

Frankis Group

Financial Statements 31 January 2014

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ANNUAL REPORT FOR PERIOD OF 1 Feb 2013 – 31 Jan 2014

Frankis Group Oyj acts as the active parent/administrator company of the Group

Corporate relations

Frankis Group Oyj (formerly Senhold 1 Oy) owned 100% of Frankis Finland Oy during the accounting period. Frankis Finland Oy likewise owned 100% of Kotipizza Oyj and also Helsinki Foodstock Oy. Furthermore the Group includes the wholly-owned Francout Oy, Domipizza Oy and Senhold 2 Oy. No change in ownership of the Group has taken place during the accounting period.

Operations of subsidiaries

Kotipizza Oyj operates a pizza franchise in Finland.

Helsinki Foodstock Oy is a wholesaler whose customers include the Kotipizza chain (inter alia).

Francout Oy is an accounting firm that offers bookkeeping and other accounting services for Kotipizza chain franchisees, group companies and other customers.

Domipizza Oy has operated in the fast food industry; its product was a pizza slice. Domipizza had no operations during the financial period.

Subsidiaries have compiled their own annual reports in accordance with FAS.

In the beginning of April, 2013 the Group refinanced its loans and issued a EUR 30 million bullet bond. In consequence of the refinancing all existing loans, including accrued interests, were repaid. The bond is unsecured and has 6 months interest period with nominal interest of 8%.

In the process the parent company became a public limited company (Oyj).

The bond will be listed in NASDAQ OMX Stockholm at April 2014.

The Group consolidated financial statements are prepared in accordance with IFRS.

Frankis Group Group data (1 000 EUR) :

	31.1.2014		31.1.2013	
	(12 months)	(12 months)	(13 months)	(12 months)
	Parent company	Group	Parent company	Group
	FAS	IFRS (Cont.oper.)	FAS	IFRS (Cont.oper.)
Sales turnover	838	53.912	795	53.576
Operating profit	-298	3.262	-185	4.493
Net result (cont.op)	-190	-376	180	951
Total assets of balance sheet	42.953	51.241	33.913	48.665

Key figures Frankis Group Oyj

	Parent company	Group	Parent company	Group
Operating profit %	negative	6,1	negative	8,4
Return on equity %	negative	negative	3,9	16,1
Equity ratio %	10,3	10,5	13,6	12,1
Average number of employees	4	53	2	52
Wages and salaries	471	2.987	500	2.986
Number of shares	544.275.188		544.275.188	
All shares have an equal right to receive dividends and company assets.				

Management and auditors of company

The following are members of Frankis Group Oyj's board of directors

Johan Wentzel	Chairman
Olli Väättäinen	Regular member
Rabbe Grönblom	Regular member
Kim Hanslin	Regular member
Janne Wartiovaara	Deputy member

Tommi Tervanen has been Managing Director

Auditor KHT Audit firm Ernst & Young Oy
Principal auditor Authorised Public Accountant Mikko Järventausta

Board's proposal regarding the use of earnings

The Board recommends that no dividend be paid, but that the loss of the period be recognized in equity.

No substantial changes have occurred in the company's financial position after the conclusion of the accounting period.

In future we study the possibilities to streamline the Group structure.

Kotipizza Oyj's development and future outlook

The financial period was challenging with the economic situation of the country continuing to be gloomy. Consumer confidence deteriorated throughout the year, and the barometer scores fell clearly short of the long-term average. Consumer confidence decreased throughout the year.

Competition in the Finnish pizza and fast food market will tighten further as new agents are entering the market in addition to existing ones.

Kotipizza's future outlook is good, and growth is pursued in Finland by increasing the sales per unit in particular. To support this, the financial period saw the start of concept design to renew the Kotipizza concept with regard to the premises, products and services. The aim of the concept reform is to create increasingly comfortable restaurants, update the product range to better match consumer needs and provide entrepreneurs with an increasing customer flow.

A risk to favourable development is caused by raw material price increase pressures and availability of funding to new investors becoming more difficult, which, should they materialise and prolong, would also present a challenge to reaching the chain's growth targets.

Helsinki Foodstock Oy's development and future outlook

Helsinki Foodstock Oy deployed a new ERP system in November 2013. During 2013, the focus was strongly on the company's internal matters, such as the challenges due to organisational restructuring, training of personnel and the ERP system project. Cost saving objectives related to increasing the efficiency of logistics processes were met as planned. During the next financial period, profitable growth will be pursued from chain customer accounts and the grocery trade.

During 2014, increasing attention will be paid to acknowledging, monitoring and reporting ethical issues and responsibility throughout the supply chain. In particular, investments will be made in factory visits and audits, including training.

Growth is pursued through the growth of the customer chains (Kotipizza, Kotipizza international, 55, Subway, Subway Estonia). In addition, increasing purchasing loyalty of chain customers is expected to generate additional sales for Helsinki Foodstock Oy. The outlook for raw material (foodstuff) price development in 2014 is moderate. Only individual price increases are expected, and the prices of some raw materials are actually expected to decrease. In the long term, the price development is upward.

The risk of credit losses will increase in the future. In 2013, bankruptcies increased significantly in the restaurant business. With its credit control policy, Helsinki Foodstock Oy has succeeded in keeping credit losses extremely low. Other risks include tightening competition due to the market situation, challenges related to the availability of foodstuffs (in particular, seasonal products) and changes in legislation on foodstuffs. With regard to logistics (transport and storage), the availability of labour and changes in legislation constitute risks.

Consolidated statement of profit or loss

for the year ended 31 January 2014

	Notes	1.2.2013- 31.1.2014 €000	1.1.2012- 31.1.2013 €000
Continuing operations			
Revenue	3	53 912	53 576
Other income	5	96	262
Change in inventory of raw materials and finished goods (+/-)		199	611
Raw materials and finished goods (-)		-40 950	-39 906
Employee benefits/expenses (-)	7	-3 633	-3 660
Depreciations (-)		-391	-305
Impairments (-)	11	-11	-35
Goodwill impairment (-)	15	0	-23
Contingent consideration (-)	15	-665	-581
Other operating expenses (-)	6	-5 295	-5 446
Operating profit		3 262	4 493
Finance income	8	71	56
Finance costs	8	-3 557	-3 025
Loss / profit before taxes from continuing operations		-224	1 524
Income taxes	9	-152	-573
Loss / profit for the period from continuing operations		-376	951
Discontinued operations			
Loss after tax for the period from discontinued operations	4	-147	-84
Loss / profit for the year		-523	867
Earnings per share EUR:			
Basic, profit for the period attributable to ordinary equity holders of the parent (no dilutive instruments)		-0,0010	0,0016
Earnings per share EUR for continuing operations:			
Basic, profit for the period attributable to ordinary equity holders of the parent (no dilutive instruments)		-0,0007	0,0017

Consolidated statement of other comprehensive income

for the year ended 31 January 2014

	1.2.2013- 31.1.2014 €000	1.1.2012- 31.1.2013 €000
Profit (loss) for the period	-523	867
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	9	1
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	9	1
Other comprehensive income for the period, net of tax	9	1
Total comprehensive income for the period, net of tax	-514	868

Consolidated statement of financial position

as at 31 January 2014

		31 January 2014	31 January 2013	1 January 2012
	Notes	€000	€000	€000
Assets				
Non-current assets				
Property, plant and equipment	10	577	485	434
Goodwill	11	36 240	36 240	36 264
Intangible assets	11	785	608	522
Non-current financial assets	18	2	2	2
Non-current receivables	18	144	10	15
Deferred tax assets	9	137	165	358
		37 885	37 510	37 595
Current assets				
Inventories	12	3 282	3 083	2 475
Trade and other receivables	13	6 566	5 139	5 807
Current tax receivables		253	97	0
Prepayments		0	1	16
Cash and cash equivalents	14	3 255	2 825	4 075
		13 356	11 145	12 373
Assets classified as held for sale		0	10	0
Total assets		51 241	48 665	49 968

