KOTIPIZZA GROUP OYJ ANNUAL REPORT 2016

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YEAR OF FULFILLING PROMISES

IMPLEMENTING A SUCCESSFUL STRATEGY MEANS CHALLENGING OURSELVES EVERY DAY.

Kotipizza Oyj's annual report a year ago was very special, because it was our first as a listed company. In that Annual Report, I wrote that an IPO is an event that summarises much of a company's history and reason for existence. Becoming listed on the stock exchange concludes the first stage of a company's growth journey, but also begins a new chapter.

OUR new story had a very positive start, with Kotipizza Group fulfilling a number of promises during the year. The Kotipizza chain has continued its transformation and become a trendsetter for the fast casual phenomenon and the entire Finnish restaurant scene through its commitment to responsibility. Becoming the first pizza chain in the world to receive the highly valued MSC ecolabel is an excellent example of this.

MEANWHILE, Kotipizza has been breaking its sales records. The Mexican-style Chalupa chain has established itself, demonstrating the company's focus on new restaurant concepts.

IN ITS STRATEGY, published last year, Kotipizza Group declares that it wants to 'make eating more fun'. Fulfilling many promises does not mean that the company can now remain resting on its laurels of success. We must deliver again and again, and make eating more fun every day and every year.

In practice, this means that the company must challenge itself to pay more and more attention to food megatrends and consumers' wishes, continuously improving the customer experience and always providing its franchisee stars with new and better opportunities for success.

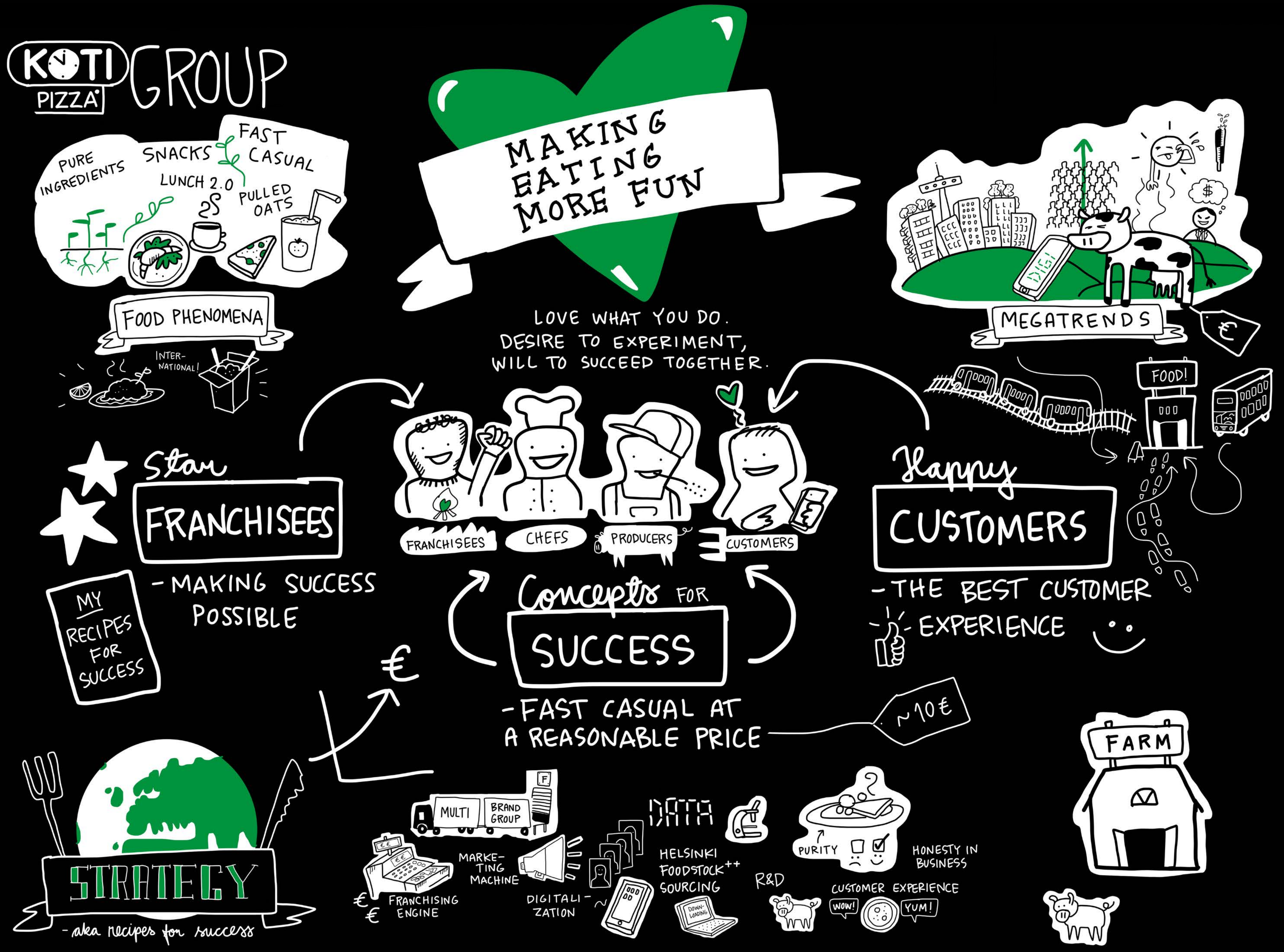
THIS ANNUAL REPORT is particularly special for me, because it is my last one as the Chairman of Kotipizza Group's Board of Directors. After the end of the financial year, Kotipizza Group's majority owner, Sentica Partners, sold all of its shares in the company.

INSTEAD of one majority owner, Kotipizza Group now has a large number of smaller owners. It has been very pleasing to note that the percentage of international owners has become much higher than what is customary for Finnish companies of this size. This demonstrates trust in the company, its strategy and its management.

I'M a little sad to leave Kotipizza Group, but I have great confidence in the company. I know that there are still many exciting and happy chapters left in its growth story.

Johan Wentzel
Chairman of the Board of Directors
Kotipizza Group Oyj

"WE MUST DELIVER AGAIN AND AGAIN AND MAKE EATING MORE FUN EVERY DAY AND EVERY YEAR."


KOTI PIZZA GROUP
PURE INGREDIENTS
SNACKS
FAST CASUAL
LUNCH 2.0
PULLED OATS
FOOD PHENOMENA
INTER-NATIONAL!
MAKING EATING MORE FUN
MEGATRENDS
DIGI
€
LOVE WHAT YOU DO.
DESIRE TO EXPERIMENT,
WILL TO SUCCEED TOGETHER.
FOOD!
Star FRANCHISEES
- MAKING SUCCESS POSSIBLE
MY RECIPES FOR SUCCESS
FRANCHISEES
CHEFS
PRODUCERS
CUSTOMERS
Happy CUSTOMERS
- THE BEST CUSTOMER EXPERIENCE
Concepts FOR SUCCESS
- FAST CASUAL AT A REASONABLE PRICE
~10€
FARM
STRATEGY
- aka recipes for success
MULTI BRAND GROUP
FRANCHISING ENGINE
MARKE-TING MACHINE
DIGITALI-ZATION
DATA
HELSINKI FOODSTOCK++ SOURCING
DOWN-LOADING
R&D
PURITY
HONESTY IN BUSINESS
CUSTOMER EXPERIENCE
WOW!
YUM!

CRAVING FOR MORE

RESPONSIBILITY PROVIDES A SOLID FOUNDATION FOR KOTIPIZZA GROUP’S GROWTH.

We might as well admit it: 2016 was a great year for Kotipizza Group. We implemented our strategy with success and achieved the financial targets we had set for ourselves and communicated to the market. The figures speak for themselves.

Our success is built on a strong foundation. We have systematically focused on the fast casual trend, customer experience, development of our online sales and digital channels, as well as responsible business.

CORPORATE responsibility is not just an ethical question for us. We believe it creates profitable business. The MSC ecolabel, awarded to the Kotipizza chain for using sustainable fish and seafood products, and our investment in vegan and vegetarian options on the menu, visibly demonstrate our commitment to responsibility.

Responsibility also consists of smaller actions: taking care of the environment, our customers and the people around us. It is an important factor in the world’s best customer experience and provides the basis for the trust our customers have in us.

Food safety is a key element of responsibility. Every customer has the right to enjoy fresh and delicious food that is always safe to eat. Therefore, we have launched a project to automate the monitoring of food safety, including the integrity of the cold chain, of every Kotipizza restaurant.

ACCORDING to our strategy, the company is developed following global megatrends, like urbanization and climate change, as well as food trends that influence the restaurant business, including the growing demand for clean ingredients, the rise of the snack culture and the fast casual phenomenon, i.e. the consumers’ desire to eat fresh, responsibly produced food in a restaurant environment at an affordable price.

Our strategy can be implemented thanks to Foodstock’s efficient procurement system and the franchising model through which we create the world’s best customer experience in every restaurant and give our franchisees opportunities for success.

THE same model makes possible our investment in new fast casual concepts. Our first new chain is the Mexican-style Chalupa, launched in 2015. It has continued to develop its concept and strengthen its position on a franchising basis. We will continue to research and develop new fast casual dining concepts to follow in the footsteps of Chalupa.

WE have succeeded in implementing our strategy while at the same time building a foundation for our future success. Actually, I believe that we are only just getting properly started. And we are craving for more.

Tommi Tervanen
CEO
Kotipizza Group Oyj

MANY REASONS FOR SUCCESS

THE POSITIVE TWIST TRIGGERED BY CONCEPT REFORM INCREASED THE KOTIPIZZA CHAIN'S SALES.

