Markets Act requires that a shareholder whose holding in a company exceeds three-tenths or one-half of the total voting rights attached to the shares of the company, after the commencement of a public quotation of such shares must make a public tender offer for all the remaining shares and securities with an entitlement to its shares issued by the company for fair value. For more information, see "*Finnish Securities Market — Regulation of the Finnish Securities Market*".

Under the Companies Act, a party holding more than nine-tenths of all the shares and votes attached to the shares in a company has the right to redeem the shares of the other shareholders of the company at fair value. The Companies Act provides detailed provisions for the calculation of the said shares and votes. In addition, any minority shareholder that possesses shares that may be so redeemed by the majority shareholder based on the Companies Act is entitled to require such majority shareholder to redeem its shares. If a shareholding constitutes the right and obligation for redemption, the company must immediately enter this in the Trade Register. The Redemption Committee of the Finland Chamber of Commerce appoints a requisite number of arbitrators to resolve disputes related to the redemption and the redemption price. The redemption price shall be determined on the basis of the fair market price preceding the initiation of the arbitration proceedings.

**Transfer through the Finnish Book-entry Securities System**

Upon a sale of shares through the Finnish book-entry securities system, the relevant shares are transferred from the seller's book-entry account to the buyer's book-entry account as an account transfer. For the sale, allocation data is recorded into Euroclear Finland's HEXClear system and, if necessary, a provision regarding the book-entry security is made to the book-entry account. The sale is registered as an advance transaction until settlement and payment, after which the buyer is automatically registered in the shareholders' register of the relevant company. Trades are normally cleared in Euroclear Finland's automated clearing and settlement system (HEXClear system) on the second banking day after the trade date unless otherwise agreed by the parties. In case the shares are registered in the name of a nominee and the seller's and buyer's shares are deposited in the same custodial nominee account, a sale of shares does not require any entries into the Finnish book-entry securities system unless the nominee changes or the shares are transferred from the custodial nominee account pursuant to the sale.

**Foreign Exchange Control**

Shares in a Finnish company may be purchased by non-residents of Finland without any separate Finnish exchange control consent. Non-residents may also receive dividends without separate Finnish exchange control consent, but the company is generally required to withhold tax on the transfer of assets out of Finland unless an agreement for avoiding double taxation, whose provisions prevent the withholding of tax, applies. Non-residents having acquired shares in a Finnish limited liability company may receive shares pursuant to a bonus issue or through participation in a rights issue without separate Finnish exchange control consent. Shares in a Finnish company may be sold in Finland by non-residents, and the proceeds of such sale may be transferred out of Finland in any convertible currency. There are no Finnish exchange control regulations restricting the sale of shares in a Finnish company by non-residents to other non-residents.

## PLAN OF DISTRIBUTION IN THE SHARE SALE AND THE PERSONNEL OFFERING

### Placing Agreement

Nordea acts as the Global Coordinator of the Share Sale and the Personnel Offering, and Carnegie and OP act, together with Nordea, as Managers of the Share Sale and the Personnel Offering. The Company, the Seller and the Managers are expected to sign a Placing Agreement on or about 22 March 2018, under which the Company undertakes to issue and the Seller undertakes to sell the Offer Shares to investors procured by the Managers, and each of the Managers severally but not jointly undertake, subject to certain conditions, to procure subscribers for the Offer Shares as described in the table below to the amount stated in connection with each Manager. The Placing Agreement defines the services to be provided by the Managers in connection with the Share Sale and the Personnel Offering.

| Manager | Per cent of Offer Shares |
|---|---|
| Nordea | 70 % |
| Carnegie | 20 % |
| OP | 10 % |

The Placing Agreement includes customary conditions that entitle the Managers to terminate the Placing Agreement in certain situations and with certain preconditions. Such situations include certain significant negative changes in the Company’s general operations, business, management, financial position, results of operations or prospects, as well as certain changes in, among others, national or international political or economic conditions.

Furthermore, the Company and the Seller, each solely, have given customary representations and warranties to the Managers related to, among others, Company's business and compliance with the law, the Company’s Shares and the content of this Offering Circular. According to the Placing Agreement, the Company and the Seller are committed to, among others, release the Managers of certain obligations and reimburse them certain costs incurred in connection with the Share Sale and the Personnel Offering.

The Share Sales consists of (i) the Public Share Sale in Finland to private individuals and entities, and (ii) the Institutional Share Sale as private placements to institutional investors in Finland and internationally

In connection with the Listing, the Company offers new shares for subscription in the Personnel Offering to permanent employees in Finland and Sweden and to members of the Executive Management Team of the Company. The final subscription price for the Personnel Shares is 10 per cent below the Sale Price in the Share Sale.

The Offer Shares have not been and will not be registered under the U.S. Securities Act, or under the securities laws of any state of the United States and accordingly, may not be offered or sold, directly or indirectly, in or into the United States except in transactions exempt from registration under the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in compliance with Regulation S under the U.S. Securities Act.

#### *Over-allotment Option*

The Seller is expected to agree on that it will grant the Global Coordinator an Over-allotment Option, exercisable within 30 days from commencement of trading in the Shares on the prelist of the Helsinki Stock Exchange (which is expected to be between 23 March 2018 and 21 April 2018) to purchase, up to 3,000,000 Additional Shares solely to cover over-allotments, if any. The Additional Shares correspond to approximately a maximum of 8.3 per cent of the Shares and votes before the Personnel Offering and approximately a maximum of 8.3 per cent after the Personnel Offering, assuming that all the Personnel Shares offered are subscribed for in full.

#### *Stabilisation Measures*

Nordea, as Stabilisation Manager, may, to the extent permitted by applicable law, within 30 days from commencement of trading in the Shares on the prelist of the Helsinki Stock Exchange (which is expected to be between 23 March 2018 and 21 April 2018) engage in measures that stabilise, maintain or otherwise affect the price of the Shares. The Stabilisation Manager may allocate a number of Shares that is larger than the total number of Offer Shares, creating a short position. The short selling is covered if the short position does not exceed the number of Shares that the Stabilisation Manager can acquire through the Over-allotment Option. The Stabilisation Manager may close covered short selling with the Over-allotment Option or by purchasing Shares in the market. In determining how to close covered short selling, the Stabilisation Manager will consider, among other things, the market price of the Shares compared to the Over-allotment Option price. In connection with the Share Sale, the Stabilisation Manager may also bid for and purchase Shares in the market to stabilise the share price. These measures may raise or maintain the market price of the Shares in comparison with the price levels determined independently on the market or may prevent or delay any decrease in the market price of the Shares. However, stabilisation measures will not be carried out at a higher price than the Sale Price. The Stabilisation Manager has no obligation to carry out these measures, and the Stabilisation Manager may stop any of these measures at any time, and such measures must be brought to an end within 30 days of commencement of trading in the Shares on the prelist of the Helsinki Stock Exchange.

Any stabilisation measures will be conducted in accordance with the Market Abuse Regulation and the Commission Delegated Regulation (EU) 2016/1052 supplementing Market Abuse Regulation with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

The Stabilisation Manager may sign a share lending agreement with the State of Finland related to stabilisation. According to the share lending agreement, the Stabilisation Manager may borrow a number of Shares equal to the Over-allotment Option solely to cover any possible over-allotments, if any, in connection with the Share Sale. To the extent that the Stabilisation Manager borrows Shares in accordance with these provisions, it must return an equal number of Shares to the Seller.

***Lock-up***

The Company and the Seller are expected to commit, during the period that will end on the date that falls 180 days from the Listing, without the prior written consent of the Global Coordinator, not to issue, offer, pledge, sell, contract to sell, sell any option rights or contract to purchase, purchase any option rights or contract to sell, concede any option rights or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities they hold entitling to Shares or exchangeable for or convertible into or exercisable for Shares, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transactions are to be settled by delivery of the Shares or other securities, in cash or otherwise. The lock-up does not apply to the potential transfer of Shares from the Seller to State Business Development Company (Vake Oy). The lock-up does not apply to the measures related to the execution of the Share Sale or the Personnel Offering.

As a precondition for participation in the Personnel Offering, persons eligible to participate in the Personnel Offering must undertake the lock-up upon submitting their subscriptions, which ends, for part of members of the Executive Management Team of Altia on the date that falls 365 days from the Listing, and, for part of other personnel, on the date that falls 180 days from the Listing. The participants of the Personnel Offering accept upon submitting their subscriptions that the above-mentioned lock-up will be binding upon them without any further action and that it will be recorded to their book-entry accounts on the order by the Company. See section "*— Special terms and conditions concerning the Personnel Offering — Lock-up*".

In aggregate, the terms of the lock-up agreements apply to approximately 44.8 per cent of the Shares after the Share Sale and the Personnel Offering without the Over-allotment Option (approximately 36.6 per cent with the Over-allotment Option), provided that the Company issues 300,000 Personnel Shares in the Personnel Offering.

***Listing of the Shares***

The Company will submit a listing application to list the Shares on the Official List of the Helsinki Stock Exchange.

***Fees and Expenses***

The Seller will pay the Managers a sales fee which is determined on the basis of the gross proceeds from the Personnel Shares and the Sale Shares (including any sales of Additional Shares based on the Over-allotment Option). In addition, the Seller may, at its sole discretion, pay the Managers a performance fee based on the gross proceeds from the Share Sale and the Personnel Offering, including the proceeds from any sales of Additional Shares based on the Over-allotment Option. In addition, the Company and the Seller undertake to reimburse the Managers for certain expenses. In connection with the Share Sale and the Personnel Offering, the Company expects to pay approximately EUR 5.6 million in fees and expenses, and the Seller approximately EUR 6.2 million in fees, expenses and transfer taxes (including the discretionary fees).

***Interests Related to the Offering***

The fees to be paid to the Managers are, in part, linked to the proceeds from the Share Sale and the Personnel Offering.

Nordea, Carnegie and OP acting as the Managers, as well as other entities within the same groups, may purchase and sell Shares for their own or their customers' account prior to, during and after the Share Sale and the Personnel Offering subject to the legislation and regulations applicable to this.

The Managers, other entities within the same groups and/or their affiliates have provided, and may provide in the future, investment, insurance, banking and/or other services as well as financing (including the facilities under the Senior Facilities Agreement) to the Company and the Seller in the ordinary course of business, for which they may have received and may continue to receive customary fees and commissions.

The Managers do not intend to disclose the content of any such services, investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so. As described above, the Managers will receive placing commissions in connection with the Share Sale and the Personnel Offering and, as such, have an interest in the Share Sale and the Personnel Offering.

The State of Finland sells Sale Shares in the Share Sale. The address of the State of Finland (represented by the Prime Minister's Office) is Snellmaninkatu 1, 00100 Helsinki, Finland.

***Dilution for the Existing Shareholder***

The Personnel Shares offered in the Personnel Offering represent approximately 0.8 per cent of the Shares in the Company prior to the Personnel Offering. This corresponds to a dilution for the existing shareholder of the Company of approximately 0.8 per cent, assuming that all the Personnel Shares offered are subscribed for in full.

***Information to Distributors***

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("MiFID II"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "MiFID II Product Governance Requirements"), and disclaiming all and any liability, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Shares have been subject to a product approval process, which has determined that they each are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II ("the Positive Target Market"); and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "Appropriate Channels for Distribution"). Distributors should note that: the price of the Shares may decline and investors could lose all or part of their investment; the Shares offer no guaranteed income and no capital protection; and an investment in the Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Conversely, an investment in the Shares is not compatible with investors looking for full capital protection or full repayment of the amount invested or having no risk tolerance, or investors requiring a fully guaranteed income or fully predictable return profile (the "Negative Target Market" and, together with the Positive Target Market, the "Target Market Assessment").

The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Share Sale and the Personnel Offering.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Shares.

Each distributor is responsible for undertaking its own Target Market Assessment in respect of the Shares and determining appropriate distribution channels.

## SELLING AND TRANSFER RESTRICTIONS

### Selling Restrictions

***General***

No public offer is being made and no one has taken any action that would, or is intended to, permit a public offering of the Offer Shares to be made in any country or jurisdiction, other than Finland, where any such action for that purpose is required.

Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material nor advertisement in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction, except in compliance with applicable rules and regulations of such country or jurisdiction. It is the responsibility of any person who receives a copy of this document to satisfy himself or herself as to full observance of the laws of any relevant territory with respect to any actions he or she may take, including the obtaining of any requisite governmental or other consent or the observance of any requisite formalities and the payment of any issue, transfer or other taxes due in such territory.

***United States***

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. See "*Transfer Restrictions*".

***European Economic Area***

In relation to each member state of the European Economic Area ("**EEA**") (including Iceland, Norway and Liechtenstein) (each, a "Member State"), an offer to the public of any Offer Shares may not be made in that Member State (other than the public offering in Finland contemplated by the Finnish Prospectus), except that an offer to the public in the Member State of any Offer Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Member State:

1) To qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive;

2) To fewer than 150 natural or legal persons, other than a person that is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive subject to obtaining the prior consent of the Managers for any such offer; or

3) In any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall result in a requirement for the publication by the Company, the Selling Shareholders or the Managers of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to acquire Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EC) and includes any relevant implementing measure in each Member State. This EEA selling restriction is in addition to any other selling restrictions set out in this Offering Circular.

***United Kingdom***

This Offering Circular is only addressed to, and directed to (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (iii) who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, and other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as **"Relevant Persons"**). The Offer Shares are only available to, and any invitation, offer or agreement to subscribe for, purchase or otherwise acquire the Offer Shares in the United Kingdom will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Offering Circular or any of its contents.

**Transfer Restrictions**

The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Offer Shares are only to be offered and sold outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act ("**Regulation S"**). Terms used in this section are used as defined in Regulation S.

Each purchaser of Offer Shares outside the United States pursuant to Regulation S will be deemed to have represented and agreed that it has received a copy of this Offering Circular and such other information as it deems necessary to make an informed investment decision and that:

1) the purchaser is purchasing Offer Shares in an offshore transaction meeting the requirements of Regulation S;

2) the purchaser has not purchased the Offer Shares as a result of any directed selling efforts;

3) the purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state of the United States, and are subject to restrictions on transfer;

4) the purchaser will not offer, sell, pledge, or transfer any Offer Shares, except in accordance with the U.S. Securities Act and any applicable laws of any state of the United States and any other jurisdictions; and

6) the Company shall not recognize any offer, sale, pledge or other transfer of the shares made other than in compliance with the above-stated restrictions.

In addition, until 40 days after the commencement of this Offering, an offer or sale of Offer Shares within the United States by a dealer, whether or not participating in this Offering, may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption under the U.S. Securities Act and in accordance with any applicable U.S. state securities law.

Furthermore, each purchaser in a Member State, other than, in the case of paragraph (1) below, persons receiving offers contemplated in this Offering Circular in Finland who receive any communication in respect of, or who acquire any Offer Shares under Offering contemplated in this Offering Circular, will be deemed to have represented and agreed that:

1) the purchaser is a qualified investor within the meaning of the law in that Member State implementing Article 2(1)(e) of the Prospectus Directive; and

2) in the case of any Offer Shares acquired by the purchaser as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offer Shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer and resale; or (ii) where Offer Shares have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons.

## REGULATION RELATED TO ALCOHOLIC BEVERAGES

### Overview

The alcoholic beverage industry, especially in the Company's home markets, which include Finland, Sweden, Norway, Denmark, Estonia, Latvia and travel retail, is highly regulated. The regulation sets alcoholic beverages (including wine, spirits and other alcoholic beverages such as RTD-beverages) apart from other traded products. The aim is to control the consumption of alcohol often for reasons relating to public health and prevention of negative social effects. The production and storage, import and export, marketing as well as sale and taxation of alcoholic beverages are regulated in the countries in the Company's home markets. Alcoholic beverages are also subject to various EU level regulations. These concern, for example, the definition, description and presentation of wines, spirits and aromatized wine products, labelling and composition of foodstuffs in general as well as the import, processing and labelling of organic raw materials and products.

### Production and storage

The Company has production plants in Finland (Koskenkorva and Rajamäki), Sweden (Sundsvall), Estonia (Tabasalu), and France (Cognac). The plants where the majority of the Company's products are produced are located in Finland. In addition to the licences and registrations described below, the Company holds permits and certificates regarding the production and handling of organically produced alcoholic beverages in certain countries in its home markets.

Under the Finnish Alcohol Act, the production of alcoholic beverages for commercial purposes is subject to licence and can only be undertaken by commercial operators who have been granted an alcoholic beverage production licence by the National Supervisory Authority for Welfare and Health ("**Valvira**"). Production also comprises any further processing and packaging of alcoholic beverages produced elsewhere. Alcoholic beverage producers are required to submit details of their volumes produced and details of their total sales to Valvira's product register.

The production of alcoholic beverages is supervised through inspections, sample taking, record and register control and other measures. Supervision is carried out reactively, on the basis of risk assessment and on a plan-led basis. There is an emphasis on self-monitoring by licence holders and commercial operators' self-monitoring plans must set out measures for ensuring the product safety of alcoholic beverages.

The production, processing and storage of products under the excise duty, including alcoholic beverages, must take place in a tax-free warehouse. The relevant permit regarding the tax-free warehouse can be sought from the Tax Administration and Valvira is the authority to approve the warehouse. Further, commercial operators who conduct warehousing, transport and sales of alcoholic beverages, must also file a notification concerning their premises to Valvira. In addition, it is required to file a separate notification regarding the premises for non-alcoholic beverages to the supervising authority of the municipality where the premises are located.

Under the Swedish Alcohol Act[161], alcoholic beverages may only be produced if the producer has been approved as a possessor of an appropriate warehouse for such products or as a tax-exempt entity as determined in the Swedish Alcohol Taxation Act[162].

Under the Estonian Alcohol Act[163], a producer of alcohol must apply for the registration of the alcohol produced in the State Register of Alcohol. The applicant must hold an excise warehouse activity licence according to the Estonian Alcohol, Tobacco, Fuel and Electricity Excise Duty Act[164] and the premises where the alcohol is produced must be approved according to the Estonian Food Act[165].

In France, the region of the production of cognac is governed by three main decrees regarding the controlled appellation of origin. The production of cognac must fulfil certain criteria and quality standards.

### Import and export

The Company imports its own products, products of its international partners, i.e. wine and spirits producers as well as other products to the Company's home markets and exports both its partners' products and its own products. The majority of the Company's products are exported from Finland and the export is mainly conducted through distributors. In addition

[161] Alkohollag (2010:1622).
[162] Lag om alkoholskatt (1994:1564).
[163] Alkoholiseadus (19.12.2001).
[164] Alkoholi-, tubaka-, kütuse- ja elektriaktsiisi seadus (4.12.2002).
[165] Toiduseadus (25.2.1999).

to the licences, registrations and other approvals described below, the Company holds different certificates regarding the import of organically produced alcoholic beverages in certain countries in its home markets.

Valvira supervises the import of alcohol into Finland in collaboration with other authorities, including the Finnish Customs. Anyone who imports or exports alcoholic beverages for commercial purposes must prior to commencing the activity submit to Valvira a notification of their activity as an importer or exporter. The import of alcoholic beverages is not subject to a licence, but importers must, however, submit a product declaration for alcohol imported to Finland prior to placing it on the market.

Under the Swedish Alcohol Act spirits, wine, strong beer and other yeasted alcoholic beverages are allowed to be imported and exported only by wholesalers and retail companies in certain situations as outlined in the Swedish Alcohol Act. A wholesaler must be recognised as an approved warehouse keeper or a registered consignee for such alcoholic beverages in accordance with the Swedish Alcohol Taxation Act. There is no need for import or export licences as long as the company has a tax warehouse and excise number.

In Norway, alcoholic beverages may only be imported by operators who are authorised to engage in wholesaling, hold a production licence, and an extended retail licence or a serving licence extended to cover imports under the Norwegian Alcohol Act[166] with the exception of AS Vinmonopolet. The export of alcoholic beverages for commercial purposes is allowed only for producers or wholesalers of alcoholic beverages.

In Denmark, an import permit for goods with excise duty is required. A SKAT (Danish tax authority) registration is required to store wines and spirits excise tax free. In Estonia no import or export licence is needed. However, a notice of economic activity to the register of economic activities must set out if the trader engages in the import or export of alcohol. In Latvia as a main rule no import or export licence is needed if there is a tax warehouse licence, however the procedure for handling and control of accompanying documents regarding such activities is regulated by the Latvian Law on Excise Duty[167] and other laws and regulations issued on the basis thereof.

**Marketing**

Alcohol marketing, which also includes advertising, is controlled to different degrees in different countries depending on the marketing activity and the medium used. The marketing of alcoholic beverages is highly regulated in Finland, Sweden and Norway. Denmark is the most liberal of the Company’s home markets. The purpose of the regulation is to protect the health and safety of consumers and particularly minors.

In Finland, the marketing of alcoholic beverages is regulated by the Alcohol Act. The Regional State Administrative Agencies are in the first instance responsible for supervising the marketing of alcoholic beverages in their respective areas of operation. Valvira supervises alcoholic beverage marketing taking place across Regional State Administrative Agency areas of operation or nationally and publishes guidelines. The Alcohol Act prohibits the marketing of alcoholic beverages exceeding 22 per cent ABV, except in certain separately provided for circumstances, such as in premises where strong alcoholic beverages are served or retailed. The marketing of alcoholic beverages containing a maximum of 22 per cent ABV is, as a rule, permitted but it is subject to certain restrictions laid out in the Alcohol Act. For example, marketing must not be carried out in a public place, be targeted at minors or be contrary to good manners. Marketing on television and on the radio is forbidden from 7 a.m. to 10 p.m.

In Sweden, the marketing of alcoholic beverages is mainly regulated by the Swedish Alcohol Act. In addition, the alcohol industry in Sweden has adopted codes of conduct and recommendations. The Swedish Consumer Agency investigates all violations of the Swedish Alcohol Act and publishes guidelines on alcohol marketing. Alcohol marketing is in general allowed in Sweden, however, certain restrictions apply. All alcohol marketing must, among other things, be moderate, and it may not be intrusive or encourage the use of alcohol. The marketing should not be particularly eye-catching and may not be specifically targeted at, or depict persons under 25 years of age. It is forbidden to market alcohol on the radio or on television. Marketing in periodical publications, such as newspapers and journals including their online editions must include a warning text and such marketing is only allowed for alcoholic beverages up to 15 per cent ABV at the maximum.

In Norway, all marketing of alcoholic beverages is prohibited by the Norwegian Alcohol Act. The prohibition applies also to marketing of other products carrying the same trademark or other symbol to an alcoholic beverage. There are some minor exceptions to the main rule such as advertisements in foreign printed publications imported into Norway and trade journals as well as advertisements for retail and licenced premises.

[166] Lov om omsetning av alkoholholdig drikk (LOV-1989-06-02-27).
[167] Par akcīzes nodokli (161(2926)).

Generally, the marketing of alcoholic beverages is allowed in Denmark. However, it is forbidden by law to target minors. Furthermore, the marketing must comply with the Danish Marketing Practices Act[168] which is written in general phrases. Hence, alcohol marketing is assessed on a case by case basis. The Danish Alcohol Commercial Board has published a set of guidelines which apply when marketing alcoholic beverages. It generally follows under the guidelines that alcohol marketing must not associate drinking with sports, social achievement, the workplace or educational institutions. In Estonia and Latvia, as a main rule, the marketing of alcoholic beverages is allowed, but a warning text must be included in all marketing. Further, there are certain restrictions regarding marketing directed at minors or carried out in certain public places or media, for example.

**Retail sale**

The sale of alcoholic beverages is generally subject to restrictions in most EU countries, for example through retail monopolies and otherwise through licences. Over two thirds of the Company's sales are conducted through retail monopolies in Finland, Sweden and Norway. There is no state alcohol monopoly in Denmark, Estonia and Latvia, and alcoholic beverages are allowed to be sold through other retail channels including grocery stores and kiosks. However, the Company does not act as a retailer in its home markets.

In Finland, the retail sale of alcoholic beverages is subject to licence. The retail sale of alcoholic beverages exceeding 5.5 per cent ABV is reserved for the state alcohol monopoly, Alko, however some exceptions exist. For example, Finnish farm wineries can sell their own berry-wines containing a maximum of 13 per cent ABV in their place of production. Alcoholic beverages of up to 5.5 ABV can be sold in grocery stores, kiosks and petrol stations. It is also possible to order alcoholic beverages on Alko's website and collect them at the agreed Alko store or from a pick-up point.

In Sweden, the right to the retail sale of alcoholic beverages exceeding 2.25 per cent ABV, except for beer up to 3.5 per cent ABV is reserved for the state alcohol monopoly, Systembolaget. Consequently, alcoholic beverages up to 2.25 per cent ABV and beer up to 3.5 ABV can be sold in grocery stores. It is also possible to order alcoholic beverages on Systembolaget's website and collect them at Systembolaget's stores or order them as a home delivery. The option to order home-delivery is undergoing a pilot phase and is currently offered in selected areas of Sweden.

In Norway, the right to the retail sale of all alcoholic beverages exceeding 4.7 per cent ABV is reserved for the state alcohol monopoly, Vinmonopolet. Consequently, alcoholic beverages up to 4.7 per cent ABV can be sold in grocery stores. It is also possible to order alcoholic beverages on Vinmonopolet's website and collect them at Vinmonopolet's stores, post office or order them home.

In general, the EU level principle of the free movement of goods is applied to the online retail sales of alcoholic beverages. However, according to the case law of the Court of Justice of the European Union, online sales of alcohol may be restricted by national laws, provided that certain criteria are fulfilled. Such criteria include, for example, that the legislation must be appropriate for securing the attainment of the objective pursued (e.g. the protection of health and public policy), the objective could not be achieved with at least an equivalent level of effectiveness by less restrictive methods and that the legislation does not constitute a means of arbitrary discrimination or a disguised restriction on trade between EU countries. Online retail sale of alcoholic beverages is subject to certain restrictions relating to things like the protection of health and public policy as described above are outlined in the national laws of some EU countries. In addition, EU countries may impose taxes that must be paid for imported alcoholic beverages sold online.

**Wholesale**

In Finland, the wholesale of alcoholic beverages is subject to licence and can only be undertaken by operators who have been granted a wholesale licence. However, a production licence for alcoholic beverages entitles the licence holder to sell alcoholic beverages they have produced through wholesale trade without a separate licence.

In Sweden, spirits, wine, strong beer and other yeasted alcoholic beverages may only be sold wholesale by approved warehouse keepers or other registered entities as outlined in the Swedish Alcohol Taxation Act. The seller is obligated to ensure that the buyer has the right to buy or sell such alcoholic beverages.

In Norway, alcoholic beverages may, as a main rule, only be sold wholesale by undertakings registered with the Customs and Excise Service as liable for excise duty.

In Denmark, wholesale of alcoholic beverages is mainly unregulated. Thus, there are no license requirements for the wholesale of alcoholic beverages, but a registration as a wholesaler at the Danish Veterinary and Food Administration is required. In Estonia, a notice of economic activities must be submitted for the wholesale trade of alcohol and wholesale

[168] Lov om markedsføring (LOV nr 426 af 03/05/2017).

trade is permitted only through the place of business specified in the register of economic activities. In Latvia, wholesale of alcoholic beverages is subject to licence.

**HoReCa**

The Company's products are also available on the HoReCa market. The Company's most significant customers include restaurants and restaurant chains that purchase alcoholic beverages. The commercial serving of alcoholic beverages is as a main rule regulated in the Company's home markets and requires registration or a licence that is granted to an operator which fulfils the requirements under the relevant regulations relating to the commercial serving of alcoholic beverages.

**Travel retail and border trade**

Travel retail consists of airline, sea as well as border trade and it has traditionally been an important channel for the Company in the Nordic countries. Different alcohol tax levels drive price differences between countries and promote travel retail and border trade.

The tax-free markets on international cross-border cruises and at airports are highly regulated by the local governments. Regulation limits, for example, the quantity of alcohol allowed for each customer to purchase tax free from an international cross-border cruise.

In the excise tax area of the EU, excise taxation on alcoholic beverages is based on a directive, according to which excise duties are charged only in the EU Member State in which the products are acquired, as long as the products are purchased for personal use. This applies to the Company's home markets within the excise tax area of the EU: Finland, Sweden, Denmark, Estonia and Latvia.

Tax-free import quotas apply to imports from outside the EU. The Åland Islands do not fall into the value added tax and excise tax area of the EU and, thus, most tax-free import quotas that apply to imports from outside the EU also apply to imports from Åland Islands. Norway is the only market within the Company's home market which is not a member of the EU and it has strict import quotas.