Consolidated statement of financial position

as at 31 January 2014

		31 January 2014	31 January 2013	1 January 2012
	Notes	€000	€000	€000
Equity and liabilities				
Issued capital	24	80	2	2
Translation differences		16	0	0
Fund for invested unrestricted equity	24	5 362	5 440	5 440
Retained earnings	24	-55	459	-413
Total equity		5 403	5 901	5 029
Non-current liabilities				
Interest bearing loans and borrowings	16, 18	35 518	31 042	31 600
Financial liabilities at fair value through profit or loss	16, 18	273	329	249
Other non-current liabilities	18	3 005	1 742	579
Deferred tax liabilities	9	114	20	19
		38 910	33 133	32 447
Current liabilities				
Interest bearing loans and borrowings	16, 18	121	2 147	2 160
Trade and other payables	17	6 754	7 298	9 924
Provisions	20	31	15	21
Current tax liabilities		22	165	387
		6 928	9 625	12 492
Liabilities related to assets held for sale		0	6	0
Total liabilities		45 838	42 764	44 939
Total shareholders' equity and liabilities		51 241	48 665	49 968

Consolidated statement of changes in equity

for the year ended 31 January 2014

Attributable to the equity holders of the parent						
EUR thousand	Note	Issued capital	Fund for invested unrestricted equity	Retained earnings	Foreign currency translation reserve	Total equity
As at 1 February 2013	24	2	5 440	454	5	5 901
Profit for the period				-523		-523
Other comprehensive income		0	0	0	9	9
Total comprehensive income		0	0	-523	9	-514
Issue of share capital		78	-78	0	0	0
Other				14	2	16
Dividends		0	0	0	0	0
At 31 January 2014		80	5 362	-55	16	5 403

for the year ended 31 January 2013

		Attributable to the equity holders of the parent				
			Fund for invested	Retained	Foreign currency translation	Total
EUR thousand	Note	Issued capital	unrestricted equity	earnings	reserve	equity
As at 1 January 2012	24	2	5 440	-413	0	5 029
Profit for the period				867		867
Other comprehensive income			0	0	1	1
Total comprehensive income		2	0	867	1	868
Dividends		0	0	0	0	0
Other					4	4
At 31 January 2013		2	5 440	454	5	5 901

Consolidated statement of cash flows

for the year ended 31 January 2014

	2014	2013
	€000	€000
Operating activities		
Profit before tax	-224	1524
Loss for discontinued operations	-147	-84
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation and impairment of property, plant and equipment	184	148
Depreciation and impairment of intangible assets	218	215
Contingent considerations	665	581
Gain on disposal of property, plant and equipment	0	-93
Finance income	-71	-56
Finance costs	3557	3025
Change in working capital:		
Change in trade and other receivables (+/-)	-1427	683
Change in inventories (+/-)	-199	-608
Change in trade and other payables (+/-)	10	45
Change in provisions (+/-)	16	-6
Interest paid (-)	-3690	-887
Interest received	71	56
Income tax paid (-)	-328	-698
Net cash flows from operating activities	-1365	3845
Investing activities		
Acquisition of subsidiaries reduced by cash and cash equivalent of exercise moment (-)	-625	-2733
Investments for tangible assets (-)	-363	-207
Investments for non-tangible assets (-)	-529	-279
Repayment for loan assets	0	4
Proceeds from sale of assets-held-for-sale	4	0
Sale of property, plant and equipment	113	93
Net cash flows used in investing activities	-1400	-3122
Financing activities		
Loans withdrawal	30220	52
Loans repayments (-)	-27073	-2000
Finance lease payments (+/-)	48	-25
Net cash flow from / (used in) financing activities	3195	-1973
	430	-1250
Net change in cash and cash equivalents	430	-1250
Cash and cash equivalents at 1 February	2825	4075
Cash and cash equivalents at 31 January	3255	2825

Notes to the consolidated financial statements

1. Corporate information

The consolidated financial statements of the Frankis Group Oyj and its subsidiaries (collectively, "the Group") for the year ended 31 January 2014 were authorised for issue in accordance with a resolution of the directors on 11 March 2014. Frankis Group Oyj is domiciled in Finland. The address of the registered office is c/o Kotipizza Tilipalvelu Oy, PL 6969, 65101 VAASA, located at Satamaterminaali 65170 VAASA

The Group is principally engaged in the franchising, wholesale and financial management service businesses (see Note 3). Information on the Group's structure is provided in Note 23. Information on other related party relationships of the Group is provided in Note 25.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the EU.

For all periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Finnish Generally Accepted Accounting Practice (Local GAAP). These financial statements for the year ended 31 January 2014 are the first the Group has prepared in accordance with IFRS. Refer to Note 2.1-2.4 for information on how the Group adopted IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, available-for-sale (AFS) financial assets and contingent consideration that have been measured at fair value. The consolidated financial statements are presented in euro and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

The Group's reporting period changed during the comparative period: the financial period ended 31 January 2014 is 12 months but the comparative financial period ended 31 January 2013 is 13 months. Therefore, the financial statements are not entirely comparable.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 January 2014. Control is achieved when the Group 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. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2.3 Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

c) Foreign currencies

The Group's consolidated financial statements are presented in euro, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2012 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Group companies

The assets and liabilities of foreign operations are translated into euro at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

d) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in 19.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for fair value measurement.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

Revenue from rendering of services is recognised in the accounting periods in which the services are rendered. Royalties from franchisees will be charged each month, based on monthly sales, and recognised in revenues for the month concerned.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

f) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

g) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

h) Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution.

Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- A component of the Group that is a CGU or a group of CGUs
- Classified as held for sale or distribution or already disposed in such a way, or
- A major line of business or major geographical area

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in Note 4. All other notes to the financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

i) Cash dividend and non-cash distribution to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws in Finland, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

j) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation periods are:

- Intangible assets	5 – 10 years
- Expenses with long-term effects	4 – 10 years
- Buildings and constructions	5 – 10 years
- Machinery and equipment	3 – 5 years

k) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to 1 January 2012, the date of inception is deemed to be 1 January 2012 in accordance with IFRS 1 First-time Adoption of International Reporting Standards.

l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding

capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

m) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial investments

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Derivatives are classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to Note 13.

Available-for-sale (AFS) financial investments

AFS financial investments include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

ii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the loss is recognized in statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

Available-for-sale (AFS) financial investments

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and

recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information refer Note 16.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. The Group has not offset any financial assets and liabilities.

n) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

The Group did not apply fair value hedge accounting during the years ended 31 January 2013 and 2014.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

The Group did not apply cash flow hedge accounting during the years ended 31 January 2013 and 2014.

o) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis
- Finished goods and work in progress: cost of direct materials and services and a proportion of fixed production overheads based on the normal operating capacity, but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

p) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An

asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 January and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

q) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

r) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

s) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less, when appropriate, cumulative amortisation recognized in accordance with the requirements for revenue recognition.

t) Pensions and other post-employment benefits

The Group has only defined contribution plans. Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate. In defined contribution plans, the Group has no legal or contractive obligations to pay further contributions.

2.4 First-time adoption of IFRS

These financial statements, for the year ended 31 January 2014, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 January 2013, the Group prepared its financial statements in accordance with Finnish Generally Accepted Accounting Principles (Finnish GAAP).

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 January 2014, together with the comparative period data as at and for the year ended 31 January 2013, as described in the summary of significant accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2012, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its Local GAAP financial statements, including the statement of financial position as at 1 January 2012 and the financial statements as at and for the year ended 31 January 2013.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

- *IFRS 3 Business Combinations* has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS that occurred before 1 January 2012. Use of this exemption means that the Finnish GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.
- IFRS 1 also requires that the local GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2012.
- *The Group has not applied IAS 21* retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.
- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2012.
- The Group has applied the transitional provision in IFRIC 4 Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition.
- The Group has designated unquoted equity instruments held at 1 January 2012 as available-for-sale investments.

Estimates

The estimates at 1 January 2012 and at 31 January, 2013 are consistent with those made for the same dates in accordance with Finnish GAAP (after adjustments to reflect any differences in accounting policies) apart from the following items where application of Finnish GAAP did not require estimation:

- Available-for-sale financial assets – unquoted equity shares

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at

1 January 2012, the date of transition to IFRS and as of 31 January, 2013.

Reconciliation of equity and comprehensive income are in Notes 2.-2.4

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Discontinued operations

The Group management initiated a plan to dispose of the Russian business on 21 January 2013. The disposal of the business will be completed during the first half of the 2014. Disposal of the Domi-pizzapala business was completed during the financial year 2014. See Note 4 for further details.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 15.

Fair value measurement of contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

4. Standards issued but not yet effective

In its first IFRS financial statements the Group has early adopted following standards with mandatory effective date of application as at 1 January 2014.

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities

Following standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are not expected to have a material impact on the Group's financial result or its financial position or on the presentation of the Group's financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group does not expect that the amendment will have any financial impact in future financial statements.