In recent years, we have revised the Kotipizza concept. Sales started growing strongly in 2015 and accelerated in the financial year just ended. Chain sales increased significantly and we broke the monthly sales record three times.

According to Finnish Hospitality Association MaRa, the fast food business grew by 6.8 per cent in 2016. Kotipizza's cumulative chain sales increased by 16.3 per cent, two times as fast as market average. The average sales of brick-and-mortar restaurants increased by as much as 25 per cent in two years.

IN FY16, the remaining Kotipizza restaurants were made up to match the new look. We also opened 12 new restaurants. At the end of the year, the chain included 257 (257) restaurants.

We have invested in marketing and customer segmentation, succeeded in identifying our target group and honed marketing communications. We no longer offer everything for everyone. Taste is key in our products. We get across to our customers by talking about our delicious products and the fresh, responsibly produced ingredients we use.

WE developed our training for franchisees and employees. Regular pizza baking courses improve the quality of our products, and boost customer satisfaction and flows.

This progress is reflected in the franchisees' income level and the number of new restaurants. Already 20+ franchisees run more than one restaurant.

WE launched new products such as new vegetarian and vegan pizzas. We are the first pizza chain in Finland that offers vegan cheese. In January, we were the first pizza chain in the world to receive the MSC ecolabel.

We have piloted the Seattle's Best Coffee concept, expanding our product range into special coffees. We introduced a fresh pizza slice ready to go, Kotipizzapala, sold at Neste service stations. Our goal is to make them available in fifty locations this year.

THE MARKETING co-operative, in charge of marketing policy at Kotipizza, changed into a Franchisee co-operative in 2016. It advises the chain management and will assume an increasingly active role in the development of the chain.

WE believe that there is still room in the market for the expansion of Kotipizza. The Helsinki metropolitan area and other large growth centres provide market opportunities for new restaurants.

WE EXPECT strongest growth from the increase of home delivery services and their demand. In the next financial year, we will focus on developing our delivery services, online store and mobile app.

Olli Väätäinen
COO
Kotipizza Group Oyj

YEAR OF GOOD PERFORMANCE

SUCCESSFUL CUSTOMER CHAINS PROMOTED FOODSTOCK’S PERFORMANCE.

The financial year was characterised by strong sales and performance. Our success is the sum of a number of factors. Foodstock’s customers are Finland’s best and most successful restaurant chains with a significant increase in sales last year. The majority of the growth comes from the sales of the Kotipizza chain, which is part of our parent company. Kotipizza’s sales grew vigorously throughout the year.

DURING the financial year, we acquired one new customer as we started managing the flow of goods for the Siipiravintola restaurant chain. The new customers acquired in the year before, such as Espresso House and Fafa’s, had an actual effect on our performance for the first time in 2016. Even though both chains are still relatively small, their sales have grown notably. During the financial year, both of them opened new locations and both are planning to open more this year. This will have a positive effect on Foodstock’s business and performance.

DESPITE the increased volume, we have been able to maintain a high delivery reliability and excellent customer service. Our fixed costs have remained unchanged, which contributes to our good result.

WE are forerunners in introducing responsibly produced ingredients in chain-managed companies and, consequently, the consumer market. Kotipizza included vegan cheese in its ingredients that had not previously been introduced in the Finnish market. The chain’s product development unit tested the alternatives we had found, also with consumers. In November, Kotipizza launched the first vegan pizza. A particularly important achievement was Kotipizza becoming the first pizza chain in the world to be granted the highly valued MSC environmental certificate. This achievement was also a proof of Foodstock’s long-term focus on responsible and sustainable fishing.

WE want our company image to also communicate our role as a forerunner. For the first time in the company’s history, we redesigned our visual image. The new fresh image reflects our modern way of working and uniform quality, which is particularly important for our chain customers.

DURING the new financial year, we aim to increase our net sales. We have succeeded in building a competitive and agile business while keeping our fixed costs unchanged. We are expecting good performance also in the new financial year. Our customer chains are growing and many of them are expanding outside the Helsinki metropolitan area. This will also promote Foodstock’s net sales.

Anssi Koivula
Managing Director
Helsinki Foodstock Oy

CHALUPA, A NEW TYPE OF FAST CASUAL CHAIN

THE CHALUPA FRANCHISING CHAIN CONTINUES TO EXPAND INTO THE LARGEST FINNISH CITIES.

The Mexican-style restaurant chain Chalupa was launched as part of the Kotipizza Group in autumn 2015. During the financial year 2016, we consolidated our position and made two significant changes: the restaurants owned by the chain were transferred to franchisees and the menu was revised.

WE first opened restaurants in the downtown area of Helsinki, then in Kauniainen, Munkkiniemi (Helsinki), Tampere and Jyväskylä. All Chalupa restaurants are run by franchisees, seven in total. Some are owned by Kotipizza franchisees and located in connection with Kotipizza restaurants.

REFERENCES given by existing franchisees help us find new ones. Our franchisees are satisfied with the concept and the development of sales, and we have found potential franchisees based on their references.

WE plan to open about ten new restaurants during the new financial year. Some contracts have already been signed. All the restaurants opened so far operate in brick-and-mortar premises, while the new restaurants will be located in shopping centres that are reshaping their restaurant services.

SHOPPING centres are important places for Finns for spending their leisure time. Instead of shopping, the focus will increasingly be on restaurant and café services. We want to be part of this change, as the Chalupa concept is perfectly suited for both dining on spot and takeaway.

THE second significant change was the revision of our menu. Since we want to offer our customers a wide variety of options, the original menu presented a world of modern Mexican-style flavours. Based on customer feedback, we developed the menu more towards traditional Mexican cuisine.

FRESH and healthy ingredients and a wide variety of choice form the cornerstones of our menu. We have made restaurant dining easier by simplifying the choices and combining ingredients. We have also increased the selection of vegetarian and vegan options; of all the ingredients, 85 percent are vegetarian and 75 percent vegan. We focus heavily on clean, fresh ingredients that are preservative- and additive-free. We collaborate with Foodstock in ingredient purchases and in finding new ingredients.

IN addition to opening new restaurants, during the new financial year we will focus on food safety by developing digital self-surveillance. In the United States, fast casual chains use electronic, automated surveillance tools to improve food quality and reduce waste. We are developing a similar system for Chalupa.

Iman Gharagozlu
Creative Director
Chalupa Oy

TOGETHER WE ARE MORE

GOOD CUSTOMER EXPERIENCE IS BUILT ON GOOD EMPLOYEE EXPERIENCE.

Success is not possible without skilled and committed personnel. It is important that the employees working in the restaurants and Group administration are motivated and satisfied with their work. We believe that a good employee experience leads to a good customer experience.

At the end of the financial year, Kotipizza Group had 13 employees, three of them women. All of them were in a permanent employment relationship. Kotipizza's chain management had 19 employees, six of them women. Of the chain management employees, four work at the Kalasatama buffet restaurant in Helsinki, which is the only restaurant owned by the chain and also a test kitchen. Sixteen of Kotipizza's employees have a permanent employment contract and three are part-time employees.

Foodstock had nine employees, all of them in a permanent employment relationship. Four of Foodstock's employees were women. In total, Group management employed 39 people at the end of the financial year.

In addition to approximately 300 franchisees, Kotipizza restaurants have about 1,650 employees. Each restaurant employs five people on average, some of whom may work part-time.

DURING the financial year, we invested particularly in the training of franchisees and their employees. We regularly arrange pizza baking training at the Kalasatama test kitchen in Helsinki. Franchisees can send their employees to these courses, the costs of which are covered by the chain. During the financial year, we arranged more training courses than before. This clearly shows that franchisees are increasingly interested in investing in quality and their employees' skills. In addition, we are continuously planning new ways of generating additional sales and improving the customer experience.

Some changes were made in the Group administration during the financial year. Kotipizza Group used to be in charge of marketing, but the responsibility for marketing was transferred to Kotipizza's chain management during the year. We have recruited new professionals for new jobs in the marketing team. We focus on a content- and consumer-driven approach and analytics. Our team is increasingly implementing marketing- and content-related measures. This has proven to be a successful solution, as we have been able to reach our target group more efficiently than before.

IN THE new financial year, we will focus on the personnel's well-being by launching the Kunnon vuosi ('Year of fitness') programme, aiming to streamline the work processes and promote employees' psychological and physiological well-being. The year is also the 30th anniversary of the Kotipizza chain. During the year, we will particularly focus on improving the employee experience in our restaurants.

"WE INVEST IN THE TRAINING OF FRANCHISEES AND THEIR EMPLOYEES."

THE MSC LABEL IS THE BEST ACHIEVEMENT OF OUR WORK TO PROMOTE RESPONSIBILITY

KOTIPIZZA IS THE FIRST MSC-CERTIFIED PIZZA CHAIN IN THE WORLD.

For years now, our objective has been to use only MSC-certified fish and seafood products. In 2014, the Kotipizza chain decided to start using only MSC-certified tuna. At first, the goal was to ensure that 50 per cent of the tuna we purchase is MSC-certified. In 2015 and 2016, as the availability of MSC-certified products improved, virtually all the tuna and shrimp purchased and used by the Kotipizza chain were MSC-certified.

In addition to purchasing, we aimed to secure the MSC label for ourselves at an early stage. The promotion of responsibility is at the core of our operations. By receiving the MSC certificate, we want to set a concrete example for other chains in the business.