**Taxation of alcoholic beverages**

The Company pays taxes in all of its operating countries in accordance with local and international laws and regulations for paying, collecting, remitting and reporting taxes. The Company pays and remits a number of different taxes, with the excise tax being the most important. Excise taxes are not included in the Company's reported net sales. Taxation of alcohol varies by country, and alcohol tax is also different regarding spirits and wines. In Finland, the excise duty on alcohol and alcoholic beverages is levied on beer, wine, other fermented alcoholic beverages, intermediate products and ethyl alcohol. The tax applies to alcoholic beverages intended for human consumption and ethyl alcohol containing more than 1.2 per cent ABV as well as beer containing more than 0.5 per cent ABV.

Alcohol taxes are fixed in the Nordic countries based on the alcohol content as well as the production process. VAT is added to the consumer price including the supplier price, mark-up and alcohol tax. Estonia and Latvia have had rather low taxation levels, which has been reflected in the local prices and driven the price level to a significantly lower level compared to the Nordic countries. Recently, Estonia has increased its alcohol tax which may shift at least part of the border trade to Latvia.

**Overview of the key amendments upon the entry into force of the renewed Alcohol Act**

The first amendments of the renewed Alcohol Act entered into force on 1 January 2018, and the Alcohol Act entered into force in its entirety on 1 March 2018 after a long preparation phase. The purpose of the reform was to find a suitable balance between reducing the negative impacts of alcohol consumption and taking into account the related industry.

The principles of the reform included maintaining Alko's retail monopoly and the licensing system, and dismantling all unnecessary, outdated or cumbersome norms included in the old legislation that had especially burdened the restaurant industry. The Alcohol Act also eased provisions concerning serving hours and customer service at restaurants and bars. In addition, the weekday opening hours of Alko were extended by an hour until 9 p.m.

The Alcohol Act also increased the maximum ABV of alcoholic beverages sold through licensed retailers to 5.5 per cent. Further, the requirement that the beverage is prepared through fermentation was eliminated. Thus, grocery stores, kiosks and petrol stations can also sell strong beers and ciders as well as RTD-beverages produced by adding spirits. In addition, independent breweries and microbreweries have the right to sell their own craft beers at the brewery in the same way as producers of fruit wine and sahti can sell their products. Previously, the sale of alcoholic beverages at licensed retailers was limited to beverages produced by fermentation and containing no more than 4.7 per cent ABV.

Other amendments included inter alia abolishing provisions prohibiting stores on wheels from selling alcoholic beverages and providing new opportunities for Alko to use their own stores on wheels to serve customers. In addition, regulations on the marketing of alcoholic beverages changed so that restaurants are able to advertise their Happy Hour discounts freely, for example on the streets and in newspapers, and producers and wholesalers of strong alcoholic beverages as well as restaurants and bars can present all of their products for example in online price listings. Other marketing regulations relating to alcoholic beverages were not amended. The Alcohol Act does not contain a clear stand on cross-border distance selling. The Ministry of Social Affairs and Health has appointed a working group to investigate restricting cross-border distance selling of alcoholic beverages by the end of March 2018.

## FINNISH SECURITIES MARKETS

*The following summary is a general description of the Finnish securities markets and it is based on the laws of Finland as in effect as at the date of this Offering Circular. The following summary is not exhaustive.*

### Trading and Clearing on the Helsinki Stock Exchange

Trading in and clearing of securities on the Helsinki Stock Exchange takes place in euro, and the minimum price increment in which the prices are quoted (tick size) depends on the share price. All price information is produced and published only in euro.

The Helsinki Stock Exchange uses the automated INET Nordic trading platform. INET Nordic is an order-based system in which orders are executed when price and volume information as well as other conditions match. The Helsinki Stock Exchange has three principal trading sessions: pre-open session, continuous trading and post-trading session. For shares, pre-open session begins at 9:00 a.m. and ends at 9:45 a.m. during which orders may be placed, changed or cancelled. The opening call begins at 9:45 a.m. and ends at 10:00 a.m. Continuous trading begins immediately after the opening call ends at 10:00 a.m. and trading continues at prices based on market demand until 6:25 p.m. when the closing call is initiated. Orders entered during the pre-open session and existing orders with several days' validity are automatically transferred into the opening call. Post-trading, during which contract transactions for shares can be registered as after-hours trading in confirmed prizes within the price limits based on the trading day, takes place between 6:30 p.m. and 7:00 p.m.

Trades are normally cleared in Euroclear Finland's automated clearing and settlement system (HEXClear system) on the second banking day after the trade date unless otherwise agreed by the parties. The Helsinki Stock Exchange is a part of the Nasdaq, Inc. ("**Nasdaq**"). Nasdaq offers trading across multiple asset classes, and its technology supports the operations of over 85 marketplaces in 50 countries. Nasdaq also owns and maintains the stock exchanges in Stockholm, Copenhagen, Reykjavik, Tallinn, Riga and Vilnius. Each country has its own official list and country-specific listing requirements. Nasdaq's Nordic List was launched on 2 October 2006 and it consists of the local stock exchanges in Helsinki, Copenhagen, Stockholm and Reykjavik. Through the Nordic List, the listing requirements for companies as well as the way of presenting the listed companies have been harmonized. In the Nordic List, companies are presented first by their market capitalization and then by their industry sector irrespective of the domicile of the company. The market's capitalization classification is divided into three categories: Large Cap, Mid Cap and Small Cap. Within each market capitalization segment, companies are sorted by their industry sector pursuant to the Industry Classification Benchmark (ICB).

### Regulation of the Finnish Securities Market

The securities market in Finland is supervised by the Finnish Financial Supervisory Authority (the "**FIN-FSA**"). The principal statute governing the Finnish securities market is the Securities Markets Act, which contains regulations with respect to, among other matters, company and shareholder disclosure obligations, prospectuses as well as public tender offers. In addition, the Market Abuse Regulation regulates insider dealing, unlawful disclosure of inside information, market manipulation, and public disclosure of inside information. MAR establishes a uniform regulatory framework for market abuse regime in the EU. The FIN-FSA and the Helsinki Stock Exchange have also issued more detailed regulations on the securities markets pursuant to the Securities Markets Act. The FIN-FSA monitors compliance with these regulations.

The Securities Markets Act specifies the minimum disclosure requirements for Finnish companies applying to list on the Helsinki Stock Exchange or making a public offering of securities in Finland. The issuer of security subject to public trading is obliged to regularly provide financial information of the company and, pursuant to MAR, publicly disclose to the public as soon as possible the inside information which directly concerns that issuer. An issuer may delay disclosure of inside information to the public provided that all of the conditions set out in MAR are met. Information disclosed shall be sufficient to enable investors to make an informed assessment of the security and the issuer thereof.

A shareholder is required, without undue delay, to notify a Finnish listed company and the FIN-FSA when its voting interest in, or its percentage ownership of, the total number of shares in such Finnish listed company reaches, exceeds or falls below five per cent, ten per cent, 15 per cent, 20 per cent, 25 per cent, 30 per cent, 50 per cent, 66.67 per cent (2/3) or 90 per cent, calculated in accordance with the Finnish Securities Markets Act, or when it has on the basis of a financial instrument the right to receive an amount of shares that reaches, exceeds or falls below any such threshold. If a Finnish listed company receives information indicating that a voting interest or ownership interest has reached, exceeded or fallen below any of these thresholds, it must, without undue delay, publish such information and disclose it to the Helsinki Stock Exchange and to the main media. If a shareholder has violated its obligation to notify on voting interest or ownership, the FIN-FSA may due to a weighty reason prohibit the shareholder from using its right to vote and to be presented in the General Meeting of Shareholders for the shares to which the violation relates.

Pursuant to the Securities Markets Act, a shareholder whose proportion of voting rights in a listed company exceeds three-tenths (3/10) or exceeds one-half (1/2) of the total voting rights attached to the shares of the company, calculated in accordance with the Securities Markets Act, after the commencement of a public quotation of such shares must make a public tender offer for all the remaining shares and securities with an entitlement to its shares issued by the company for fair value. If the securities exceeding the thresholds referred to above have been acquired through a public tender offer on all shares and securities with an entitlement to the shares issued by the target company, no obligation to make a tender offer arises. If a company has two or more shareholders whose holdings of voting rights exceed the above mentioned limit, only the shareholder with the most voting rights is required to make a tender offer. If the proportion of votes described above is exceeded solely due to the measures taken by the target company or other shareholders, the shareholder will not be obligated to make a tender offer until he or she acquires or subscribes for more shares in the target company or otherwise increases his or her proportion of votes in the target company. If the above-mentioned limit is exceeded due to the shareholders acting in concert when making a voluntary tender offer, the obligation to make a tender offer is not triggered if acting in concert is limited only to such tender offer. There is no obligation to make a tender offer if a shareholder or another party who is acting in concert with such shareholder gives up its voting rights in excess of the above mentioned limit within one month after such limit was exceeded provided that the shareholder publishes its intention and voting rights are not used during such time.

Under the Companies Act, a shareholder holding shares representing more than nine-tenths of all the shares in a company and of the votes conferred by the shares has the right to redeem the shares of the other shareholders of the company at fair value. In addition, any minority shareholder that possesses shares that may be so redeemed by the majority shareholder in accordance with the Companies Act is entitled to require such majority shareholder to redeem its shares. The Companies Act includes detailed rules that apply to the calculation of the majority shareholder's proportion of shares and votes.

Under the Securities Markets Act, a Finnish listed company must directly or indirectly belong to an independent body, established in Finland, that broadly represents the business sector which has, in order to promote compliance with good securities markets practice, issued a recommendation which relates to the actions of the management of the target company regarding a public takeover bid (the "**Helsinki Takeover Code**"). Pursuant to the Securities Markets Act, a listed company must provide an explanation in case it is not committed to complying with the Helsinki Takeover Code.

Net short positions relating to shares tradable on the Helsinki Stock Exchange must be disclosed to the FIN-FSA in accordance with Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps. The obligation to disclose net short positions applies to all investors and market participants. A net short position regarding shares admitted to trading on a regulated market must be disclosed when the position reaches, exceeds or falls below 0.2 per cent of the issued share capital of the target company. A new notification must be disclosed for each 0.1 per cent exceeding the above threshold. The FIN-FSA publishes the notified net short positions on its website, if the net short position reaches, exceeds or falls below 0.5 per cent of the issued share capital of the target company.

The Finnish Penal Code (39/1889, as amended) contains provisions relating to the misuse of inside information, unlawful disclosure of inside information, market manipulation and breach of disclosure requirements. A breach of these provisions constitutes a criminal offence. Pursuant to MAR, the Securities Markets Act and the Finnish Act on the Financial Supervisory Authority (878/2008, as amended), the FIN-FSA has the right to impose administrative sanctions to the extent the offence does not fall within the scope of the Finnish Penal Code. The FIN-FSA may, for example, issue a public warning or impose administrative fine or penalty payment for the breach of disclosure requirements or public tender offer, insider register or market abuse provisions. The disciplinary board of the Helsinki Stock Exchange may give a warning or note or impose a disciplinary fine or order the company to be removed from the stock exchange list.

**Finnish Book-Entry Securities System**

***General***

Any issuer established in the European Union that issues or has issued transferable securities which are admitted to trading or traded on trading venues, shall arrange for such securities to be represented in book-entry form. An issuer has the right to choose the central securities depository where the securities are issued. The book-entry system is maintained by the central securities depository. In Finland, the central securities depository is Euroclear Finland, which provides national clearing and settlement as well as registration services for securities. Euroclear Finland maintains a centralized book-entry securities system for both equity and debt securities. The business address of Euroclear Finland is Urho Kekkosen katu 5 C, FI-00100, Helsinki, Finland.

Euroclear Finland keeps, on behalf of the issuers, issuer-specific shareholders' registers of companies entered into the book-entry system. In addition, Euroclear Finland offers book-entry account services to shareholders, who have opened their accounts before enforcement of the Act on the Book-Entry System and Clearing Operations (348/2017, as amended), entered into force on 21 June 2017. The expenses incurred by Euroclear Finland in connection with maintaining the centralized book-entry securities system are borne mainly by the issuers and the account operators participating in the book-entry securities system during the transitional period of the Act on the Book-Entry System and Clearing Operations (348/2017, as amended). The account operators, which consist of, inter alia, credit institutions, investment service firms and other institutions licensed to act as clearing parties by the central securities depository administer the book-entry accounts and are entitled to make entries in the book-entry accounts.

***Registration Procedure***

In order to hold entries in the book-entry system, a security holder or such holder's nominee must establish a book-entry account with an account operator or register its shares through a nominee registration process in order to effect share entries. Finnish shareholders are not allowed to hold his or her shares through nominee registration in Finland. Non-Finnish shareholders may deposit book-entries in a custodial nominee account, where the shares are registered in the name of a custodial account holder in the company's shareholders' register. A custodial nominee account must contain information on the custodial account holder instead of the beneficial owner and indicate that the account is a custodial nominee account. Book-entry securities owned by one or more beneficial owners may be registered in a custodial nominee account. In addition, the shares owned by a foreigner, foreign entity or trust may be registered in a book-entry account opened in the name of such foreigner, foreign entity or trust, but the holding may be registered in the name of a nominee in the company's shareholders' register. For shareholders who have not transferred their shares into book-entries, a joint book-entry account shall be opened with the central securities depository and the issuer is entered as the account holder. All transactions in securities registered with the book-entry securities system are executed as computerized book-entry transfers. The account operator confirms book-entry transfers by sending notifications of all transactions to the holder of the respective book-entry account. The account holders also receive an annual statement of their holdings as of the end of each calendar year.

Each book-entry account is required to contain specified information with respect to the account holder and other holders of rights to the book-entries entered into the account as well as information on an account operator administering the book entry account. In addition, the book-entry account shall contain information with respect to the type and number of book-entry securities registered and the rights and restrictions pertaining to the account and to the book-entry securities registered in the account. A nominee registration is identified as such upon entry. Euroclear Finland and the account operators are bound by strict confidentiality requirements, although certain information (for example the name and address of each account holder) contained in the register is public, except in the case of nominee registration. The FIN-FSA is entitled to receive certain information on nominee registrations upon request. However, a company must keep the shareholders' register accessible to everyone at the head office of the company or, if the company's shares are incorporated in the book entry system, at the registered office of the Central Securities Depository in Finland, except in the case of nominee registration.

Each account operator is strictly liable for errors and omissions on the registers maintained by it and for any unauthorized disclosure of information. If an account holder has suffered a loss as a result of a faulty registration or an amendment to, or deletion of, rights in respect of registered securities and an account operator is unable to compensate for such loss due to insolvency that is not temporary, such account holder is entitled to receive compensation from the statutory registration fund of Euroclear Finland. The capital of the registration fund must be at least 0.0048 per cent of the average of the total market value of the book-entry securities included in the book-entry securities system during the previous five years and, in any event, must at least equal to EUR 20 million. The compensation to be paid to an injured party shall be equal to the amount of damages suffered from a single account operator subject to a maximum amount of EUR 25,000 per account operator. The liability of the registration fund to pay damages in relation to each individual incident is limited to EUR 10 million.

***Custody of the Shares and Nominee Registration***

A non-Finnish shareholder may appoint an account operator (or certain other Finnish or non-Finnish organizations approved by central securities depository) to act as a custodial nominee account holder on its behalf. A custodial nominee account holder is entitled to receive dividends on behalf of the shareholder. A holder of nominee-registered shares wishing to attend and vote at General Meetings of Shareholders must be registered temporarily in the shareholders' register no later than the date set out in the notice to convene the meeting, which date shall be subsequent to the Record Date of the relevant General Meeting of Shareholders. A holder of nominee-registered shares temporarily registered in the shareholders' register shall be deemed to have enrolled to the meeting and no further enrolment is required provided that such holder of nominee-registered shares on the Record Date would be entitled, by virtue of such shares, to be registered in the shareholders' register of the company held by Euroclear Finland. When the holder of nominee-registered shares is known, a custodial nominee account holder is required, on request, to disclose to the FIN-FSA and the relevant company the identity of the holder of any shares registered in the name of such custodial nominee, as well as the number of shares owned by such holder of nominee-registered shares. If the identity of the holder of nominee-registered shares is not known, the custodial nominee account holder is required to disclose the identity of the representative acting on behalf of the holder of nominee-registered shares and the number of shares held, and to submit a written declaration to the effect that the holder of the nominee-registered shares is not a Finnish natural person or a Finnish legal entity.

Finnish depositories for both Euroclear Bank, S.A./N.V. – as operator of Euroclear Finland – and Clearstream have custodial accounts within the book-entry securities system and, accordingly, non-Finnish shareholders may hold their shares listed on the Helsinki Stock Exchange in their accounts in Euroclear Bank, S.A./N.V. and in Clearstream.

Shareholders wishing to hold their shares in the book-entry securities system in their own name and who do not maintain a book-entry account in Finland are required to open a book-entry account at an authorized account operator in Finland and a convertible euro account at a bank.

**Compensation Fund for Investor and Deposit Insurance Fund**

The Finnish Act on Investment Services (747/2012, as amended) sets forth a compensation fund for investors. Under the Finnish Act on Investment Services, investors are divided into professional and non-professional investors. The fund does not compensate any losses by professional investors. The definition of professional investor includes business enterprises and public entities, which can be deemed to understand the securities markets and their associated risks. An investor may also provide notice in writing that, on the basis of his or her professional skills and experience in the securities markets, he or she is a professional investor; however, natural persons are presumed to be non-professional investors.

Investment firms and credit institutions must belong to the compensation fund. The compensation fund safeguards payment of clear and indisputable claims when an investment company or a credit institution has been declared bankrupt, is undergoing a restructuring process or is otherwise, for a reason other than temporary insolvency, not capable of paying claims within a determined period of time. For valid claims, the compensation fund will pay 90 per cent of the investor's claim against each investment company or credit institution, up to a maximum of EUR 20,000. The compensation fund does not provide compensation for losses due to decreases in stock value or bad investment decisions. Accordingly, investors continue to be liable for the consequences of their own investment decisions.

Pursuant to the Act on Finnish Financial Stability Authority (1195/2014, as amended), depositary banks must belong to a deposit guarantee scheme, which is intended to safeguard payments of receivables in the depositary bank's account or receivables in the forwarding of payments that have not yet been entered into an account if the depositary bank becomes insolvent and the insolvency is not temporary. The customers of a depositary bank can be compensated by the deposit insurance fund up to a maximum of EUR 100,000. An investor's funds can be safeguarded either by the deposit insurance fund or the compensation fund; however, an investor's funds cannot be safeguarded by both funds at the same time.

# TAXATION

*The following summary is based on the tax laws of Finland as in effect and applied as at the date of this Offering Circular, as well as on the current case law and tax practice. Any changes in tax laws and their interpretation may also have a retroactive effect on taxation. The following summary is not exhaustive and does not take into account or discuss the tax laws, case law or tax practice of any country other than Finland. Prospective investors are advised to consult a tax adviser in order to obtain information about tax consequences resulting from the purchase, ownership and disposition of the Offer Shares in Finland or elsewhere. Prospective investors, whose taxation may be impacted by the tax laws of other countries, should consult their own tax advisers as to the tax implications related to their individual circumstances.*

## Finnish Taxation

### *Background*

The following is a general description of Finnish income and transfer tax consequences that may be relevant in terms of the Listing. The description below is applicable to individuals and limited companies that are tax resident or tax non resident in Finland, and it discusses the Finnish tax laws applicable to distribution of dividends and capital gains arising from the sale of the Shares.

The following does not address the taxation of the Company itself or any tax consequences applicable to shareholders who are subject to special tax rules. Such shareholders include, among others, entities exempt from income tax, non business carrying entities, individuals taxable under the Finnish Business Income Tax Act and general or limited partnerships. Furthermore, this description does not address the tax consequences of Finnish resident shareholders in controlled foreign corporations in Finland, different restructurings of corporations or Finnish inheritance tax or gift tax consequences.

This description is based on the following Acts:

- the Finnish Income Tax Act (1535/1992, as amended);
- the Finnish Business Income Tax Act (360/1968, as amended);
- the Finnish Act on the Taxation of Non residents' Income (627/1978, as amended);
- the Finnish Transfer Tax Act (931/1996, as amended); and
- the Finnish Tax Procedure Act (1558/1995, as amended)

In addition, case law and any decisions and statements made by the tax authorities in effect and available as at the date of this Offering Circular have also been taken into account. Tax legislation, case law and statements given by tax authorities are subject to change, which could also have retroactive effects.

### *General*

The scope of taxation in Finland is defined by the tax liability position of a taxpayer. Taxpayers with unlimited tax liability are subject to Finnish taxation on their worldwide income. Taxpayers with limited tax liability are taxed only on Finnish source income (limited tax liability). In addition, all income of non residents derived from a permanent establishment located in Finland is taxed in Finland. Tax treaties binding on Finland may restrict the applicability of Finnish internal tax legislation and prevent the Finnish taxation of income derived from Finland by a non resident.

Generally, a natural person is deemed a resident of Finland for tax purposes if the person stays in Finland for more than six consecutive months or if the permanent home and abode of the person is in Finland. A Finnish citizen is deemed a resident of Finland for tax purposes during the year he or she has emigrated from Finland and three subsequent years unless he or she proves that no essential ties to Finland existed during the relevant tax year. Earned income is taxed at progressive tax rates. Capital income up to EUR 30,000 per calendar year is taxed at a rate of 30 per cent and, if the overall capital income exceeds EUR 30,000 during a calendar year, the tax rate for the exceeding amount is 34 per cent. Corporate entities established under the laws of Finland are regarded as residents of Finland and thus subject to corporate income tax on their worldwide income. In addition, non residents are subject to Finnish corporate income tax on their income connected with their permanent establishments situated in Finland. The current corporate income tax rate is 20 per cent.

Distribution of unrestricted equity (in accordance with Chapter 13 Section 1 Subsection 1 of the Finnish Companies Act) by a public listed company pursuant to section 33a (2) of the Income Tax Act ("**Listed Company**") is taxable as dividend.

Hence, the description below addressing the tax implications of dividends is also applicable with respect to distribution of unrestricted equity.

The following is a summary of certain Finnish tax consequences relating to the purchase, ownership and disposition of Offer Shares by Finnish resident and non resident shareholders.

**Taxation of Finnish Corporations**

***Purchasing the Offer Shares***

No income taxation is triggered by purchasing or owning the Offer Shares per se. For the dividends received based on the Offer Shares, please see below "— *Dividends Received Based on the Offer Shares*" and for Finnish transfer taxation, please see below "— *Transfer Tax*".

***Dividends Received Based on the Offer Shares***

The tax treatment of dividends distributed by a Listed Company varies depending on whether the Finnish company receiving the dividend is a Listed Company or a non listed company.

Dividends received by a Listed Company from another Listed Company are generally exempt from tax. However, in the event that the underlying Finnish shares belong to the investment assets of such a shareholder, 75 per cent of the dividend received by the Listed Company is taxable income and 25 per cent is tax exempt income. Only financial, insurance and pension institutions may have investment assets. The actual tax rate in these situations is 15 per cent.

If the recipient is a non listed company, the dividends it receives are fully subject to corporate income tax if such a shareholder does not directly own at least 10 per cent of the share capital of the distributing company. If the direct ownership is at least 10 per cent when the dividend is distributed, the dividend received on such shares is tax exempt. However, if a non listed company receives a dividend from shares of a Finnish company included in its investment assets, 75 per cent of the dividend is taxable income and 25 per cent is tax exempt regardless of the ownership threshold.

***Disposal of the Offer Shares: Capital Gains and Losses***

Finnish corporations are subject to a national corporate income tax on their worldwide income. Any capital gains from the sale of the Offer Shares are generally regarded as taxable income arising either from business activities or other activities of Finnish resident corporations. The taxable income of a Finnish corporation is determined separately for business activities and for other activities. Income belonging to both baskets is taxed according to a fixed tax rate of 20 per cent, but business activities are taxable under the Finnish Business Income Tax Act, whereas other activities are taxable under the Finnish Income Tax Act. Shares belonging to the business activities basket may be fixed assets, current assets, investment assets or financial assets of a Finnish corporation. The taxation of a disposal of shares and loss of value varies according to the asset type for which the shares qualify.

The capital gain (as well as the capital loss) is calculated by deducting the total sum of the actual acquisition cost and selling costs from the sales price. The acquisition cost of the Offer Shares sold is thus deductible from the income in the basket to which the Offer Shares sold belonged and in which the sales price was recorded.

Any capital loss arising from the sale of Offer Shares attributable to business activities is generally deductible from income in the business income basket. Confirmed tax losses from business activities can be carried forward and deducted against taxable income from business activities for 10 years following the loss making year. Capital losses attributable to other income can only be offset against capital gains arising in the same income basket and can be carried forward only for the subsequent five tax years.

However, capital gains based on the disposal of shares in a limited liability company may be tax exempt for corporate entities provided, among other things, that the seller company has owned at least 10 per cent of the company's share capital for at least one year continuously and that the shares belong to the seller's fixed assets attributable to business activities. Capital losses relating to the disposals of shares entitled to this tax exemption will not be tax deductible. Capital losses arising from the disposal of shares, which belong to the seller's fixed assets but do not qualify for tax exemption, are deductible only from capital gains arising from the disposal of shares, which belong to the seller's fixed assets, in the same tax year and the subsequent five fiscal years.

## Taxation of Finnish Resident Individuals

### *Purchasing the Offer Shares*

No income taxation is triggered by purchasing or owning the Offer Shares per se. For the dividends received based on the Offer Shares, please see below "*— Dividends received based on the Offer Shares*" and for Finnish transfer taxation, please see below "*— Transfer Tax*".

### *Dividends Received Based on the Offer Shares*

85 per cent of dividends received by a natural person resident in Finland from a Listed Company is taxable as capital income, whereas 15 per cent is tax exempt income. The current applicable tax rate is 30 per cent for capital income of up to EUR 30,000 per calendar year and 34 per cent for any amount exceeding EUR 30,000 per calendar year.

When a Listed Company distributes dividends to individuals, the Listed Company is obligated to withhold advance tax on the dividend payments. As at the date of this Offering Circular, the tax withholding is 25.5 per cent of the amount of the dividend. The advance tax withheld by the distributing company is credited against the final tax payable for the tax year by the recipient of the dividend. Finnish tax resident individuals must check from their pre completed tax return that the dividend information has been correctly reported, and, when necessary, correct the right amount of dividends and tax withholding into the tax return.

### *Disposal of the Offer Shares: Capital Gains and Losses*

Capital gains from the sale of Offer Shares are taxed as capital income of the Finnish resident individual. The current tax rate applied to capital gains is 30 per cent for capital income of up to EUR 30,000 per calendar year and 34 per cent for any amount exceeding EUR 30,000 per calendar year. However, capital gains from assets that do not belong to the person's business activities are exempt from tax if the total amount of the transfer prices of the person's sold assets does not exceed EUR 1,000 in a tax year (excluding sales prices of assets from which capital gains are tax exempt under Finnish tax laws).

Individuals may deduct capital losses arising from the sale of Offer Shares primarily from capital gains and secondarily from other capital income arising in the same tax year and the following five tax years. Capital losses will not be taken into account when calculating the capital income deficit for the tax year in question, and it does hence not entitle to a deficit credit. Capital losses will not, however, be tax deductible if the total amount of the acquisition costs (and also sales prices) of the assets sold by the individual does not exceed EUR 1,000 in a tax year (excluding sales prices of assets from which capital gains are tax exempt under Finnish tax laws).

Capital gains and losses are calculated as the difference between the transfer price and the aggregate of the actual acquisition cost and sales related expenses. Alternatively, individuals may choose to apply the presumptive acquisition cost instead of the actual acquisition cost for the Offer Shares. As the presumptive acquisition cost, 20 per cent is deducted from the transfer price but, if the shareholder has held the Offer Shares for at least 10 years, the presumptive acquisition cost is 40 per cent of the transfer price. If the presumptive acquisition cost is applied instead of the actual acquisition cost, all expenses arising from acquiring the gains are deemed to be included in the presumptive acquisition cost and, therefore, cannot be deducted separately from the transfer price.

Natural persons resident in Finland must enter information about any disposal of the Offer Shares during the tax year in their pre completed tax return.