Notes to the consolidated financial statements

2.1. First time adoption of IFRS

Group reconciliation of equity as at 1 January 2012 (date of transition to IFRS)

		Finnish GAAP	Remeasurements	IFRS as at 1 January 2012
	Notes	€000	€000	€000
Assets				
Non-current assets				
Property, plant and equipment		434		434
Intangible assets	A	36 817	-31	36 786
Other non-current financial assets		17		17
Deferred tax assets	B	271	87	358
		<u>37 539</u>	<u>56</u>	<u>37 595</u>
Current assets				
Inventories		2 475		2 475
Trade and other receivables		5 807		5 807
Prepayments		16		16
Income tax receivables		0		0
Cash and short term deposits		4 075		4 075
		<u>12 373</u>	<u>0</u>	<u>12 373</u>
Assets held for sale		0	0	0
		<u>12 373</u>	<u>0</u>	<u>12 373</u>
Total assets		<u>49 912</u>	<u>56</u>	<u>49 968</u>
Equity and liabilities				
Equity				
Issued capital		2		2
Other capital reserves		5 440		5 440
Retained earnings	C	-199	-214	-413
Other components of equity	D	-3	3	0
Equity attributable to owners of the parent		<u>5 240</u>	<u>-211</u>	<u>5 029</u>
Non-controlling interests		0	0	0
Total equity		<u>5 240</u>	<u>-211</u>	<u>5 029</u>
Long-term liabilities				
Interest-bearing loans and borrowings		31 600		31 600
Other liabilities	E	580	249	829
Deferred tax liability	B	0	18	18
		<u>32 180</u>	<u>267</u>	<u>32 447</u>
Current liabilities				
Trade and other payables		9 923		9 923
Interest-bearing loans and borrowings		2 160		2 160
Income tax payable		388		388
Provisions		21		21
		<u>12 492</u>	<u>0</u>	<u>12 492</u>
Liabilities directly associated with the assets classified as held for sale		0	0	0
		<u>12 492</u>	<u>0</u>	<u>12 492</u>
Total liabilities		<u>44 672</u>	<u>267</u>	<u>44 939</u>
Total equity and liabilities		<u>49 912</u>	<u>56</u>	<u>49 968</u>

Notes to the consolidated financial statements

2.2. First time adoption of IFRS

Group reconciliation of equity as at 31 January 2013

		Finnish GAAP	Remeasurements	IFRS as at 31 January 2013
	Notes	€000	€000	€000
Assets				
Non-current assets				
Property, plant and equipment	F	489	-4	485
Intangible assets	A, F	35 633	1 215	36 848
Other non-current financial assets		12		12
Deferred tax assets	B	31	134	165
		<u>36 165</u>	<u>1 345</u>	<u>37 510</u>
Current assets				0
Inventories	F	3 087	-4	3 083
Trade and other receivables		5 139		5 139
Prepayments	F	2	-1	1
Income tax receivables		97		97
Cash and short term deposits		<u>2 825</u>		<u>2 825</u>
		<u>11 150</u>	<u>-5</u>	<u>11 145</u>
Assets held for sale	F	0	10	10
		<u>11 150</u>	<u>5</u>	<u>11 155</u>
Total assets		<u>47 315</u>	<u>1 350</u>	<u>48 665</u>
Equity and liabilities				
Equity				
Issued capital		2		2
Other capital reserves		5 440		5 440
Retained earnings	C	-591	1 051	460
Other components of equity	D	0	-1	-1
Equity attributable to owners of the parent		<u>4 851</u>	<u>1 050</u>	<u>5 901</u>
Non-controlling interests		0	0	0
Total equity		<u>4 851</u>	<u>1 050</u>	<u>5 901</u>
Long-term liabilities				
Interest-bearing loans and borrowings		31 042		31 042
Other liabilities	E	1 743	328	2 071
Deferred tax liability	B	0	20	20
		<u>32 785</u>	<u>348</u>	<u>33 133</u>
Current liabilities				
Trade and other payables	F	7 304	-6	7 298
Interest-bearing loans and borrowings		2 147		2 147
Income tax payable		165		165
Provisions	E	63	-48	15
		<u>9 679</u>	<u>-54</u>	<u>9 625</u>
Liabilities directly associated with the assets classified as held for sale	F	0	6	6
		<u>9 679</u>	<u>-48</u>	<u>9 631</u>
Total liabilities		<u>42 464</u>	<u>300</u>	<u>42 764</u>
Total equity and liabilities		<u>47 315</u>	<u>1 350</u>	<u>48 665</u>

Notes to the consolidated financial statements

2.3. First time adoption of IFRS

Group reconciliation of total comprehensive income for the year ended 31 January 2013

	Notes	Finnish GAAP €000	Remeasure- ments €000	IFRS as at 31 January 2013 €000
Revenue	G	53 774	-198	53 576
Other operating income	G	252	11	263
Change in inventories of finished goods and work in progress		611		611
Materials and services		-39 950	43	-39 907
Personnel costs	I	-3 737	77	-3 660
Depreciation and amortization	A,F	-2 332	2 027	-305
Impairment	H		-35	-35
Goodwill impairment	H		-23	-23
Contingent consideration	K		-581	-581
Other operating expenses	I	-5 454	8	-5 446
Operating profit		3 164	1 329	4 493
Finance income	J	66	-10	56
Finance costs	E,J	-3 006	-19	-3 025
Profit before tax		224	1 300	1 524
Income tax expense	B	-618	45	-573
Profit for the period		-394	1 345	951
Discontinued operations				
Loss after tax for the period from discontinued operations	L		-84	-84
Loss / profit for the year			1 261	867
Other comprehensive income:				
Exchange differences on translation of foreign operations			1	1
Other comprehensive income for the year net of tax		0	1	1
Total comprehensive income for the year net of tax		-394	1 262	868

Notes to the consolidated financial statements

2.4. First time adoption of IFRS

Notes to the reconciliation of equity as at 1 January 2012 and 31 January 2013 and total comprehensive income for the year ended 31 January 2013

A Intangible assets

Reversed capitalisation of marketing and advertising costs. Local GAAP goodwill amortisation added back and capitalized transaction costs written-off.

B Deferred tax

Recognized deferred tax on IFRS adjustments.

C Retained earnings

Impact of IFRS adjustments.

D Other components of equity

Reclassification of opening balance sheet translation differences.

E Other liabilities

Fair valuation of derivatives.

F Property, plant and equipment

Reclassification of discontinued operations and assets held for sale.

G Revenue

Reclassified government grants to other operating income.

H Impairment charges

Russian and Serbian impairments.

I Personnel costs and other operating costs

Reclassification of discontinued operations and assets held for sale.

J Finance income and finance costs

Reclassification of discontinued operations and assets held for sale.

K Contingent consideration

The additional purchase price written-off.

L Discontinued operations

Includes Russian and Domi-pizzapalat operations.

Notes to the consolidated financial statements

Note 3. Segment information

For management purposes, the Group is organised into five operating segments based on the products and services as follows:

- Franchising segment, which provides services to entrepreneurs under the Group's franchises
- Kotipizza segment, which operates the group-owned Kotipizza restaurants
- Wholesale segment, which operates as a wholesaler to the Group's other business units and third parties
- Financial management services segment, which provides accounting and tax related services to the franchise entrepreneurs, the Group companies and third party customers, and
- Business administration segment, which provides administrative services to the Group companies

All segments are organised as separate legal entities responsible for their own business and financial

Operating segments 2014	External revenues	Internal Revenues	Total	EBITDA
Franchising	11 661	1 504	13 165	4419
Kotipizza	2 575		2 575	-530
Wholesale	39 027	1 301	40 328	870
Financial management services	645	486	1 131	-143
Business administration	1	837	838	-288
Eliminations		-4 125	-4 125	1
Total	53 909	3	53 912	4329

Operating segments 2013	External revenues	Internal Revenues	Total	EBITDA
Franchising	12 314	1 157	13 471	5435
Kotipizza	2 745		2 745	-677
Wholesale	37 779	1 185	38 964	989
Financial management services	759	458	1 217	-21
Business administration		795	795	-246
Eliminations		-3 616	-3 616	-43
Total	53 597	-21	53 576	5437

Contingent considerations have not been included in segment EBITDA.

Assets and liabilities of operating segments are not regularly reported to chief operating decision maker, and therefore, this information is not disclosed.

The Russian operations that formed part of the franchising segment were disposed of in the first half of 2013 and at 31.1.2014 the Group operates only in Finland. The result arising from eliminations relates to the different financial years within the Group for which the Group was granted permission by the Finnish Accounting Board.