THE MSC label is granted by the Marine Stewardship Council, the world-leading certification and environmental label programme for sustainable fishing. The goal of the programme is to promote the health of the world's oceans by observing and rewarding sustainable fishing practices, influencing consumers' choices and developing the world's fish and seafood markets in accordance with the principles of sustainable fishing.

The MSC label guarantees to consumers that the product comes from a sustainable fish stock and that the catching methods used are responsible. During the certification process preceding the granting of the certificate, it was ensured that all Kotipizza restaurants meet the traceability criterion, that is, they use only MSC-certified fish and seafood products.

”THE MCS LABEL IS AN IMPARTIAL CERTIFICATE, WHICH VERIFIES THAT WE SERVE ONLY RESPONSIBLY CAUGHT TUNA AND FISH TO OUR CUSTOMERS.”

AMONG other things, the certification process included auditing of Foodstock's procurement operations and suppliers. In the autumn, the Kotipizza restaurants were also audited. We have provided training for our franchisees about the MSC and its effect on their work at the restaurant. The audits ensure the implementation of the MSC's policies from the beginning of the supply chain all the way to the restaurant counter and the customer's plate.

The MSC label was granted to Kotipizza Group at the closing of the financial year in January. The label shows that the fish and seafood products used by the companies belonging to the Group come from sustainable fish stocks and responsible fishing companies. In practice, this refers to Foodstock, which is in charge of procurement, and the Kotipizza chain, which uses the purchased tuna and shrimp.

The MSC label is a matter of honour to us. It is an impartial certificate, which verifies that we serve only responsibly caught tuna and fish to our customers. Finnish consumers are already familiar with the blue MSC label in retail trade. However, in the restaurant market, the promotion of its sustainable fishing principles requires large nationwide popular chains. We are particularly proud that Kotipizza is the first and only MSC-certified pizza chain in the world.

ACCORDING to the survey published by the MSC in October, more than 75 per cent of Finns believe that only responsibly caught fish and seafood should be offered to consumers. It is great to contribute to the promotion of such an important cause.

KOTIPIZZA IN NUMBERS

KOTIPIZZA, PART OF THE KOTIPIZZA GROUP, IS THE LARGEST PIZZA CHAIN IN THE NORDICS. IN 2016, THE CHAIN-BASED NET SALES PRESENTED STRONGER GROWTH THAN THE FINNISH FAST FOOD MARKET.

IN JANUARY 2017, THERE WERE

257

KOTIPIZZA RESTAURANTS IN FINLAND

IN 2016

THERE WERE 263 FRANCHISEES

SALES IN THE KOTIPIZZA CHAIN

INCREASED BY 16.3%

58 %

OF OUR INGREDIENTS ARE FINNISH

WE SOLD

420 %

MORE VEGETARIAN PIZZAS ONLINE

THE AVERAGE PURCHASE AT

A BRICK-AND-MORTAR RESTAURANT: 18,08 €

AVERAGE RESTARAURANT

PURCHASE GREW BY 5.4%

AVERAGE PURCHASE

ONLINE 26,75 €

KOTIPIZZA GROUP'S YEAR IN BRIEF

KOTIPIZZA HAD A YEAR OF GREAT ACHIEVEMENTS, THE MOST SIGNIFICANT OF WHICH WAS MERITING THE MSC ECOLABEL AS THE FIRST PIZZA CHAIN IN THE WORLD.

FEBRUARY
The Group's headquarters move to new premises in Kalasatama, Helsinki.

MARCH
Foodstock signs an agreement with a new customer, the Siipiravintolat restaurant chain.

APRIL
The Kotipizza chain's monthly sales hit an all-time high of EUR 7.14 million.

The annual Talvipäivät winter event is held in Ruka, with Kotipizza franchisees and their families participating in large numbers. Awards are handed out to accomplished Kotipizza franchisees for strong development in sales and customer volume. Awards are also given to franchisees who have been with the Kotipizza chain for a long time.

JUNE
The Kotipizza chain's monthly sales hit an all-time high of EUR 7.29 million.

JULY
The Kotipizza chain breaks its previous records when sales exceed EUR 8 million for the first time. The new monthly record was EUR 8.64 million.

AUGUST
Kotipizza Group changes its guidance and issues a positive profit warning.

SEPTEMBER
The Kotipizza episode of Undercover Boss is shown on television.

NOVEMBER
The Härkis vegan pizza with broad bean-based topping is launched.

The annual autumn seminar for Kotipizza franchisees is held on a cruise ship from Helsinki to Stockholm. Kotipizza franchisees receive awards for strong development in sales and customer volume. Awards are also given to franchisees who have been with the Kotipizza chain for a long time.

The Board of the Franchisee Co-operative and the key persons of the Group's Management Board visit Indonesia as part of the Plan collaboration.

DECEMBER
Kotipizza Group changes its guidance for the second time and issues a positive profit warning.

JANUARY
Kotipizza becomes the first pizza chain in the world to receive the MSC certificate, which verifies that the chain uses only responsibly caught fish and seafood.

SERTIFIOITU VASTUULLISESTI PYYDETTY MSC www.msc.org/fi

The annual Kotipizza Games event is arranged in the Kamppi shopping centre. Kotipizza franchisees and employees compete for the title of the fastest and most skilled pizza baker. For the second time, the winner is the Ii-based franchisee Katja Körkkö, who will go on to represent Kotipizza and Finland at the Pizza World Games in Las Vegas.

MARKET CONDITIONS

THE KOTIPIZZA CHAIN'S SALES GROWTH OUTPERFORMS THE FINNISH RESTAURANT AND FAST FOOD MARKET.

According to the report of the Finnish Hospitality Association MaRa, sales grew briskly in the restaurant business in 2016. The total sales of the restaurant business increased by 3.5 per cent in January–September 2016 and the sales of fast food restaurants increased by 6.8 per cent in the year in total.

The total value of the Finnish restaurant market is approximately five billion euros. The most important factors influencing the development of the sector include the general economic development, consumers' disposable income, taxation and government regulation. Consumers' preferences and, increasingly, food trends influence financial development within the sector.

Finns are dining at restaurants more and more often, which is a key driver of growth in the business. According to the trend survey published by MaRa in December 2016, altogether 77 per cent of the respondents had dined at a restaurant during the previous two weeks. The figure was 67 per cent in 2014 and only about 40 per cent at the turn of the millennium.

THE GROWTH of sales in the Kotipizza chain has continuously outperformed the growth of the entire restaurant market and the fast food market. It can even be estimated that the strong growth of the Kotipizza chain has contributed to the more positive development of the fast food market compared with the rest of the restaurant market.

According to MaRa, the growth of sales in the restaurant sector will continue in 2017 at nearly the previous year's level, along with the growth of the Finnish national economy and the increased consumer confidence. The development will be particularly positive in the fast food sector, as fast food restaurants account for a considerable proportion of restaurant dining. In the fast food sector, the influence of taxation and government regulation on financial development is not as strong compared with the rest of the restaurant business, particularly restaurants licensed to serve alcohol.

Finnish consumers are still spending a considerably smaller proportion of their income on restaurant dining than consumers in most of the countries of comparison. Thus, we have reason to believe that dining at restaurants will increase in the next few years. MaRa has estimated that fast food restaurants will be well-positioned for growth, particularly with regard to staff restaurants, in which the growth of sales is forecast to slow down or even turn negative.

ACCORDING to MaRa's trend survey, rising phenomena in the restaurant business include fast dining, leisure-time dining, hamburgers and pizza, as well as the increased importance of the quality of food. The survey shows that hamburgers and pizza, previously classified as 'fast food', have an increasingly important role also when it comes to dinner as well as lunch dining.

We believe that the financial development of the restaurant business and consumer trends support Kotipizza Group's investment in the fast casual concept, that is, restaurants that offer casual, fresh and responsibly produced food in a restaurant environment.

"CONSUMER TRENDS AND DEVELOPMENTS IN THE RESTAURANT BUSINESS SUPPORT OUR FAST CASUAL CONCEPT OF OFFERING EASY, FRESH AND RESPONSIBLY PRODUCED FOOD AT AN AFFORDABLE PRICE."

EXECUTIVE BOARD

TOMMI TERVANEN
Chief Executive Officer

TIMO PIRSKANEN
Chief Financial Officer and Deputy to the CEO

OLLI VÄÄTÄINEN
Chief Operating Officer

ANTTI ISOKANGAS
Chief Communications and Corporate Responsibility Officer

ANSSI KOIVULA
Chief Procurement Officer

BOARD OF DIRECTORS

JOHAN WENTZEL
The Chairman of the Board of Directors

KIM HANSLIN
Member of the Board of Directors

MINNA NISSINEN
Member of the Board of Directors

KALLE RUUSKANEN
Member of the Board of Directors

PETRI PARVINEN
Member of the Board of Directors

MARJATTA RYTÖMAA
Member of the Board of Directors

KEY FIGURES

EUR thousands	2016	2015	2014	2013
Chain-based net sales	89 900	77 266	69 771	69 962
Comparable net sales	66 580	56 370	52 226	52 724
Annual growth, %	18,1 %	7,9 %	-0,9 %	-1,6 %
Comparable EBITDA	6 726	5 026	4 196	4 756
% of net sales	10,1 %	8,9 %	8,0 %	9 %
Reported EBITDA	6 225	4 187	4 272	4 756
% of net sales	9,3 %	7,4 %	8,2 %	9 %
Reported EBIT	5 246	3 435	3 794	3 732
Loss/profit for the period from continuing operations	3 464	328	383	-16
Earnings per share EUR	0,6	0,1	-0,4	-0,0
Net gearing, %	24,0 %	31,8 %	634,2 %	599 %
Equity ratio, %	51,7 %	51,8 %	9,3 %	10,5 %

KEY FIGURES PER BUSINESS UNIT

In the financial year 2016, the number of Kotipizza restaurants remained at 257.