### *Taxation of Finnish Resident Employees Participating in the Personnel Offering*

Pursuant to the Finnish Income Tax Act, an employer can offer its new shares to an employee with a discount of up to 10 per cent without triggering taxable benefit. The discount is defined as the difference between the fair market value of the shares (as defined in the Finnish Income Tax Act) and the subscription price of the new shares. In Finnish tax practice, an offering price in an initial public offering has typically been accepted as the fair market value for the shares, and hence a 10 per cent discount calculated based on the offering price should generally not exceed the maximum tax exempt discount by Finnish tax laws. To qualify for the above tax exemption, the shares offered by an employer must be new shares issued and the shares shall be offered to the majority of the personnel.

Any potential discount in excess of the maximum 10 per cent on the subscription price (or any discount on the purchase price of existing shares) may be deemed to be taxable as earned income, which is treated as salary for tax withholding purposes. The income is taxable as earned income for the year in which an employee was granted the excess discount.

A discount in a personnel offering is generally exempt from social security and pension insurance contributions. An employees' health care contribution is, however, payable on the possible taxable part of the benefit, and, to the extent that the tax exemption does not apply to the discount due to the fact that the shares are not offered to the majority of the personnel, the full social security contributions are usually payable.

See " — *Taxation of Finnish Resident Individuals — Dividends Received Based on the Offer Shares*" and " — *Taxation of Finnish Resident Individuals — Disposal of the Offer Shares: Capital Gains and Losses*" for further information on the taxation of dividends of Finnish resident personnel participating in the Personnel Offering and capital gains upon sale of the shares subscribed for in the Personnel Offering. It should be noted, however, that the 10 per cent tax exempt part of the subscription discount is not included in the acquisition cost of the shares.

As discussed under " — *Transfer Tax*" below, no Finnish transfer tax is payable in connection with the issuance and subscription of new shares.

**Taxation of Investors not Resident in Finland**

***Purchasing the Offer Shares***

No income taxation is triggered by purchasing or owning the Offer Shares per se. For the dividends received based on the Offer Shares, please see below " — *Dividends Received based on the Offer Shares*" and for Finnish transfer taxation, please see below " — *Transfer Tax*".

***Dividends received based on the Offer Shares***

In connection with the payment of dividends from a Finnish company to a non resident investor, the Finnish dividend payer is generally obliged to withhold withholding tax in connection with the payment of the dividend, and no other Finnish taxes are payable on the dividend.

The current withholding tax rate applicable to dividends paid to non resident corporate entities is 20 per cent, and that applicable to dividends paid to non resident individuals and other non corporate recipients is 30 per cent. The withholding tax may be reduced or removed pursuant to tax treaty provisions applicable to the dividend.

However, no withholding tax shall be levied on dividends paid to such corporate entities residing within the European Union, as defined in Article 2 of the Parent Subsidiary Directive (2011/96/EU, as amended), if the recipient company directly holds at least 10 per cent of the share capital of the dividend distributing Finnish company.

Dividends paid to certain foreign corporate entities resident within the European Economic Area may qualify for a complete exemption from Finnish withholding taxation or may be subject to withholding taxation at a reduced rate, based on how the dividend would have been taxed, had it been paid to a corresponding Finnish entity. No withholding tax shall be levied in Finland from dividends to a non resident entity distributed by a Finnish company, if (i) the entity receiving dividend resides in the EEA; (ii) the Mutual Assistance Directive (2011/16/EU) or an agreement on mutual assistance and information exchange in tax matters applies to the home state of the recipient of the dividend; and (iii) the company receiving a dividend is equivalent to a Finnish entity defined in the Finnish Income Tax Act, Section 33d, Sub section 4, or Section 6a of the Finnish Business Income Tax Act; (iv) the dividend would be fully tax exempt if paid to a Finnish corresponding corporation or entity; and (v) the entity establishes (with a certificate from the home member state's tax authority) that in accordance with the agreement on avoiding double taxation concluded between Finland and the home state of the recipient of dividends, the withholding tax cannot de facto be credited in full.

Notwithstanding the aforementioned, the dividend is only partly tax exempt if the Offer Shares belong to the investment assets of the recipient corporate entity, and that corporate entity is not a corporate entity defined in the Parent Subsidiary Directive directly holding at least 10 per cent of the capital of the distributing company. In this case, the applicable withholding tax rate is currently 15 per cent. A prerequisite for this tax treatment is that the recipient corporate entity has its registered office in a state fulfilling the conditions (i) and (ii) above and that the entity fulfils the conditions set out under (iii) above. Depending on the applicable agreement on avoiding double taxation, the withholding tax rate may also be lower than 15 per cent.

When the shares of a Finnish company are nominee registered, the Finnish company paying the dividend pays them to the nominee registered custodian account, whose custodian remits the dividends paid to the beneficial owners. If the recipient of the dividend paid to a nominee registered share is resident in a tax treaty state, withholding tax is always levied on the dividend at a rate of at least 15 per cent, or a higher percentage provided for in the applicable tax treaty, provided that, pursuant to the information duly ascertained by the payer, the recipient qualifies under the tax treaty provisions applicable to dividends. The recipient of dividends may, prior to the payment, provide the payer with information on his or her domicile and the other requirements for the application of the tax treaty, in which case he or she may receive the dividend payable on the nominee registered share at a lower tax rate pursuant to the applicable tax treaty. This means that with respect to dividends on shares held through a nominee account, tax is withheld at the rate set in the applicable tax treaty, higher than 15 per cent or 15 per cent absent thorough clarification of the identity of the person beneficially entitled to the dividend. Such procedure, however, requires that the foreign custodian intermediary is registered in the Finnish tax authorities' register and that it is resident in a country with which Finland has a tax treaty. Also, the foreign custodian intermediary must have an agreement with the Finnish account operator regarding the custody of the shares. In such agreement, the foreign custodian intermediary must, among other things, commit to report the dividend receiver's residential country to the account operator and to provide additional information to the tax authorities, if needed. If these provisions are not fulfilled, a 30 per cent withholding tax is withheld on the nominee account's dividends. The regulations concerning the taxation of a dividend based on a nominee registered share and the prerequisites on how the provisions of an international treaty could be applied to the dividend have been proposed to be amended, but the details of the amendment and entry into force still remain open on the date of this Offering Circular.

If the recipient of the dividends is a non resident natural person residing in the EEA, he or she can claim, provided that certain preconditions are met, that the taxation of dividends paid by a Finnish company is carried out in accordance with the Tax Procedure Act instead of withholding tax. A precondition is that the mutual assistance in tax matters between Finland and the recipient's country of residence is organized in accordance with the Mutual Assistance Directive (2011/16/EU) or a tax treaty concerning executive assistance and exchange of information and, furthermore, that the Finnish withholding tax cannot, by virtue of provisions in the applicable tax treaty, be credited in its entirety in the country where the recipient is residing.

***Disposal of the Offer Shares: Capital Gains and Losses***

Investors that are not resident in Finland for tax purposes are not generally subject to Finnish tax on capital gains arising from the transfer of the Offer Shares, unless the transfer of the Offer Shares relates to business activities carried out in Finland by the investor (through a permanent establishment) or more than 50 per cent of the total assets of the company in question consist of real estate properties located in Finland.

**Transfer Tax**

Transfer tax is generally not payable in Finland on the transfer of shares in Finnish companies subject to public trading on a regularly functioning regulated market or multilateral trading facility against fixed cash consideration on the condition that the broker or other party to the transaction is an investment firm, a foreign investment firm or other investment services provider as defined in the Finnish Act on Investment Services (747/2012, as amended) or the transferee has been approved as a trading party in the market where the transfer is executed. If the broker or other trading party is not a securities broker as defined in the Transfer Tax Act (i.e. the intermediary is a foreign broker that does not have a branch or office in Finland), the precondition for the tax exemption is that the transferee notifies the Finnish tax authorities of the transfer within two months of the transfer or that the intermediary submits an annual notification to the tax authorities pursuant to the Tax Procedure Act.

The exemption does not apply to certain specifically defined disposals, such as transfers of shares by means of a capital contribution or distribution, or transfers of shares in which the consideration consists partially or completely of employment or work. Also, the exemption does not apply to transfers of shares carried out in order to fulfil the provisions in the Companies Act concerning the purchase of minority shareholdings under squeeze out rules. Furthermore, the exemption does not apply to a transfer of shares if it is based on an offer made after the public trading with the share in question has ended or before it has begun. However, such transfer may qualify for the exemption if it takes place in the context of a sale of shares that is a part of a combined public offer to sell existing shares and subscribe for new shares of the company, in which the shares transferred are specified only after the public trading has begun and in which the sales price is equal to the subscription price of the new shares. This means, among others, that a sale of shares taking place as a part of an initial public offering and that has been agreed before the trading has commenced in public trading on a regulated market or multilateral trading facility, may under certain circumstances be exempt from transfer tax, provided that, inter alia, new shares are being issued in the same initial public offering.

However, as there will be no offering of new shares to the public under this offer, it is likely that the Offer Shares are deemed to be transferred through a transaction not qualifying for the exemption described above. The Sale Shares are specified before the trading commences and the price payable for the Sale Shares and Additional Shares does not correspond to the price of the Personnel Shares. Hence, the purchaser has a liability to pay transfer tax at a rate of 1.6 per cent of the transaction price. Transfers of shares in real estate companies, as defined in the Transfer Tax Act, are subject to transfer taxation at a rate of 2 per cent. However, if the purchaser is neither a tax resident in Finland nor a Finnish branch or office of a foreign credit institution, investment firm, fund management company or EEA alternative investment fund manager, the seller must collect the tax from the purchaser. If the broker is a Finnish stockbroker or credit institution, or a Finnish branch or office of a foreign stockbroker or credit institution, it is liable to collect the transfer tax from the purchaser and pay the tax to the state. If neither party to the transfer is tax resident in Finland or a Finnish branch or office of a foreign credit institution, foreign investment firm, fund management company or EEA alternative investment fund manager, the transfer of shares will be exempt from Finnish transfer tax, unless shares in real estate companies are transferred. No transfer tax is collected if the amount of the tax is less than EUR 10.

The Seller shall pay the transfer tax that may be levied when Sale Shares are transferred in connection with the Share Sale or when Additional Shares are transferred. No transfer tax is payable in connection with the issuance and subscription of new shares in the Personnel Offering.

# DOCUMENTS ON DISPLAY

## Documents on Display

Copies of the following documents are on display during the period of validity of this Offering Circular on weekdays during normal business hours between 9 a.m. and 4 p.m. at the registered office of the Company at Kaapeliaukio 1, FI-00180 Helsinki, Finland and on the investor website of the Company at www.altiagroup.com/ipo:

(a) the Articles of Association of the Company valid on the date of this Offering Circular;

(b) the audited financial statements of the Company including consolidated financial statements and Report of the Board of Directors for the financial years ended 31 December 2017, 31 December 2016 and 31 December 2015;

(c) this Offering Circular; and

(d) the decision of the FIN-FSA regarding the Finnish Prospectus.

**FINANCIAL STATEMENTS**

The Company's audited consolidated financial statements as at and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 as well as related audit reports .................................................................. F-2

Certain of the historical financial information as at and for the years ended 31 December 2016 and 31 December 2015 presented in this Offering Circular differs from the historical financial information in Altia's audited statutory consolidated financial statements adopted by the Annual General Meeting of Shareholders due to restatements made in 2017. The Company's consolidated financial statements as at and for the years ended 31 December 2016 and 31 December 2015 have been restated due to a correction of the accounting treatment in a joint arrangement, changing of the presentation of the consolidated cash flow statement from direct method to indirect method and re-categorising of certain other items on the consolidated balance sheet to be in line with the current presentation method. For more information, see "*Certain Matters — Presentation of Financial and Certain Other Information — Historical Financial Statements*".

# Consolidated Financial Statements

## CONSOLIDATED INCOME STATEMENT

| EUR thousand | Note | 1 Jan–31 Dec 2017 | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|---|---|
| **NET SALES** | 1.1. | **358 977** | **356 558** | **380 665** |
| Other operating income | 1.3. | 8 262 | 12 556 | 10 033 |
| Materials and services | 1.4. | -202 015 | -197 042 | -217 198 |
| Employee benefit expenses | 1.5. | -52 040 | -36 554 | -54 686 |
| Other operating expenses | 1.6. | -72 910 | -74 756 | -79 134 |
| Depreciation, amortisation and impairment | 1.7. | -14 220 | -14 484 | -14 418 |
| **OPERATING RESULT** | | **26 054** | **46 279** | **25 263** |
| | | | | |
| Finance income | 3.1. | 4 510 | 1 285 | 803 |
| Finance expenses | 3.1. | -6 446 | -3 436 | -3 601 |
| Share of profit in associates and income from interests in joint operations | | 918 | 918 | 918 |
| **RESULT BEFORE TAXES** | | **25 036** | **45 046** | **23 383** |
| | | | | |
| Income tax expense | 6.1. | -6 749 | -8 985 | -5 248 |
| **RESULT FOR THE PERIOD** | | **18 288** | **36 061** | **18 135** |
| | | | | |
| **Result for the period attributable to:** | | | | |
| Owners of the parent | | 18 288 | 36 061 | 18 135 |
| | | | | |
| **Earnings per share for the result attributable to owners of the parent, EUR** | | | | |
| Basic and diluted | 3.6. | 0.51 | 1.00 | 0.50 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| EUR thousand | Note | 1 Jan–31 Dec 2017 | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|---|---|
| Result for the period | | 18 288 | 36 061 | 18 135 |
| | | | | |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| **Items that will not be reclassified to profit or loss** | | | | |
| Remeasurements of post-employment benefit obligations | 2.5. | -36 | -448 | 5 809 |
| Related income tax | 6.1. | 8 | 83 | -1 196 |
| **Total** | | **-27** | **-365** | **4 613** |
| **Items that may be reclassified to profit or loss** | | | | |
| Cash flow hedges | | 1 386 | 134 | -48 |
| Available-for-sale financial assets | | 611 | - | - |
| Translation differences | 3.6. | -3 993 | -2 705 | 1 550 |
| Income tax related to these items | 6.1. | -281 | -24 | 23 |
| **Total** | | -2 277 | -2 595 | 1 525 |
| Other comprehensive income for the period, net of tax | | -2 305 | -2 960 | 6 138 |
| **Total comprehensive income for the period** | | **15 983** | **33 101** | **24 274** |
| | | | | |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent | | 15 983 | 33 101 | 24 274 |

The notes are an integral part of the consolidated financial statements.

## CONSOLIDATED BALANCE SHEET

| EUR thousand | Note | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill | 2.1. | 82 068 | 83 096 | 84 375 |
| Other intangible assets | 2.1. | 34 351 | 36 744 | 40 657 |
| Property, plant and equipment | 2.2. | 67 387 | 70 032 | 74 614 |
| Investments in associates and interests in joint operations | 5.3. | 7 568 | 7 568 | 7 568 |
| Available-for-sale financial assets | 3.2.1. | 1 445 | 836 | 820 |
| Other receivables | 3.2.2. | 979 | 300 | 450 |
| Deferred tax assets | 6.1. | 981 | 4 553 | 10 702 |
| **Total non-current assets** | | **194 780** | **203 129** | **219 187** |
| **Current assets** | | | | |
| Inventories | 2.3. | 94 493 | 96 344 | 101 241 |
| Trade and other receivables | 2.4. | 53 925 | 63 826 | 59 133 |
| Current tax assets | | 2 772 | 1 423 | 3 531 |
| Cash and cash equivalents | 3.2.3. | 52 384 | 68 016 | 76 250 |
| **Total current assets** | | **203 574** | **229 609** | **240 156** |
| **TOTAL ASSETS** | | **398 354** | **432 738** | **459 343** |

| EUR thousand | Note | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| Equity attributable to owners of the parent | 3.6. | | | |
| Share capital | | 60 480 | 60 480 | 60 480 |
| Fair value reserve | | 611 | - | - |
| Hedge reserve | | -336 | -1 441 | -1 552 |
| Translation differences | | -16 019 | -12 258 | -9 601 |
| Retained earnings | | 92 044 | 144 496 | 119 278 |
| **Total equity** | | **136 780** | **191 278** | **168 605** |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | 6.1. | 17 726 | 20 668 | 23 161 |
| Borrowings | 3.3.1. | 89 110 | 64 918 | 88 419 |
| Provisions | 2.7. | - | - | 1 334 |
| Employee benefit obligations | 2.5. | 1 336 | 1 797 | 21 552 |
| **Total non-current liabilities** | | **108 172** | **87 384** | **134 467** |
| **Current liabilities** | | | | |
| Borrowings | 3.3.1. | 10 999 | 7 841 | 8 272 |
| Provisions | 2.7. | - | 1 334 | 2 083 |
| Trade and other payables | 2.6. | 137 372 | 142 716 | 143 537 |
| Current tax liabilities | | 5 032 | 2 185 | 2 379 |
| **Total current liabilities** | | **153 403** | **154 076** | **156 271** |
| **Total liabilities** | | **261 574** | **241 460** | **290 737** |
| **TOTAL EQUITY AND LIABILITIES** | | **398 354** | **432 738** | **459 343** |

The notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

| EUR thousand | Note | 1 Jan–31 Dec 2017 | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Result before taxes | | 25 036 | 45 046 | 23 383 |
| Adjustments | | | | |
| Depreciation, amortisation and impairment | 1.7. | 14 220 | 14 484 | 14 418 |
| Share of profit in associates and income from investments in joint operations | 5.3. | -918 | -918 | -918 |
| Net gain on sale of non-current assets | 1.3. | -1 557 | -4 304 | -2 729 |
| Finance income and costs | 3.1. | 1 936 | 2 151 | 2 798 |
| Settlement gain of defined benefit obligation | 2.5. | - | -16 477 | - |
| Other adjustments | | 452 | -63 | 561 |
| | | 14 133 | -5 127 | 14 130 |
| Change in working capital | | | | |
| Change in inventories, increase (-) / decrease (+) | | 1 249 | 4 856 | 2 429 |
| Change in trade and other receivables, increase (-) / decrease (+) | | 9 361 | -4 447 | 15 149 |
| Change in trade and other payables, increase (+) / decrease (-) | | -2 591 | 107 | -13 783 |
| Change in provisions, increase (+) / decrease (-) | | -1 334 | -2 083 | 59 |
| Change in working capital | | 6 684 | -1 567 | 3 854 |
| | | | | |
| Settlement of defined benefit obligation | 2.5. | - | -4 100 | - |
| | | | | |
| Interest paid | 3.1. | -1 717 | -1 826 | -2 227 |
| Interest received | 3.1. | 271 | 261 | 319 |
| Other finance income and expenses paid | 3.1. | -2 160 | -345 | -733 |
| Income taxes paid | 6.1. | -4 605 | -2 903 | -3 908 |
| Financial items and taxes | | -8 211 | -4 813 | -6 548 |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | | **37 643** | **29 439** | **34 820** |
| | | | | |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Payments for property, plant and equipment and intangible assets | 2.1. 2.2. | -11 918 | -8 718 | -11 296 |
| Proceeds from sale of property, plant and equipment and intangible assets | 1.3. | 2 613 | 4 464 | 1 029 |
| Payments for available-for-sale financial assets | | - | -19 | - |
| Proceeds from sale of available-for-sale financial assets | | 2 | - | 1 700 |
| Repayment of loan receivables | 3.2.2. | 328 | 150 | 150 |
| Interest received from investments in joint operations | 5.3. | 918 | 918 | 918 |
| Dividends received | 3.1. | 218 | 101 | 80 |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | | **-7 838** | **-3 103** | **-7 419** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Changes in commercial paper program | | - | - | -12 993 |
| Proceeds from borrowings | 3.3.2. | 100 000 | - | 30 000 |
| Repayment of borrowings | 3.3.2. | -72 500 | -22 500 | -60 248 |
| Dividends paid and other distributions of profits | 3.6. | -70 482 | -10 428 | - |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | | **-42 982** | **-32 928** | **-43 241** |
| | | | | |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | | **-13 177** | **-6 593** | **-15 841** |
| | | | | |
| Cash and cash equivalents at the beginning of the period | | 68 016 | 76 250 | 91 081 |
| Translation differences on cash and cash equivalents | | -2 455 | -1 641 | 1 010 |
| Change in cash and cash equivalents | | -13 177 | -6 593 | -15 841 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | 3.2.3. | **52 384** | **68 016** | **76 250** |

The notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Equity attributable to owners of the parent<br>EUR thousand | Note | Share capital | Fair value reserve | Hedge reserve | Translation differences | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Total equity at 1 January 2015** | | **60 480** | **-** | **-1 527** | **-10 098** | **95 044** | **143 900** |
| Correction to prior periods | 6.5. | - | - | - | - | 432 | 432 |
| **Equity at 1 January 2015, restated** | | **60 480** | **-** | **-1 527** | **-10 098** | **95 476** | **144 332** |
| **Total comprehensive income** | | | | | | | |
| Result for the period | | - | - | - | - | 18 135 | 18 135 |
| Other comprehensive income (net of tax) | | | | | | | |
| Cash flow hedges | | - | - | -25 | - | - | -25 |
| Translation differences | 3.6. | - | - | - | 497 | 1 053 | 1 550 |
| Remeasurements of post-employment benefit obligations | 2.5. | - | - | - | - | 4 613 | 4 613 |
| **Total comprehensive income for the period** | | **-** | **-** | **-25** | **497** | **23 802** | **24 274** |
| **EQUITY AT 31 DECEMBER 2015** | | **60 480** | **-** | **-1 552** | **-9 601** | **119 278** | **168 605** |
| **Equity at 1 January 2016** | | **60 480** | **-** | **-1 552** | **-9 601** | **119 278** | **168 605** |
| **Total comprehensive income** | | | | | | | |
| Result for the period | | - | - | - | - | 36 061 | 36 061 |
| Other comprehensive income (net of tax) | | | | | | | |
| Cash flow hedges | | - | - | 111 | - | - | 111 |
| Translation differences | 3.6. | - | - | - | -2 657 | -49 | -2 705 |
| Remeasurements of post-employment benefit obligations | 2.5. | - | - | - | - | -365 | -365 |
| **Total comprehensive income for the period** | | **-** | **-** | **111** | **-2 657** | **35 647** | **33 101** |
| **Transactions with owners** | | | | | | | |
| Dividend distribution | | - | - | - | - | -10 428 | **-10 428** |
| **Total transactions with owners** | | **-** | **-** | **-** | **-** | **-10 428** | **-10 428** |
| **EQUITY AT 31 DECEMBER 2016** | | **60 480** | **-** | **-1 441** | **-12 258** | **144 496** | **191 278** |
| **Equity at 1 January 2017** | | **60 480** | **-** | **-1 441** | **-12 258** | **144 496** | **191 278** |
| **Total comprehensive income** | | | | | | | |
| Result for the period | | - | - | - | - | 18 288 | 18 288 |
| Other comprehensive income (net of tax) | | | | | | | |
| Cash flow hedges | | - | - | 1 105 | - | - | 1 105 |
| Available-for-sale financial assets | 3.2.1. | - | 611 | - | - | - | 611 |
| Translation differences | 3.6. | - | - | - | -3 761 | -232 | -3 993 |
| Remeasurements of post-employment benefit obligations | 2.5. | - | - | - | - | -27 | -27 |
| **Total comprehensive income for the period** | | **-** | **611** | **1 105** | **-3 761** | **18 029** | **15 983** |
| **Transactions with owners** | | | | | | | |
| Dividend distribution | | - | - | - | - | -70 482 | **-70 482** |
| **Total transactions with owners** | | **-** | **-** | **-** | **-** | **-70 482** | **-70 482** |
| **EQUITY AT 31 DECEMBER 2017** | | **60 480** | **611** | **-336** | **-16 019** | **92 044** | **136 780** |

The notes are an integral part of the consolidated financial statements.

# Notes to the consolidated financial statements

## GENERAL INFORMATION

### Information on Altia

Altia Plc (the "Company") together with its' subsidiaries (the "Group", "Altia Group" or "Altia") is an international alcoholic beverage service Group, which operates in the Nordic countries, Estonia, Latvia and France producing, marketing, selling and distributing both own and partner brands. Altia distils barley spirit from domestic barley for the basis of its beverages. The production plants are located in Finland and Estonia, and aging and production of cognac in France. Altia has high-quality brands of its own and international brands. In addition, the company represents international brands from all over the world. Altia's business also includes industrial products such as starch and feed, technical ethanol and contract services.

Altia's customers include alcohol retail monopolies, alcoholic beverage wholesale outlets, restaurants, grocery stores, travel trade and importers in the export markets. The company is owned by the State of Finland.

Altia Plc, the parent company of Altia Group, is domiciled in Helsinki, Finland. The registered address of the Company is Kaapeliaukio 1, FI-00180 Helsinki, Finland. Copies of the consolidated financial statements are available online at www.altiagroup.com or at the Group's headquarters at Kaapeliaukio 1, FI-00180 Helsinki, Finland.

Altia Plc's Board of Directors has approved these financial statements for publication in its meeting on 21 February 2018. According to the Finnish Limited Liability Companies Act, shareholders have the right to approve or reject the financial statements in the Annual General Meeting held after the publication of the financial statements. The Annual General Meeting also has the right to make a decision to amend the financial statements.

### Basis of preparation

The consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 are prepared in accordance with International Financial Reporting Standards (IFRSs) complying with the SIC and IFRIC interpretations in force and approved by EU on 31 December 2017. Notes to the consolidated financial statements also comply with the requirements of the Finnish Accounting Act and Limited Liability Companies Act.

New and amended standards applied in 2017 and future periods are described in Note 6.4.

The consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 has been prepared on a historical cost basis, except financial assets recognised at fair value through profit or loss and assets available-for-sale. The consolidated financial statements are presented in thousands of euros (this version and Annual Reports in thousands of euros). The figures are rounded to the nearest thousand, and therefore the sum of individual figures may deviate from the total presented. If the figure is EUR 0, it is shown as a hyphen.

Refer to the table below to see which notes and accounting principles are related.

| Nr. | Note | Accounting principle |
|---|---|---|
| 1. | Operating result | Revenue recognition, operating result |
| 1.2. | Segment information | Operating segments |
| 2.7. | Provisions | Provisions |
| 2.5. | Employee benefit obligations | Employee benefits |
| 2.2. | Property, plant and equipment | Property, plant and equipment |
| 2.3. | Inventories | Inventories |
| 1.6.<br>2.2. | Other operating expenses<br>Property, plant and equipment | Leases |
| 2.1. | Goodwill and other intangible assets | Goodwill |
| 2.1. | Goodwill and other intangible assets | Intangible assets |
| 3.2.<br>3.4. | Financial assets<br>Financial assets and liabilities – classification and fair value | Financial assets |
| 3.2.3. | Cash and cash equivalents | Cash and cash equivalents |
| 3.4. | Financial assets and liabilities – classification and fair value | Financial liabilities |
| 3.4.<br>3.5. | Financial assets and liabilities – classification and fair value<br>Derivatives and hedge accounting | Derivate contracts and hedge accounting |
| 5.2. | Subsidiaries | Consolidation principles of subsidiaries |
| 5.2. | Subsidiaries | Non-controlling interest and transactions with non-controlling interest |
| 5.3. | Investments in associates and interests in joint operations | Associates and joint ventures |
| 6.1. | Income tax expense | Income and deferred taxes |

## Corrections to prior periods

**Accounting for an interest in a joint operations and other reclassifications**
In 2017, Altia has taken a detailed review of its shareholder agreement with ABF Overseas Limited ("**ABF**") regarding Altia's interest in Roal Oy in order to confirm the IFRS accounting treatment in Altia's consolidated financial statements. Pursuant to the terms and conditions of the shareholder agreement, Altia is entitled to an agreed annual return for its interest in Roal Oy as minimum dividend, and ABF has a right to redeem Altia's interest in Roal Oy at a fixed amount at the expiry of certain patents. In its consolidated financial statements, Altia had accounted for its interest in Roal Oy as a joint venture pursuant to IFRS 11 applying the equity method of accounting up until the fourth quarter of 2016 when Altia classified the interest as a held for sale asset, assuming that ABF would have exercised its call option during 2017. However, as the exercise of the call is dependent on the expiry of certain patents and a single patent continues to be valid until 2024, Altia's exit from Roal Oy could not take place in 2017. Altia exercises joint control over Roal Oy. However, accounting treatment of the option right held by ABF represents in substance a receivable with a fixed rate of return for Altia, and Altia does not have a right to 50 per cent of the net assets of Roal Oy unless ABF refrains to exercise its option right with respect to Altia's interest in Roal Oy when it is possible pursuant to the shareholder agreement. Accordingly, the interest should have been classified as a joint operation pursuant to IFRS 11 in the consolidated financial statements with Altia accounting for its share of Roal Oy's assets and liabilities as a receivable with the annual minimum dividend accounted for as interest income. The correction did not have impact on the net cash flows from operating activities or the net cash flows from investing activities.