Notes to the consolidated financial statements

Note 4. Assets held for sale and discontinued operations

The assets held for sale and discontinued operations relate to Russian operations and Domi-pizzapalat within the Kotipizza segment.

The Group management initiated a plan to dispose of the Russian business on 21 January 2013. The disposal of the business will be completed during the first half of the 2014. Disposal of the Domi-pizzapala business was completed during the financial year 2014.

	2014	2013
	€000	€000
Revenue	16	188
Expenses	-133	-270
Gross profit	-117	-82
Finance costs	-30	-2
Profit/(loss) for the year from a discontinued operation	-147	-84
Earnings per share EUR for discontinuing operations:		
Basic, profit for the period attributable to ordinary equity holders of the parent (no dilutive instruments)	-0,0003	-0,0002

The major classes of assets and liabilities related to discontinued operations:

	2014	2013
	€000	€000
Assets		
Intangible assets (Note 14)	0	1
Property, plant and equipment (Note 13)	0	4
Inventories	0	5
Assets related to discontinued operations	0	10
Liabilities		
Other liabilities	0	6
Liabilities related to discontinued operations	0	6

Notes to the consolidated financial statements

Note 5. Other operating income

	2014	2013
	€000	€000
Net gain on disposal of property, plant and equipment	27	93
Other income	31	150
Government grants	12	10
Collateral compensations	26	9
Total	96	262

Government grants have been received for the training of Kotipizza entrepreneurs.
 Other income includes rental income from equipments and contractual charges.

Notes to the consolidated financial statements

Note 6. Other operating expenses

	<u>2014</u>	<u>2013</u>
	<u>€000</u>	<u>€000</u>
Rental expenses	553	482
External services	1 969	1 955
Other expense items	2 773	3 009
Total other operating expenses	<u>5 295</u>	<u>5 446</u>

Auditor's fee

	<u>2014</u>	<u>2013</u>
	<u>€000</u>	<u>€000</u>
Auditing	25	16
Other services	35	28
Total	<u>60</u>	<u>44</u>

Research and development costs

The research and development expenses amounted to EUR 135 thousand (in 2013 EUR 136 thousand). The research and development expenses relate to the training of Kotipizza entrepreneurs as well as development of new product recipes. In addition the R&D expenses in 2014 include the costs relating to the sustainability report the Group prepared for the first time.

Notes to the consolidated financial statements

Note 7. Employee benefits expense

	<u>2014</u>	<u>2013</u>
	<u>€000</u>	<u>€000</u>
Included in cost of administrative expenses:		
Wages and salaries	2 987	2 986
Social security costs	96	144
Pension costs (defined contribution plans)	550	530
Total employee benefits expense	<u><u>3 633</u></u>	<u><u>3 660</u></u>

Notes to the consolidated financial statements

Note 8. Finance income and costs

	2014	2013
	€000	€000
Interest income on a receivables	43	34
Interest income from available-for-sale investments	1	1
Other financial income on a contingent liabilities	16	16
Other financial income	11	5
Total finance income	71	56
	2014	2013
	€000	€000
Interest on debts and borrowings	3 136	2 726
Finance charges payable under finance leases	5	4
Total interest expense	3 141	2 730
Other financial costs	58	72
Transaction costs of bond issue	262	0
Net loss on financial instruments at fair value through profit or loss	96	223
Total finance costs	3 557	3 025

Net loss on financial instruments at fair value through profit or loss relates to interest rate swap contracts that did not qualify for hedge accounting.

Notes to the consolidated financial statements

Note 9. Income tax

The major components of income tax expense for the years ended 31 January 2014 and 2013 are:

Consolidated statement of profit or loss	2014	2013
	€000	€000
Current income tax:		
Current income tax charge	30	379
Deferred tax:		
Relating to origination and reversal of temporary differences	122	194
Income tax expense reported in the statement of profit or loss	152	573

Consolidated statement of comprehensive income

Deferred tax has not been recognized on translation differences.

Reconciliation of tax expense and the accounting profit multiplied by Finland's domestic tax rate for 2014:

	2014	2013
	€000	€000
Accounting profit before tax from continuing operations	-224	1524
Accounting profit before income tax	-224	1524
At Finland's statutory income tax rate of 20% (2013: 24,5%)	-45	373
Non-deductible expenses for tax purposes:		
Impairment of goodwill	0	6
Contingent considerations	135	142
Other non-deductible expenses	52	61
Other	10	-9
At the effective income tax rate of neg. % (2013: 37.59%)	152	573
Income tax expense reported in the statement of profit or loss	152	573

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss	
	2014	2013	2014	2013
	€000	€000	€000	€000
Accelerated depreciation for tax purposes	-46	-49	5	-6
Undeductible provision	68	66	-33	15
Fair valuation of derivatives	56	80	56	-20
Tax losses				227
Capitalized transaction costs	-105		105	
Intangible assets	50	48	-11	-22
Net deferred tax	23	145	122	194

Reflected in the statement of financial position as follows:

Deferred tax assets	137	165
Deferred tax liabilities - continuing operations	-114	-20
Deferred tax assets, net	23	145

Reconciliation of deferred tax assets, net

	2014	2013
	€000	€000
Opening balance	145	339
Tax income/(expense) during the period	-122	-194
Closing balance as at 31 January	23	145

There are no income tax consequences attached to the payment of dividends by the Group to its shareholders.

Notes to the consolidated financial statements

Note 10. Property, plant and equipment

	Property	Plant and equipment	Total
	€000	€000	€000
Cost			
At 1 January 2012	364	1 307	1 671
Additions	0	207	207
Disposals	-93	0	-93
Discontinued operations (Note 4.)		-4	-4
At 31 January 2013	271	1 510	1 781
Additions	0	363	363
Disposals	0	-113	-113
Discontinued operations	0	0	0
At 31 January 2014	271	1 760	2 031
Depreciation and impairment			
At 1 January 2012	-319	-918	-1 237
Depreciation charge for the year	-17	-132	-149
Disposals	93	-3	90
At 31 January 2013	-243	-1 053	-1 296
Depreciation charge for the year	-13	-172	-185
Disposals	0	24	24
Discontinued operations (Note 4.)	0	3	3
At 31 January 2014	-256	-1 198	-1 454
Net book value			
At 31 January 2014	15	562	577
At 31 January 2013	28	457	485
At 1 January 2012	45	389	434

Discontinued operations relate to the disposal of Russian operations. The Group management initiated a plan to dispose of the Russian business on 21 January 2013 and the disposal was completed in the first half of the financial year 2014.

Notes to the consolidated financial statements

Note 11. Intangible assets

	Goodwill	Intangible rights	Other long-term expenses	Total
	€000	€000	€000	€000
Cost				
At 1 January 2012	36 264	245	1 297	37 806
Additions	0	77	202	279
At 31 January 2013	36 264	322	1 499	38 085
Additions	0	0	392	392
At 31 January 2014	36 264	322	1 891	38 477
Amortisation and impairment				
At 1 January 2012		-143	-878	-1 021
Impairment	-23	0	-35	-58
Discontinued operations (Note 4)	-1	0	0	-1
Amortisation		-14	-143	-157
At 31 January 2013	-24	-157	-1 056	-1 237
Amortisation	0	-17	-187	-204
Discontinued operations (Note 4)	1	0	0	1
Impairment	0	0	-11	-11
At 31 January 2014	-23	-174	-1 254	-1 451
Net book value				
At 31 January 2014	36 240	148	637	37 025
At 31 January 2013	36 240	165	443	36 848
At 1 January 2012	36 264	103	419	36 786

Intangible rights include license fees and other intangible rights. Other long-term expenses include the leasehold improvements, software and other long-term expenses.

In 2013 the impairment of goodwill relates to write-down of goodwill allocated to the Russian operations.

The impairment of other long-term expenses in 2014 relates to a capitalised IT-system which the Group has decided not to take into use and in 2013 to Serbian operations.

The Group has also capitalised advance payments to suppliers for intangible assets amounting to EUR 134 thousand. The amount relates to renewal of the Kotipizza concept which was accounted for as work in progress as at 31 January 2014.

Notes to the consolidated financial statements

Note 12. Inventories

	2014	2013	As at 1 January 2012
	€000	€000	€000
Raw materials (at cost)	2 555	2 188	2 028
Work in process (at cost)	409	640	229
Finished goods (at cost or net realisable value)	318	255	218
Total inventories at the lower of cost and net realisable value	3 282	3 083	2 475

In 2014 the write-downs of inventory amounted to EUR 118 thousand and in 2013 EUR 101 thousand. The write-downs are included in the change in inventories in the statement of profit or loss.