COMPARABLE NET SALES

COMPARABE EBITDA

COMPANY DIVIDEND POLICY

The Kotipizza Group aims to pay out 60–80 percent of profits gained from continuing operations to its shareholders as either dividends or distribution from other sources of unrestricted equity. In accordance with the Finnish Limited Liability Companies Act, the General Meeting decides whether dividends will be paid based on the Board's proposal. Dividends are usually paid out once in a financial year after the General Meeting has approved the financial statement.

FINAL STATEMENT
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ANNUAL REPORT

FOR THE PERIOD OF 1 FEBRUARY 2016–31 JANUARY 2017

Kotipizza Group Oyj is the parent company of the Group.

Corporate relations

Kotipizza Group Oyj (formerly Senhold 1 Oy and Frankis Group Oyj) owned 100% of Frankis Finland Oy during the financial year. Frankis Finland Oy owned 100% of Kotipizza Oyj and Helsinki Foodstock Oy. Furthermore, the Group included the wholly-owned subsidiaries Francount Oy, Domipizza Oy and Senhold 2 Oy. In addition, the Group owned 60% of Chalupa Oy and Think Drinks Oy owned the remaining 40 %. The Groups's structure was simplified by merging the dormant companies Senhold Oy and Francount Oy into Domipizza Oy and Frankis Finland Oy into Kotipizza Group Oyj. The implementation of the mergers was registered on 30 June 2016. The restructuring was expanded by merging Kotipizza Oyj into Domipizza Oy, the implementation of which was registered on 31 January 2017.

Kotipizza Oyj's 10 Biggest owners, 31 January 2017

Shareholders		Shares	% of shares
1	Sentica Buyout III Ky	3 869 848	60,93
2	Keskinäinen Työeläkevakuutusyhtiö Elo	313 200	4,93
3	Keskinäinen Työeläkevakuutusyhtiö Varma	200 000	3,15
4	Sr Danske Invest Suomen Pienyhtiöt	170 000	2,68
5	Sentica Buyout III Co-Investment Ky	150 770	2,37
6	Sr Danske Invest Arvo Finland Value	145 809	2,30
7	Sr eQ Pohjoismaat Pienyhtiö	100 000	1,57
8	OP-Eläkekassa	98 841	1,56
9	OP-Suomi Pienyhtiöt	92 209	1,45
10	OP-Henkivakuutus Oy	81 360	1,28
	10 biggest shareholders total	**5 222 037**	**82,22**
	Nominee registered	**287 844**	**4,53**
	Other shares	**841 320**	**13,25**
	Total	**6 351 201**	**100,00**

Source @ Euroland.com

A list of the biggest shareholders, updated monthly, can be found on the Kotipizza Group Oyj's website: http://kotipizzagroup.com/investors.

Operations of subsidiaries
Kotipizza Oyj operates a pizza franchise in Finland. Helsinki Foodstock Oy is a wholesaler, and its customers include the Kotipizza chain and other significant fast food operators. Chalupa Oy engages in restaurant operations through its own restaurants and through franchising operations.

Kotipizza Group (1 000 EUR):	31 Jan 2017	31 Jan 2016
	(12 months)	(12 months)
	Parent company	**Parent company**
	FAS	FAS
Turnover	1 246	980
Operating loss	-1 545	-2 486
Net result (continuing operations)	-585	-571
Total assets on the balance sheet	52 272	46 702
	(12 months)	(12 months)
	Group	**Group**
	IFRS (continuing operations)	IFRS (continuing operations)
Reported turnover	68 737	56 370
Comparable turnover	66 580	56 370
Operating profit	5 246	3 435
Net result (continuing operations)	3 464	328
Total assets on the balance sheet	59 156	56 519

	31 Jan 2017	31 Jan 2016
	Parent company	**Parent company**
Operating profit, %	negative	negative
Return on equity, %	negative	negative
Equity ratio	50,3	62,3
Average number of employees	13	11
Salaries and fees	1 134	1 392
Number of shares	6 351 201	6 351 201
	Group	**Group**
Operating profit, %	7,6	6,1
Return on equity, %	11,6	1,3
Equity ratio	51,7	51,8
Average number of employees	40	38
Salaries and fees	3 173	2 981

The company has one share class. All shares carry equal rights to dividends and the company's assets. On 31 January 2017, the number of shares was 6 351 201. The shares do not have nominal value. At the end of the financial period, the Company had 1615 (549) shareholders. The shareholdings of the Board of Directors and CEO of Kotipizza Group Oyj as well as the shareholdings in entities under their control can be viewed on the Kotipizza Group's website: http://kotipizzagroup.com/investors.

Share-based key figures	31 January 2017	31 January 2016	31 January 2015
Earnings per share	0,55	0,05	-0,001
Equity per share	4,83	4,61	0,01
Distribution from fund for invested unrestricted equity per share (*	0,50	0,35	-
Distribution from fund for invested unrestricted equity, % of earnings	91 %	700 %	-

*) With accrual method
Other statutory share-based key figures can be found on the Kotipizza Group's website: http://kotipizzagroup.com/investors

Group net sales
Chain-based net sales grew 16.3% (9.7%) year on year in the financial year and were 89.9 MEUR (77.3). The chain-based net sales growth was based on both an increase in the average purchase and increase in the number of customers. A comprehensive menu reform was carried out in the summer 2014, and successful new products together with targeted, influential marketing that emphasizes sustainability have positively changed consumers' brand experience of Kotipizza. This has translated into an increase in the number of customers. Twelve new Kotipizza restaurants were opened and twelve closed during the review period. The chain-based net sales are the total combined net sales of the company's franchisees, based on which the company's franchising fees are invoiced monthly.

Comparable net sales for the financial year were 66.6 MEUR (56.4) and they grew 18.1% compared to same period in the previous year. Reported net sales were 68.7 MEUR (56.4). The reported sales included 2.2 MEUR items affecting comparability related to advertising and marketing fund flows of Kotipizza's Franchisee Co-operative, which pass through Kotipizza division's P&L without result effect. A separate stock exchange release on Kotipizza's Marketing Co-operative's change into Franchisee Co-operative was given on 30 May 2016.

Comparable net sales growth was mainly based on Foodstock's increased sales volume to Kotipizza underpinned by the good chain-based sales development. Foodstock's new customers such as Espresso House, Fafa's and the Siipiravintolat chain, which were not yet Foodstock's customers in the previous year, increased net sales. The net sales of Foodstock grew 20.6% year on year in the financial year and were 53.2 MEUR (44.1). The Kotipizza segment's net sales increased 27.7% compared to the previous year and were 15.1 MEUR (11.8). The Chalupa segment's net sales in the financial year were 0.5 MEUR (0.4).

Group EBIT
Group EBIT was 5.25 MEUR (3.44). The EBIT improved mainly due to volume improvement, but the sales margin also improved slightly from the previous year. Fixed cost growth was also below the volume growth. The clearly higher depreciations compared to the previous year (non-cash item) had a negative impact on the EBIT.

Financial items and result
Finance costs in the fourth quarter of the year were MEUR 0.21 (0.19). Finance costs in the financial year were MEUR 0.81 (3.01). The materially higher financing costs in the previous financial year were based on a significantly more leveraged balance sheet structure together with higher interest rates on debt. In addition to the normal finance costs, in the previous year a MEUR 0.90 cost related to the early redemption of the company's MEUR 30 unsecured bond was booked. Group taxes were MEUR -1.00 (-0.12) in the financial year. The result of the period was MEUR 3.46 (0.22) in the financial year. Earnings per share were EUR 0.55 (0.08) in the financial year.

The Group's financial position
Kotipizza Group's balance sheet total as of 31 October 2016 was MEUR 59.2 (56.5). The Group's non-current assets as at 31 October 2016 amounted to MEUR 40.6 (40.0), and current assets amounted to MEUR 18.5 (16.5). The Group's net cash flow from operating activities for the financial year was MEUR 5.3 (-0.7). Working capital was released in the amount of MEUR 0.90 (released 0.05).

The net cash flow from investment activities for the period was MEUR -0.45 (-1.77). Investments in tangible and intangible assets for the period amounted to MEUR 0.85 (1.98), and proceeds from sales of tangible assets were MEUR 0.40 (0.19). The net cash flow from financing activities was MEUR -3.3 (5.3). The Group payed out MEUR 2.2 as distribution from Fund for invested unrestricted equity to its shareholders during the review period. The Group's equity ratio was 51.7% (51.8%).

Interest-bearing debt amounted to MEUR 17.0 (17.4), of which current debt accounted for MEUR 1.17 (1.04). Kotipizza Group Oyj redeem in full its three-year unsecured bond with a nominal value MEUR 30 on 11 August 2015 with the proceeds from the 4 June 2015 announced and 6 October 2015 implemented Initial Public Offering and the new MEUR 17.0 term loans withdrawn on 7 August 2015. New term loans have covenants.

INVESTMENTS
The gross investments for the period amounted to MEUR 0.85 (1.98). The Company's investments to fixed assets, related mainly to IT systems, amounted to MEUR 0.85 (1.98).

Research and development costs
Research and development costs of the Group amounted to 132,000 euros (137,000 in 2016). Research and development costs are related to the training of Kotipizza entrepreneurs and to developing new product recipes. A comprehensive concept reform was started in the financial year 2015. Costs related to the reform have been either activated on the balance sheet or recognised as annual costs.