In addition, Altia has reclassified certain trade and other payables to current and non-current provisions to better reflect the nature of such liabilities.

These corrections have been made by restating each of the affected financial statement line items for the prior periods as presented in the note 6.5.

**Cash flow statement presentation**

In 2017 Altia decided to change its presentation of the consolidated statement of cash flows from direct method to indirect method. Altia believes that the indirect method gives more accurate and reliable information on cash flows from operating activities by disclosing the reconciliation from result before taxes to operating cash flows. The indirect method is also more commonly used method and thus, gives more comparable information on Altia's operating cash flows to it's peers. As a consequence, the presentation of cash flows from operating activities has been restated to reflect the indirect method for the years ended 31 December 2016 and 2015. The indirect method did not change the presentation of the cash flows from investing activities and financing activities.

## Accounting policies requiring management judgement and key sources of estimation uncertainty

The preparation of financial statements requires the use of accounting estimates, which by definition, seldom equal the actual results. In addition, management makes judgements in applying Altia's accounting policies.

Estimates made in the preparation of the financial statements, and related assumptions, are based on the management's best knowledge at the reporting date. Consequently, the realised results can differ from the estimates. Any changes in estimates and assumptions are recognised when estimates and assumptions are corrected.

The Group's most significant area in which the management has exercised judgement is related to the useful lives of intangible assets and parameters used in impairment testing (Note 2.1.). Other critical future assumptions and anticipated uncertainties at the reporting date, which pose a significant risk of resulting in material changes in the carrying amounts of assets and liabilities within the next financial year, are related to employee benefits (Note 2.5.) and deferred taxes (Note 6.1.).

# 1. Operating result

## 1.1 REVENUES FROM OPERATIONS

### Revenue recognition

Net sales are comprised of the fair values determined on the basis of the consideration received or to be received for products or services sold less discounts given, indirect taxes, excise tax, deposit and recycling fees and exchange rate differences.

Revenue from the sale of products is recognised after the significant risks and rewards of ownership of the sold products have been transferred to the buyer, and the Group retains neither a managerial involvement to the degree usually associated with ownership nor effective control of those goods. Usually this means that revenue is recognised upon delivery of goods in accordance with agreed terms of delivery. Revenue from the sale of services is recognised at the time of delivery of services.

The most significant revenue flows are generated by the sale of own products and partner brands. In addition, revenues are generated by contract manufacturing, as well as the sale of industrial products, such as starch, feed and technical ethanol. Adjustments to sales and obligations to repurchase certain products are taken into account in the revenue recognition phase.

The amount of excise tax deducted from sales revenue is significant. The amounts of sales including tax and excise taxes are presented below:

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Sales revenues deducted with revenue adjustments | 804 451 | 819 797 | 849 580 |
| Excise tax | -445 474 | -463 239 | -468 915 |
| **NET SALES** | **358 977** | **356 558** | **380 665** |
| Tax share of sales revenues, % | 55.4% | 56.5% | 55.2% |

## 1.2. SEGMENT INFORMATION

### Description of segments and principal activities

Altia reports its business operations under the following segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Scandinavia segment represents the Company's operations in Sweden, Norway and Denmark. Altia Industrial segment comprises the Company's production of ethanol, starch and feed as well as contract services. These segments comprise both Altia's operating and reportable segments.

The Board of Directors of Altia has been determined as the Company's current chief operative decision maker, and the reportable segments are based on the Altia's operating structure and internal reporting to the CODM used to assess the performance of the segments. For internal reporting purposes, reporting on the segment profit is based on an internal measure of a comparable EBITDA derived as follows:

- Net sales and direct segment expenses reported within the Comparable EBITDA segment profit measure are measured on an accrual basis and reported under the same accounting principles as in the consolidated accounts.
- Expenses allocated to the segments related to shared function costs or business support services expenses comprise costs such as centralized marketing costs, IT infrastructure related costs, shared support services, headquarter costs including finance and treasury, communication, legal and human resource related costs as well as certain warehousing and service fees. For internal reporting purposes these cost allocations are based on budgeted amounts and variances from budgeted

amounts are presented under column "Unallocated and adjustments" and can result in either incurred overruns or savings compared to budgeted amounts. These variances are not allocated to the segments for internal reporting purposes.

- The unallocated and adjustments column represents in addition to the budget variances, certain unallocated headquarter costs.

## Segment net sales and results

The following tables set out the segment net sales and Comparable EBITDA as well as the reconciliation of the Comparable EBITDA to the group's operating result:

| | 1 Jan - 31 Dec 2017 | | | | |
|---|---|---|---|---|---|
| **EUR thousand** | **Finland & Exports** | **Scandinavia** | **Altia Industrial** | **Unallocated and adjustments** | **Group** |
| Net sales, total | 134 397 | 124 418 | 148 718 | | 407 532 |
| Net sales, Internal | -473 | -669 | -47 413 | | -48 555 |
| **Net sales, external** | **133 924** | **123 749** | **101 305** | **-** | **358 977** |
| Comparable EBITDA | 19 559 | 11 508 | 12 460 | -1 149 | 42 378 |
| Items affecting comparability[1)] | | | | | -2 104 |
| **EBITDA** | | | | | **40 275** |
| Depreciation, amortisation and impairment | | | | | -14 220 |
| **OPERATING RESULT** | | | | | **26 054** |

| | 1 Jan - 31 Dec 2016 | | | | |
|---|---|---|---|---|---|
| **EUR thousand** | **Finland & Exports** | **Scandinavia** | **Altia Industrial** | **Unallocated and adjustments[2)]** | **Group** |
| Net sales, total | 134 380 | 127 941 | 141 047 | | 403 369 |
| Net sales, Internal | -433 | -511 | -45 867 | | -46 811 |
| **Net sales, external** | **133 947** | **127 430** | **95 181** | **-** | **356 558** |
| Comparable EBITDA | 20 155 | 10 408 | 8 390 | 1 889 | 40 843 |
| Items affecting comparability[1)] | | | | | 19 920 |
| **EBITDA** | | | | | **60 762** |
| Depreciation, amortisation and impairment | | | | | -14 484 |
| **OPERATING RESULT** | | | | | **46 279** |

[1)] Items affecting comparability comprise of material items incurred outside normal business, such as net gains or losses from business and assets disposals, impairment losses, cost for closure of business operations and restructurings, major corporate projects including direct transaction costs related to business acquisitions, voluntary pension plan change and costs related to other corporate development. In year 2016 the items affecting comparability includes a net settlement gain of defined benefit obligation of EUR 16.3 million, see also Notes 1.5. Employee benefit expenses and 2.5. Employee benefit obligations. Gains on sale of property, plant and equipment and intanglibe assets are presented in Note 1.3. and employee costs related to restructuring in Note 1.5.

[2)] 2016 unallocated and adjustments (net) includes cost savings realized from group level activities including realized savings due to the head-quarter move, cost savings related to centralized product development programs and reductions in personnel costs in addition to unallocated headquarter costs. Cost savings in this extent are not frequent compared to the budgeted amounts, however, for internal reporting purposes, these positive variances are not allocated to the operating segments.

## Other entity-wide disclosures

**Net sales by geography**

Net sales broken down by the location of Altia entity for the years ended 31 December 2017 and 2016 were as follows:

| EUR thousand | 2017 | 2016 |
|---|---|---|
| Finland | 202 439 | 189 928 |
| Sweden | 96 066 | 96 559 |
| Norway | 23 662 | 26 674 |
| Estonia | 10 302 | 14 896 |
| Latvia | 9 419 | 9 238 |
| Denmark | 12 749 | 16 864 |
| Other countries | 4 340 | 2 397 |
| **NET SALES, TOTAL** | **358 977** | **356 558** |

In Finland & Exports segment, net sales of EUR 80.5 million (2016: EUR 80.7 million) were derived from a single external customer. In Scandinavia segment, net sales of EUR 78.8 million (2016: EUR 77.9 million) were derived from a single external customer. In Altia Industrial segment, net sales of EUR 44.5 million (2016: EUR 40.7 million) were derived from a single external customer. No other single external customer represented more than 10 per cent or more of Altia's total net sales for the years ended 31 December 2017 or 2016.

**Non-current assets by geography**

The total of non-current assets other than financial instruments and deferred tax assets broken down by the location of the assets as at 31 December 2017 and 2016 were as follows:

| EUR thousand | 2017 | 2016 |
|---|---|---|
| Finland | 115 686 | 114 508 |
| Sweden | 48 204 | 51 750 |
| Norway | 78 | 140 |
| Estonia | 2 628 | 2 995 |
| Latvia | 226 | 271 |
| Denmark | 7 215 | 9 975 |
| Other countries | 9 770 | 10 233 |
| **NON-CURRENT ASSETS BY GEOGRAPHY, TOTAL** | **183 806** | **189 871** |

## 1.3. OTHER OPERATING INCOME

Other operating income mainly includes gains on the disposal of non-current assets, income from sale of energy, water, steam and carbon dioxide, rental income and related non-core business service income and contract termination fees.

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Gains on sale of property, plant and equipment and intangible assets | 1 557 | 4 304 | 1 046 |
| Gains on sale of available-for-sale financial assets | - | - | 1 683 |
| Rental income | 966 | 941 | 697 |
| Income from sale of energy, water, steam and carbon dioxide | 3 402 | 3 718 | 3 404 |
| Other income | 2 337 | 3 592 | 3 202 |
| **TOTAL** | **8 262** | **12 556** | **10 033** |

## 1.4. MATERIALS AND SERVICES

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Raw materials, consumables and goods | | | |
| Purchases during the period | 196 581 | 188 834 | 210 325 |
| Change in inventories | 1 851 | 4 897 | 2 501 |
| Scrapping and obsolescence | 1 990 | 1 889 | 2 521 |
| External services | 1 593 | 1 422 | 1 851 |
| **TOTAL** | **202 015** | **197 042** | **217 198** |

Materials and services consist of cost of material, such as barley, wine, different spirit, liquids, ground water as well as other ingredients needed for a variety of different drinks, packaging materials, production costs, changes in inventories, scrapping and obsolescence costs and external services such as logistics and warehousing.

## 1.5. EMPLOYEE BENEFIT EXPENSES

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Wages and salaries | 40 377 | 41 135 | 42 708 |
| Pension expenses | | | |
| Defined contribution plans | 5 859 | 5 489 | 6 004 |
| Defined benefit plans | - | -16 207 | 389 |
| Other social expenses | 5 805 | 6 137 | 5 585 |
| **TOTAL** | **52 040** | **36 554** | **54 686** |

In Altia, the total wages and salaries of personnel consists of fixed and variable pay, allowances, short and long-term incentives and fringe benefits.

The group has recognised the total amount of incentives EUR 3 326 thousand (2016: EUR 3 003 thousand, 2015: EUR 3 594 thousand) in the form of cash bonuses. Employee benefit expenses in 2016 include a gain of EUR 16 477 thousand on settlement of defined benefit obligation. Employee benefit expenses include personnel related restructuring costs of EUR 1 055 thousand (2016: EUR 606 thousand, 2015: EUR 1 032 thousand).

| Average number of personnel during the period | 2017 | 2016 | 2015 |
|---|---|---|---|
| Workers | 294 | 328 | 360 |
| Clerical employees | 468 | 501 | 519 |
| **TOTAL** | **762** | **829** | **879** |

More information on the Group's pension plans is presented in Note 2.5.

Information of management remuneration is presented in Note 6.3. related party transactions.

## 1.6. OTHER OPERATING EXPENSES

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Losses on sales and disposals of property, plant and equipment and intangible assets | 190 | 770 | 526 |
| Rental expenses | 5 987 | 6 830 | 7 352 |
| Marketing expenses | 15 139 | 16 055 | 16 510 |
| Travel and representation expenses | 2 795 | 3 024 | 3 184 |
| Outsourcing services | 8 919 | 7 741 | 8 142 |
| Repair and maintenance expenses | 6 763 | 6 210 | 8 516 |
| Cars and transport services | 655 | 586 | 609 |
| Energy expenses | 7 164 | 9 230 | 10 272 |
| IT expenses | 6 496 | 4 973 | 5 199 |
| Variable sales expenses | 11 336 | 11 511 | 11 855 |
| Other expenses | 7 465 | 7 826 | 6 969 |
| **TOTAL** | **72 910** | **74 756** | **79 134** |

| Auditor's fees included in other operating expenses | 2017 | 2016 | 2015 |
|---|---|---|---|
| Audit fees | 272 | 332 | 261 |
| Tax consultation | 4 | 8 | 157 |
| Other fees | 391 | 73 | 16 |
| **TOTAL** | **667** | **413** | **434** |

Rental expenses include leases treated as operating lease, when the lessor retains the risks and rewards of ownership for the leased asset. Payments made under operating lease are recognised as expenses on a straight-line basis over the lease term. Altia leases office space, cars and forklifts under operating lease.

## 1.7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation and amortisation by asset categories is as follows:

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Amortisation on intangible assets | | | |
| Trademarks | 4 415 | 4 298 | 4 479 |
| Software and other intangible assets | 1 119 | 1 297 | 1 151 |
| **Total amortisation** | **5 533** | **5 596** | **5 630** |
| Depreciation on property, plant and equipment | | | |
| Buildings | 3 220 | 3 106 | 3 035 |
| Machinery and equipment | 5 185 | 5 344 | 5 213 |
| Machinery and equipment, acquired through finance leases | 273 | 426 | 527 |
| Other tangible assets | 9 | 11 | 12 |
| **Total depreciation** | **8 687** | **8 888** | **8 788** |
| **TOTAL DEPRECIATION AND AMORTISATION** | **14 220** | **14 484** | **14 418** |

Group's depreciation and amortisation methods and periods are described in Note 2.1. Goodwill and other intangible assets and in Note 2.2. Property, plant and equipment.

## 1.8. RESEARCH AND DEVELOPMENT EXPENDITURES

Operating result includes research and development expenditures amounting to EUR 3 356 thousand (2016: EUR 3 646 thousand, 2015: EUR 3 439 thousand). The R&D expenditures represents 0.9% of net sales in 2017 (2016: 1.0%, 2015: 0.9%).

# 2. Operative assets and liabilities

## 2.1 GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets other than goodwill are recorded at historical costs and depreciated over their useful lives. Intangible assets include goodwill, trademarks, software and other intangible assets and prepayments.

### Goodwill

Goodwill arising on the business acquisition is recognised as the excess of the aggregate of the consideration transferred, the amount of non-controlling interests and any previously held equity interest in the acquiree, over the fair value of the net assets acquired. Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

For the purpose of impairment testing, goodwill is allocated to the groups of cash-generating units (CGU) that are expected to benefit from the business combinations in which the goodwill was generated. Impairment testing is described in more detail later in this note.

### Other intangible assets

Other intangible assets include intangible rights, other intangible assets and prepayments for intangible assets. Intangible assets such as patents and IT-software, with finite useful lives, are recognised in the balance sheet at the original acquisition cost less accumulated amortisation and possible impairment.

Altia's trademarks have been acquired in connection with business acquisitions and recognised originally at fair value and are subsequently amortised on a straight-line basis over the estimated useful lives.

The estimated useful lives of intangible assets are as follows:

| | |
|---|---|
| Trademarks | 10–15 years |
| IT-development and software | 3–5 years |

The costs related to the intangible assets are capitalised if it can be demonstrated that the asset will generate the future economic benefits, the entity controls the asset and the cost of the asset can be measured reliably. All other expenditure is recognised as an expense as incurred.

Expenditure on research activities is recognised in profit or loss in the period in which it is incurred. The Group has no projects related to the development activities of new products or processes qualifying for the identifiability and other criteria regarding capitalisation under IFRS.

Accounting for emission allowances is described in Note 6.2. Emission allowances are presented as off-balance sheet items.

### Critical estimates and management judgements – Useful lives of trademarks

Altia's trademarks have been acquired in connection with business acquisitions and recognised originally at fair value and are subsequently amortised on a straight-line basis over the estimated useful lives. Management has estimated the useful lives of trademarks to be in a range from 10 to 15 years. However, the actual useful life may be shorter or longer than the estimated range depending on the market trends and customer behavior.

## GOODWILL AND OTHER INTANGIBLE ASSETS

| EUR thousand | Goodwill | Trademarks | Software and other intangible assets | Pre-payments | Other intangible assets total |
|---|---|---|---|---|---|
| Acquisition cost at 1 January 2017 | 144 711 | 129 900 | 18 841 | 1 694 | 150 435 |
| Additions | - | - | - | 3 836 | 3 836 |
| Disposals | - | - | -2 228 | - | -2 228 |
| Effect of movement in exchange rates | -11 388 | -3 237 | -25 | - | -3 261 |
| Transfers between items | - | - | 2 666 | -2 709 | -43 |
| Acquisition cost at 31 December 2017 | 133 322 | 126 664 | 19 254 | 2 821 | 148 739 |
| Accumulated amortisation and impairment losses at 1 January 2017 | -61 615 | -97 724 | -15 968 | - | -113 691 |
| Amortisation | - | -4 415 | -1 119 | - | -5 534 |
| Accumulated amortisation on disposals and transfers | - | - | 1 985 | - | 1 985 |
| Effect of movement in exchange rates | 10 360 | 2 835 | 17 | - | 2 852 |
| Accumulated amortisation and impairment losses at 31 December 2017 | -51 255 | -99 304 | -15 084 | - | -114 388 |
| Carrying amount at 1 January 2017 | 83 096 | 32 177 | 2 873 | 1 694 | 36 744 |
| **CARRYING AMOUNT AT 31 DECEMBER 2017** | **82 068** | **27 360** | **4 170** | **2 821** | **34 351** |
| | | | | | |
| Acquisition cost at 1 January 2016 | 144 184 | 131 460 | 19 760 | 854 | 152 073 |
| Additions | - | 346 | 198 | 2 380 | 2 924 |
| Disposals | - | -60 | -2 590 | -187 | -2 837 |
| Effect of movement in exchange rates | 527 | -1 845 | -8 | - | -1 853 |
| Transfers between items | - | - | 1 482 | -1 353 | 128 |
| Acquisition cost at 31 December 2016 | 144 711 | 129 900 | 18 841 | 1 694 | 150 435 |
| Accumulated amortisation and impairment losses at 1 January 2016 | -59 809 | -94 711 | -16 705 | - | -111 416 |
| Amortisation | - | -4 298 | -1 297 | - | -5 596 |
| Accumulated amortisation on disposals and transfers | - | 56 | 2 029 | - | 2 086 |
| Effect of movement in exchange rates | -1 806 | 1 230 | 5 | - | 1 235 |
| Accumulated amortisation and impairment losses at 31 December 2016 | -61 615 | -97 724 | -15 968 | - | -113 691 |
| Carrying amount at 1 January 2016 | 84 375 | 36 749 | 3 055 | 854 | 40 657 |
| **CARRYING AMOUNT AT 31 DECEMBER 2016** | **83 096** | **32 177** | **2 873** | **1 694** | **36 744** |
| | | | | | |
| Acquisition cost at 1 January 2015 | 150 501 | 130 775 | 18 049 | 1 498 | 150 322 |
| Additions | - | 65 | 4 | 1 163 | 1 232 |
| Disposals | - | - | -41 | - | -41 |
| Effect of movement in exchange rates | -6 318 | 620 | 2 | - | 622 |
| Transfers between items | - | - | 1 745 | -1 808 | -62 |
| Acquisition cost at 31 December 2015 | 144 184 | 131 460 | 19 760 | 854 | 152 073 |
| Accumulated amortisation and impairment losses at 1 January 2015 | -67 206 | -89 982 | -15 595 | - | -105 577 |
| Amortisation | - | -4 512 | -1 151 | - | -5 663 |
| Accumulated amortisation on disposals and transfers | - | - | 41 | - | 41 |
| Effect of movement in exchange rates | 7 397 | -217 | -1 | - | -217 |
| Accumulated amortisation and impairment losses at 31 December 2015 | -59 809 | -94 711 | -16 705 | - | -111 416 |
| Carrying amount at 1 January 2015 | 83 296 | 40 793 | 2 455 | 1 498 | 44 746 |
| **CARRYING AMOUNT AT 31 DECEMBER 2015** | **84 375** | **36 749** | **3 055** | **854** | **40 657** |

The most significant trademarks include Renault, Larsen, Xanté, Blossa, Chill Out, Explorer, Grönstedts, Bröndums and 1-Enkelt. Software and other intangible assets are mainly computer software.

## Impairment testing

Book value of assets are assessed to determine whether there are any impairment at least at the end of each financial year. If any evidence of impairment emerges (a triggering event), the assets' recoverable amount is estimated. The recoverable amount is determined on the basis of value in use. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is immediately recognised in profit or loss and the estimated useful life of the asset in question is reassessed when an impairment loss is recognised. The recoverable amounts of goodwill and intangible assets not yet available for use are estimated annually. The need for recognising an impairment loss is assessed at cash-generating unit level. This level is essentially independent from other units with separate cash flows.

The impairment loss is reversed if there has been such a positive change in the estimates used to determine the recoverable amount of the asset or cash-generating unit that recoverable amount of the asset will increase the book value of asset. Impairment losses are only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. An impairment loss on goodwill is never reversed.

## Critical estimates and management judgements – Impairment testing:

The preparation of calculations for the impairment testing of goodwill requires estimates regarding the future. The management's estimates and related critical uncertainties are related to the components of the recoverable amount calculation, including the discount rate, the terminal growth rate and development of the net sales and operating result, including estimated cost levels of main raw materials and energy. The discount rates reflect current assessments of the time value of money and relevant market risk premiums reflecting risks and uncertainties for which the future cash flow estimates have not been adjusted. The discount rates used, expected net sales growth rates and profitability levels, including sensitivity analyses, are stated below.

## Impairment testing of goodwill

**Allocation of goodwill**

Goodwill is allocated to groups of cash-generating units (CGU) that represent the level on which the management monitors the goodwill.

Altia reports its business operations under the following segments: Finland & Exports, Scandinavia and Altia Industrial. Finland & Exports and Scandinavia segments comprise importing, sale and marketing of wine, spirits and other beverage product categories. Within the Finland & Exports segment the Company operates in Finland, the Baltics and travel retail channels and conducts exports. Scandinavia segment represents the Company's operations in Sweden, Norway and Denmark. Altia Industrial segment comprises the Company's production of ethanol, starch and feed as well as contract services. These segments comprise both Altia's operating and reportable segments. Goodwill is monitored by management at the level of the operating segments. The goodwill has been reallocated to the operating segments in 2017 in line with the current management structure and goodwill monitoring levels.

A segment-level allocation of the goodwill at 31 December 2017 is presented below:

| EUR thousand | 2017 | % |
|---|---|---|
| Finland & Exports | 46 479 | 56.6% |
| Scandinavia | 35 589 | 43.4% |
| **TOTAL** | **82 068** | **100.0%** |

In line with Altia's management structure in 2016, a cash-generating unit was typically a country-specific sales unit or a group thereof. Goodwill was allocated to three groups of CGUs: Markets Finland, Markets Sweden and Other Markets. Other markets included sales units in Norway, Denmark, Estonia and Latvia. A CGU-specific allocation of goodwill in 2016 and 2015 is presented in the table below:

| EUR thousand | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Markets Finland | 44 720 | 53.8% | 44 720 | 53.0% |
| Markets Sweden | 35 439 | 42.6% | 36 722 | 43.5% |
| Other Markets | 2 936 | 3.5% | 2 933 | 3.5% |
| **TOTAL** | **83 096** | **100.0%** | **84 375** | **100.0%** |

**Impairment testing**

The key assumptions in impairment testing are operating result and discount rate.

The goodwill allocated to the Group's cash-generating units is tested for impairment annually or when there is reason to assume that the carrying amount has exceeded the recoverable amount, with the carrying amount compared to the recoverable amount in the testing. The annual impairment tests have been carried out on 31 October 2017, 31 October 2016 and 31 October 2015. At the time of testing, the companies did not have intangible assets with indefinite useful lives other than goodwill.

The cash flow estimates used are based on CGU-specific financial plans for the following year approved by the Group's management. The forecast period applied for the calculations covers five years, beyond which the cash flow projections are extrapolated using a constant market-specific growth rate estimate. The forecasted cash flows for a longer term than this have been estimated by using an annual growth rate estimate of 1.0%. In the view of the management, these growth estimates represent the development of business operations in the longer term pursuant to the forecasts.

The market-specific WACC estimates are based on external market-specific references. Management makes judgements regarding the development of assumptions other than WACC based on internal and external views of the industry's history and future.

The weighted average costs of capital used as discount rates for the cash flow estimates are presented in the enclosed table for year 2017:

| Used pre-tax discount rate % | 2017 |
|---|---|
| Finland & Exports | 7.0% |
| Scandinavia | 6.8% |

The weighted average costs of capital used as discount rates for the cash flow estimates are presented in the enclosed table for years 2016 and 2015:

| Used pre-tax discount rate % | 2016 | 2015 |
|---|---|---|
| Markets Finland | 7.0% | 7.3% |
| Markets Sweden | 7.1% | 7.7% |
| Other markets | 7.0% | 7.9% |

The estimated average operating margins used in the calculations are presented in the enclosed table for year 2017:

| Projected average operating result % | 2017 |
|---|---|
| Finland & Exports | 14.5% |
| Scandinavia | 9.3% |

The estimated average operating result margins used in the calculations are presented in the enclosed table for years 2016 and 2015:

| Projected average operating result % | 2016 | 2015 |
|---|---|---|
| Markets Finland | 17.2% | 18.1% |
| Markets Sweden | 11.0% | 11.4% |
| Other markets | 6.8% | 5.7% |

Based on the analyses prepared by the company, no reasonably possible change in any of the key assumptions would cause any of the tested unit's recoverable amount to decrease to be equal to its carrying amount.

## 2.2. PROPERTY, PLANT AND EQUIPMENT

### Property, plant and equipment

Property, plant and equipment mainly consist of manufacturing and warehouse buildings, land, and machinery and equipment used in alcoholic beverage industry. Property, plant and equipment are measured at historical cost less accumulated depreciation and possible impairment losses. If parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. The subsequent costs related to the items of property, plant and equipment are capitalised only if the future economic benefits exceed the originally assessed standard of performance. All other expenditure, for example ordinary maintenance and repair costs, is recognised as an expense as incurred. Depreciation is recognised on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated.

Government grants, for example grants received from the State, are recognised in profit or loss in the same period in which the related expenses are recognised. Grants that compensate the Group for the acquisition of property, plant and equipment are deducted from the carrying amount adjusted with the grant received.

Investment properties are properties held by the Group in order to earn rental income or for capital appreciation. Investment properties are measured at cost less accumulated depreciation and impairment losses. Fair values of investment properties are determined based on a valuation carried out by an external property valuator.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings and structures | 10–40 years |
| Machinery and equipment | 10 years |
| Other tangible assets | 3–10 years |

The estimated useful lives and residual values are reviewed at each financial year-end, and if they differ substantially from the previous estimates, the depreciation periods are adjusted accordingly. Impairment loss is recognised in profit or loss to the extent the assets carrying value exceeds its recoverable amount.

Gains and losses on the disposals of property, plant and equipment are included in other operating income or expenses.

### Financial leasing

Lease contracts of property, plant and equipment, in which Altia assumes substantially all the risks and rewards of ownership are classified as finance leases. Altia leases laptops and copying machines under finance leases. An asset leased through a finance lease is recognised in property, plant and equipment based on its nature and measured at the lower of its fair value and present value of the minimum lease payments at the inception of the lease term. The respective finance lease liabilities, less finance charges, are included in other non-current borrowings.

An asset acquired through a finance lease is depreciated over the shorter of the asset´s useful life and the lease term.