Notes to the consolidated financial statements

Note 13. Trade and other receivables

	2014	2013	As at 1 January 2012
	€000	€000	€000
Trade receivables	5 142	4 068	4 050
Trade receivables from other related parties	41	15	11
Other receivables	1 383	1 056	1 746
	6 566	5 139	5 807

Trade receivables from other related parties are normal trade receivables.

Trade receivables are non-interest bearing and are generally on terms of 7 to 30 days.

Other receivables include pledged bank accounts (for collateral requirements). These amounts were EUR 764 thousand at January 2014 (2013 : EUR 554 thousands).

As at 31 January 2014, trade receivables of an initial value of EUR 307 thousand (2013: EUR 263 thousand) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables.

	Individually impaired
At 1 February 2012	271
Change for the year	-8
At 31 January 2013	263
Change for the year	44
At 31 January 2014	307

As at 31 January, the ageing analysis of trade receivables is as follows:

	2014	2013	As at 1 January 2012
	€000	€000	€000
Neither past due nor impaired	3 505	2 775	3 479
Past due but not impaired			
< 30 days	823	622	206
> 30 days	855	686	376
Total	5 183	4 083	4 061

See Note 22 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

Notes to the consolidated financial statements

Note 14. Cash and short term deposits

	2014	2013	As at 1 January 2012
	€000	€000	€000
Cash at banks and on hand	3 255	2 825	4 075
	3 255	2 825	4 075

Cash at banks earns interest at floating rates based on daily bank deposit rates. The group does not have any short-term deposits.

The Group has pledged a part of its bank account deposits to fulfil collateral requirements. These bank accounts are shown in other receivables not in cash at banks and on hand. Refer to note 13. for further details.

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following as at 31 January:

	2012	2011	As at 1 January 2012
	€000	€000	€000
Cash at banks and on hand	3 255	2 825	4 075
Cash and cash equivalents	3 255	2 825	4 075

Notes to the consolidated financial statements

Note 15. Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the three CGUs below, which are also operating and reportable segments, for impairment testing:

- Franchising CGU
- Wholesale CGU
- Financial management services CGU

Carrying amount of goodwill allocated to each of the CGUs:

	2014	2013
	€000	€000
Franchising CGU	29 419	29 419
Wholesale CGU	6 400	6 400
Financial management services CGU	421	421
Total	36 240	36 240

The Group performed its annual impairment test in January 2014 and 2013.

Franchising CGU

The recoverable amount of the Franchising CGU, € 46.717 thousand as at 31 January 2014, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 9 % (2013: 9 %) and cash flows beyond the five-year period are extrapolated using a 1 % growth rate (2013: 1 %) which is assessed not to exceed the long-term average growth rate for the franchising industry. As at 31 January 2013, an impairment charge of 23 thousand euros was recognized against goodwill relating to Russian operations. The additional purchase prices paid in the financial years 2013 (EUR 581 thousands) and 2014 (EUR 665 thousands) were recognized as contingent consideration through profit or loss.

Wholesale CGU

The recoverable amount of the Wholesale CGU, € 11.269 thousand as at 31 January 2014, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 9 % (2013: 9 %) and cash flows beyond the five-year period are extrapolated using a 1 % growth rate (2013: 1 %) which is assessed not to exceed the long-term average growth rate for the wholesale industry.

Financial management services CGU

The recoverable amount of the Financial management services CGU, € 603 thousand as at 31 January 2014, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 9 % (2013: 9 %) and cash flows beyond the five-year period are extrapolated using a 1 % growth rate (2013: 1 %) which is assessed not to exceed the long-term average growth rate for the financial management services industry.

Key assumptions used in value in use calculations

The calculation of value in use for the cash generating units is most sensitive to the following assumptions:

- EBITDA margin
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

EBITDA margins - EBITDA margins are based on levels achieved in the years preceding the beginning of the budget period. These are adjusted for anticipated volume and efficiency impacts.

Discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual risk factors.

Growth rate estimates - Rates are based on moderate assumptions

Sensitivity to changes in assumptions

The following changes in key assumptions would lead to impairment charges:

	Decrease in EBITDA margin (% units)	Increase in discount rate (% units)
Franchising CGU	9,2	3,6
Wholesale CGU	0,6	2,6
Financial management services CGU	1,7	4,0

Notes to the consolidated financial statements

Note 16. Financial liabilities

Interest-bearing loans and borrowings

	Effective interest rate	Maturity	2014	2013	As at 1 January 2012
	%		€000	€000	€000
Current interest-bearing loans and borrowings					
Bank loan	floating	12 months	0	600	600
Bank loan	floating	12 months	0	1 400	1 400
Other current loans					
	1 week Euribor + 1,25 margin				
Bank credit facility		under 12 month	0	52	0
Car installment credits		12 months	121	95	160
Total current interest-bearing loans and borrowings			121	2 147	2 160
Non-current interest-bearing loans and borrowings					
Bond issue	9,024	3.4.2016	29 476	0	0
Bank loan	floating	30.9.2016	0	6 800	7 400
Bank loan	floating	30.9.2016	0	4 200	5 600
Loans from financial institutions	13,50	30.9.2016	0	5 486	5 000
Other non-current loans					
Car installment credits		over 12 months	156	135	95
Loans from the group companies	12.00	30.9.2016	0	6 208	5 541
Loans from the associated companies	12.00	30.9.2016	0	1 706	1 524
Loans from the associated companies	7.00	30.9.2016		5 886	5 886
Loans from the minority shareholders	12.00	30.9.2016	0	621	554
Loans from the group companies	7.00	1.12.2017	2 943	0	0
Loans from the other related parties	7.00	1.12.2017	2 943	0	0
Total non-current interest-bearing loans and borrowings			35 518	31 042	31 600
Total interest-bearing loans and borrowings			35 639	33 189	33 760

Bond

In the beginning of April, 2013 the Group refinanced its loans and issued a EUR 30 million bullet bond. In consequence the refinancing all existing loans, including accrued interests, were repaid. The bond is unsecured and has 6 months period with nominal interest of 8%. The effective interest rate of the bond is 9,024%. The bond will be listed in NASD, OMX Stockholm at april 2014.

Other loans

Loans from group companies and related parties are unsecured and subordinated to other loans. The loans carry fixed interest of 7%. Accrued interests are paid at the maturity of the loans.

Other financial liabilities

	As at 1 January		
	2014	2013	2012
	€000	€000	€000
Financial liabilities at fair value through profit or loss			
Derivatives not designated as hedges			
Interest rate swap contracts	273	329	249
Total financial liabilities at fair value through profit or loss	273	329	249
Total other financial liabilities	273	329	249

Other financial liabilities include an interest rate derivative contract that is not designated as hedging instrument. The contract with the nominal amount of EUR 7,3 million will expire in September, 2016.

Notes to the consolidated financial statements

Note 17. Trade and other payables

	2014	2013	As at 1 January 2012
	€000	€000	€000
Trade payables	3 912	3 967	3 831
Other payables	2 801	2 348	3 516
Interest payable	0	983	421
Related parties	41	0	2 156
	6 754	7 298	9 924

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms
- Other payables are non-interest bearing and have an average term of six months
- Interest payable is capitalized after 12 months interest-bearing.

Payables to related parties are contingent considerations for acquisitions of subsidiaries. These liabilities will be settled within one year.

Notes to the consolidated financial statements

Note 18.