Management and auditors

The members of the Board of Directors of Kotipizza Group Oyj are:

Johan Wentzel	Chairman of the Board
Kim Hanslin	Member
Minna Nissinen	Member
Petri Parvinen	Member
Kalle Ruuskanen	Member
Mikael Autio	Member

Tommi Tervanen is the CEO. Other members of the manager are Timo Pirskanen, Chief Financial Officer, Olli Väätäinen, Chief Operating Officer, Anssi Koivula, Chief Procurement Officer and Antti Isokangas, Chief Communications and Corporate Responsibility Officer.

Auditor: Ernst & Young Oy, Authorised Public Accountants

Antti Suominen, Authorised Public Accountant, serves as the principal auditor.

Resolutions of the general meetings

Kotipizza Group's Annual General Meeting held on 11 May 2016 resolved that no dividend is paid for the financial period ending 31 January 2016, but that EUR 0,35 per share was decided to be paid from the reserves for invested unrestricted equity. The AMG adopted the financial statements for financial year ending 31 January 2016 and discharged the members of the Board of Directors and CEO from liability for the financial year ending 31 January 2016. The AGM resolved the number of Board members to be six. Johan Wentzel, Minna Nissinen, Petri Parvinen, Kim Hanslin and Kalle Ruuskanen were re-elected as members of Board of Directors for a term of office that lasts until the end of the next AGM. Marjatta Rytömaa was elected as a new member. Johan Wentzel was re-elected as Chairman of the Board of Directors. The AGM resolved that the members of the Board will be paid as follows: Chairman of the Board of Directors Johan Wentzel and member Marjatta Rytömaa EUR 500 per month (EUR 6 000 p.a.) and other members of the Board of Directors EUR 2 000 per month (EUR 24 000 p.a.) each. The AGM resolved that the remuneration for the auditor be paid according to invoice approved by the company. The AGM resolved to re-elect audit firm Ernst & Young Oy as the company's auditor for a term that ends at the closing of the next AGM.

The AGM resolved to authorize the Board of Directors to decide on a share issue on the following terms:
1 The authorization may be used in full or in part by issuing shares in Kotipizza Group Oyj in one or more issues so that the maximum number of shares issued is 635 000 shares.

2 The Board of Directors may also decide on a directed share issue in deviation from the shareholders' pre-emptive rights in case there is a weighty financial reason to do so, such as in order to finance or carry out acquisitions or other business transactions, develop the company's capital structure, or in order to use the shares for an incentive scheme. The Board of Directors would be authorized to decide to whom and in which order the shares will be issued. In the share issues shares may be issued for subscription against payment or without charge.

3 Based on the authorization, the Board of Directors is also authorized to decide on a share issue without payment directed to the company itself, provided that the number of shares held by the company after the issue would be a maximum of 10 per cent of all shares in the company. This amount includes shares held by the company and its subsidiaries in the manner provided for in Chapter 15, section 11 (1) of the Companies Act.

4 This authorization includes the right for the Board of Directors to decide on the terms and conditions of the share issues and measures related to the share issues in accordance with the Companies Act, including the right to decide whether the subscription price will be recognized in full or in part in the invested unrestricted equity reserve or as an increase to the share capital.

5 The authorization is valid until 31 July 2017.

6 The authorization will supersede the authorization to decide upon share issues given to the company's Board of Directors on 28 May 2015.

Corporate governance

Kotipizza Group follows the Finnish listed companies' Corporate Governance Code prepared by the Securities Market Association in its governance. The Code is available on the Securities Market Association's website (http://cgfinland.fi/). The company publishes a separate Corporate Governance Statement available on its website. If Kotipizza Group deviates from the recommendations of the Corporate Governance Code, it will explain the exception and justify it appropriately.

The supreme decision-making body of Kotipizza Group Oyj is the general meeting where shareholders use their decision of power. The Board of Directors is responsible for the administration of the company and the appropriate organisation of its operations. According to the Articles of Association, the Board of Directors consists of a minimum of five (5) and a maximum of ten (10) members. The term of office of the members expires when the next Annual General Meeting after their election ends. The Board of Directors has prepared a written charter. The charter is prepared and reviewed annually. The tasks of the Board of Directors include appointing the CEO and the management team. The Board of Directors regularly monitors the result and financial standing of the company. Moreover, the Board of Directors monitors the management of Kotipizza Group Oyj's business and other risks and the compliance of governance.

The CEO takes care of the executive management of the company in accordance with the instructions and orders of the Board of Directors. The CEO shall provide the Board of Directors and its members with the information necessary for the performance of the duties of the Board of Directors. The CEO is also liable for the legality of the company's accounting and reliable organisation of financial administration.
Kotipizza Group's internal control is based on the Finnish Limited Liability Companies Act, Securities Market Act, Articles of Association and the company's internal operational principles. The management and control of the company are divided between the general meeting, Board of Directors and CEO. Internal control refers to all procedures, systems and methods with which the company's management aims to ensure efficient, economical and reliable operations. The Board of Directors of Kotipizza Group is liable for arranging internal control, and it has ratified the internal control, risk management and internal audit principles followed by the Group.
Kotipizza Group Oyj applies Nasdaq OMX Helsinki's insider guidelines, which entered into force on 1 July 2013. The company maintains public and company-specific insider registers using Euroclear Finland Oy's Sire system.

Board of Directors' proposal for the distribution of profit
The Board proposes that no dividend be paid and that the profit for the period (EUR 3,463 934.13) be transferred to shareholders' equity. However, the Board proposes that EUR 0.50 per share be distributed from the reserve for invested unrestricted equity for the period between 1 February 2016 and 31 January 2017.

Kotipizza Oyj's development and future outlook
Comparable net sales of Kotipizza for the financial year were 12.89 MEUR (11.78) and they had increased by 9.4% compared to same period in the previous year. Net sales of Kotipizza for the financial year were 15.05 MEUR (11.78) and they increased by 27.7% compared to same period in the previous year. The reported sales included 2.16 MEUR items affecting comparability related to advertising and marketing fund flows of Kotipizza's Franchisee Co-operative. A separate stock exchange release on this was given on 30 May 2016. Rest of the increase in net sales was based on growth in chain-based net sales and in consequence all franchising contract based net sales increased.

Kotipizza's EBITDA was 6.52 MEUR (5.20) in the financial year and it grew 25.4% compared to same period in the previous year. Improvement in comparable EBITDA was mainly due to restructuring measures implemented in the segment's operations and favourable development of chain-based net sales in Kotipizza. The previous year's comparable EBITDA for the fourth quarter included in EUR 269 thousand of items affecting comparability related to costs of closing company's previous headquarters. These items had a cash flow effect.

According to MaRa's estimate, the growth of sales in the restaurant sector will continue in 2017 at nearly the previous year's level, along with the growth of the Finnish national economy and the increased consumer confidence. The development will be particularly positive in the fast food sector, as fast food restaurants account for a considerable proportion of restaurant dining. In the fast food sector, the influence of taxation and government regulation on financial development is not as strong compared with the rest of the restaurant business, particularly restaurants licensed to serve alcohol.

Finnish consumers are still spending a considerably smaller proportion of their income on restaurant dining than consumers in most of the countries of comparison. Thus, we have reason to believe that dining at restaurants will increase in the next few years. MaRa has estimated that fast food restaurants will be well-positioned for growth, particularly regarding staff restaurants, in which the growth of sales is forecast to slow down or even turn negative.

According to MaRa's trend survey, rising phenomena in the restaurant business include fast dining, leisure-time dining, hamburgers and pizza, as well as the increased importance of the quality of food. The survey shows that hamburgers and pizza, previously classified as 'fast food', have an increasingly important role also when it comes to dinner as well as lunch dining.

The Company estimates for the full financial year that the restaurant chain sales will grow by approximately five (5) percent as compared to the previous financial year.

Helsinki Foodstock Oy's development and future outlook
Net sales of Foodstock for the financial year were 53.20 MEUR (44.10) and they grew 20.6% compared to same period in the previous year. The growth in net sales was mainly due to the favourable development in Kotipizza chain-based net sales, which gave a positive boost to Foodstock's delivery volumes for the chain. Net sales to Rolls burger chain also increased notably compared to the previous year. The positive volume effect of Foodstock's new customers such as Fafa's, Espresso House and the Siipiravintolat chain also increased the net sales.

Foodstock's EBITDA was 1.57 MEUR (0.86) in the financial year and it grew 82.6 % compared to the same period in the previous year. Improvement in the EBITDA was due to operational gearing related to increase in sales volume.

In the next financial year, Foodstock will continue to pursue profitable growth by acquiring new restaurant chains as clients. Currently, restaurant chains make up for 90 % of the company's turnover. In the financial year just ended, Helsinki Foodstock signed contracts with growing and viable chains, and aims to continue to do so in 2017. According to the Finnish Hospitality Association MaRa, the growth of sales in the restaurant sector will continue in 2017 at nearly the previous year's level, along with the growth of the Finnish national economy and the increased consumer confidence. The development will be particularly positive in the fast food sector, as fast food restaurants account for a considerable proportion of restaurant dining. In the fast food sector, the influence of taxation and government regulation on financial development is not as strong compared with the rest of the restaurant business, particularly restaurants licensed to serve alcohol. Therefore, the growth of existing clients and the subsequent increase in Helsinki Foodstock's delivery volumes is expected to match, if not exceed, the average development of sales in the

Finnish restaurant market during the year 2017. Corporate responsibility and its significance in the sourcing business will continue to rise in 2017.