**PROPERTY, PLANT AND EQUIPMENT**

| EUR thousand | Land and water areas | Buildings and structures | Machinery and equipment | Other tangible assets | Prepayments and assets under construction | Total |
|---|---|---|---|---|---|---|
| Acquisition cost at 1 January 2017 | 4 805 | 116 448 | 120 865 | 780 | 2 520 | 245 418 |
| Additions | - | 40 | 592 | - | 7 441 | 8 074 |
| Disposals | -1 821 | -10 406 | -309 | - | - | -12 535 |
| Effect of movement in exchange rates | -3 | -33 | -217 | 0 | -13 | -266 |
| Transfers between items | - | 2 189 | 3 072 | - | -5 218 | 43 |
| Acquisition cost at 31 December 2017 | 2 982 | 108 239 | 124 003 | 780 | 4 730 | 240 734 |
| Accumulated depreciation and impairment losses at 1 January 2017 | -1 775 | -84 698 | -88 781 | -132 | - | -175 387 |
| Depreciation | - | -3 220 | -5 458 | -9 | - | -8 687 |
| Accumulated depreciation on disposals and transfers | 1 772 | 8 365 | 389 | - | - | 10 526 |
| Effect of movement in exchange rates | 3 | 22 | 177 | - | - | 201 |
| Accumulated depreciation and impairment losses at 31 December 2017 | 0 | -79 531 | -93 674 | -142 | - | -173 347 |
| Carrying amount at 1 January 2017 | 3 030 | 31 750 | 32 084 | 648 | 2 520 | 70 032 |
| **CARRYING AMOUNT AT 31 DECEMBER 2017** | **2 982** | **28 707** | **30 329** | **638** | **4 730** | **67 387** |
| | | | | | | |
| Acquisition cost at 1 January 2016 | 4 798 | 116 405 | 156 898 | 775 | 3 042 | 281 918 |
| Additions | - | 103 | 766 | 6 | 4 910 | 5 785 |
| Disposals | -0 | -1 731 | -40 329 | - | - | -42 061 |
| Effect of movement in exchange rates | 7 | 33 | -130 | 0 | -3 | -94 |
| Transfers between items | - | 1 639 | 3 660 | - | -5 428 | -129 |
| Acquisition cost at 31 December 2016 | 4 805 | 116 448 | 120 865 | 780 | 2 520 | 245 419 |
| Accumulated depreciation and impairment losses at 1 January 2016 | -1 768 | -83 183 | -122 230 | -121 | - | -207 303 |
| Depreciation | - | -3 106 | -5 770 | -11 | - | -8 888 |
| Accumulated depreciation on disposals and transfers | - | 1 631 | 39 155 | - | - | 40 785 |
| Effect of movement in exchange rates | -7 | -39 | 65 | - | - | 19 |
| Accumulated depreciation and impairment losses at 31 December 2016 | -1 775 | -84 698 | -88 781 | -132 | - | -175 387 |
| Carrying amount at 1 January 2016 | 3 030 | 33 221 | 34 667 | 653 | 3 042 | 74 614 |
| **CARRYING AMOUNT AT 31 DECEMBER 2016** | **3 030** | **31 750** | **32 084** | **648** | **2 520** | **70 032** |
| | | | | | | |
| Acquisition cost at 1 January 2015 | 4 808 | 110 754 | 156 207 | 758 | 13 875 | 286 403 |
| Additions | - | 709 | 1 161 | 17 | 8 252 | 10 139 |
| Disposals | -6 | -434 | -14 246 | - | - | -14 686 |
| Effect of movement in exchange rates | -4 | -21 | 24 | 0 | - | -1 |
| Transfers between items | - | 5 396 | 13 752 | - | -19 086 | 61 |
| Acquisition cost at 31 December 2015 | 4 798 | 116 405 | 156 898 | 775 | 3 042 | 281 918 |
| Accumulated depreciation and impairment losses at 1 January 2015 | -1 772 | -80 537 | -130 226 | -109 | - | -212 644 |
| Depreciation | - | -3 035 | -5 741 | -12 | - | -8 788 |
| Accumulated depreciation on disposals and transfers | - | 364 | 13 720 | - | - | 14 083 |
| Effect of movement in exchange rates | 4 | 25 | 16 | - | - | 45 |
| Accumulated depreciation and impairment losses at 31 December 2015 | -1 768 | -83 183 | -122 230 | -121 | - | -207 303 |
| Carrying amount at 1 January 2015 | 3 036 | 30 217 | 25 981 | 649 | 13 875 | 73 759 |
| **CARRYING AMOUNT AT 31 DECEMBER 2015** | **3 030** | **33 221** | **34 667** | **653** | **3 042** | **74 614** |

Land and water areas includes investment properties with book value of EUR 9 thousand in 2017 (2016: EUR 9 thousand, 2015: EUR 9 thousand). Investment properties are measured based on the cost model. At 31 December 2017 the fair value of investment properties was EUR 2 800 thousand (2016: EUR 2 800 thousand, 2015: EUR 2 800 thousand).

**FINANCE LEASES**

Property, plant and equipment include assets acquired under finance lease as follows:

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Machinery and equipment** | | | |
| Acquisition cost at 31 December | 1 425 | 1 507 | 7 286 |
| Accumulated depreciation at 31 December | -1 077 | -1 165 | -5 778 |
| **CARRYING AMOUNT AT 31 DECEMBER** | **348** | **342** | **1 509** |

During the year 2016 Altia reorganised the steam distribution in the Rajamäki plant area by selling its steam distribution network and making new steam delivery agreements. At the same time, Altia was released of its duty to buy the steam power plant at the end of the contract period. The steam power plant was included in the finance leases under machinery and equipment until the disposal.

## 2.3. INVENTORIES

### Inventories

Inventories are measured at the lower of cost and net realisable value. Self-manufactured products are measured at standard prices, except cognac products, which are measured at weighted average cost. Fixed production costs are allocated to the cost of own production.

Raw materials, supplies and trading goods are measured at weighted average cost. Semi-finished products are measured at weighted average cost, except semi-finished products produced in Estonia, which are measured at standard prices. Repacked trading goods are measured at standard cost in repacking plant.

The cost of finished products and work in progress includes raw materials, direct labour costs, other direct costs as well as an allocable proportion of variable procurement and production costs and fixed overheads in case of finished products, determined based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**INVENTORIES**

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Materials and supplies | 50 078 | 51 603 | 54 240 |
| Work in progress | 12 677 | 12 264 | 13 741 |
| Finished goods | 13 752 | 13 895 | 14 136 |
| Trading goods | 17 923 | 18 411 | 18 867 |
| Advance payments | 63 | 171 | 258 |
| **TOTAL** | **94 493** | **96 344** | **101 241** |

Altia recognised write-downs of inventories amounting to EUR 1 772 thousand in 2017 (2016: EUR 1 749 thousand, 2015: EUR 2 435 thousand).

## 2.4. TRADE AND OTHER RECEIVABLES (CURRENT)

### Trade and other receivables

Trade receivables are carried at original invoiced amount less any impairment losses. The assessment of doubtful receivables and need to recognise an impairment loss is based on objective evidence of potential non-recovery of a single asset. Examples of this kind of evidence resulting in impairment include significant financial difficulties of the debtor, likelihood that the debtor will enter bankruptcy or other financial reorganisation as well as the notable and continuous neglect of payment due dates. An impairment loss is recognised immediately in profit or loss. Altia records a provision for all receivables pass due over 120 days.

Sold trade receivables are derecognised from the balance sheet as soon as the receivable is sold and the price has been received. At the time of sale, the Group derecognises the trade receivable as the contractual rights to these cash flows expire and all the related substantial risks and rewards have been transferred outside the Group. The costs related to the sold receivables are recognised in Other finance expenses.

**TRADE AND OTHER RECEIVABLES**

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Trade receivables | 48 140 | 58 484 | 53 279 |
| Accrued income | 1 838 | 2 187 | 2 161 |
| Receivables on derivative instruments | 1 359 | 766 | 483 |
| Other receivables | 2 589 | 2 389 | 3 210 |
| **TOTAL** | **53 925** | **63 826** | **59 133** |

At the end of the reporting period 2017 the sold trade receivables amounted to EUR 83 564 thousand (2016: EUR 85 638 thousand, 2015: EUR 91 400 thousand). Trade receivables from associated companies and joint operations are presented in Note 6.3.

**AGEING ANALYSIS OF TRADE RECEIVABLES**

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Trade receivables not past due | 44 702 | 53 826 | 47 646 |
| Trade receivables past due 1-90 days | 3 459 | 4 531 | 5 164 |
| Trade receivables past due over 90 days | 249 | 688 | 1 640 |
| Impairment losses | -270 | -560 | -1 171 |
| **TOTAL** | **48 140** | **58 484** | **53 279** |

The realised impairment losses recognised on trade receivables during the year 2017 amounted to EUR 158 thousand (2016: EUR 138 thousand, 2015: EUR 63 thousand).

## 2.5. EMPLOYEE BENEFIT OBLIGATIONS

### Pension plans

Pension plans are classified as either defined contribution plans or defined benefit plans.
Contributions to defined contribution pension plans are recognised through profit or loss in the periods during which the services are rendered by the employees. The Group has no legal or constructive obligation to make additional payments if the party receiving the payments is not able to perform the pension benefits in question. All other plans that do not meet these conditions are classified as defined benefit plans.

Defined benefit plans are financed with payments to pension insurance companies. The obligation in respect of defined benefit pension plans is calculated using the projected unit credit method separately for each plan. Pension expenses are recognised in periods during which services are rendered by employees participating the plan according to actuarial calculations prepared by qualified actuaries. The amount recognised as a defined benefit liability or asset comprises the net total of the following items: the present value of the defined benefit obligation and the fair value of the plan assets. The discount rate used to determine the present value of the defined benefit obligation is the yield on high quality corporate or government bonds with a similar maturity to that of the pension obligation.

Current service cost and the net interest on net defined benefit liability is recognised in profit or loss. The pension expense is disclosed under the employee benefit expenses and the net interest is disclosed under financial items. Items arising from the remeasurement of net defined benefit liability are recognised in other comprehensive income during the period in which they occur.

Past service cost is expensed at the earlier of the following dates: when the plan amendment or curtailment occurs or when the entity recognises related restructuring costs or termination benefits.

**Critical estimates and management judgements – Defined benefit pension obligations:**

Measurement of defined benefit pension obligation and plan assets is based on the actuarial assumptions made by management. These include e.g. the discount rate used in calculating the present value of the obligation, future salary and pension level, expected return on plan assets and the turnover of personnel included in the plan. Changes in the actuarial assumptions, as well as differences between expected and realised values result in actuarial gains and losses.

## Group's pension arrangements

The Group operates various pension plans in accordance with local conditions and practices in different countries. In the Finnish companies, statutory pension obligations (TyEL) are arranged through insurance companies, when the TyEL plan is a defined contribution plan. The defined contribution plans are applied also in other countries and the foreign subsidiaries manage their pension plans in accordance with local legislation and established practice.

The Group has defined benefit pension plans for supplementary pension in Norway and France. In Finland Altia switched from the voluntary defined benefit pension to a defined contribution plan in 2016.

In defined benefit pension plans, the amount of the pension benefit at retirement is calculated on the basis of salary, years of service and life expectancy. The Norwegian and French pension plans cover only few employees, thus the related pension liabilities are not material for the Group. The Finnish supplementary pensions, which was changed in the end of 2016, mainly concern pensions already begun and paid-up policies, for which the company's obligation was mainly limited to costs related to the increases in index.

## Change in Altia's defined benefit pension plan in 2016

Altia Plc has had a defined benefit pension plan for supplementary pensions continuing the pension coverage provided by the Alko Pension Fund, which was closed at the beginning of 1994. As there were significant amendments to the statutory employee pension coverage, Altia and employees' representatives reviewed the supplementary pension coverage together and decided to propose to the Board of Directors of Altia that supplementary pensions earned by 1 January 2017 be fixed and the insurance changed into a defined contribution plan. At the same time, it was agreed that Altia will no longer fund future annual index increases to pensions. Until the change, the supplementary pensions had followed the employee pension index so that Altia had annually paid the insurance contribution required for the increases. In 2015 and 2016, the increases in the employee pension have remained relatively low (0% in 2016 and 0.39% in 2015). Altia's Board of Directors decided that instead of the increase based on the employee pension index, the supplementary pensions will be increased by 4.5% on 1 January 2017, and after this lump-sum compensation the pensions will be increased in accordance with the increase decision made annually by the insurance company.

Following the arrangement, Altia no longer has any defined pension obligations based on Finnish supplementary pensions under IFRS standards (IAS 19). Consequently, Altia's employee benefit expenses for the year ended 31 December 2016 includes a gain of EUR 16 477 thousand on the settlement of defined benefit obligation. The cash flow effect from the arrangement amounted to EUR -4 100 thousand in 2016. The effect on result is presented in Note 1.5 Employee benefit expenses.

### DEFINED BENEFIT PENSION LIABILITY IN THE BALANCE SHEET

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Present value of unfunded obligations | 1 176 | 1 621 | 1 445 |
| Present value of funded obligations | - | - | 93 928 |
| Fair value of plan assets | - | - | -74 019 |
| Taxes, Norway | 160 | 176 | 198 |
| **NET PENSION LIABILITY IN THE BALANCE SHEET** | **1 336** | **1 797** | **21 552** |

### DEFINED BENEFIT PENSION EXPENSE IN PROFIT OR LOSS

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Settlement gain of defined benefit obligation | - | 16 477 | - |
| Current service cost | 0 | -270 | -389 |
| Net interest | -25 | -477 | -455 |
| Tax effect, Norway | -3 | -3 | -5 |
| **PENSION EXPENSES RECOGNIZED IN PROFIT OR LOSS, PROFIT (+), LOSS (-)** | **-28** | **15 727** | **-849** |

### ITEMS OF OTHER COMPREHENSIVE INCOME

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Remeasurements | | | |
| Return on plan assets, excluding interest income and interest expense | 0 | 10 512 | -9 359 |
| Gain (loss) related to changes in demographic assumptions | - | - | 2 085 |
| Gain (loss) related to changes in financial assumptions | -28 | -4 073 | 8 439 |
| Experience adjustment - gain (loss) | -9 | -6 890 | 4 586 |
| Tax effect, Norway | -5 | 24 | 88 |
| **TOTAL COMPREHENSIVE INCOME** | **-43** | **-428** | **5 839** |

### CHANGES IN PENSION OBLIGATION AND FAIR VALUE OF PLAN ASSETS IN THE BALANCE SHEET

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Present value of the obligation:** | | | |
| Obligation at 1 January | 1 797 | 95 571 | 114 288 |
| Service cost | 0 | 270 | 389 |
| Interest cost | 25 | 1 976 | 1 885 |
| Benefits paid | -307 | -5 864 | -5 685 |
| Exchange differences | -304 | -161 | -407 |
| Remeasurement gains (-) and losses (+) | -35 | 11 333 | -15 110 |
| Settlement | - | -101 505 | - |
| Tax effect, Norway | 160 | 176 | 212 |
| **OBLIGATION AT 31 DECEMBER** | **1 336** | **1 797** | **95 571** |

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Fair value of plan assets:** | | | |
| Fair value of plan assets at 1 January | - | 74 019 | 87 013 |
| Interest income | - | 1 499 | 1 430 |
| Contributions paid by employer to the plan | -84 | -5 864 | 508 |
| Return on plan assets, excluding items recognized in interest expense | - | 10 512 | -9 359 |
| Benefits paid | 84 | 4 862 | -5 573 |
| Settlement | - | -85 028 | - |
| **FAIR VALUE OF PLAN ASSETS AT 31 DECEMBER** | **-** | **-** | **74 019** |

## SIGNIFICANT ACTUARIAL ASSUMPTIONS

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Finland | | | |
| Discount rate | - | 1.8% | 2.1% |
| Future pension growth | - | 1.5% | 1.8% |
| Future salary growth | - | 2.8% | 2.8% |
| Insurance companies' reimbursement assumption | - | 0.0% | 0.0% |
| Norway | | | |
| Discount rate | 1.9% | 2.1% | 1.5% |
| Future pension growth | 2.0% | 2.0% | 2.0% |

The weighted average duration of the obligation is 13 years (2016: 13 years, 2015: 14 years.)

## SENSITIVITY ANALYSIS, IMPACT ON DEFINED BENEFIT OBLIGATION AND PLAN ASSETS

| 2017 Assumption | Change in assumption | Change in obligation, EUR thousand | Change in obligation, % |
|---|---|---|---|
| Discount rate | +0.5% | -64 | -5.4% |
| Growth rate of pensions | +0.5% | 69 | 5.8% |
| Growth rate of salaries | +0.5% | 0 | 0.0% |
| Change in mortality rate | 1 year in life expectancy | 60 | 5.0% |

| 2016 Assumption | Change in assumption | Change in obligation, EUR thousand | Change in obligation, % |
|---|---|---|---|
| Discount rate | +0.5% | -68 | -5.4% |
| Growth rate of pensions | +0.5% | 73 | 5.9% |
| Growth rate of salaries | +0.5% | 0 | 0.0% |
| Change in mortality rate | 1 year in life expectancy | 59 | 4.7% |

| 2015 Assumption | Change in assumption | Change in obligation, EUR thousand | Change in plan assets EUR thousand | Change in obligation, % | Change in plan assets, % |
|---|---|---|---|---|---|
| Discount rate | +0.5% | -5 058 | -4 205 | -5.4% | -5.8% |
| Growth rate of pensions | +0.5% | 5 559 | 0 | 6.0% | 0.0% |
| Growth rate of salaries | +0.5% | 236 | 0 | 0.3% | 0.0% |
| Change in mortality rate | 1 year in life expectancy | 3 692 | 2 535 | 4.0% | 3.5% |
| Insurance companies' reimbursement | +0.5% | 0 | 4 031 | 0.0% | 5.5% |

## 2.6. TRADE AND OTHER PAYABLES

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current | | | |
| Trade payables | 29 231 | 28 010 | 28 941 |
| Accruals for wages and salaries and social security contributions | 3 582 | 3 494 | 4 118 |
| Interest liabilities | 123 | 243 | 269 |
| Other accrued expenses | 18 048 | 13 416 | 12 689 |
| Derivative liabilities | 1 496 | 2 236 | 2 603 |
| Excise tax | 50 071 | 57 823 | 58 426 |
| VAT liability | 26 947 | 28 603 | 27 941 |
| Other liabilities | 7 873 | 8 891 | 8 550 |
| **TOTAL** | **137 372** | **142 716** | **143 537** |

## 2.7. PROVISIONS

### Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. The amount recognised as provision is the management's best estimate of the costs required to settle the existing obligation at the end of the reporting period. If part of the obligation may potentially be compensated by a third party, the compensation is recognised as a separate asset when it is virtually certain that the compensation will be received.

A provision for restructuring is recognised when a detailed restructuring plan has been prepared, and the implementation of the plan has either been commenced or the plan has been announced to those who are affected.

Restructuring provisions included mainly costs for various projects to streamline operations and consists of employee termination benefits.

Restoration provisions related to obligation to restore former Altia headquarters in Helsinki to its original state and remaining rental expenses of the unused premises.

**PROVISIONS**

| EUR thousand | Restructuring | Restoration | Total |
|---|---|---|---|
| Provision at 31 December 2016 | 734 | 600 | 1 334 |
| Provisions made during the year | - | - | - |
| Provisions used during the year | -734 | -600 | -1 334 |
| **PROVISION AT 31 DECEMBER 2017** | **0** | **0** | **0** |
| | | | |
| Current | - | - | - |
| Non-Current | - | - | - |

| EUR thousand | Restructuring | Restoration | Total |
|---|---|---|---|
| Provision at 31 December 2015 | 1 100 | 2 317 | 3 417 |
| Provisions made during the year | 534 | - | 534 |
| Provisions used during the year | -900 | -1 717 | -2 617 |
| **PROVISION AT 31 DECEMBER 2016** | **734** | **600** | **1 334** |
| | | | |
| Current | 734 | 600 | 1 334 |
| Non-Current | - | - | - |

| EUR thousand | Restructuring | Restoration | Total |
|---|---|---|---|
| Provision at 31 December 2014 | 2 017 | 1 341 | 3 358 |
| Provisions made during the year | - | 976 | 976 |
| Provisions used during the year | -917 | - | -917 |
| **PROVISION AT 31 DECEMBER 2015** | **1 100** | **2 317** | **3 417** |
| | | | |
| Current | 366 | 1 717 | 2 083 |
| Non-Current | 734 | 600 | 1 334 |

# 3. Financial items and capital structure

## 3.1. FINANCE INCOME AND EXPENSES

**FINANCE INCOME**

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Interest income** | | | |
| Forward points on FX-forwards | 166 | 131 | 148 |
| Loans, receivables and cash and cash equivalents | 103 | 128 | 167 |
| Derivatives under hedge accounting | - | - | 3 |
| **Total interest income** | **269** | **259** | **317** |
| **Foreign exchange gains** | | | |
| Foreign exchange gains on FX-derivatives | 1 659 | 767 | 60 |
| Foreign exchange gains on I/C loans and cash pool accounts | 2 364 | 159 | 346 |
| **Total foreign exchange gains** | **4 022** | **925** | **406** |
| **Dividend income** | | | |
| Available-for-sale financial assets | 218 | 101 | 80 |
| **Total dividend income** | **218** | **101** | **80** |
| **TOTAL FINANCE INCOME** | **4 510** | **1 285** | **803** |

Foreign exchange differences arising from trade receivables and trade payables amounting to EUR -83 thousand (2016: EUR -118 thousand, 2015: EUR -32 thousand) and from currency derivatives amounting to EUR 92 thousand (2016: EUR 817 thousand 2015: EUR 668 thousand) are included in operating result.

**FINANCE EXPENSES**

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Interest expenses** | | | |
| Forward points on FX-forwards | 144 | 110 | 86 |
| Financial liabilities at amortised cost | 1 081 | 1 139 | 1 590 |
| Derivatives under hedge accounting (Interest rate risk) | 379 | 362 | 688 |
| Other interest expenses, pension liability | 25 | 477 | 453 |
| **Total interest expenses** | **1 628** | **2 087** | **2 817** |
| **Foreign exchange losses** | | | |
| Foreign exchange losses on FX-derivatives | 3 183 | 412 | 65 |
| Foreign exchange losses on I/C loans and cash pool accounts | 959 | 481 | 158 |
| **Total foreign exchange losses** | **4 142** | **893** | **224** |
| **Other finance expenses** | | | |
| Other financial expenses | 705 | 595 | 668 |
| Ineffective portion of commodity derivatives under hedge accounting | -29 | - | 153 |
| Other commodity derivatives | - | -138 | -261 |
| **Total other finance expenses** | **676** | **457** | **560** |
| **TOTAL FINANCE EXPENSES** | **6 446** | **3 436** | **3 601** |

Interest expenses include finance lease related interest expenses amounting to EUR 7 thousand in 2017 (2016: EUR 65 thousand, 2015: EUR 113 thousand).

## 3.2. FINANCIAL ASSETS

The Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Classification is made upon initial recognition based on the purpose of use of the asset. The basis of classification is reassessed at each reporting date. Fair values of the financial assets and their classification are described in Note 3.4.

All purchases and sales of financial instruments are recognised on the trade date, which is the date when the Group commits to purchase or sell a financial instrument. Financial assets are recognised in the balance sheet at original cost which equals their fair value at the acquisition date. If the asset in question is not measured at fair value through profit or loss, transaction costs are included in the original cost of the financial asset.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or the Group transfers all the substantial risks and rewards related to the financial asset outside the Group. Financial assets are included in non-current items of the balance sheet when their maturity is over 12 months, excluding derivative instruments, which are always recognised in the current items of the balance sheet.

### 3.2.1. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets consisting of unquoted shares amounted to EUR 1 445 thousand (2016: EUR 836 thousand, 2015: EUR 820 thousand). Altia is a minority shareholder in Chemigate Oy and has revalued its investment at a fair value of EUR 810 thousand at 31 December 2017 and the increase in fair value EUR 611 thousand has been recorded to other comprehensive income.

### 3.2.2. OTHER RECEIVABLES

Other receivables consists of deferred purchase consideration receivable from the sale of Svendborg real-estate amounting to EUR 979 thousand in 2017. The capital loan receivables amounted to EUR 300 thousand at 31 December 2016 (2015: EUR 450 thousand) and have been repaid in 2017.

### 3.2.3. CASH AND CASH EQUIVALENTS

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at hand, cash in bank as well as other highly liquid investments with maturities of three months or less on the acquisition date.

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Cash at hand and in bank | 52 384 | 68 016 | 73 890 |
| Cash equivalents | - | - | 2 360 |
| **TOTAL** | **52 384** | **68 016** | **76 250** |

## 3.3. FINANCIAL LIABILITIES

Financial liabilities are classified as financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. Financial liabilities are initially measured at fair value and recognised net of transaction costs, with the exception of items measured at fair value through profit or loss. Fair values of the financial liabilities and their classification in more detail is described in Note 3.4.

A financial liability (or a part of it) is not derecognised until the obligation specified in the contract is discharged or cancelled or expires. A financial liability is classified as current, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the end of the reporting period, with the exception of derivative instruments that are always recognised in current items in the balance sheet.

### 3.3.1 BORROWINGS

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Non-current | | | |
| Loans from financial institutions | 74 702 | 64 782 | 87 170 |
| Loans from pension institutions | 14 250 | - | - |
| Finance lease liabilities | 158 | 136 | 1 249 |
| **TOTAL** | **89 110** | **64 918** | **88 419** |
| Current | | | |
| Loans from financial institutions | 10 000 | 7 500 | 7 500 |
| Loans from pension institutions | 750 | - | - |
| Finance lease liabilities | 249 | 341 | 772 |
| **TOTAL** | **10 999** | **7 841** | **8 272** |

Interest-bearing non-current loans from financial and pension institutions are measured at amortised cost using the effective interest method.

All of the Group's non-current and current loans from financial and pension institutions were nominated in Euros as at 31 December 2017, 31 December 2016 and 31 December 2015.

The weighted average effective interest rate (p.a.) of the Group's loans from financial and pension institutions as at 31 December 2017 was 1.6 % (2016: 1.7 %, 2015: 1.5 %).

The weighted average interest rate (p.a.) of the Group's finance lease liabilities as at 31 December 2017 was 1.5 % (2016: 1.6 %, 2015: 2.6 %).

Altia refinanced its loan portfolio in December 2017 and all existing loans were early repaid. The unamortised costs related to repaid loans were recognised in financial expenses amounting EUR 820 thousand.

On December 2017, the Company entered into an unsecured EUR 75 million term loan and EUR 60 million revolving credit facilities agreement with three banks. (Senior facilities agreement). Altia drew down a EUR 20 million term loan facility, EUR 55 million term loan facility and EUR 10 million under the revolving credit facility of the Senior Facilities Agreement .

The EUR 20 million term loan facility terminates on January 2022, and is repaid in yearly instalments of EUR 5 million starting on January 2019. The EUR 55 million term loan facility terminates on January 2023 unless it is extended by optional one year, and is repaid in full on its termination date. The EUR 60 million revolving credit facility terminates on January 2023 unless it is extended by optional one year.

Interest on amounts drawn under the term loan facilities and the revolving credit facility is determined by reference to EURIBOR and are defined as the sum of an applicable margin and EURIBOR. The margin for each of the facilities depends on the gearing covenant.

The Senior Facilities Agreement contains a financing covenant relating to gearing, according to which the ratio of net-interest bearing debt to consolidated equity of the Company shall not exceed 120 per cent. Compliance with the gearing covenant is monitored quarterly. The Senior Facilities Agreement contains other customary covenants.

On December 2017, the Company entered into a EUR 15 million premium loan agreement (TYEL pension loan). The premium loan has a maturity of ten years and its principal is amortised biannually beginning on July 2018. Interest on the loan amount is also paid biannually and is defined as the sum of a margin and the 10-year TyEL reference rate from time to time. The premium loan is secured by a guarantee as for one's own debt issued by Garantia Insurance Company Ltd on December 2017.

### 3.3.2. NET DEBT

Movements in Net debt the year ended 31 December 2017

| EUR thousand | Cash and cash equivalents | Loans from financial institutions (non current) | Loans from financial institutions (current) | Finance lease liabilities (non-current) | Finance lease liabilities (current) | Total |
|---|---|---|---|---|---|---|
| Net debt as at 31.12.2016 | 68 016 | 64 782 | 7 500 | 136 | 341 | 4 743 |
| Cash flows | -13 177 | 24 250 | 3 250 | - | -290 | 40 387 |
| Translation differences | -2 455 | - | - | 0 | - | 2 455 |
| Other non-cash movement | - | -80 | - | 22 | 198 | 140 |
| **TOTAL** | **52 384** | **88 952** | **10 750** | **158** | **249** | **47 725** |

## 3.4. CLASSIFICATION AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

### Financial assets

**Financial assets recognised at fair value through profit or loss**

This category includes financial assets held for trading purposes or otherwise designated as financial assets recognised at fair value through profit or loss by Altia Group. Derivative instruments held for hedging purposes, but not qualifying for the criteria of hedge accounting, are classified in this category. Items in this category are initially recognised at fair value and subsequently measured at the fair value of each reporting date, which is the market bid price at the end of the reporting period determined based on public price quotations in active markets. Realised and unrealised gains and losses arising from changes in fair values are recognised in profit or loss in financial items in the period in which they are incurred if they relate to hedging of financial items. If derivative instruments relate to hedging of commercial items (foreign currency denominated purchases and sales), the realised and unrealised gains and losses are recognised in profit or loss and included in operating result.