Carrying amounts of financial assets and liabilities by category

Values at 31 January 2014

Balance sheet item, EUR 1,000	Note	Financial assets/ liabilities at fair value through profit or loss	Loans and other receivable s	Available- for-sale financial assets	Financial liabilities at amortised cost	Carrying amounts by balance sheet item	Fair value
Non-current financial assets							
Non-current receivables			144			144	144
Non-current financial assets				2		2	2
Current financial assets							
Trade and other receivables	13		6 566			6 566	6 566
Cash and cash equivalents	14		3 255			3 255	3 255
Carrying amount by category		0	9 965	2	0	9 967	9 967

Non-current financial liabilities

Interest-bearing liabilities	16				35 518	35 518	35 597
Derivative financial instruments	19	273				273	273
Other non-current liabilities					3 005	3 005	3 005
Current financial liabilities							
Interest-bearing liabilities	16				121	121	121
Trade and other payables	17				6 754	6 754	6 754
Carrying amount by category		273	0	0	45 398	45 671	45 750

Values at 31 January 2013

Balance sheet item, EUR 1,000	Note	Financial assets/ liabilities at fair value through profit or loss	Loans and other receivable s	Available- for-sale financial assets	Financial liabilities at amortised cost	Carrying amounts by balance sheet item	Fair value
Non-current financial assets							
Non-current receivables			10			10	10
Non-current financial assets				2		2	2
Current financial assets							
Trade and other receivables	13		5 139			5 139	5 139
Cash and cash equivalents	14		2 825			2 825	2 825
Carrying amount by category		0	7 974	2	0	7 976	7 976

Non-current financial liabilities

Interest-bearing liabilities					31 042	31 042	31 042
Derivative financial instruments	19	329				329	329
Other non-current liabilities					1 742	1 742	1 742
Current financial liabilities							
Interest-bearing liabilities	16				2 147	2 147	2 147
Trade and other payables	17				7 298	7 298	7 298
Carrying amount by category		329	0	0	42 229	42 558	42 558

Non-current receivables comprise advance payments for intangible assets. Non-current receivable are measured at amortized cost.

Other non-current liabilities comprise collateral debts and interest payables.

AFS investments include investments in non-listed financial assets.

AFS investments are measured at cost as their fair value can not be reliably measured in the absence of an active market.

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- The fair value of financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Group enters into derivative financial instruments principally with financial institutions with investment grade credit ratings institutions. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves.
- Fair values of the Group's interest-bearing borrowings are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

Notes to the consolidated financial statements

Note 19. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 January 2014:

	Date of valuation	Fair value measurement using		
		Total	Quoted	Significant
			prices in active markets (Level 1)	observable inputs (Level 2)
		€000	€000	€000
Assets measured at fair value:	31 January 2014			
			0	0
Liabilities measured at fair value:	31 January 2014			
Derivative financial liabilities				
Interest rate swaps				273
Liabilities for which fair values are disclosed (Note 20):				
Interest-bearing loans and borrowings				
Fixed rate borrowing				35 597

There have been no transfers between Level 1 and Level 2 during the period.

Fair value hierarchy for financial instruments measured at fair value as at 31 January 2013:

Financial assets measured at fair value	Total	Level 1	Level 2	Level 3
	€000	€000	€000	€000
	0	0	0	0
Financial liabilities measured at fair value	Total	Level 1	Level 2	Level 3
	€000	€000	€000	€000
Derivative financial instruments				
Interest rate swaps			329	

Notes to the consolidated financial statements

Note 20. Provisions

	Contingent liability
	€000
At 1 February 2013	15
Exchange differences	0
Acquisition of a subsidiary	0
Arising during the year	16
Utilised	0
Unused amounts reserved	0
Discount rate adjustment and imputed interest	0
At 31 January 2014	31
 Current	 31

The provisions relate to onerous lease contracts for empty offices. As at the balance sheet date there were two such contracts. The lease liabilities will be settled within one year.

Notes to the consolidated financial statements

Note 21. Commitments and contingencies

Operating lease commitments — Group as lessee

The Group has entered into commercial leases on premises and certain items of machinery. These leases have an average life between three and five years, with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at year end:

			As at 1 February
	2014	2013	2012
	€000	€000	€000
Within one year	35	89	96
After one year but no more than five years	37	96	128
More than five years	0	0	0
	<u>72</u>	<u>185</u>	<u>224</u>

Legal claim contingencies

The bankruptcy estate of RG Line Oy Ab has presented Francount Oy, a subsidiary of the Group, a recovery claim of 97.614,26 €. The claim is currently being processed in the district court.

Repurchase commitments and secondary liabilities

The repurchase commitments and secondary liabilities are part of the franchising business.

	2014	2013
	€000	€000
Repurchase commitments	385	337
Secondary liabilities	69	195

Guarantees which are backed up by business mortgages, pledged deposits and guarantees

The Group's franchising business operated by Kotipizza Oyj, a subsidiary of the Group, involves providing rental guarantees for premises where Kotipizza Oyj is the main lessee but has subleased the premises out. Kotipizza Oyj has pledged deposits and business mortgages and the parent company Frankis Group Oyj has given guarantees as a counter guarantee for the rental guarantees provided.

Helsinki Foodstock Oy, a subsidiary of the Group, has bank guarantees for the goods being imported. As a counter guarantee for the bank guarantees, Helsinki Foodstock Oy has pledged business mortgages and the parent company Frankis Group Oyj has provided guarantees.

	2014	2013
	€000	€000
Commitments		
Rental guarantees	552	590
Bank guarantees	420	120
Counter guarantees: pledged deposits and business mortgages, guarantees		
Pledged deposits	544	554
Business mortgages	2000	54000
Guarantees	420	420

Guarantees on behalf of other companies

Kotipizza Oyj, a subsidiary of the Group, has provided a guarantee on behalf on a business partner. An annual commission of 1 % of the maximum liability is charged by Kotipizza Oyj.

2014	2013
€000	€000
897	1295

Notes to the consolidated financial statements

Note 22. Financial risk management objectives and policies

The Group's principal financial liabilities comprise of loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include trade and other receivables, and cash and short-term deposits that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks.

All derivative activities for risk management purposes are carried out by persons that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 January in 2014.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the fair value of interest rate derivative instruments as borrowing in form of bonds is at fixed rate.

The Group manages its interest rate risk by keeping its borrowings at fixed rate of interest. To manage this the Group issues fixed rate loans and enters into interest rate derivative instruments when needed. As at 31 January 2014, 100% of the Group's borrowings are at fixed rate of interest.

Interest rate sensitivity

A shift of - 0,15% in the market interest rate curve would have a - EUR 20 thousand effect in the profit or loss as at 31 January 2014.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency).

As at 31 January 2014, the Group did not have any significant exposures in foreign currencies.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

Outstanding customer receivables are regularly monitored and an impairment analysis is performed at each reporting date on an individual basis for major clients. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several geographical area and receivables per customer are reasonable.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties.

The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 January 2014 and 2013 is the carrying amounts as illustrated in Note 18.

Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 January 2014	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	€000	€000	€000	€000	€000	€000
Interest-bearing loans and borrowings	0	30	91	35 518	0	35 639
Contingent consideration	0	0	0	0	0	0
Other financial liabilities	0	0	798	3 005	0	3 803
Trade and other payables	0	4 909	1 069	0	0	5 978
Derivatives	0	39	104	184	0	327
	0	4 978	2 062	38 707	0	45 747

Year ended 31 January 2013	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	€000	€000	€000	€000	€000	€000
Interest-bearing loans and borrowings	0	30	2 169	30 990	0	33 189
Contingent consideration	0	0	0	0	0	0
Other financial liabilities	0	0	367	1 742	0	2 109
Trade and other payables	0	4 913	2 183	0	0	7 096
Derivatives	0	45	128	328	0	501
	0	4 988	4 847	33 060	0	42 895

Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value. In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the Bondholders Agent to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group issued a 30.000.000 EUR fixed rate Bond at 2. April 2013.
Terms and conditions are available on the Group WEB site (www.frankisgroup.com)

No other changes were made in the objectives, policies or processes for managing capital during the years ended 31 January 2013 and 2014.

Notes to the consolidated financial statements

Note 23. Group information

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal activities	Country of incorporation	% of equity interest	
			2014	2013
Frankis Finland Oy	Holding company	Finland	100 %	100 %
Francount Oy	Accounting services	Finland	100 %	100 %
Domipizza Oy	Fast food	Finland	100 %	100 %
Senhold 2 Oy	Holding company	Finland	100 %	100 %
Kotipizza Oyj	Fast food and franchising	Finland	100 %	100 %
Helsinki Foostock Oy	Food and beverages wholesale	Finland	100 %	100 %
Kotipizza SPb LLC	Fast food and franchising	Russia	100 %	100 %

The ultimate control of the Group

The parent company of the Group, Frankis Group Oyj, is 72,72% owned and thus controlled by one of the funds managed by Sentica Partners Oy. Other owners are Ab R. Grönblom International Ltd (20 %) and board members & management of the group (7,28 %).