Chalupa Oyj's development and future outlook

Chalupa's net sales were EUR 487 thousand (EUR 443 thousand) in the financial year and comparable EBITDA was EUR -161 thousand (EUR -66 thousand). Chalupa owned only one restaurant in Punavuori, Helsinki at the end of the review period. This will in practise mean a change in the Chalupa segment's reporting from fully consolidating restaurants into segments numbers to consolidating fees related to franchising contracts. According to MaRa's estimate, the growth of sales in the restaurant sector will continue in 2017 at nearly the previous year's level, along with the growth of the Finnish national economy and the increased consumer confidence. The development will be particularly positive in the fast food sector, as fast food restaurants account for a considerable proportion of restaurant dining. In the fast food sector, the influence of taxation and government regulation on financial development is not as strong compared with the rest of the restaurant business, particularly restaurants licensed to serve alcohol. In 2017, the development of sales in Chalupa restaurants is expected to match the average growth of sales in the Finnish restaurant industry in 2017.

Risks and uncertainties

In the long term, Kotipizza Group's operative risks and uncertainties relate to a possible failure in predicting consumer preferences and in creating attractive new concepts, as well as to new business risks related to possible expansion to new cities and abroad. The competitive situation is expected to remain tough in the fast food industry. Company's management cannot affect the general market development and consumer behaviour with its actions. Restaurant openings also have a major impact on the company's franchising and rent income, income received from selling raw materials and supplies, and income related to transport and the flow of goods, thus affecting the company's financial result. Kotipizza Group is currently launching a new fast casual concept, which is reported as the Chalupa segment. Launching a new business concept has several risks related to e.g. anticipating consumer needs, habits, preferences and behaviour. Launching a new concept holds the risk of not reaching an established position in the market and not having a well-established clientele. Potential failure in launching a new concept generates costs to the company and can have a significantly adverse impact on the company's brand, financial position and financial result.

Material events subsequent to the financial year

On 1 February 2017, Kotipizza Group acquired all business operations of Helsinki Pizzapalvelu Oy with the intention of merging the 22 Pizzataksi restaurants operating in the Helsinki region and Southern Finland with the operations of the Kotipizza chain. The transaction was aimed at strengthening Kotipizza's home delivery service offering in the Helsinki region.

The main owners Sentica Buyout III Ky and Sentica Buyout III Co-Investment Ky made an exit from Kotipizza Group Oyj selling their entire stake in the Group in an accelerated book-building process on 9 February 2017. In total, Sentica sold 4 020 618 shares, equivalent to 63.3% of the Group's shares and voting rights.

Helsinki Foodstock Oy a sourcing and logistics operator wholly owned by Kotipizza Group Oyj signed an agreement with Street Gastro Oy making it responsible for supply chain management for the chain of restaurants operating under the name Street Gastro in Finland on 9 February 2017. Group's Chief Operating Officer and member of the Management Board Olli Väätäinen resigned from his position on 17 February 2017.

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2017

1000 EUR	Note	1 Feb 2016–31 Jan 2017	1 Feb 2015–31 Jan 2016
Continuing operations			
Turnover	2	**68 737**	**56 370**
Other operating income	4	96	126
Change in inventory of raw materials and finished goods (+/–)		- 3	458
Raw materials and finished goods (–)		- 52 872	- 45 106
Employee benefits/expenses (–)	6	- 3 887	- 3 605
Depreciation (–)		- 978	- 735
Impairment (–)	10	-	- 17
Impairment on goodwill (–)	14	-	-
Contingent consideration (-)	14	-	-
Other operating expenses (–)	5	- 5 846	- 4 056
Operating profit		**5 246**	**3 435**
Financial income	7	35	28
Financial expenses	7	- 812	- 3 011
Profit/loss before taxes from continuing operations		**4 469**	**452**
Income taxes	8	- 1 005	- 124
Profit/loss for the period from continuing operations		**3 464**	**328**
Discontinued operations			
Loss after taxes from discontinued operations	3	-	- 113
Profit/loss for the period		**3 464**	**215**
Breakdown of profit/loss			
Attributable to the equity holders of the parent company		3 541	249
Attributable to non-controlling interest		- 77	- 34
		3 464	215
Earnings per share (EUR):			
Undiluted earnings for the period attributable to ordinary equity holders of the parent (no dilutive instruments)	25	0,55	0,05
Earnings per share (EUR) for continuing operations:			
Undiluted earnings for the period attributable to ordinary equity holders of the parent (no dilutive instruments)	25	0,55	0,08

ITEMS OF OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2017

1000 EUR	Note	1 Feb 2016–31 Jan 2017	1 Feb 2015–31 Jan 2016
Profit (loss) for the period		**3 464**	**215**
Items of other comprehensive income:			
Items of other comprehesive income to be transferred to be recognised through profit or loss:			
Cash flow hedging	7	69	- 367
Taxes related to items of other comprehensive income		- 14	73
Items of other comprehesive income (net) to be transferred to be recognised through profit or loss		**56**	**- 294**
Items of other comprehensive income for the period, net of tax		**56**	**- 294**
Total comprehensive income for the period		**3 520**	**- 79**
Breakdown of comprehensive income for the period			
Attributable to the equity holders of the parent company		3 597	- 45
Attributable to non-controlling interest		- 77	- 34
		3 520	**- 79**

CONSOLIDATED BALANCE SHEET

31 JANUARY 2017

1000 EUR	Note	31 Jan 2017	31 Jan 2016
Assets			
Non-current assets			
Property, plant and equipment	9	1 138	1 002
Goodwill	10	35 819	35 819
Intangible assets	10	2 321	2 118
Non-current financial assets	17	2	2
Non-current trade and other receivables	17	872	783
Deferred tax assets	8	488	289
		40 641	**40 013**
Current assets			
Inventories	11	3 087	3 385
Trade and other receivables	12,17	5 761	4 945
Current tax receivables		4	58
Cash and cash equivalents	13,17	9 650	8 099
		18 502	**16 487**
Assets classified as held for sale	3	**13**	**19**
Total assets		**59 156**	**56 519**

CONSOLIDATED BALANCE SHEET

31 JANUARY 2017

1000 EUR	Note	31 Jan 2017	31 Jan 2016
Shareholders' equity and liabilities			
Share capital	23	80	80
Reserve for invested unrestricted equity	23	27 595	29 818
Retained earnings		2 989	- 624
Attributable to non-controlling interest		- 91	- 14
Total shareholders' equity		**30 573**	**29 260**
Non-current liabilities			
Interest-bearing loans and borrowings	15, 17	15 829	16 363
Financial liabilities recognised at fair value through profit or loss	15, 17, 18	298	367
Other non-current liabilities	17	2 745	2 462
Deferred tax liabilities	8	66	54
		18 938	**19 246**
Current liabilities			
Interest-bearing loans and borrowings	15, 17	1 165	1 041
Trade and other payables	16	8 480	6 882
Provisions	19	-	90
		9 645	**8 013**
Total liabilities		**28 583**	**27 259**
Total shareholders' equity and liabilities		**59 156**	**56 519**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2017

Attributable to the equity holders of the parent company

1000 EUR	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total	Attributable to non-controlling interest	Total shareholder equity
1 Feb 2016	80	29 818	- 624	29 274	- 14	29 260
Result for the period	-	-	3 541	3 541	- 77	3 464
Items of other comprehensive income	-	-	56	56	-	56
Total comprehensive income	**-**	**-**	**3 597**	**3 597**	**- 77**	**3 520**
Transactions with shareholders						
Share issue	-	-	16	16	-	16
Dividends	-	-2 223	-	- 2 223	-	- 2 223
Transactions with shareholders in total	**-**	**-2 223**	**16**	**-2 207**	**-**	**-2 207**
31 Jan 2017	**80**	**27 595**	**2 989**	**30 664**	**-91**	**30 573**

For the financial year ended 31 January 2016

1000 EUR	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total	Attributable to non-controlling interest	Total shareholder equity
1 February 2015	80	5 362	- 579	4 863	-	4 863
Result for the period	-	-	249	249	- 34	215
Items of other comprehensive income	-	-	- 294	- 294	-	- 294
Total comprehensive income	**-**	**-**	**- 45**	**- 45**	**- 34**	**- 79**
Transactions with shareholders						
Share issue	-	25 501	-	25 501	20	25 521
Dividends	-	- 1 045	-	- 1 045	-	- 1 045
Transactions with shareholders total	-	24 456	-	24 456	20	24 476
31 January 2016	**80**	**29 818**	**- 624**	**29 274**	**- 14**	**29 260**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2017