**Loans and other receivables**
Loans and receivables arise when money, goods or services are delivered to a debtor, and they are included in current or non-current financial assets in accordance with their maturity. In Altia, non-current receivables include loan receivables and other receivables with the maturity of over one year. Current receivables include trade receivables as well as cash and cash equivalents presented under current financial assets. Receivables are measured at amortised cost when the related payments are fixed or determinable and the instruments are not quoted in financial markets. The exchange rate differences of intra-group foreign currency denominated receivables are presented within financial items in the foreign exchange differences of the Loans and receivables category.

**Available-for-sale financial assets**
Available-for-sale financial assets are non-derivative financial assets which are either designated in this category or not classified in any other category of financial assets. These are included in non-current assets, unless they are intended to be held less than 12 months from the end of the reporting period, in which case they are included in current assets.

Available-for-sale financial assets consist of unquoted shares. Unquoted shares are measured at fair value based on market approach valuation techniques using information from market transactions involving comparable assets.

The Group estimates at each reporting date whether there is objective evidence of impairment of an available-for-sale financial asset. Impairment losses for which there is objective evidence are immediately recognised in profit or loss. For example, a significant or long-term decrease in fair value below the original cost of an asset can be regarded as objective evidence of impairment. The Group determined that none of the investments in available-for-sale financial assets have impaired in 2017, 2016 or 2015.

## Financial liabilities

**Financial liabilities at fair value through profit or loss**
Financial liabilities at fair value through profit or loss include derivatives held for hedging purposes but not qualifying for hedge accounting. Financial liabilities in this category are measured at fair value, which is determined based on price quotations in active markets at the reporting date. Realised and unrealised gains or losses arising from the changes in fair values are recognised through profit or loss in the financial items as incurred.

**Financial liabilities at amortised cost**
This category includes the Group's external loans from financial institutions, loans from pension institutions, commercial paper loans as well as trade payables. These financial liabilities are measured at amortised cost using the effective interest method. When loans are paid off or refinanced, the related unamortised costs are recognised in finance expenses. Group overdrafts in use are included in current borrowings. In addition, Altia has a revolving credit facility and the related fee is amortised on a straight-line basis in other finance expenses during the term of the facility.

The exchange rate differences arising from foreign currency denominated loans from financial institutions are disclosed under financial items. The exchange rate differences of intra-group foreign currency denominated loans are presented within financial items in the foreign exchange differences of the category financial liabilities at amortised cost.

The fair values of loans from financial institutions and commercial paper loans are determined based on future cash flows discounted with market interest rate at the reporting date adjusted with Altia's credit risk premium. At the reporting date, the carrying amounts of the loans are considered to equal their fair values because of the exceptionally low level of market interest rates. The fair values of finance lease liabilities are based on discounted future cash flows. The discount rate is the corresponding interest rate on similar lease contracts.

## Derivative instruments

Derivatives are included in financial assets and liabilities at fair value through profit or loss when they do not meet the criteria of hedge accounting pursuant to IAS 39. These derivatives are recognised at fair value on the trade date and they are subsequently measured at fair value at the reporting date. Derivative instruments and hedge accounting are described in Note 3.5.

The fair values of derivatives equal the amount that the Group would have to pay or it would receive from the termination of the derivative contract at the reporting date. The fair values of forward exchange contracts are determined by using the market prices at the reporting date. The fair values of interest rate derivatives are determined by discounting the related future cash flows. The valuation of commodity derivatives is determined based on the fair values received from the financial markets.

The following table presents the fair values and the carrying amounts in the consolidated balance sheet for each financial instrument by classes:

| 2017 EUR thousand | Note | Derivatives, hedge accounting | Financial assets/ liabilities at fair value through profit or loss | Loans and other receivables | Available-for-sale financial assets | Financial liabilities at amortized cost | Carrying amounts of items in the balance sheet | Fair value | Level |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | |
| Non-current financial assets | | | | | | | | | |
| Receivables from interests in joint operations | | - | - | 7 568 | - | - | 7 568 | 7 568 | |
| Unquoted shares | 3.2.1. | - | - | - | 1 445 | - | 1 445 | 1 445 | 3 |
| Loan receivables | 3.2.2. | - | - | 979 | - | - | 979 | 979 | |
| Current financial assets | | | | | | | | | |
| Trade and other receivables | 2.4. | - | - | 49 691 | - | - | 49 691 | 49 691 | |
| Trade and other receivables/Derivative instruments | | | | | | | | | |
| Forward exchange contracts | 2.4. | 761 | 345 | - | - | - | 1 106 | 1 106 | 2 |
| Commodity derivatives | 2.4. | 253 | - | - | - | - | 253 | 253 | 2 |
| Cash and cash equivalents | 3.2.3. | - | - | 52 384 | - | - | 52 384 | 52 384 | |
| **TOTAL** | | **1 014** | **345** | **110 623** | **1 445** | **-** | **113 427** | **113 427** | |
| | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | |
| Non-current financial liabilities | | | | | | | | | |
| Borrowings | 3.3.1. | - | - | - | - | 89 110 | 89 110 | 89 110 | 2 |
| Current financial liabilities | | | | | | | | | |
| Borrowings | 3.3.1. | - | - | - | - | 10 999 | 10 999 | 10 999 | 2 |
| Trade and other payables | 2.6. | - | - | - | - | 29 346 | 29 346 | 29 346 | |
| Trade and other payables/Derivative instruments | | | | | | | | | |
| Interest rate derivatives | 2.6. | 1 361 | - | - | - | - | 1 361 | 1 361 | 2 |
| Forward exchange contracts | 2.6. | 104 | 31 | - | - | - | 135 | 135 | 2 |
| **TOTAL** | | **1 465** | **31** | **-** | **-** | **129 455** | **130 951** | **130 951** | |

| 2016<br>EUR thousand | Note | Derivatives, hedge accounting | Financial assets/ liabilities at fair value through profit or loss | Loans and other receivables | Available-for-sale financial assets | Financial liabilities at amortized cost | Carrying amounts of items in the balance sheet | Fair value | Level |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | |
| Non-current financial assets | | | | | | | | | |
| Receivables from interests in joint operations | | - | - | 7 568 | - | - | 7 568 | 7 568 | |
| Unquoted shares | 3.2.1. | - | - | - | 836 | - | 836 | 836 | 3 |
| Loan receivables | 3.2.2. | - | - | 300 | - | - | 300 | 300 | |
| Current financial assets | | | | | | | | | |
| Trade and other receivables | 2.4. | - | - | 59 663 | - | - | 59 663 | 59 663 | |
| Trade and other receivables/Derivative instruments | | | | | | | | | |
| Forward exchange contracts | 2.4. | 281 | 443 | - | - | - | 724 | 724 | 2 |
| Commodity derivatives | 2.4. | 42 | - | - | - | - | 42 | 42 | |
| Cash and cash equivalents | 3.2.3. | - | - | 68 016 | - | - | 68 016 | 68 016 | |
| **TOTAL** | | **323** | **443** | **135 547** | **836** | **-** | **137 149** | **137 149** | |
| | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | |
| Non-current financial liabilities | | | | | | | | | |
| Borrowings | 3.3.1. | - | - | - | - | 64 918 | 64 918 | 64 918 | 2 |
| Current financial liabilities | | | | | | | | | |
| Borrowings | 3.3.1. | - | - | - | - | 7 841 | 7 841 | 7 841 | 2 |
| Trade and other payables | 2.6. | - | - | - | - | 28 720 | 28 720 | 28 720 | |
| Trade and other payables/Derivative instruments | | | | | | | | | |
| Interest rate derivatives | 2.6. | 1 871 | - | - | - | - | 1 871 | 1 871 | 2 |
| Forward exchange contracts | 2.6. | 337 | 28 | - | - | - | 365 | 365 | 2 |
| **TOTAL** | | **2 208** | **28** | **-** | **-** | **101 479** | **103 716** | **103 716** | |

| 2015 EUR thousand | Note | Derivatives, hedge accounting | Financial assets/ liabilities at fair value through profit or loss | Loans and other receivables | Available-for-sale financial assets | Financial liabilities at amortized cost | Carrying amounts of items in the balance sheet | Fair value | Level |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | |
| Non-current financial assets | | | | | | | | | |
| Receivables from interests in joint operations | | - | - | 7 568 | - | - | 7 568 | 7 568 | |
| Unquoted shares | 3.2.1. | - | - | - | 820 | - | 820 | 820 | 3 |
| Loan receivables | 3.2.2. | - | - | 450 | - | - | 450 | 450 | |
| Current financial assets | | | | | | | | | |
| Trade and other receivables | 2.4. | - | - | 55 063 | - | - | 55 063 | 55 063 | |
| Derivative instru-ments/Forward exchange contracts | | 447 | 35 | - | - | - | 483 | 483 | 2 |
| Cash and cash equivalents | 3.2.3. | - | - | 76 250 | - | - | 76 250 | 76 250 | |
| **TOTAL** | | **447** | **35** | **139 332** | **820** | **-** | **140 634** | **140 634** | |
| | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | |
| Non-current financial liabilities | | | | | | | | | |
| Borrowings | 3.3.1. | - | - | - | - | 88 419 | 88 419 | 88 419 | 2 |
| Current financial liabilities | | | | | | | | | |
| Borrowings | 3.3.1. | - | - | - | - | 8 272 | 8 272 | 8 272 | 2 |
| Trade and other payables | 2.6. | - | - | - | - | 29 872 | 29 872 | 29 872 | |
| Trade and other payables/derivative instruments | | | | | | | | | |
| Interest rate derivatives | 2.6. | 1 505 | - | - | - | - | 1 505 | 1 505 | 2 |
| Forward exchan-ge contracts | 2.6. | 233 | 18 | - | - | - | 251 | 251 | |
| Commodity derivatives | 2.6. | 616 | 230 | - | - | - | 846 | 846 | 2 |
| **TOTAL** | | **2 355** | **248** | **-** | **-** | **126 563** | **129 166** | **129 166** | |

Due to short maturity fair value of trade receivables and other short-term receivables and liabilities equal to their value in the balance sheet.

The table above presents the classification of financial instruments. The levels 1-3 of fair value hierarchy reflect the significance of inputs used in determining the fair values. In level one, fair values are based on public quotations of identical financial instruments. In level two, the inputs used in determining the fair values are based on quoted market rates and prices observable for the asset or liability in question directly (i.e. price) or indirectly on discounted future cash flows. Fair values of other financial assets and liabilities in level two reflect their carrying value. In level three, the fair values of assets and liabilities are based on inputs that are not based on observable market data for all significant variables, and instead are, to a significant extent, based on management estimates and their use in generally accepted valuation techniques. The reported fair value level is based on the lowest level of input information that is significant in determining the fair value.

## 3.5. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

When the Group applies IAS 39 hedge accounting to foreign currency, interest rate and electricity derivatives, the effective portion of the fair value change is recognised in other comprehensive income and presented within equity in the hedge reserve.

### When hedge accounting is applied

In Altia, cash flow hedging is applied to part of the interest rate, foreign currency and electricity derivatives based on case-by-case assessment. In cash flow hedging, the Group is hedging against changes in cash flows related to a specific asset or liability recognised in the balance sheet or to a highly probable future business transaction. Hedge accounting is a method of accounting with the purpose to allocate one or several hedging instruments so that their fair value changes offset in full or partly the changes in fair value or cash flow arising from the hedged risk in profit or loss during the period, for which the hedge is designated. In the beginning of the hedging arrangement, Altia documents the relationship between each hedging instrument and hedged item, as well as the objectives of risk management and the strategy in engaging in hedging. The effectiveness of hedging instruments is tested both prospectively and retrospectively. Effectiveness means the ability of a hedging instrument to offset the changes in the fair value of the hedged item or changes in the cash flows of the hedged transaction attributable to the hedged risk. The hedging relationship is regarded to be highly effective if the realised results of the hedging instrument offset the changes in the cash flows of the hedged item by 80–125 percent. Hedge accounting is discontinued when the criteria for hedge accounting is no longer met.

The gains and losses arising from fair value changes of derivative contracts, to which hedge accounting is applied, are presented in congruence with the hedged item. The effective portion of the unrealised changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in other comprehensive income and presented in the hedge reserve in equity. The ineffective portion is immediately recognised in profit or loss. The cumulative gain or loss in equity on derivative instruments related to commercial items is recognised in profit or loss as an adjustment to purchases or sales simultaneously with the hedged item in the period in which the hedged item affects profit or loss. Realised gain or loss on electricity derivatives is included in operating result in electricity procurement expenses. When a hedging instrument designated as a cash flow hedge expires, is sold or no longer meets the criteria of hedge accounting, the gain or loss accumulated in equity is recognised through profit or loss.

### When hedge accounting is not applied

The accounting for gains and losses arising from fair value measurement is dependent on the purpose of use of the derivative. In Altia, the changes in the fair values of derivative instruments are immediately recognised in profit or loss in operating result if the derivative in question is related to hedging of commercial cash flows (purchases and sales) and hedge accounting is not applied. The fair value changes of other derivative instruments are immediately recognised in profit or loss in financial items if hedge accounting is not applied. Derivatives, to which hedge accounting is not applied, are acquired to minimise the profit and/or cash flow effects related to business operations or financing.

Changes in the premium on forward contracts and time value of options are always recognised through profit or loss. Thus hedge accounting is not applied to these items, even if hedge accounting is applied to the derivative instrument in question.

**NOMINAL VALUES OF DERIVATIVE INSTRUMENTS**

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Derivative instruments designated for cash flow hedging | | | |
| Interest rate derivatives | 20 000 | 20 000 | 20 000 |
| Forward exchange contracts | 30 282 | 26 680 | 30 649 |
| Commodity derivatives, electricity | 2 492 | 3 031 | 3 647 |
| | 0.1TWh | 0.1TWh | 0.1TWh |
| Derivative instruments, non-hedge accounting | | | |
| Forward exchange contracts | 24 731*) | 52 864 | 8 394 |

*) Total EUR 21 333 thousand in nominal value relates to hedging internal deposits in currency to parent company amounting the same. These deposits are made in order to mitigate the effects of the banks' negative deposit rates.

Positive and negative fair values of unrealised derivatives and their net amount are presented below. The master netting agreements in respect of derivatives do not meet the criteria for offsetting in the balance sheet owing to legally enforceable right not existing currently.

**NET POSITIONS**

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Derivative assets: | | | |
| Fair value, gross | 1 105 | 723 | 483 |
| Fair value, under netting agreements | -152 | -173 | -74 |
| Fair value, net | 953 | 550 | 409 |
| Derivative liabilities: | | | |
| Fair value, gross | 1 495 | 2 236 | 1 756 |
| Fair value, under netting agreements | -152 | -173 | -74 |
| Fair value, net | 1 343 | 2 063 | 1 682 |

## 3.6. EQUITY

### Share capital

Altia Plc's share capital, paid in its entirety and registered in the trade register, was EUR 60,480,378.36 at the end of 2017, 2016 and 2015. At 31 December 2016, the Company had two share series, series A and series L. The Board of Directors of the Company has on 13 December 2017 resolved to cancel all 25,003 series L shares which were held in treasury by the Company and upon registration of such cancellation the Company had no series L shares at 31 December 2017. On 15 December 2017, the sole shareholder at the Company resolved to combine the Company's series A and L shares to single share series and incorporate the shares in the book-entry securities system and amend the company's Articles of Association accordingly on 19 January 2018. At the end of the financial period 2017, 2016 and 2015 there were 35,960,000 A series shares. At the end of financial period 2016 and 2015 there were 25,003 L series shares.

### Fair value reserve

The fair value reserve represents the change in the fair value of available-for sale financial assets.

### Hedge reserve

The hedge reserve includes the fair value changes of derivative instruments used for cash flow hedging for effective hedges.

### Translation differences

Translation differences comprise all foreign exchange differences arising from the translation of the foreign subsidiaries' financial statements.The Group's accumulated translation differences amounted to negative EUR 16.0 million at 31 December 2017 (31.12.2016: negative EUR 12.3 million, 31.12.2015: negative EUR 9.6 million).

### Treasury shares

The amounts paid for the redeemed shares have been recorded as a reduction of retained earnings.

### Earnings per share

Basic earnings per share is calculated by dividing the result for the period attributable to owners of the parent company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share has been calculated on the same basis as basic earnings per share except that it reflects the impact of any potential commitments the Group has to issue shares in the future. Altia has not issued any dilutive instruments during the periods presented.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Result attributable to the shareholders of the parent company, EUR thousand | 18 288 | 36 061 | 18 135 |
| Weighted average number of shares outstanding (1,000 pcs) | 35 960 | 35 960 | 35 960 |
| Basic and diluted earnings per share (EUR) | 0.51 | 1.00 | 0.50 |

### Dividend

The Board of Directors proposes to the Annual General Meeting that no dividend is paid for the financial year 2017. The Annual General Meeting held on 21 March 2017 set a dividend of EUR 0.29 per share for the year 2016, totalling to EUR 10,428,400. Extra dividend of EUR 1.67 per share for the year 2016, totaling EUR 60,053,200 was paid on 18 December 2017.

The Annual General Meeting held on 29 March 2016 set a dividend of EUR 0.29 per share for the year 2015, totalling to EUR 10,428,400.

**ALTIA PLC'S DISTRIBUTABLE FUNDS**

| EUR thousand | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| Retained earnings | 100 697 | 101 040 | 92 621 |
| Distribution of dividends | -70 482 | -10 428 | - |
| Profit for the period | 26 548 | 10 085 | 8 419 |
| **TOTAL DISTRIBUTABLE FUNDS** | **56 763** | **100 697** | **101 040** |

# 4. Financial and capital risk

## 4.1. FINANCIAL RISK MANAGEMENT

### Financial risk management principles

The aim of Altia's financial risk management is to ensure the Group's financial stability and availability of sufficient financing options in different market situations. In addition, the aim is to support the business operations to identify business-related financial risks and their management, and to hedge against material financial risks.

The Group is exposed to various market risks. Changes in these risks affect the company's assets, liabilities and anticipated transactions. The risks are caused by changes in interest rates, currencies and commodity market prices. Selected derivative instruments can be used to manage the risks resulting from these market risks. Altia mainly hedges against risks that impact the Group's cash flow, and, if deemed appropriate, also certain foreign currency denominated items in the balance sheet. Derivatives are solely used to hedging against the above-mentioned risks. The principles of IAS 39 hedge accounting are applied to certain interest rate, foreign exchange as well as electricity derivatives. Financial risk management is executed as part of the Group's risk management, according to the Risk Management Principles approved by the Board of Directors. Altia's principles aiming towards financial, credit and operational continuity form the basis for financial risk management.

## Risk management process

Special process features related to financing are described below in connection with the descriptions of market, liquidity and credit risks. The financial risk exposure is regularly reported to the Audit Committee and Altia's Board of Directors. The most significant principle decisions concerning risk management are made by the company's Board of Directors.

As part of the financial risk management principles, Altia's Board of Directors has approved a list of financial instruments, in which the accepted instruments, their purpose and the person who decides on their use have been specified for different types of financial risks.

## Financial risk management organisation

Financial matters are reported regularly to the Group management. On a case-by-case basis, the Board of Directors processes all substantial financial matters, such as the Group's internal and external loan arrangements.

Tasks and responsibilities regarding Altia's financial operations and financial risk management are described in the financial risk management principles. The Group Treasury is responsible for securing financing, identifying risks and, if required, executing hedging transactions with external counterparties. The business units and subsidiaries are responsible for managing the risks associated with their own operations and forecasting cash flows.

## Risk concentrations

Altia carefully analyses the financial risks and risk concentrations related to its operations. Risk concentrations identified as a result of this assessment are described in connection with the descriptions of market and credit risks.

## Market risk

Altia defines market risk as a risk where the fair values of financial instruments or future cash flows fluctuate as a result of changes in market prices. The most significant market risks for the Group are currency risk, interest rate risk and price risks for barley and electricity.

**1. Currency risk**
Altia is exposed to currency risks resulting from export and import, intra-group trade across borders of the euro-area, as well as internal loans and investments in foreign subsidiaries. The objective of the Group's currency risk management is to limit the uncertainties associated with foreign exchange rates and their effect on the Group's profit, cash flows and balance sheet.

**Transaction risk**
Transaction risk is caused by foreign currency denominated items in the balance sheet and future cash flows related to sales, purchases and return of capital. Transaction risk management aims to hedge the Group's profit against the effects of changes in foreign exchange rates.

The objective is to hedge 60-80% of highly probable commercial cash flows. The average hedging ratio has remained at the target level. Hedging transactions are executed with forward exchange contracts or options for the following 12 months at the most, predominantly following the pricing periods of customers. Altia may apply cash flow hedge accounting to foreign exchange derivatives. Intra-group loan arrangements are hedged by 100% and hedge accounting is not applied to these arrangements.

The two tables below present the Group's net currency position, first on the basis of financial instruments recorded on the balance sheet and secondly including on a net basis also the estimated future foreign currency net cash flows. The currency position resulting from the financial instruments in accordance with IFRS 7 consists of trade receivables, trade payables, cash and cash equivalents, the Group's internal and external loans and derivative instruments.

The net currency risk has been taken into account in the table if the transaction currency is other than the company's functional currency.

**TABLE 1: THE GROUP'S NET CURRENCY POSITION AT 31 DECEMBER**

| The net currency position resulting from the financial instruments in accordance with IFRS 7<br>EUR million | 2017 | 2016 | 2015 |
|---|---|---|---|
| EUR-SEK | -19.5 | -11.8 | -19.1 |
| EUR-NOK | -1.3 | -2.7 | 0.2 |
| EUR-USD | 3.9 | 5.4 | 4.7 |
| EUR-AUD | 1.7 | 2.4 | 2.1 |

| The Group's net currency position at 31 December including also the hedged commercial cash flows<br>EUR million | 2017 | 2016 | 2015 |
|---|---|---|---|
| EUR-SEK | 2.0 | 1.6 | 2.4 |
| EUR-NOK | 1.3 | -0.1 | 1.1 |
| EUR-USD | 0.1 | 0.6 | -0.3 |
| EUR-AUD | 0.0 | 0.2 | 0.1 |

**Translation risk**

Translation risk is mainly caused by the parent company's foreign currency denominated net investments in foreign subsidiaries, which cause a translation difference in equity in the Group's balance sheet upon consolidation. The Group Treasury regularly analyses the translation risk and reports any material issues to the management. The most significant net investments are denominated in the Swedish and Norwegian kroner. The translation risk has not been hedged.

**2. Interest rate risk**

The objective of interest rate risk management is to minimise the impact of fluctuations arising from interest rate changes on the Group's profit. Altia refinanced its loan portfolio in December 2017 and all existing loans were early repaid as described in detail in Note 3.3.1. At 31 December 2017 the total nominal amount of loans was EUR 100.0 million and was divided as follows:

- The EUR 20.0 million loan matures in January 2022 with annual EUR 5 million instalments. The interest rate on the loan is based on three –month market rate. Currently these interest payments are not hedged.
- The EUR 55.0 million portion of the loan matures in January 2023 subject to one year extension option. The interest rate on the loan is based on three-month market rate. Altia has hedged these interest payments to fixed interest rate by using an interest rate derivative amounting to EUR 20 million. Hedge accounting principles are applied to this interest rate derivative. The hedge has been regarded as effective.
- The EUR 15.0 million pension loan matures in January 2028. The interest rate is fixed for the whole loan period.
- The EUR 10 million short term loan matures in March 2018. The interest rate on the loan is three-month market rate. The interest payment is not hedged.

The maximum amount under Altia's domestic commercial paper program is EUR 100 million. There were no issued commercial papers at 31 December 2017, 2016 and 2015.

Altia's maximum limit for sale of trade receivables amounts to EUR 145 million and is approved by Board of Directors. The sold trade receivables are derecognised at the time of trade with no obligation to repurchase. The related costs are recognised in other financial expenses. The trade receivables are current receivables and the related interest rate risk is not hedged. The amount of the sold trade receivables was EUR 83.6 million at 31 December 2017 (2016: EUR 85.6 million, 2015: EUR 91.4 million).

**3. Price risk associated with commodities**

**Barley**

In 2017, Altia used approximately 206 million kilos of Finnish barley to produce ethanol and starch. The availability of high-quality domestic barley is ensured with contract cultivation and cooperation with grain growers and grain handling companies. The market price of barley fluctuates significantly year by year as a result of various factors that affect the Finnish barley supply and demand and is therefore considered a significant risk for Altia. The price risk has not been hedged with derivative instruments.

**Electricity**

Strong increase in the market price of electricity is a significant risk for Altia. The risk is managed by following Altia's principles for electricity procurement. These principles determine the hedging limits, within which the electricity price risk is hedged. The hedges are done with OTC-derivatives of Nasdaq OMX Oslo ASA. The hedging service for electricity procurement has been outsourced.

At the end of 2017, the hedging ratio for deliveries for the next 12 months was 67.6% (2016: 68.3%, 2015: 80.7%), in line with the set targets. In 2017, the total exposure was EUR 2.5 million and the average hedging ratio was 70.0%.

Cash flow hedge accounting in accordance with IAS 39 is applied to the hedges against electricity price risk, and hedge effectiveness is tested quarterly. The ineffective portion at the end of 2017, EUR -0.1 million (2016: EUR -0.1 million, 2015: EUR 0.2 million) is recognised within financial costs.

Altia purchases its electricity straight from the Nord Pool Spot markets as a delivery tied to the spot price of the Finnish price area.

**4. Sensitivity to market risks**

The following table describes the sensitivity of the Group's profit and equity (before taxes) to changes in electricity prices and foreign exchange rates. When Altia applies hedge accounting, the sensitivity is directed at equity. When hedge accounting is not applied, the sensitivity is recognised as a potential impact on profit or loss.

The sensitivity to foreign exchange rate changes is calculated from the net currency position resulting from financial instruments.

**TABLE 2: SENSITIVITY ANALYSES**

| Sensitivity of financial instruments to market risks (before taxes) in accordance with IFRS 7 | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| EUR million | Income statement | Equity | Income statement | Equity | Income statement | Equity |
| +/-10% electricity | - | +/-0.3 | - | +/-0.3 | +/-0.1 | +/-0.2 |
| +/-10% change in EUR/NOK exchange rate | +/-0.1 | - | +/-0.3 | - | +/-0.0 | - |
| +/-10% change in EUR/SEK exchange rate | +/-2.0 | - | +/-1.2 | - | +/-1.9 | - |
| +/-10% change in EUR/USD exchange rate | -/+0.4 | - | -/+0.5 | - | -/+0.5 | - |
| +/-10% change in EUR/AUD exchange rate | -/+0.2 | - | -/+0.2 | - | -/+0.2 | - |

At the end of 2017 the total group floating rate liability position consists of floating rate liabilities EUR 85.0 million (2016: EUR 72.5 million, 2015: EUR 95.0 million) and floating leg of interest rate swap EUR 20.0 million (2016: EUR 20.0 million, 2015: 20.0 million) which is netting the interest rate risk.

A one percentage point increase in interest rates would have an EUR -0.7 million effect in income statement (2016: EUR -0.5 million, 2015: EUR 20.0 million). The effect of increase in market interest rates on the Group's profit is determined from net interest expenses.

## Liquidity risk

In order to manage the liquidity risk, Altia continuously maintains sufficient liquidity reserves, which at the end of 2017 comprised Group's EUR 10 million overdraft facility and a EUR 60 million revolving credit facility. As of December 2017 EUR 10 million from revolving credit facility was in use. The revolving credit facility matures in January 2023 subject to one year extension option. More detailed information on the Group's external loans is provided in the interest rate risk section.