Notes to the consolidated financial statements

Note 24. Issued capital and reserves

Thousand EUR	Number of shares (1 000)	Issued capital	Fund for invested unrestricted equity	Total
At 1 February 2012	544 275	2 500	5 440 252	5 987 027
At 31 January 2013	544 275	2 500	5 440 252	5 987 027
Share issue	0	77 500	-77 500	0
At 31 January 2014	544 275	80 000	5 362 752	5 987 027

OCI, net of tax:

The disaggregation of changes of OCI by each type of reserve in equity is shown below:

	Available for- sale reserve	Foreign currency translation reserve	Retained earnings	Total
	€000	€000	€000	€000
As at 31 January 2014				
Foreign exchange translation differences	0	9	0	9
	0	9	0	9

	Available for- sale reserve	Foreign currency translation reserve	Retained earnings	Total
	€000	€000	€000	€000
As at 31 January 2013				
Foreign exchange translation differences	0	1	0	1
	0	1	0	1

There has been no dividend distribution in the group for years 2013-2014.

Notes to the consolidated financial statements

Note 25. Related party transactions

Note 23 above provides the information about the Group's structure including the details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Interest paid	Amounts owed to related parties	Purchases from related parties
		€000	€000	€000
Key management personnel of the group	2014	110	16	
	2013	0	620	
Other related parties	2014	304	3 526	
	2013	0	8 264	
Controlling entities	2014	778	3 602	
	2013		6 520	
Companies controlled by board members	2014			156
	2013			51

		Salaries	Pension cost
		€000	€000
Key management personnel of the Group:	2014	938	169
	2013	843	151

		Salaries	Pension cost
		€000	€000
Managing director and board members:			
Tommi Tervanen, managing director since 1.11.2012	2014	207	37
	2013	50	9
Kim Hanslin, managing director until 31.10.2012 board member since 1.11.2012	2014	6	0
	2013	214	36
Johan Wentzel, chairman of the board	2014	6	0
	2013	6	0
Rabbe Grönblom	2014	6	0
	2013	6	0
Olli Väättäinen	2014	6	0
	2013	6	0

Key management personnel have not been granted a loan, and the group has not guaranteed loans to the management personnel.

Notes to the consolidated financial statements

Note 26. Earnings per share

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted EPS computations:

	<u>2014</u>	<u>2013</u>
	€000	€000
Profit attributable to ordinary equity holders of the parent		
Continuing operations	-376	951
Discontinued operations	-147	-84
Profit attributable to ordinary equity holders of the parent for basic earnings	-523	867
Net profit attributable to ordinary equity holders of the parent		
adjusted for the effect of dilution	<u><u>-523</u></u>	<u><u>867</u></u>
	<u>2014</u>	<u>2013</u>
Weighted average number of ordinary shares for basic earnings per share	544 275 188	544 275 188
Effect of dilution: none		
Weighted average number of ordinary shares adjusted for the effect of dilution	<u><u>544 275 188</u></u>	<u><u>544 275 188</u></u>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

Profit and loss account		01.02.2013-31.01.2014	01.01.2012-31.01.2013
		12 months	13 months
		€000	€000
Net Sales	1)	838	795
Other operating income	2)	13	12
Personnel expenses	3)	-572	-599
Depreciations and write-downs	4)	-30	-3
Other operating expenses	5)	-547	-390
Operating profit		-298	-185
Financial income and expenses	6)	-4172	-3797
Loss before extraordinary items		-4470	-3982
Extraordinary items	7)	4302	4258
Loss before taxes and appropriations		-168	276
Income taxes	8)	-22	-96
Profit / loss for the period		-190	180

BALANCE SHEET		31.1.2014	31.1.2013
ASSETS		€000	€000
Fixed assets			
Intangible assets	9)	11	13
Tangible assets	10)	80	108
Investments	11)	30772	30096
Fixed assets total		30863	30217
Current assets			
Short-term receivables	12)	12042	3696
Cash at bank and on hand		48	0
Current assets total		12090	3696
ASSETS		42953	33913

SHAREHOLDER'S EQUITY AND LIABILITIES

Shareholders equity	13)		
Share capital		80	3
Invested unrestricted equity fund		5363	5440
Profit/ loss from the previous financial period		-831	-1011
Profit / loss from the period		-190	180
Total Shareholder's equity		4422	4612
Mandatory provisions			48
Long-term liabilities	14)	37416	26814
Short-term liabilities	15)	1115	2439
Total liabilities		38531	29253
Total equities and liabilities		42953	33913

Notes to the parent company financial statements

Accounting policies

The financial statements of Frankis Group Oyj (parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in thousands of euros unless otherwise stated.

Financial statements of the company are available at Satamaterminaali Vaskiluoto, 65170 Vaasa.

Fixed assets and depreciation

The balance sheet value of fixed assets consist of historical costs less depreciation according to plan and other possible write-offs. Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. The balance value of the fixed assets consists only acquisition costs for the assets with remaining useful life.

The depreciation is based on the following expected useful lives:

Long-term expenses	5 years
Machinery and equipment	3-5 years

Pension expenses

An external pension insurance company manages the pension plan. The expenses are recognized in the income statement during the year they occur.

Foreign currency items

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement.

Deferred taxes

Deferred taxes have not been recognized in the separate financial statements of the parent company.

Receivables

Non-current and current receivables are measured at nominal value less possible impairment. The part of the loan or other receivables that is determined to be impaired, is recognized in the income statement as an impairment from non-current receivables.

Comparability

In consequence of the different lengths of the financial periods, profit or loss and balance items are not comparable.

Notes to the statement of profit or loss

Note 1.	Revenue	31.1.2014	31.1.2013
	Revenue by businessline		
	Administrative services	723	784
	Revenues from premises	<u>115</u>	<u>11</u>
	Total	838	795
Note 2.	Other operating income	31.1.2014	31.1.2013
	Other operating income	<u>13</u>	<u>12</u>
	Total	13	12
Note 3.	Personnel expenses	31.1.2014	31.1.2013
	Salaries and wages	471	500
	Pension costs	83	84
	Other indirect employee costs	<u>18</u>	<u>15</u>
	Total	572	599
	Average number of employees	4	2
Note 4.	Depreciation and write-downs	31.1.2014	31.1.2013
	Depreciations according to plan		
	Other long-term expenses	3	1
	Machinery and equipment	<u>27</u>	<u>2</u>
	Total	30	3
Note 5.	Other operating expenses	31.1.2014	31.1.2013
	Breakdown by most significant expense items:		
	Operating leases and other property costs	133	15
	Marketing expenses	1	0
	Administrative expenses	293	253
	Machinery and equipment expenses	42	19
	Other expenses	<u>78</u>	<u>103</u>
	Total	547	390
Note 5.1.	Fees charged by the statutory auditor	31.1.2014	31.1.2013
	Audit fees for statutory audit	25	16
	Other advisory services	<u>35</u>	<u>28</u>
	Total	60	44
Note 6.	Financial income and expenses		
	Other financial income and expenses	31.1.2014	31.1.2013
	From Group companies	166	41
	From others	<u>0</u>	<u>1</u>
	Total	166	42
	Interest and other finance expenses		
	To Group companies	-308	-772
	Other	<u>-3 980</u>	<u>-1 996</u>
	Total	-4 288	-2 768
	Impairment related to receivables from Group companies	-50	-1 071
	Total financial income and expenses	-4 172	-3 797

Notes to the statement of financial position

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Note 7.	Extraordinary items	31.1.2014	31.1.2013
	Group contribution received	4 515	4 300
	Group contribution paid	<u>-213</u>	<u>-42</u>
	Total extraordinary items	4 302	4 258
Note 8.	Income tax	31.1.2014	31.1.2013
	Income tax for the period	-22	-96
Note 9.	Intangible assets and long term investments	31.1.2014	31.1.2013
	Acquisition cost as at the beginning of financial year	14	0
	Increases	<u>1</u>	<u>14</u>
	Acquisition cost as at the end of financial year	15	14
	Accumulated depreciation as at the beginning of financial ye.	-1	0
	Depreciation for the period	<u>-3</u>	<u>-1</u>
	Accumulated depreciation as at the end of financial year	-4	-1
	Balance sheet value as of 31 January	11	13
	Total intangible assets and long term investments	11	13
Note 10.	Fixed assets		
	Machinery and equipment	31.1.2014	31.1.2013
	Acquisition cost as at the beginning of financial year	110	0
	Increases	<u>0</u>	<u>110</u>
	Acquisition cost as at the end of financial year	110	110
	Accumulated depreciation as at the beginning of financial ye.	-2	0
	Depreciation for the period	<u>-28</u>	<u>-2</u>
	Accumulated depreciation as at the end of financial year	-30	-2
	Balance sheet value as of 31 January	80	108
	Total fixed assets	80	108
Note 11.	Investments	31.1.2014	31.1.2013
	Shares		
	Acquisition cost as at the beginning of financial year	30 097	29 452
	Increases	<u>675</u>	<u>645</u>
	Acquisition cost as of 31 January	30 772	30 097
Note 12.	Receivables		
	Current receivables	31.1.2014	31.1.2013
	Other receivables from Group companies	11 768	3 681
	Trade receivables from Group companies	31	0
	Receivables, other		
	Accrued receivables	18	10
	Other receivables	<u>224</u>	<u>4</u>
	Total current receivables	12 041	3 695
	Total receivables	12 041	3 695
Note 13.	Shareholders equity	31.1.2014	31.1.2013
	Sharecapital as at the beginning of financial year	3	3
	Issue of share capital	<u>77</u>	<u>0</u>
	Sharecapital as of 31 January	80	3
	Fund for invested unrestricted equity as at the beginning of financial	5 440	5 440
	Decrease during the period	<u>-77</u>	<u>0</u>
	Fund for invested unrestricted equity as of 31 January	5 363	5 440
	Retained earnings as at the beginning of financial year	-831	-1 011
	Profit / loss for the period	<u>-190</u>	<u>180</u>
	Retained earnings as of 31 January	-1 021	-831
	Total shareholders equity	4 422	4 612