1000 EUR	2017	2016
Cash flow from business operations		
Profit before taxes	4 469	452
Loss for discontinued operations before taxes	-	- 140
Adjustments to reconcile profit before taxes to net cash flows:		
Depreciation on property, plant and equipment	453	278
Depreciation and impairment on intangible assets	525	474
Other non-cash adjustments	16	-
Gain on disposal of property, plant and equipment	- 70	- 50
Financial income	- 35	- 28
Financial expenses	812	3 011
Change in working capital:		
Change in trade and other receivables (+/–)	- 557	578
Change in inventories (+/–)	299	- 428
Change in trade and other payables (+/–)	1 443	- 50
Change in provisions (+/–)	- 90	90
Interest paid (–)	- 816	- 5 058
Interest received	35	28
Income taxes paid (–)	- 1 206	172
Net cash flows from operating activities	**5 278**	**- 671**
Cash flow from investing activities		
Acquisitions from subsidiaries	-	20
Investments in tangible assets (–)	- 121	- 611
Investments in non-tangible assets (–)	- 728	- 1 364
Proceeds from the sale of property, plant and equipment	400	185
Net cash flows used in investing activities	**- 448**	**- 1 770**
Cash flow from financing activities		
Payments received for the issue of shares	-	24 194
Dividends	- 2 223	-
Withdrawals of loans	-	17 000
Loan repayments (–)	- 850	- 36 074
Financial lease payments (+/ –)	- 207	219
Net cash flows used in financing activities	**- 3 280**	**5 339**
Change in cash and cash equivalents	1 550	2 898
Cash and cash equivalents on 1 February	8 099	5 201
Cash and cash equivalents on 31 January	**9 650**	**8 099**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. TAMMIKUUTA 2017 PÄÄTTYNEELTÄ TILIKAUDELTA

1. ACCOUNTING POLICIES APPLIED TO THE GROUP FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The consolidated financial statements of Kotipizza Group Oyj and its subsidiaries (hereinafter collectively referred to as the "Group") for the financial year ended 31 January 2017 were authorised for issue in accordance with a resolution of the Board of Directors on **24 April 2017**. Kotipizza Group Oyj is domiciled in Finland. Its registered address is Hermannin Rantatie 2 B, 00580 Helsinki, Finland. This is also the visiting address. The general meeting of shareholders is entitled to amend the financial statements.

The Group is primarily engaged in the franchising, wholesale and fast casual restaurant business. Information about the Group's structure is presented in Note 22. Information about other stakeholders is presented in Note 24.

2.1 BASIS OF PREPARATION

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

These financial statements for the financial year ended 31 January 2017 are the third the Group has prepared in accordance with 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 considerations that have been measured at fair value. The consolidated financial statements are presented in EUR and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

The financial statements for different financial periods are comparable. Changes in the method of presentation have also been taken into consideration in the comparison data.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent company and all of the subsidiaries on 31 January 2017, in which the parent company has directly or indirectly 50 per cent of the number of votes or otherwise controlling interest in the company.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group no more controls 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 in 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.

The attribution of profit or loss to the equity holders of the parent company and non-controlling interests is presented in a separate income statement. The attribution of comprehensive income to the equity holders of the parent company and non-controlling interests is presented in connection with the statement of comprehensive income, even if it led to the share attributable to non-controlling interests being negative. The portion of shareholders' equity attributable to non-controlling interests is presented as a separate item on the balance sheet as part of shareholders' equity.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a)Goodwill and contingent considerations

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

Goodwill is initially measured at cost. The difference between a subsidiary's acquisition cost and the equity portion corresponding to the acquired ownership share is recorded as consolidated goodwill.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment as compared to the situation at the end of the financial year.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment as compared to the situation at the end of the financial year.

Any contingent consideration is 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 standard. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Current versus non-current classification

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

- Expected to be realised within 12 months after the reporting period
- The Group classifies all other assets as non-current. A liability is current when:
- It is due to be settled within 12 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.

b) Foreign currency items
The Group's consolidated financial statements are presented in EUR, which is also the parent company's functional currency.

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of the functional currency prevailing 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 at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Group companies
The assets and liabilities of foreign operations are translated into EUR at the exchange rate 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.

c) Fair value measurement
The Group measures financial instruments, such as derivatives, at fair value at each reporting date. In addition, the fair values of financial instruments measured at amortised cost are disclosed in Note 18.

Fair value is the price that would be received for selling an asset or paid for transferring 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 to 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 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 is available to measure the 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 categorised within the fair value hierarchy, as described below, 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 categorisation (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 remeasured or reassessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by comparing the information in the valuation calculations to agreements and other relevant documents.

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

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

d) 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
The Group's intents income is mainly related to interest income from trade receivables or bank deposits. 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.

e) Government grants
Government grants are related to the training of franchisees. Government grants are included in other operating income.

f) 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 tax authorities. The amount of tax is calculated using the tax rate effective at the reporting date.

Deferred tax

Deferred tax is measured 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, for the carry forward of unused tax credits and for 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 confirmed at the reporting date.

Deferred tax assets and liabilities are presented as separate line items in non-current assets and liabilities. They are not offset from each other.

g) Discontinued operations and assets held for sale, and assets related to them

The Group classifies an operation or unit as discontinued or available for sale when the decision of the discontinuation or transfer has been made.

Assets and liabilities related to discontinued operations are presented in a separate group in the statement of financial position.

A disposal group qualifies as discontinued operation if:

- It is a component of the Group that is a separate CGU
- It is classified as held for sale or already disposed in such a way, or
- It is a major line of business or major geographical area

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

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

h) Property, plant and equipment

Property, plant and equipment is measured at cost, net of accumulated depreciation and impairment losses, if any. Property, plant and equipment only includes the cost of products that still have useful life remaining. All repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation periods are:

- Intangible assets	5–10 years
- Long-term expenses	4–10 years
- Buildings and structures	5–10 years
- Machinery and equipment	3–5 years

i) Leases

The Group has both lease agreements classified as financial leases and other lease agreements. Other lease agreements are presented in the profit and loss according to their nature, terms and conditions and contract period. Financial lease agreements are recognised on the balance sheet, and such agreements include 1) commodities where the Group is a lessor with a buy-back obligation. The entries have had no effects on profit or shareholders' equity; 2) leases of furniture and cars which are considered to meet the criteria of IAS17.

j) Intangible assets

Intangible assets acquired separately are initially measured 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 impairment losses.

The useful lives of intangible assets are considered 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. The amortisation periods are 5–10 years. 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 they 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 in 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 they are recognised in the statement of profit or loss when the asset is derecognised.

k) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets measured 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.

Subsequent measurement

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

- Financial assets measured at fair value through profit or loss
- Loans and other receivables
- Assets classified as held for sale

Financial assets measured at fair value through profit or loss

Financial assets measured 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 measured 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 financial costs (negative net changes in fair value) or financial income (positive net changes in fair value) in the statement of profit or loss.

Loans and other 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. Any losses arising from impairment are recognised in the statement of profit or loss in financial 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 about receivables, see Note 12.

Available-for-sale (AFS) financial assets

Available-for-sale (AFS) financial assets financial assets include shares not listed in a stock exchange. They are measured at fair value, or when the fair value cannot be determined reliably, at cost.

Changes in the fair value are recognised in OCI items and presented in the valuation reserve included in the "Other reserves" line item of shareholder's equity taking into account tax effects.

Derecognition

A financial asset is primarily derecognised (i.e. removed from the 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.

l) 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 debtor 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.

m) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities measured at fair value through profit or loss, loans and borrowings, payables, derivatives designated as hedging instruments or other liabilities.

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 and derivative financial instruments.

Subsequent measurement

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

Financial liabilities recognised at fair value through profit or loss

Financial liabilities measured 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 category is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (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, see Note 15.

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.

n) Derivative 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 remeasured 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 with regard to contracts not included in hedge accounting and to other items of comprehensive income with regard to contracts included in hedge accounting.

Fair value hedges

The Group did not apply fair value hedging during the financial years ended 31 January 2015 and 2017.

Cash flow hedges

The Group did not apply cash flow hedging during the financial year ended 31 January 2017. Cash flow hedging was not used during the comparison financial year.

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.

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, bank deposits available on demand and short-term deposits with an initial 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 hereinabove, net of outstanding bank overdrafts.

r) Provisions and contingent liabilities

Provisions are recognised when the Group has, as a result of a past event, an obligation (legal or constructive) to make a payment in the near future and a reliable estimate can be made of the amount of the obligation..

A contingent liability is an obligation created as a result of a past event, and its realisation will be confirmed only after occurrence of an uncertain event beyond control of the Group. An existing liability is also considered contingent if it is improbable that the payment obligation will be realised or if the amount of the obligation cannot be estimated reliably. Contingent liabilities are presented in the Notes. The Group's most significant contingent liabilities are related to lease and bank guarantees.

s) 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.

Key employees of the Group participate in share-based incentive programmes, which have been categorised as share based programmes paid out as equity. In these programmes, employees perform their work against equity capital instruments (shares).

Share incentives paid out as equity are based on the market value of the shares of Kotipizza Group Oyj on the day the incentives have been granted. Expected dividends have been deducted when calculating the fair value of the shares. The fair value is accrued to the required working periods as personnel costs and equity, respectively. The value of the incentives paid out as cash is based on the market value of the shares at the end of the financial year, and is accrued as personnel costs and short term debt, respectively, until the cash incentive is be paid out.

Other than market-based terms are considered when evaluating the amount of the forthcoming share-based incentives. Kotipizza Group updates its forecast of the amount of forthcoming share-based incentives at the end of the each financial year.

The program covers three three-year earning periods. Based on the plan, the company may give performance shares in the earning period of 1 February 2016–31 January 2019. For the earning periods of 1 February 2017–31 January 2020 and 1 February 2018–31 January 2021, the company may give also discretionary matching shares based on the key employees' shareholding in addition to the performance shares. The Board of Directors of the company confirms the performance measures, the type and maximum number of the reward shares as well as eligible key employees at the beginning of each earning period.

The performance measures applied are the average growth of Kotipizza Group chain's total sales and earnings per share in the three-year earning period.