### TABLE 3: LIQUIDITY RESERVES

| Cash and cash equivalents and unused committed credit limits EUR million | 2017 | 2016 | 2015 |
|---|---|---|---|
| Cash and cash equivalents | 52.4 | 68.0 | 76.3 |
| Overdraft facilities | 10.0 | 20.0 | 20.0 |
| Revolving credit line | 50.0 | 50.0 | 60.0 |
| **TOTAL** | **112.4** | **138.0** | **156.3** |

### TABLE 4: MATURITIES OF FINANCIAL LIABILITIES

| Contractual payments on financial liabilities | | Cash flows 2018 | | | Cash flows 2019 | | | Cash flows 2020- | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2017 EUR million | Carrying value | Fixed rate | Variable rate | Re-payment | Fixed rate | Variable rate | Re-payment | Fixed rate | Variable rate | Re-payment |
| **Non-derivative:** | | | | | | | | | | |
| Loans from financial institutions[1] | -88.6 | - | -0.7 | -10.0 | - | -0.8 | -5.0 | - | -2.2 | -70.0 |
| Loans from pension institutions[2] | -16.0 | -0.1 | - | -0.8 | -0.2 | - | -1.5 | -0.7 | - | -12.8 |
| Finance lease liabilities | 0.4 | - | - | 0.1 | - | - | 0.1 | - | - | 0.2 |
| Trade payables | -29.2 | - | - | -29.2 | - | - | - | - | - | - |
| **Derivative:** | | | | | | | | | | |
| Currency derivatives, hedge accounting | | | | | | | | | | |
| Inflow | 30.9 | - | - | 30.9 | - | - | - | - | - | - |
| Outflow | -30.2 | - | - | -30.2 | - | - | - | - | - | - |
| Currency derivatives, non-hedge accounting | | | | | | | | | | |
| Inflow | 24.8 | - | - | 24.8 | - | - | - | - | - | - |
| Outflow | -24.5 | - | - | -24.5 | - | - | - | - | - | - |
| Interest rate derivatives, hedge accounting | -1.4 | -0.3 | - | - | -0.3 | - | - | -0.8 | - | - |
| Commodity derivatives, hedge accounting | -0.3 | - | - | 0.0 | - | - | -0.1 | - | - | -0.1 |
| **TOTAL** | **-133.9** | **-0.4** | **-0.7** | **-38.8** | **-0.5** | **-0.8** | **-6.6** | **-1.5** | **-2.2** | **-82.6** |

1) Loans from financial institutions mature 2022 and 2023
2) Loans from pension institutions mature 2028

| Contractual payments on financial liabilities 2016 EUR million | Carrying value | Cash flows 2017 Fixed rate | Cash flows 2017 Variable rate | Cash flows 2017 Re-payment | Cash flows 2018 Fixed rate | Cash flows 2018 Variable rate | Cash flows 2018 Re-payment | Cash flows 2019- Fixed rate | Cash flows 2019- Variable rate | Cash flows 2019- Re-payment |
|---|---|---|---|---|---|---|---|---|---|---|
| **Non-derivative:** | | | | | | | | | | |
| Loans from financial institutions | -73.9 | - | -0.5 | -7.5 | - | -0.5 | -35.0 | - | -0.4 | -30.0 |
| Finance lease liabilities | 0.5 | - | - | 0.3 | - | - | 0.2 | - | - | 0.0 |
| Trade payables | -28.0 | - | - | -28.0 | - | - | - | - | - | - |
| **Derivative:** | | | | | | | | | | |
| Currency derivatives, hedge accounting | | | | | | | | | | |
| Inflow | 26.5 | - | - | 26.6 | - | - | - | - | - | - |
| Outflow | -26.6 | - | - | -26.6 | - | - | - | - | - | - |
| Currency derivatives, non-hedge accounting | | | | | | | | | | |
| Inflow | 52.9 | - | - | 52.9 | - | - | - | - | - | - |
| Outflow | -52.5 | - | - | -52.5 | - | - | - | - | - | - |
| Interest rate derivatives, hedge accounting | -1.9 | -0.3 | - | - | -0.3 | - | - | -1.3 | - | - |
| Commodity derivatives, hedge accounting | 0.0 | - | - | 0.0 | - | - | 0.0 | - | - | 0.0 |
| **TOTAL** | **-102.8** | **-0.3** | **-0.5** | **-34.8** | **-0.3** | **-0.5** | **-34.8** | **-1.3** | **-0.4** | **-29.9** |

| Contractual payments on financial liabilities 2015 EUR million | Carrying value | Cash flows 2016 Fixed rate | Cash flows 2016 Variable rate | Cash flows 2016 Re-payment | Cash flows 2017 Fixed rate | Cash flows 2017 Variable rate | Cash flows 2017 Re-payment | Cash flows 2018- Fixed rate | Cash flows 2018- Variable rate | Cash flows 2018- Re-payment |
|---|---|---|---|---|---|---|---|---|---|---|
| **Non-derivative:** | | | | | | | | | | |
| Loans from financial institutions | -98.1 | - | -0.8 | -7.5 | - | -0.7 | -7.5 | - | -1.6 | -80.0 |
| Finance lease liabilities | 2.3 | - | - | 0.7 | - | - | 0.7 | - | - | 0.8 |
| Trade payables | -28.9 | - | - | -28.9 | - | - | - | - | - | - |
| **Derivative:** | | | | | | | | | | |
| Currency derivatives, hedge accounting | | | | | | | | | | |
| Inflow | 30.5 | - | - | 30.5 | - | - | - | - | - | - |
| Outflow | -30.2 | - | - | -30.2 | - | - | - | - | - | - |
| Currency derivatives, non-hedge accounting | | | | | | | | | | |
| Inflow | 8.4 | - | - | 8.4 | - | - | - | - | - | - |
| Outflow | -8.4 | - | - | -8.4 | - | - | - | - | - | - |
| Interest rate derivatives, hedge accounting | -1.5 | -0.2 | - | - | -0.2 | - | - | -1.1 | - | - |
| Commodity derivatives, hedge accounting | -0.8 | - | - | -0.5 | - | - | -0.2 | - | - | -0.2 |
| **TOTAL** | **-126.8** | **-0.2** | **-0.8** | **-35.9** | **-0.2** | **-0.7** | **-7.0** | **-1.1** | **-1.6** | **-79.4** |

### Credit risk

The objective of Altia's credit risk management is to minimise the losses if one of the Group's counterparties fails to meet its obligations. The principles of credit risk management are described in the Group's credit policy.

Credit risks are caused by a counterparty not fulfilling its contractual payment obligations or the counterparty's credit rating changing in a manner that affects the market value of the financial instruments it has issued.

The maximum amount of credit risk is equal to the carrying amount of the Group's financial assets. No significant risk concentrations relate to trade receivables. The aim is to minimise credit risks by active credit management and by taking into account customers' credit rating when determining the payment term of invoices.

## 4.2. CAPITAL RISK MANAGEMENT

The target of Altia's capital management is to secure an effective capital structure that offers the company a continuous access to the capital markets despite the volatility of the industry. Although Altia does not have a public rating, the company aims to obtain a capital structure comparable to that of other companies in the industry that have investment rating. The Board of Directors monitors the Group's capital structure regularly.

Altia monitors its capital based on gearing (the ratio of interest-bearing net liabilities to equity). Interest-bearing net liabilities consist of the loans less cash and cash equivalents. The current level of gearing is distinctly lower than the limit determined in the Group's loan terms.

During the business cycle, the company's net gearing is likely to fluctuate, and the objective is to retain a sufficiently strong capital structure to secure the Group's financing needs. At 31 December 2017, 31 December 2016 and 31 December 2015 the gearing ratio was as follows:

**TABLE 5: GEARING**

| Gearing as of 31 December, EUR million | 2017 | 2016 | 2015 |
|---|---|---|---|
| Borrowings | 100.1 | 72.8 | 96.7 |
| Cash and cash equivalents | 52.4 | 68.0 | 76.3 |
| Net debt | 47.7 | 4.7 | 20.4 |
| Total equity | 136.8 | 191.3 | 168.6 |
| **GEARING AT 31 DECEMBER** | **34.9%** | **2.5%** | **12.1%** |

# 5. Consolidation

## 5.1 GENERAL CONSOLIDATION PRINCIPLES

Consolidation, consolidation method and classification of ownership interests depends on whether the Group has power to control or jointly control the entity or have significant influence or other interests in the entity. When the Group has power to control the entity, it is consolidated as a subsidiary according to principles described in Note 5.2. Subsidiaries. When the Group has joint control or significant influence over an entity but does not have power to control, entity is accounted for by using the principles set in Note 5.3. Associated companies and interests in joint operations. If the Group does not have power to control nor significant influence in the entity, its ownership interests are classified as Financial assets available-for-sale and accounted for according to principles described in Note 3.2.1.

### Foreign currency items

The consolidated financial statements are presented in euro, which is the functional and presentation currency of the parent company. Transactions in foreign currencies are translated to euro at average foreign exchange rates published by the European Central Bank on banking days. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to euro at the average exchange rates prevailing at that date. Foreign currency differences arising on translation are recognised in profit or loss. Foreign exchange gains and losses related to purchases and sales are recognised in the respective items and included in operating result. Foreign currency gains and losses arising from loans denominated in foreign currencies are recognised in finance income and expenses.

Income and expenses for the statements of comprehensive income of foreign subsidiaries that operate outside the eurozone are translated using the average rates of the European Central Bank's exchange rates at the end of the month. The statements of financial position of foreign subsidiaries are translated using the average exchange rates ruling at the reporting date. Foreign currency differences arising on the translation of profit or loss for the period with different exchange rates in the statement of comprehensive income and in the balance sheet are recognised in other comprehensive income and included in translation differences in equity. Changes in translation differences are recognised in other comprehensive income.

In the consolidated financial statements, exchange rate differences arising from the translation of foreign currency denominated loans to foreign subsidiaries, which form a part of net investments in foreign companies, are recognised in other comprehensive income and included in translation differences within equity.

Translation differences arising from elimination of the cost of foreign subsidiaries and from translation of the foreign subsidiaries' post-acquisition profits and losses are recognised in other comprehensive income and presented as a separate item within equity. Goodwill and the fair value adjustments to the carrying amounts of assets and liabilities of foreign units are accounted for as assets and liabilities of the respective foreign units, which are translated to euro at the exchange rates prevailing at the reporting date. If these foreign units are entirely or partly disposed of, related exchange rate differences are recognised in profit or loss as part of the gain or loss on disposal.

## 5.2. SUBSIDIARIES

### Subsidiaries consolidation principles

Consolidated financial statements of Altia include the parent company, Altia Plc, and all subsidiaries. Subsidiaries are all those in which the parent company exercises control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of acquired subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All business combinations are accounted for by using the acquisition method. The consideration transferred and the identifiable assets acquired and liabilities assumed in the acquired company are measured at fair value at the acquisition date. The amount exceeding the aggregate of the consideration transferred, the amount of non-controlling interests and any previously held equity interest in the acquiree, over the fair value of the net assets acquired is recorded as goodwill.

All acquisition-related costs, with the exception of costs to issue debt or equity securities, are expensed. The consideration transferred does not include any transactions accounted for separately from the acquisition. Any contingent consideration is recognised at fair value at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as a liability is measured at fair value at each reporting date and any resulting gain or loss is recognised in profit or loss.

Intra-group transactions, receivables, liabilities and unrealised gains, as well as the distribution of profits within the Group are eliminated in preparing the consolidated financial statements. Unrealised losses are not eliminated if the loss in question results from impairment.

The Group had no non-controlling interests at 31 December 2017, 31 December 2016 or 31 December 2015.

Altia Plc had 23 subsidiaries at the end of the reporting period (23 subsidiaries at 31 December 2016 and at 31 December 2015).

| | Parent company's share of ownership (%) | Group's share of ownership (%) | Country of incorporation |
|---|---|---|---|
| A-Beverages Oy | 100.00 | 100.00 | Finland |
| Altia Eesti AS | 100.00 | 100.00 | Estonia |
| Altia Denmark A/S | 100.00 | 100.00 | Denmark |
| Altia Holding Sweden AB | 100.00 | 100.00 | Sweden |
| SIA Altia Latvia | 100.00 | 100.00 | Latvia |
| Altia Norway AS | 100.00 | 100.00 | Norway |
| Altia Sweden AB | - | 100.00 | Sweden |
| Altia Sweden Services AB | - | 100.00 | Sweden |
| Alpha Beverages Oy | 100.00 | 100.00 | Finland |
| Best Buys International AS | 100.00 | 100.00 | Norway |
| BevCo AB | - | 100.00 | Sweden |
| Bibendum AB | - | 100.00 | Sweden |
| Bibendum AS | 100.00 | 100.00 | Norway |
| ExCellar Oy | 100.00 | 100.00 | Finland |
| Harald Zetterström oy/ab | 100.00 | 100.00 | Finland |
| Interbev AS | 100.00 | 100.00 | Norway |
| Larsen SAS | 100.00 | 100.00 | France |
| Philipson & Söderberg AB | - | 100.00 | Sweden |
| Prime Wines Oy | 100.00 | 100.00 | Finland |
| Premium Wines AS | 100.00 | 100.00 | Norway |
| Ström AS | 100.00 | 100.00 | Norway |
| Vinuversum AB | - | 100.00 | Sweden |
| Oy Wennerco Ab | 100.00 | 100.00 | Finland |

## 5.3. ASSOCIATED COMPANIES AND INTERESTS IN JOINT OPERATIONS

### Associated companies

Associated companies are all entities over which the Group accompanies a shareholding of over 20% of voting rights or otherwise has significant influence, but not control. Altia has an investment in an associated company Palpa Lasi Oy.

Associated companies are consolidated by using the equity method. Under the equity method, the investment is initially recognised at cost and subsequently adjusted with the change in the net assets of the investee after the acquisition date, consistent with the ownership interest of the Group. After the acquisition the Group's share in the associated company's profit and loss for the period is separately disclosed after operating result. If the Group's share in the associated company's loss exceeds the carrying amount of the investment, the investment is recognised at zero value in the consolidated balance sheet and the loss exceeding the carrying amount is not consolidated, unless the Group has committed to fulfil the company's obligations. An investment in an associated company includes goodwill arisen on acquisition. The Group's share in changes in the associated company's other comprehensive income is recognised in consolidated other comprehensive income.

Results from the transactions between the Group and its associates are recognised only to the extent of unrelated investor's interests in the associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. In case of such indications, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its' carrying value. The impairment is recognised in share of results in associated companies.

Financial Statement's of associated companies have been changed where necessary to correspond with the accounting policies adopted by the Group. If financial statements for the period are not available, the share of the profit is included in the consolidated financial statements based on the preliminary financial statements or latest available information.

### Interests in joint operations

A joint arrangement is an arrangement of which two or more parties have contractually agreed joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. Altia has an interest through a receivable in Roal Oy based on the contractual relationship with the other party to the joint operation. The interest in Roal Oy is accounted for as a joint operation.

**ASSOCIATED COMPANIES AND JOINT OPERATIONS**

| | 2017 Share of ownership % | 2016 Share of ownership % | 2015 Share of ownership % |
|---|---|---|---|
| Roal Oy, Finland | 50.00 | 50.00 | 50.00 |
| Palpa Lasi Oy, Finland | 25.53 | 25.53 | 25.53 |

Roal Oy engages enzyme business. The joint operation's other owner is ABF Overseas Ltd.
Palpa Lasi Oy engages in the recycling and re-use of glass beverage packages.

Altia has joint control over Roal but the option right held by the other shareholder represents in substance a receivable with a fixed rate of return and Altia does not have a right to 50% of the net assets until the option lapses. Accordingly, the interest is classified as a joint operation with Altia accounting for its share of assets as a receivable with the annual minimum dividend accounted for as interest income. The receivable amounted to EUR 7.6 million as at 31 December 2017, 31 December 2016 and 31 December 2015.

**FINANCIAL SUMMARY OF ASSOCIATED COMPANIES**

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Assets | 5 853 | 5 847 | 5 229 |
| Liabilities | 7 330 | 8 935 | 8 809 |
| Net assets | -1 477 | -3 088 | -3 580 |
| Net sales | 17 522 | 15 889 | 15 084 |
| Result for the period | 1 207 | 630 | -336 |

The net assets of Palpa Lasi Oy is negative at 31 December 2017, 31 December 2016 and 31 December 2015.

Related party transactions with associated companies and joint operations are presented in Note 6.3.

# 6. Other notes

## 6.1. INCOME TAX EXPENSE

### Income tax expense

The Group's income tax expense recognised through profit or loss comprises current tax based on taxable income for the period, any adjustments to tax payable in respect of previous periods and deferred taxes. Current income tax based on taxable income is calculated according to the local tax regulations of each Group company.

Tax effects related to transactions or other events recognised in profit or loss are recognised in profit or loss. If the taxes relate to items of other comprehensive income or transactions or other events recognised directly in equity, income tax expense is recognised within the respective items. The Group's share of profit or loss in associated companies is reported as calculated from the net profit and thus including the income tax effect.

Deferred tax assets and liabilities are principally recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from property, plant and equipment and intangible assets, carry forward of unused tax losses and fair value allocations on business combinations. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax liabilities are recognised in full. Deferred taxes are calculated using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax is recognised for foreign subsidiaries undistributed earnings only when related tax effects are probable.

From 2017 onwards deferred tax assets and liabilities are set off when they are levied by same taxing authority and Altia has legally enforceable right to set off the balances.

### Critical estimates and management judgements – Deferred tax assets:

Judgment is required in assessing whether deferred tax assets are recognised on the balance sheet. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These future cash flow estimates depend on estimates of future sales volumes, price levels of main raw materials, capital expenditure and other components affecting profitability of the operations. These estimates and assumptions are subject to risk and uncertainty, hence it is possible that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of any other tax losses and temporary differences not yet recognised. Altia's ability to generate taxable profit is also subject to general economic, financial, competitive, legislative and regulatory factors that are beyond its control. If Altia generates lower future taxable profits than what management has assumed in determining the amounts of the recognised deferred tax assets, the assets would become impaired, either partly or in full. Accordingly, amounts recognised in balance sheet could potentially be reversed through profit and loss. Changes in circumstances may also result in recognition of deferred tax assets for tax losses not yet recognised as an asset.

### INCOME TAX EXPENSE

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current income tax expense | 6 281 | 4 685 | 3 294 |
| Adjustments to taxes for prior periods | -151 | 147 | 410 |
| Deferred taxes: | | | |
| Origination and reversal of temporary differences | 598 | 4 129 | 1 546 |
| Impact of changes in tax rates | 21 | 24 | -2 |
| **TOTAL** | **6 749** | **8 985** | **5 248** |

Settlement of Altia's defined benefit pension plan impacted a deferred tax expense by EUR 4 179 thousand in year 2016. Change in pension arrangement is described in Note 2.5.

The reconciliation of the tax expense recognised in profit and loss and the tax expense calculated using Altia Group's domestic corporate tax rate (20.0%):

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| Result before taxes | 25 036 | 45 046 | 23 383 |
| Income tax using the parent company's tax rate | 5 007 | 9 009 | 4 677 |
| Effect of tax rates of subsidiaries in foreign jurisdictions | 396 | -236 | -24 |
| Tax-exempt income | -245 | -258 | -212 |
| Non-deductible expenses | 120 | 165 | 210 |
| Utilisation of previously unrecognised tax losses | -398 | -37 | -35 |
| Adjustments to taxes for prior periods | -151 | 147 | 410 |
| Effect of changes in tax rates | 21 | 24 | -2 |
| Tax arising on dividends | 625 | - | - |
| Tax on undistributed earnings | 1 702 | - | - |
| Other items | -329 | 171 | 224 |
| **TAX EXPENSE IN PROFIT OR LOSS** | **6 749** | **8 985** | **5 248** |

The recognised tax expense on undistributed earnings, EUR 1.7 million, is due to the reassessment of deferred tax liabilities of retained earnings in Estonia.

### INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

| 2017<br>EUR thousand | Before tax | Tax | Net of tax |
|---|---|---|---|
| Cash flow hedges | 1 386 | -281 | 1 105 |
| Available-for-sale financial assets | 611 | - | 611 |
| Translation differences | -3 993 | - | -3 993 |
| Remeasurements of post-employment benefit obligations | -36 | 8 | -27 |
| **TOTAL** | **-2 032** | **-272** | **-2 305** |

| 2016<br>EUR thousand | Before tax | Tax | Net of tax |
|---|---|---|---|
| Cash flow hedges | 134 | -24 | 111 |
| Translation differences | -2 705 | - | -2 705 |
| Remeasurements of post-employment benefit obligations | -448 | 83 | -365 |
| **TOTAL** | **-3 019** | **59** | **-2 960** |

| 2015<br>EUR thousand | Before tax | Tax | Net of tax |
|---|---|---|---|
| Cash flow hedges | -48 | 23 | -25 |
| Translation differences | 1 550 | - | 1 550 |
| Remeasurements of post-employment benefit obligations | 5 809 | -1 196 | 4 613 |
| **TOTAL** | **7 311** | **-1 173** | **6 138** |

## DEFERRED TAX ASSETS AND LIABILITIES

| Change in deferred tax assets and liabilities during 2017:<br>EUR thousand | 1 Jan 2017 | Recognised in profit or loss | Recognised in other comprehensive income | Exchange rate differences | 31 Dec 2017 |
|---|---|---|---|---|---|
| **Deferred tax assets:** | | | | | |
| Tax losses | 202 | 106 | - | -0 | 308 |
| Fixed assets | 3 430 | -1 060 | - | -6 | 2 364 |
| Pension benefits | 301 | 22 | 8 | -24 | 308 |
| Internal margin of inventories | 52 | 7 | - | -1 | 58 |
| Recognised in hedge reserve | 370 | - | -271 | -1 | 98 |
| Other temporary differences | 198 | -46 | - | -1 | 151 |
| **Total deferred tax assets** | **4 553** | **-970** | **-263** | **-33** | **3 287** |
| Offset against deferred tax liabilities | | | | | -2 306 |
| **Net deferred tax assets** | | | | | **981** |
| **Deferred tax liabilities:** | | | | | |
| Fixed assets | 5 247 | -0 | - | -1 | 5 246 |
| Recognised in hedge reserve | 6 | - | 10 | 0 | 15 |
| Fair value allocation on acquisitions | 3 221 | -431 | - | -87 | 2 703 |
| Deductable goodwill depreciation | 10 538 | 20 | - | -205 | 10 352 |
| Undistributed profits of foreign subsidiaries | - | 1 702 | - | - | 1 702 |
| Other temporary differences | 1 657 | -1 643 | - | -1 | 13 |
| **Total deferred tax liabilities** | **20 668** | **-352** | **10** | **-295** | **20 032** |
| Offset against deferred tax assets | | | | | -2 306 |
| **Net deferred tax liabilities** | | | | | **17 726** |

| Change in deferred tax assets and liabilities during 2016:<br>EUR thousand | 1 Jan 2016 | Recognised in profit or loss | Recognised in other comprehensive income | Exchange rate differences | 31 Dec 2016 |
|---|---|---|---|---|---|
| **Deferred tax assets:** | | | | | |
| Tax losses | 1 132 | -932 | - | 1 | 202 |
| Fixed assets | 4 196 | -774 | - | 8 | 3 430 |
| Pension benefits | 4 376 | -4 179 | 83 | 21 | 301 |
| Internal margin of inventories | 65 | -13 | - | -1 | 52 |
| Recognised in hedge reserve | 393 | - | -23 | -1 | 370 |
| Other temporary differences | 540 | -344 | - | 2 | 198 |
| **Total** | **10 702** | **-6 241** | **60** | **31** | **4 553** |
| **Deferred tax liabilities:** | | | | | |
| Fixed assets | 4 464 | 781 | - | 1 | 5 247 |
| Recognised in hedge reserve | 5 | - | 1 | 0 | 6 |
| Fair value allocation on acquisitions | 5 228 | -1 866 | - | -142 | 3 221 |
| Deductable goodwill depreciation | 10 792 | 20 | - | -274 | 10 538 |
| Other temporary differences | 2 671 | -1 023 | - | 9 | 1 657 |
| **Total** | **23 161** | **-2 088** | **1** | **-406** | **20 668** |

| Change in deferred tax assets and liabilities during 2015: EUR thousand | 1 Jan 2015 | Recognised in profit or loss | Recognised in other comprehensive income | Exchange rate differences | 31 Dec 2015 |
|---|---|---|---|---|---|
| **Deferred tax assets:** | | | | | |
| Tax losses | 1 878 | -743 | - | -3 | 1 132 |
| Fixed assets | 4 728 | -523 | - | -8 | 4 196 |
| Pension benefits | 5 592 | 15 | -1 196 | -35 | 4 376 |
| Internal margin of inventories | 59 | 7 | - | -0 | 65 |
| Recognised in hedge reserve | 431 | - | -38 | - | 393 |
| Other temporary differences | 1 166 | -629 | - | 3 | 540 |
| **Total** | **13 854** | **-1 874** | **-1 234** | **-43** | **10 702** |
| **Deferred tax liabilities:** | | | | | |
| Fixed assets | 3 289 | 1 175 | - | -0 | 4 464 |
| Recognised in hedge reserve | 70 | - | -61 | -3 | 5 |
| Fair value allocation on acquisitions | 5 741 | -599 | - | 86 | 5 228 |
| Deductable goodwill depreciation | 10 145 | 493 | - | 154 | 10 792 |
| Other temporary differences | 4 091 | -1 400 | - | -20 | 2 671 |
| **Total** | **23 337** | **-330** | **-61** | **216** | **23 161** |

At 31 December 2017, the Group had EUR 5,6 million (2016: EUR 8.2 million, 2015: EUR 7.2 million) of tax loss carry forwards for which no deferred tax was recognised. EUR 5.5 million of these temporary differences expire in 5 years and the rest expire between 5-10 years. Altia management estimates these losses arise in subsidiaries which have neither indication of future taxable income nor other convincing evidence that tax losses can be utilised and deferred tax asset be recognised in balance sheet.

## 6.2. COLLATERALS, COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Collaterals and commitments** | | | |
| Collaterals given on behalf of Group companies | | | |
| Mortgages | 18 500 | 18 500 | 18 500 |
| Guarantees | 6 387 | 8 014 | 8 522 |
| **TOTAL COLLATERALS** | **24 887** | **26 514** | **27 022** |
| Other commitments | | | |
| Operating lease obligations | | | |
| Less than one year | 4 759 | 5 034 | 6 600 |
| Between one and five years | 11 472 | 12 229 | 12 776 |
| More than five years | 885 | 2 523 | 4 946 |
| Total operating lease obligations | 17 116 | 19 787 | 24 322 |
| Other commitments | 19 658 | 26 132 | 25 495 |
| **TOTAL COMMITMENTS** | **36 774** | **45 919** | **49 816** |

Collaterals given on behalf of Group companies all relate to commitments to authorities.

Operating lease obligations consists of office, cars and forklift rental commitments.

Other commitments include mainly purchase obligations of wine and cognac.

### Assets not recognised in the balance sheet, emission allowances

The Group participates in the European Union emission trading scheme, where it has been granted a certain number of carbon dioxide emission allowances for a certain period of time, free of charge. Altia Plc discloses its carbon dioxide emission allowances granted free of charge on net basis. Following from this, the Group does not recognise in the balance sheet the granted emission allowances, nor the obligation to deliver allowances corresponding to the realised emissions. The Group does not recognise income or expenses arising from emission allowances through profit or loss when the emission allowances granted are sufficient to cover the obligation to deliver allowances corresponding to the amount of emissions made. If the realised emissions exceed the granted emission allowances, the obligation arising from the excess emissions is recognised at fair value as a liability in the balance sheet at the reporting date. If the realised emissions fall below the granted emission allowances, the difference is not recognised in the balance sheet but it is disclosed in the notes to the financial statements, measured at fair value.

Altia´s actual emissions are below the emission allowances granted. The following table presents changes in allowances for financial years 2017, 2016 and 2015, as well as their fair values:

| Emission allowances, kilotons | 2017 | 2016 | 2015 |
|---|---|---|---|
| Emission allowances received | 27 444 | 27 976 | 28 501 |
| Excess emission allowances from the previous period | 39 176 | 37 412 | 39 604 |
| Adjustments related to prior year's estimates | -1 | -9 | -31 |
| Realised emissions | -20 977 | -26 203 | -30 662 |
| **EMISSION ALLOWANCES AT 31 DECEMBER** | **45 642** | **39 176** | **37 412** |
| Fair value of emission allowances at 31 December, EUR thousand | 351 | 205 | 314 |

The emission allowances received during year 2017 and the realised emissions are estimates, which will be adjusted during the spring 2018. Altia continues to operate within the emission trading system for the trading period 2013–2020.