Distributable equity		
Fund for unrestricted equity	5 362	5 440
Retained earnings	-831	-1 011
Profit / loss for the period	<u>-190</u>	<u>180</u>
Total distributable equity	4 341	4 609
 Note 14. Non-current liabilities	31.1.2014	31.1.2013
Issued bonds	30 000	0
Loans from financial institutions (1-5 years)	<u>0</u>	<u>12 286</u>
	30 000	12 286
 Trade payables	40	106
Liabilities to Group companies	3 602	6 208
Liabilities to other related parties	3 486	7 593
Other non-current liabilities	<u>288</u>	<u>621</u>
Total non-current liabilities	37 416	26 814
 Note 15. Current liabilities	31.1.2014	31.1.2013
Other current liabilities to Group companies	21	513
Current liabilities to other related companies	40	671
Loans from financial institutions	0	652
Trade payables to Group companies	9	6
Trade payables	106	29
Accrued expenses	908	537
Other current liabilities	<u>31</u>	<u>31</u>
Total current liabilities	1 115	2 439
Total liabilities	38 531	29 253
 Breakdown of accrued expenses by most significant balance sheet items:		
Personnel expenses	88	85
Tax expenses	22	97
Interest expenses	<u>798</u>	<u>355</u>
Total accrued expenses	908	537
 Note 16. Contingent liabilities	31.1.2014	31.1.2013
<u>Contingent liabilities related to loans from financial institutions</u>		
<u>Commitment:</u>		
Bank loan	0	7 452
<u>Guarantees:</u>		
Shares pledged (book value)	0	30 097
Business mortgage	0	27 000
Guarantees	0	5 600
 Guarantees given on behalf of the Group companies	420	0

Interest rate derivative instruments

The parent company has entered into an interest rate swap. The negative fair value of the interest rate swap, EUR -273 thousand, is recognized as an expense in financial expenses as the instrument is not designated in a hedging relationship.

Cash flow statement

for the year ended 31 January 2014

		<u>2014</u>	<u>2013</u>
	Notes	€000	€000
Operating activities			
Profit before tax		-169	276
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment		28	2
Depreciation and impairment of intangible assets		3	1
Gain on disposal of property, plant and equipment		0	0
Finance income		-166	-42
Finance costs		4338	3839
Change in working capital:			
Change in trade and other receivables (+/-)		-258	-1
Change in trade and other payables (+/-)		45	-27
Change in provisions (+/-)		-48	48
Interest paid (-)		-3605	-1713
Interest received		0	0
Income tax paid (-)		-97	0
Net cash flows from operating activities		71	2383
Investing activities			
Acquisition of subsidiaries reduced by cash and cash equivalent of exercise moment (-)		-635	-2775
Investments for tangible assets (-)		0	-110
Investments for non-tangible assets (-)		-1	-14
Loan commitments (-)		-7901	-1064
Net cash flows used in investing activities		-8537	-3963
Financing activities			
Withdrawals of subordinated loans		0	308
Loans withdrawal		30220	52
Loans repayments (-)		-21674	-600
Finance lease payments (-)		-32	0
Net cash flow from / (used in) financing activities		8514	-240
		48	-1820
Net change in cash and cash equivalents		48	-1820
Cash and cash equivalents at 1 February		0	1820
Cash and cash equivalents at 31 January		48	0

Signatures of the Managing Director and Board of Directors


Helsinki

on the *11* th of March 2014


Johan Wentzel
Chairman of the Board


Janne Wartiovaara
Deputy member


Olli Väättäinen
Member of the Board


Kimmo Koskinen
Member of the Board


Tommi Tervanen
The managing director

A report on the audit performed has been issued today.

Helsinki, March 2014

**Ernst & Young Oy
Authorized Public Accountant Firm**

**Mikko Järventausia
Authorized Public Accountant**

Frankis Group Oyj

Accounting books used 1 February 2013 - 31 January 2014

Journal	Filed in electronic format
Nominal Ledger	Filed in electronic format
Purchases ledger	Filed in electronic format
Balance book and balance sheet specifications Bound separately into one book	

DOCUMENT TYPES USED 1 February 2013 - 31 January 2014

1	Bank statement accounting, Nordea Bank
9	Memo vouchers
44	Purchase Invoices
99	VAT documents

Calculation of Key Figures

$$\text{Operating profit \%} = \frac{\text{Operating profit}}{\text{Sales turnover}} * 100$$

$$\text{Return on equity \%} = \frac{\text{Net result}}{\text{Equity}} * 100$$

$$\text{Equity ratio \%} = \frac{\text{Equity}}{\text{Total assets}} * 100$$

$$\text{Earnings per share} = \frac{\text{Loss / profit for the year}}{\text{Number of shares}}$$

Corporate Governance Statement

Frankis Group Oyj applies the guidelines and provisions of its Articles of Association, the Finnish Limited Liability Companies Act and other rules and regulations concerning the company.

The company's corporate governance comprises of General Meeting of Shareholders, the Board of Directors, the President and CEO and the Executive Board, laws and regulations applicable in the company's operations as well as the company's internal policies, guidelines and practices.

EXECUTIVE BODIES

Management of Frankis Group is the responsibility of the General meeting of Shareholders, the Board of Directors and CEO. Their duties are defined mainly in the Finnish Companies Act.

General Meeting of Shareholders

The General Meeting of Shareholders is the company's highest decision-making body. Its tasks and procedures are defined in the Finnish Companies Act and in company's Articles of Association.

Board of Directors

The Board of Directors is responsible for the management and the proper arrangement of the operations of the company. The Board has a general authority regarding matters not specifically designated by law or Articles of Association to any other governing body of the company.

The Board of Directors comprises three to six members and of no more than one deputy members as decided and elected by an Annual General Meeting. The Annual General Meeting elects the Board of Directors for a term ending at the closing of the Annual General Meeting of the shareholders following the appointment. The board elects a chairman from its membership.

Duties of the Board of Directors are among others:

- to decide on Group strategy and business segments' strategies
- to decide on structure and organisation of the Group
- to review and to approve interim reports, financial statements including Group financial statement and the Board of Directors' report and the releases concerning the outlook of the company
- to approve Group's business plan, budget and investment plan
- to decide on strategically or financially significant individual investments, acquisitions, divestments, reorganisations and liabilities
- to decide on reward and incentive scheme for Group management
- to approve Group's risk management and reporting procedures
- to prepare dividend policy and to look after the development of shareholder value
- to be responsible for other duties prescribed in the Companies Act and other legislation

The Board of Directors appoints a President and CEO and evaluates annually the activities of the President and CEO and the rest of the Executive Board.

The Board of Directors convenes 9-12 times a year following a predetermined schedule and at the invitation of the chairman as often as required by the company's activities or when proposed by the President and CEO. The company's President and CEO and Chief Financial Officer attend Board of Directors' meetings.

The company will produce a more detailed Corporate Governance Statement during the year 2014.

Auditor's report

Translation

To the Annual General Meeting of Frankis Group Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Frankis Group Oyj for the financial period 1.2.2013–31.1.2014. The financial statements comprise the consolidated statement of profit or loss, statement of other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's profit and loss account, balance sheet, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 14 March 2014

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Järventausta
Authorized Public Accountant