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AUDITOR'S REPORT

To the Annual General Meeting of Kotipizza Group Oyj

Audit of the financial statements

Opinion

We have audited the financial statements of Kotipizza Group Oyj (Business ID 2416007-6) for the financial period 1 February 2016–31 January 2017. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies applied to the financial statements and the parent company's balance sheet, income statement, cash flow statement and notes.

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 the International Financial Reporting Standards (IFRS) as adopted by the EU;
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the parent company and 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 audit opinion.

Key audit matters

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

We have also fulfilled our obligations described in the *Auditor's responsibilities for the audit of the financial statements* section in the audit of the financial statements, including our obligations relating to these matters. In accordance with this, we performed the planned audit measures which, in our judgement, addressed the risks of material misstatement of the financial statements. The audit measures we carried out, including addressing the matters mentioned below, have formed the basis for our opinion of the financial statements.

We have also addressed the risk of management override of internal controls. This has included consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

1 Measurement of goodwill

We refer to the following Notes to the consolidated financial statements: 2.3 *Summary of significant accounting policies*, 3 *Significant accounting judgments, estimates and assumptions* and 14 *Goodwill impairment testing*.

Annual impairment testing was a key audit matter because the testing involves estimates, it is based on far-reaching assumptions concerning the market and economy and because the amount of goodwill is material to the financial statements.

On the reporting date, 31 January 2017, goodwill amounted to EUR 35.8 million, which is approximately 61% of total assets and 117% of shareholders' equity. The measurement of goodwill is based on the management's estimates of the value in use of the group's cash generating units. Key assumptions with effects on the value in use of the CGUs include the profitability of business operations and the discount rate used in discounting cash flows. The estimated values in use can vary greatly as the involved assumptions change, and changes in these assumptions can result in an impairment of goodwill.

In audit measures relating to the measurement of goodwill, we utilised a measurement specialist who assisted us in evaluating the assumptions made and methods used by the management. Our audit measures have comprised comparing the key assumptions made by the management with data from external information sources and our own calculations concerning industry averages, in particular

- EBITDA margin and
- average cost of capital used in discounting cash flows.

We tested the accuracy of the impairment calculations prepared by the management and assessed the sensitivity of the model with regard to key assumptions and the sufficiency of the notes on goodwill.

2 Revenue recognition

We refer to the following Notes to the consolidated financial statements: 2.3 *Summary of significant accounting policies* and 2 Segment information.

Revenue recognition has been defined as a risk from the point of view of the timely and accurate recognition of revenue.

Our audit measures included testing the internal controls relating to revenue recognition, including testing the system controls of significant information systems with effects on financial reporting. With regard to goodwill, we carried out analytical measures which focused on analysing the development of turnover. In addition to this, we performed audit measures that included comparing sales transactions recognised at the turn of the financial period to documentation supporting revenue recognition, analysis of nominal ledger entries to identify uncommon entries and comparing outstanding sales receivables at the turn of the financial period with payment transactions.

Responsibilities of the Board of Directors and CEO for the financial statements

The Board of Directors and the CEO 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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing the parent company's and 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 financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.
- 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 parent company's or 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 CEO'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 parent company's or 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 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 parent company or the group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- 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.

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

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

Other reporting requirements

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual report, but does not include the financial statements or the auditor's report thereon. We obtained the report of the Board of Directors and the Annual Report prior to the date of this auditor's report.

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

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

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable regulations.

If, based on the work we have performed on the information in the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 24 April 2017

Ernst & Young Oy
Authorised Public Accountants

Antti Suominen,
Authorised Public Accountant