## 6.3. RELATED PARTY TRANSACTIONS

The Company's related parties include the subsidiaries, associated companies and joint operations. The subsidiaries are presented in Note 5.2 and associated companies and joint operations in Note 5.3. Related party transactions include such operations that are not eliminated in the Group´s consolidated financial statements.

Related party also include the Board of Directors, the CEO, the members of the Executive Management Team and their family members as well as entities controlled or jointly controlled by these persons, as well as the State of Finland which owns 100% of the shares in Altia. Also entities that are controlled or jointly controlled by, or are associates of the State, are related parties of Altia. Altia has applied the exemption to report only material transaction with the government related entities. Transactions with related parties are entered into on market terms. Altia has related party transaction on a continuous basis with its major customer Alko. Transaction with Alko have been presented below under Other companies considered related parties.

#### THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH RELATED PARTIES

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Sales of goods and services** | | | |
| Associates and joint operations | 965 | 1 302 | 2 765 |
| Other companies considered related parties | 82 803 | 82 935 | 88 895 |
| **TOTAL** | **83 768** | **84 237** | **91 660** |
| **Purchases of goods and services** | | | |
| Associates and joint operations | 2 104 | 2 510 | 2 738 |
| Other companies considered related parties | 4 078 | 4 752 | 5 315 |
| **TOTAL** | **6 182** | **7 262** | **8 053** |
| **Outstanding balances from sales and purchases of goods and services** | | | |
| **Trade receivables** | | | |
| Associates and joint operations | 246 | 5 | 205 |
| Other companies considered related parties | 2 781 | 7 309 | 2 895 |
| **Trade payables** | | | |
| Associates and joint operations | 2 | 323 | 311 |
| Other companies considered related parties | 60 | 251 | 360 |

Other companies considered as related parties includes companies and organisations controlled by the State of Finland.

#### MANAGEMENT REMUNERATION

| EUR thousand | 2017 | 2016 | 2015 |
|---|---|---|---|
| **CEO** | | | |
| Salaries and other short-term employee benefits | 315 | 309 | 309 |
| Performance bonus and the bonuses from long-term incentive plan | 295 | 120 | 25 |
| Pension benefits | 109 | 77 | 61 |
| **TOTAL** | **719** | **506** | **395** |
| **Members of the Executive Management Team (CEO not included)** | | | |
| Salaries and other short-term employee benefits | 1 915 | 1 537 | 1 399 |
| Pension benefits | 287 | 210 | 163 |
| **TOTAL** | **2 202** | **1 747** | **1 562** |
| **Members and deputy members of the Board of Directors** | **211** | **223** | **214** |

No monetary loans have been granted to the CEO or the members of the Board of Directors, nor any collaterals or commitments granted on their behalf.

The retirement age of the CEO of the parent company is 63 years.

## 6.4. ADOPTION OF NEW OR AMENDED IFRS STANDARDS AND INTERPRETATIONS APPLICABLE IN FUTURE REPORTING PERIODS

Altia has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date of each standard and interpretation or, if the date is other than the first day of the reporting period, from the beginning of the subsequent reporting period.

### IFRS 15 Revenue Recognition (effective for annual periods beginning on or after 1 January 2018):

IFRS 15 Revenue from Contracts with Customers is the new revenue standard, which Altia will apply for reporting periods beginning on 1 January 2018. The new standard will replace IAS 18 and IAS 11 standards and the related interpretations. The

IABS has also issued clarifications to IFRS 15. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The new standard includes a five-step process that Altia will apply for contracts with customers before revenue is recognised.

The steps that will be required to be followed for revenue recognition are the following and comprise the basis for the analysis Altia has completed as part of the adoption process for the new standard:

1. identifying the contract
2. identifying the performance obligations
3. determining the transaction price
4. allocation of the transaction price to each performance obligation (to each distinct good or service promised to the client) on a relative stand-alone selling price basis
5. recognising the revenue when (or as) the performance obligation is satisfied by transferring the good or service to the client.

Altia's revenue comprises mainly sales of alcoholic products, which consists of a portfolio of Altia's own brands and international partner brands. Altia imports, sells and distributes wine, spirits and other beverage products to monopolies, hotels, restaurants, catering business, retail business, whole sale customers and export, border traffic and sea traffic customers. Altia also provides its industrial partners with solutions and services. Altia sells industrial products such as ethanol, starch and feed components and offers contract manufacturing services from distillation to bottling and customer services & logistics to its industrial customers.

Altia has assessed the impacts of the new revenue standard and has not identified any significant differences arising from IFRS 15 criteria compared to current practice:

**Identifying performance obligations:**
In the alcoholic products and industrial product sales each delivered product or batches of products are distinct performance obligations and the customer contracts do not typically contain a separate promise for transportation service. Accordingly, even when the control of the goods transfers to the customer before shipment, Altia does not arrange for the goods to be shipped and does not offer any other transportation or handling service to its customers. If control does not transfer to the customer before shipment, the transportation service is a fulfillment activity and not a distinct service. Accordingly, the transportation service is not a separate performance obligation to be accounted for separately from the sale of goods. In its partner supplier agreements, which entitle Altia to distribute partners' products, Altia acts as a principal towards the end customer having control over the product, discretion in establishing prices and owning the inventory. Accordingly, revenue recognised is the gross amount to which Altia is entitled to in these product sales.

In the contract services to Altia's industrial customers the contracts essentially include of a single performance obligation, being a series of distinct services such as contract manufacturing services, customer services, logistics and warehousing. In these arrangements Altia does not have any control over the product or inventory risk.

**Determining the transaction price:**
Contracts with customers typically include several variable considerations (volume discounts, bonuses, marketing support such as slotting fees, sanctions relating to certain predetermined KPIs or Altia's failure to timely perform its obligations, product returns, differences between a standard cost price and actual costs etc.). Under IFRS 15, an entity needs to estimate the variable consideration and include in the transaction price an amount that fulfils the highly probable criterion. However, Altia has already under the current revenue recognition standards estimated the variable considerations as part of its revenue recognition process. In addition, Altia has been able to reliably estimate the outcome and therefore, management's view is that the highly probable criterion is typically met. Further, the amount of realised sanctions is immaterial and therefore, no adjustments to the transaction price will be needed at transition.

With respect to right of return clauses Altia has currently recognised revenue for the transferred products in the amount of consideration to which it expects to be entitled and a refund liability related to the products that are expected to be returned. However, Altia has recognised the corresponding amount of products subject to return to its inventory balances. Current measurement treatment complies with IFRS 15, however instead of recognising the value for goods expected to be returned to inventory, Altia will need to recognise a separate asset on its balance sheet reflecting the right to receive the goods. Under IFRS 15, slotting fees are recognised as a reduction of revenue. Currently the amounts are recognised as expenses. The identified classification differences in regards to returns and slotting fees are not material for Altia.

**Allocation of the transaction price:**
In general the prices represent the stand-alone selling prices and accordingly there is no need to allocate standalone selling price. Further, management view is that the allocation of discounts to each elements in the contract would not result any differences in the amount or timing of revenue recognised because the control of all ordered goods transfers at the same time. In the contract services requirements to allocate variable consideration to a distinct service within the series are met and therefore Altia allocates and recognizes variable consideration in the period it has the contractual right to the fee.

**Recognising revenue:**
Based on the analysis conducted to date, management does not expect significant changes to the timing of revenue recognition as a result of adopting IFRS 15. Altia does not have any incremental costs of obtaining a contract (e.g. sales bonuses) or contract costs to fulfill a contract which would be eligible for capitalisation under IFRS 15. However, there will be new revenue disclosures that Altia will report under the new guidance.

Altia adopts the standard on 1 January 2018 using the modified retrospective method which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

## IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018):

Altia has reviewed its treasury policy and hedging activities and the classification and measurement of its financial assets and liabilities as part of its implementation of IFRS 9 Financial Instruments and is expecting the following impact from the adoption of the new standard on 1 January 2018. As disclosed below, the initial application of IFRS 9 is not expected to have a material impact on Altia's financial statements due to the nature of Altia's financial instruments and risk management policies.

**Classification and measurement**
IFRS 9 requires that all financial assets are subsequently measured at amortised cost, FVOCI or FVPL based on the business model for managing the financial assets and their contractual cash flow characteristics.

The financial assets held by the Group include the following:

- Altia has joint control over Roal Oy but the option right held by the other shareholder represents in substance a receivable. This debt receivable due to the nature of the agreement is currently classified as fair value through profit and loss and accordingly, it will continue to be classified as FVPL following the adoption of IFRS 9.
- Other receivables comprise solely of a deferred consideration receivable relating to a real estate that Altia sold in 2017. This receivable will be classified as hold to collect as the cash flows from the receivable comprises solely of payments of principal and interest.
- Accounts receivables currently classified as held-to-maturity and measured at amortised cost meet the conditions for classification at amortised cost under IFRS 9.
- Altia's current available-for-sale financial assets comprising of equity investments will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The derecognition rules under IFRS 9 are a continuum of the provisions of IAS 39 Financial Instruments: Recognition and Measurement. Altia's factoring process is on a non-recourse basis i.e. all rights related to the sold account receivables are transferred to the buyer. The derecognition criteria of IAS 39 continue to be fulfilled under IFRS 9. Accordingly, Altia does not expect the new guidance to affect the classification and measurement of these financial assets.

**Impairment**
The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than on an incurred credit loss basis as was the case under IAS 39.

The new impairment model requirement applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new impairment model will result in earlier recognition of losses. Based on the assessments Altia has undertaken to implement an ECL model, the impact of applying IFRS 9 is considered insignificant.

Altia's available-for-sale assets are measured at fair value and the fair value of these assets is not significant. As described above, other receivables consisting of a purchase price receivable with contractual cash flows and Altia expects to collect the cash flows in full on this item as payments of principal and interest have been made in the agreed payment schedule.

The loss allowance for account receivables is based on the aging of the accounts receivable and regional portfolios. Receivables more than 120 days due will be impaired with a 50% expected loss rate. The receivables of the monopolies in Finland and Sweden are excluded due to the nature of the customer and related credit risk (government entities). Forward-looking macro-economic information has been included in the analysis.

Based on the assessments undertaken to date, two-year historical bad debts have amounted to approximately EUR 160 thousand per annum. The bad debt provision for trade receivables on the balance sheet date amounts to approximately EUR 270 thousand whereas the estimated provision under the ECL model is approximately EUR 200 thousand. Accordingly, the adoption of the ECL model will effectively result in a decrease in the loss provision. Altia will adjust the opening balance of its retained earnings for the impact, however the overall impact from the implementation of the new ECL model impact is considered to be immaterial due to the nature of Altia's receivables and customer portfolio.

**Financial liabilities**
Adoption of IFRS 9 will not have an impact on Altia's classification and measurement of financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and Altia does not have such liabilities.

**Debt modification**
Under IFRS 9 when a financial liability measured at amortised cost is modified without the transaction resulting in a derecognition event, a gain or loss should be recognised directly in profit or loss. These modified rules do not have an impact for Altia as it has not changed the terms and conditions for any existing borrowings that would have resulted in modification accounting under IAS 39.

**Hedge accounting**
The new hedge accounting rules will align the accounting for the hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The group applies hedge accounting for certain interest rate, foreign currency and electricity derivatives. The group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

For cash flow foreign currency hedges under IFRS 9, Altia will designate the full fair value of the forward contract to the hedge relationship and accordingly, will no longer bifurcate the forward points for separate recognition through the P/L. This is a change Altia has selected at the adoption date, however, the effect is considered to be insignificant.

IFRS 9 allows hedging a component of the risk. This change will increase the effectiveness of the electricity hedges. The fair value of the electricity hedges as of 31.12.2017 was EUR 253 thousand with no material ineffectiveness.

The interest rate swaps hedge the floating rate borrowings and the current hedge relationships continue under IFRS 9 with no change.

**Disclosures**

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of Altia's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

### IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019):

IFRS 16 Leases is effective on 1 January 2019 and the new standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The new lease standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for the majority of Altia's lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest cost and depreciation, so our key metrics like EBITDA will change.

Operating cash flows presented in the cash flow statement will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflect interest cost will continue to be presented as operating cash flows.

Based on Altia's preliminary impact assessment, the implementation of IFRS 16 will increase the property, plant and equipment in its balance sheet, mainly due to current operating leases of premises, warehouses, cars and forklifts (see more information on operating leases in Note 1.6.). Altia does not expect the impact to be material due to the nature and a moderate number of off-balance sheet leases. At the 31 December 2017, the off-balance sheet lease obligations amount to EUR 17.1 million. In the consolidated income statement, the operating expense will decrease, while depreciation and interest costs will reflect an increase as the lease expense is no longer classified as an operating expense. This will lead to an improvement in EBITDA. The Group is in the process of assessing its lease portfolio and quantifying the impact of adopting IFRS 16 and will continue to report on the expected impact in its financial reports.

Altia expects to implement the standard by using a simplified approach (modified retrospective approach), where comparative figures will not be restated. Altia will recognise the accumulated effect of adopting IFRS 16 as an adjustment to equity at the beginning of 2019. Furthermore, Altia expects to use the other available reliefs to the widest possible extent, including the exclusion of leases with a term to maturity of less than 12 months and low-value leases.

Other forthcoming amendments to IFRS standards and IFRIC interpretations that the Group is aware of are not assessed to have a material impact on Altia's consolidated financial statements.

## 6.5. CORRECTIONS TO PRIOR PERIODS

### Accounting for an interest in a joint operation

In 2017, Altia has taken a detailed review of its shareholder agreement with ABF Overseas Limited ("ABF") regarding Altia's interest in Roal Oy in order to confirm the IFRS accounting treatment in Altia's consolidated financial statements. Pursuant to the terms and conditions of the shareholder agreement, Altia is entitled to an agreed annual return for its interest in Roal Oy as minimum dividend, and ABF has a right to redeem Altia's interest in Roal Oy at a fixed amount at the expiry of certain patents. In its consolidated financial statements, Altia had accounted for its interest in Roal Oy as a joint venture pursuant to IFRS 11 applying the equity method of accounting up until the fourth quarter of 2016 when Altia classified the interest as a held for sale asset, assuming that ABF would have exercised its call option during 2017. However, as the exercise of the call is dependent on the expiry of certain patents and a single patent continues to be valid until 2024, Altia's exit from Roal Oy could not take place in 2017. Altia exercises joint control over Roal Oy. However, accounting treatment of the option right held by ABF represents in substance a receivable with a fixed rate of return for Altia, and Altia does not have a right to 50 per cent of the net assets of Roal Oy unless ABF refrains to exercise its option right with respect to Altia's interest in Roal Oy when it is possible pursuant to the shareholder agreement. Accordingly, the interest should have been classified as a joint operation pursuant to IFRS 11 in the consolidated financial statements with Altia accounting for its share of Roal Oy's assets and liabilities as a receivable with the annual minimum dividend accounted for as interest income. The correction did not have impact on the net cash flows from operating activities or the net cash flows from investing activities.

In addition, Altia has reclassified certain trade and other payables to current and non-current provisions to better reflect the nature of such liabilities.

These corrections has been made by restating each of the affected financial statement line items for the prior periods as follows:

**CONSOLIDATED BALANCE SHEET**

| | As at 31 Dec 2016 | | | As at 31 Dec 2015 | | |
|---|---|---|---|---|---|---|
| **EUR thousand** | **Reported** | **Adjustments** | **Restated** | **Reported** | **Adjustments** | **Restated** |
| Investments in associates and interests in joint operations | - | 7 568 | 7 568 | 14 895 | -7 327 | 7 568 |
| **Total non-current assets** | **195 560** | **7 568** | **203 129** | **226 514** | **-7 327** | **219 187** |
| Non-current assets held for sale | 13 425 | -13 425 | 0 | - | - | - |
| **TOTAL ASSETS** | **438 595** | **-5 857** | **432 738** | **466 670** | **-7 327** | **459 343** |
| | | | | | | |
| Retained earnings | 145 415 | -918 | 144 496 | 121 667 | -2 388 | 119 278 |
| **Total equity** | **192 196** | **-918** | **191 278** | **170 994** | **-2 388** | **168 605** |
| Other liabilities | - | - | - | 4 939 | -4 939 | 0 |
| Provisions | - | - | - | - | 1 334 | 1 334 |
| **Total non-current liabilities** | **87 384** | **-** | **87 384** | **138 071** | **-3 605** | **134 467** |
| Trade and other payables | 144 050 | -1 334 | 142 716 | 146 954 | -3 417 | 143 537 |
| Provisions | - | 1 334 | 1 334 | - | 2 083 | 2 083 |
| **Total current liabilities** | **154 076** | **0** | **154 076** | **157 605** | **-1 334** | **156 271** |
| Liabilities related to assets held for sale | 4 939 | -4 939 | 0 | - | - | - |
| **Total liabilities** | **246 399** | **-4 939** | **241 460** | **295 676** | **-4 939** | **290 737** |
| **TOTAL EQUITY AND LIABILITIES** | **438 595** | **-5 857** | **432 738** | **466 670** | **-7 327** | **459 343** |

| | As at 1 Jan 2015 | | |
|---|---|---|---|
| **EUR thousand** | **Reported** | **Adjustments** | **Restated** |
| Investments in associates and interests in joint operations | 12 075 | -4 507 | 7 568 |
| **Total non-current assets** | **229 166** | **-4 507** | **224 660** |
| **TOTAL ASSETS** | **501 452** | **-4 507** | **496 946** |
| | | | |
| Retained earnings | 95 044 | 432 | 95 476 |
| **Total equity** | **143 900** | **432** | **144 332** |
| Other liabilities | 4 939 | -4 939 | 0 |
| **Total non-current liabilities** | **121 835** | **-4 939** | **116 896** |
| **Total liabilities** | **357 553** | **-4 939** | **352 614** |
| **TOTAL EQUITY AND LIABILITIES** | **501 452** | **-4 507** | **496 946** |

**CONSOLIDATED INCOME STATEMENT**

| EUR thousand | 1 January - 31 December 2016 Reported | Adjustments | Restated | 1 January - 31 December 2015 Reported | Adjustments | Restated |
|---|---|---|---|---|---|---|
| **Operating result** | **46 279** | **-** | **46 279** | **25 263** | **-** | **25 263** |
| Share of profit in associates and income from interests in joint operations | -586 | 1 504 | 918 | 3 798 | -2 880 | 918 |
| **Result before taxes** | **43 542** | **1 504** | **45 046** | **26 263** | **-2 880** | **23 383** |
| **RESULT FOR THE PERIOD** | **34 557** | **1 504** | **36 061** | **21 015** | **-2 880** | **18 135** |
| | | | | | | |
| **Earnings per share (EUR), basic and diluted** | **0.96** | **0.04** | **1.00** | **0.58** | **-0.08** | **0.50** |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| EUR thousand | 1 January - 31 December 2016 Reported | Adjustments | Restated | 1 January - 31 December 2015 Reported | Adjustments | Restated |
|---|---|---|---|---|---|---|
| Result for the period | 34 557 | 1 504 | 36 061 | 21 015 | -2 880 | 18 135 |
| **Other comprehensive income:** | | | | | | |
| Share of profit in associates and income from interests in joint operations | 30 | -30 | 0 | -59 | 59 | 0 |
| Translation differences | -2 694 | -12 | -2 705 | 1 505 | 44 | 1 550 |
| Other changes | -8 | 8 | 0 | 44 | -44 | 0 |
| **Other comprehensive income for the period** | **-2 926** | **-34** | **-2 960** | **6 079** | **59** | **6 138** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **31 631** | **1 470** | **33 101** | **27 094** | **-2 820** | **24 274** |

### Cash flow statement presentation

In 2017 Altia decided to change its presentation of the consolidated statement of cash flows from direct method to indirect method. Altia believes that the indirect method gives more accurate and reliable information on cash flows from operating activities by disclosing the reconciliation from result before taxes to operating cash flows. The indirect method is also more commonly used method and thus, gives more comparable information on Altia's operating cash flows to it's peers.

As a consequence, the presentation of cash flows from operating activities has been restated to reflect the indirect method for the years ended 31 December 2016 and 2015. The indirect method did not change the presentation of the cash flows from investing activities and financing activities.

## 6.6. EVENTS AFTER THE REPORTING PERIOD

Altia and J. García Carrión have entered into a collaboration regarding the import and distribution of J. García Carrión's wine brands. Altia becomes the exclusive representative of García Carrión's wine portfolio in Sweden as of 2018.

Following the decision by the Extraordinary General Meeting on 15 December 2017, Altia's shares were incorporated in the book-entry securities system on 19 January 2018.

# *Auditor's Report* *(Translation of the Finnish Original)*

To the Board of Directors of Altia Plc

## *Opinion*

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

**What we have audited**

We have audited the consolidated financial statements of Altia Plc (business identity code 1505555-7) for the years ended 31 December 2017 and 31 December 2016. The consolidated financial statements comprise the consolidated balance sheets, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, the consolidated statements of cash flows and notes to the consolidated financial statements, including a summary of significant accounting policies.

This auditor's report has been prepared only for the purpose of including it in the offering circular prepared in accordance with commission regulation (EC) N:o 809/2004.

## *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under ISAs are further described in the Auditor's Responsibilities for the Audit of Consolidated Financial Statements section of our report.

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

**Independence**

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

## *Responsibilities of the Board of Directors and the Managing Director for the Consolidated Financial Statements*

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

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

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## *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events so that the consolidated financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

## *Other Information*

The consolidated financial statements of Altia Plc for the year ended 31 December 2015 was audited by another auditor who expressed an unmodified opinion in their auditor's report dated 23 February 2018.

Helsinki 23 February 2018

**PricewaterhouseCoopers Oy**
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant (KHT)

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*This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.*

# Auditor's Report

## To the Board of Directors of Altia Plc

## *Report on the Audit of the Consolidated Financial Statements*

### Opinion

We have audited the consolidated financial statements of Altia Plc (business identity code 1505555-7) for the year ended 31 December 2015. The consolidated financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

This auditor's report has been prepared only for the purpose of including it in the offering circular prepared in accordance with commission regulation (EC) N:o 809/2004.

In our opinion

— the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

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

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

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

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

### Auditor's Responsibilities for the Audit of Consolidated Financial Statements

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

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

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

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

### Other Information

The consolidated financial statements of Altia Plc for the years ended 31 December 2017 and 31 December 2016 were audited by another auditor who expressed an unmodified opinion in their auditor's report dated 23 February 2018.

Helsinki, 23 February 2018

KPMG OY AB

JARI HÄRMÄLÄ
*Authorised Public Accountant, KHT*

## ANNEX A – THE ARTICLES OF ASSOCIATION OF THE COMPANY

*The Articles of Association described in this annex are in effect as of the Listing.*

1 COMPANY NAME AND REGISTERED OFFICE

The company's name is Altia Oyj in Finnish, Altia Abp in Swedish, and Altia Plc in English.

The company's registered office is situated in Helsinki, Finland.

2 COMPANY'S LINE OF BUSINESS

The company's line of business is to by itself or through the group companies engage in 1. the manufacture, import, and sale of alcoholic beverages and products with an alcohol base; 2. the manufacture, import, and sale of other drinks; 3. the manufacture, import, and sale of ethanol and products with an ethanol base; 4. the manufacture and sale of other biotechnical and cosmetic, toiletry and detergent products; 5. the manufacture and sale of agricultural food and feed component; 6. the manufacture and sale of products made of renewable resources; 7. the training related to these industries, as well as the sale of the technology and the planning and laboratory services. The Company may own and possess real estate and securities.

3 SHARES

The shares of the Company belong to the book-entry securities system.

4 COMPANY'S BOARD OF DIRECTORS

The company's Board of Directors shall comprise a minimum of three (3) and a maximum of seven (7) members. The Chairman, Vice Chairman, and other members of the Board of Directors are elected by the General Meeting, which also decides on their remuneration. The term of office of the members of the Board of Directors will expire at the end of the first Annual General Meeting following the election.

Should a Chairman or Vice Chairman of the Board of Directors resign or become otherwise unable to act as Chairman or Vice Chairman during their term of office, the Board of Directors shall have the right to elect a new Chairman or Vice Chairman from among its members for the remaining term of office.

The Board of Directors constitutes a quorum when more than half of the members of the Board of Directors are present at the meeting.

5 CHIEF EXECUTIVE OFFICER (CEO)

The company has a CEO elected by the Board of Directors.

6 COMPANY REPRESENTATION

The company is represented by the members of the Board of Directors and the CEO two together. The Board of Directors may authorise other designated persons to represent the company together with a board member or another person authorised to represent the company.

The Board of Directors may also grant rights of procuration.

7 COMPANY'S FINANCIAL YEAR

The company's financial year is the calendar year.

8 COMPANY AUDITORS

The company shall have one (1) auditor, which shall be an approved auditing firm. The auditor's term shall cover the financial year. The term of office of the auditor shall end at the end of the first Annual General Meeting following the election.

9 NOTICE TO THE GENERAL MEETING

General Meetings shall be convened by publishing a notice to the meeting on the company's website not more than three (3) months and not less than three (3) weeks before the date of the General Meeting, however, at least nine (9) days before the record date of the General Meeting as provided by the Finnish Companies Act.

10 RIGHT TO ATTEND THE GENERAL MEETING

A shareholder wishing to attend a General Meeting shall notify the company by the date mentioned in the notice to the meeting, which may not be more than ten (10) days before the meeting.

11 ANNUAL GENERAL MEETING

The Annual General Meeting must be held annually within six (6) months from the end of the financial year on the date specified by the Board of Directors.

The General Meeting shall present:

1. financial statements, which includes parent company's profit and loss account, balance sheet, and notes, as well as the consolidated financial statements and the Board of Directors' report;

2. the auditor's report;

shall decide on:

3. the adoption of the financial statements;

4. the use of the profit shown on the balance sheet;

5. the discharge from liability to the members of the Board of Directors and the CEO;

6. the number of the members of the Board of Directors, as well as the remuneration payable to the members of the Board of Directors and the auditor and;

shall elect:

7. a Chairman and Vice Chairman of the Board of Directors and other members of the Board of Directors;

8. an auditor;

shall deal with:

9. any matters notified by the shareholders in the manner provided for in Section 5 of Chapter 5 of the Finnish Limited Liability Companies Act; and

10. other matters listed in the meeting notice.

**ANNEX B – INDEPENDENT AUDITOR'S ASSURANCE REPORT ON THE PROFIT FORECAST INCLUDED IN THE OFFERING CIRCULAR**

***Independent auditor's assurance report on profit forecast included in the Offering Circular (translation)***

To the Board of Directors of Altia Oyj

We report in accordance with the Commission Regulation (EC) No 809/2004 Annex I item 13.2 on the profit forecast included in the section "Operating and financial review – Future outlook" of Altia Oyj's Offering Circular dated 9 March 2018. The Offering Circular includes a profit forecast compiled by the management of Altia Oyj according to which the Group's comparable EBITDA is expected to improve or be at the 2017 level.

**Responsibility of the Board of Directors**

The Board of Directors of Altia Oyj is responsible for the compilation of the profit forecast including the principal assumptions upon which it is based in accordance with the Commission Regulation (EC) No 809/2004.

**Auditor's responsibility**

Our responsibility is to express an opinion as to whether the profit forecast has been properly compiled on the basis stated and that the basis of accounting used for the profit forecast is consistent with the accounting policies of the issuer.

We conducted our work in accordance with the instructions issued by the Finnish Institute of Authorised Public Accountants "Profit forecast and estimate – instructions for the auditor". We have not performed an audit or a review on the profit forecast included in the Offering Circular or on the information and assumptions used in the compilation of the profit forecast.

We planned and performed our work so that the evidence we have obtained is sufficient and appropriate to provide a reasonable assurance that the profit forecast has been properly compiled on the basis stated and that the basis of accounting used for the profit forecast is consistent with the accounting policies of Altia Oyj.

**Opinion**

In our opinion, the profit forecast has been properly compiled on the basis stated and that the basis of accounting used for the profit forecast is consistent with the accounting policies of the issuer.

**Qualifications and restriction on distribution and use of the report**

Actual results may be different from the profit forecast since anticipated events frequently do not occur as expected and the variation may be material.

This report has been prepared solely to be included in the Offering Circular prepared in accordance with the Commission Regulation (EC) No 809/2004.

Helsinki 9 March 2018

**PricewaterhouseCoopers Oy**
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant

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