Based on the earning period of 1 February 2016–31 January 2019, the maximum of 47.204 performance shares can be given as reward, including the cash payment portion of the reward. The potential reward is to be paid as combination of shares (50%) and a cash payment (50%). The cash payment is intended for covering taxes and tax-like charges to be paid by the employee. The Board of Directors thus anticipates that the maximum dilutive effect on the number of the company's registered shares for the first earning period is 0,37%. If the employment of a key employee terminates before the payment of the reward, the reward will not, as a rule, be paid.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires the management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities as well as 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.

Management's judgements related to selection of accounting principles and application of them

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

Discontinued operations

There were no discontinued operations for the financial year just ended. A decision was made to discontinue the operations in Sweden during the financial year, and the related costs are also presented as discontinued operations. See Note 3 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 14.

Adopted new standards and new standards to be subsequently adopted

IASB has issued new and revised standards and interpretations. The Group adopts them as they become effective, or if the effective date differs from the reporting date, starting from the first financial year after the effective date. The Group does not expect that the new or revised standards have a significant effect on the Group's financial results, comprehensive income or the presentation of the financial statements.

IFRS 15 *Revenue from Contracts* with Customers (effective for financial years beginning on or after 1 January 2018). The new standard provides exhaustive 5-step guidance on revenue recognition and specifies the principles according to which information about the nature, quantity and uncertainty of sales revenue based on customer agreements, as well as cash flows relating to sales revenue, is disclosed in financial statements. According to IFRS 15, Sales revenue is recognised when the customer receives control of the goods or service and is, therefore, able to use it and enjoy its benefits. The standard supersedes IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations. The Group will apply the standard 1 February 2018 and will apply the standard fully retroactively.

According to the existing revenue guidance, 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 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 acts as 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. 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 upon the delivery of the goods. 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.

The Group has started to assess its contracts with customers to identify the impacts of the new standard in the financial year ended and the Group will continue with the assessment during the following financial year. According to preliminary assessments, the Group does not expect the new standard to have any material impact on the Group's financial result. The standard will, however, increase the number of notes presented in the financial statements.

According to **IFRS 16,** lessees must recognise a lease liability for the lease payments to be paid in the future and a right-of-use asset on its balance sheet for almost all leases. IFRS 16 is effective from 1 January 2019. The new IFRS 16 standard will supersede the current IAS 17 standard. The European Union has not yet approved the standard.

IFRS 9 *Financial Instruments* and amendments to it (effective for financial years beginning on or after 1 January 2018). The new financial instruments standard replaces the existing guidance in IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments and includes a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and measurement of financial liabilities from IAS 39. In terms of hedge accounting, the standard still presents three different options for hedge accounting, more risk positions than previously can be taken over under hedge accounting and principles of the hedge accounting have been streamlined with risk management. The Group is currently assessing the potential impacts of the new standard.

Kotipizza Group Oyj is currently estimating the effects of the application of the new and revised standards. Other issued but not yet effective IFRS standards or IFRIC interpretations are not estimated to have material impacts on the consolidated financial statements. IFRS 16 will slightly increase the Group's gearing, primarily due to the recognition of leases on properties. The current lease liabilities are presented in Note 20.

2. SEGMENT INFORMATION

The Group has four reporting segments. Its reporting segments are: Kotipizza segment, which provides services to entrepreneurs under the Group's franchises and operates the Group-owned Kotipizza restaurants. Foodstock segment, which operates as a wholesaler to the Group's other business units and third parties. Chalupa, which runs fast casual restaurant operations. Other, which mainly comprises the business operations related to the Group's administration. All segments are organised as separate legal entities responsible for their own business operations and the related financial reporting. Transfer pricing between the segments is based on market price bases.

Operating segments 2017	External revenues	Internal revenues	Total	EBITDA
1000 EUR				
Kotipizza	15 051	1 834	16 884	6 517
Foodstock	53 198	536	53 735	1 566
Chalupa	487	36	524	- 169
Other	-	1 246	1 246	- 1 690
Eliminations	-	- 3 652	- 3 652	-
Total	**68 737**	**-**	**68 737**	**6 225**

Operating segments 2016	External revenues	Internal revenues	Total	EBITDA
1000 EUR				
Kotipizza	11 784	1 684	13 468	5 196
Foodstock	44 096	304	44 400	849
Chalupa	443	-	443	- 66
Other	47	933	980	- 1 792
Eliminations	-	- 2 921	- 2 921	-
Total	**56 370**	**-**	**56 370**	**4 187**

The assets and liabilities of the operating segments are not regularly reported to the chief operating decision-maker. Therefore, this information is not disclosed. On 31 January 2017, the Group had business operations geographically only in Finland.

Result	2017	2016
Result of the reporting segments	4 469	452
Result of the Group before taxes, continuing operations	**4 469**	**452**

3. ASSETS HELD FOR SALE, DISCONTINUED OPERATIONS AND ACQUIRED OPERATIONS

The non-current assets held for sale and discontinued operations were related to the Kotipizza segment's operations in Sweden.

1000 EUR	2017	2016
Turnover	-	32
Expenses	-	- 144
Operating loss	**-**	**- 112**
Capital loss related to discontinued operations	-	- 28
Loss for the year from discontinued operations before taxes	-	- 140
Tax impact	-	27
Loss for the year from discontinued operations	**-**	**- 113**

Earnings per share (EUR) for discontinued operations:		
Undiluted earnings for the period attributable to ordinary equity holders of the parent (no dilutive instruments)	0,0	-0,03

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

1000 EUR	2017	2016
Assets		
Trade and other receivables	13	19
Assets related to discontinued operations	13	19
Liabilities		
Liabilities related to discontinued operations	**-**	**-**

Cash flows related to discontinued operations are not reported separately. For this reason, the information cannot be accurately reported.

On 1 February 2017, Kotipizza Group acquired all business operations of Helsinki Pizzapalvelu Oy. The company operates the Pizzataxi restaurant chain that comprises 22 restaurants operating in the Helsinki region and Southern Finland. These restaurants will be merged into the Kotipizza chain's operations. The transaction strengthens Kotipizza's home delivery service offering in the capital region.

The scope of the transaction included intellectual property such as the ordering system, trademarks, domain names, company names, auxiliary company names, client registers and separately defined franchise, leasing and other contracts.

The transaction did not cover any of the following items related to business operations:

- financial assets
- trade payables or other other liabilities
- liabilities generated prior to transaction
- personnel.

4. OTHER OPERATING INCOME

1000 EUR	2017	2016
Gain on disposal of property, plant and equipment	28	53
Other income	63	67
Governments grants	5	5
Insurance compensations	-	1
Total	**96**	**126**

Government grants have been received for the training of Kotipizza entrepreneurs. Other income includes rental income from equipment and other contractual charges, among other items.

5. OTHER OPERATING EXPENSES

1000 EUR	2017	2016
Rental expenses	215	363
External expenses	1 329	1 376
Machinery and equipment expenses	807	734
Travel expenses	354	325
Other expense items	3 140	1 258
Total other operating expenses	**5 846**	**4 056**

Auditor's fee

1000 EUR	2017	2016
Auditing fee	79	64
Other services	25	173
Total	**104**	**237**

Research and development costs

Research and development costs amounted to EUR 132,000 (EUR 137,000 in 2016). Research and development costs are related to the training of Kotipizza entrepreneurs and to developing new product recipes. The comprehensive concept reform was continued in the financial year 2017, and related costs have been either capitalised as long-term expenditure or recognised as annual costs.

6. EMPLOYEE BENEFITS

All costs related to employee benefits are included in administrative (fixed) costs

1000 EUR	2017	2016
Salaries and fees	3 130	2 981
Other additional employee costs	132	103
Pensions costs (defined contribution plans)	582	521
Share-based costs	43	0
Total employee benefits	**3 887**	**3 605**

7. FINANCIAL INCOME AND EXPENSES, ITEMS RECOGNISED THROUGH PROFIT OR LOSS

1000 EUR	2017	2016
Interest income on trade receivables	15	12
Other financial income from contingent liabiliites	1	8
Other financial income	18	8
Total financial income	**35**	**28**

1000 EUR	2017	2016
Interest on loans and borrowings	422	1 867
Interest expenses related to financial lease liabilities	138	15
Total interest expense	**561**	**1 882**
Other financial costs	146	145
Expenses related to loans	12	174
Premature repayment of the bond	-	900
Profit/loss from financial instruments recognised at fair value through profit or loss	95	- 90
Total financial expenses	**812**	**3 011**

Net profit or loss from financial instruments recognised at fair value through profit or loss is related to an interest rate swap contract that did not qualify for hedge accounting.

Financial expenses, items of other comprehensive income

The new interest rate swap contract, which is recognised as a hedging instrument, is included in items of other comprehensive income.

Cash flow hedging	69	367
Total financial expenses, items of other comprehensive income	**69**	**367**

8. INCOME TAX

The major components of income tax expenses for the financial years that ended on 31 January 2017 and on 31 January 2016 include the following:

Consolidated income statement

1000 EUR	2017	2016
Current income tax:		
Current income tax charge	1 250	281
Deferred tax:		
Related to origination and reversal of temporary differences	-201	- 157
Income tax expenses reported in the income statement	**1005**	**124**
Consolidated statement of other comprehensive income		
Deferred tax liabilities have not been recognised for translation differences.		
Deferred tax liabilities related to cash flow hedging have been taken into account.	14	- 73
Total taxes related to items of other comprehensive income	**14**	**- 73**
Total deferred taxes for the period	**-187**	**- 230**

Reconciliation of tax expenses and the accounting profit multiplied by Finland's domestic tax rate for 2016:

1000 EUR	2017	2016
Profit/loss before taxes from continuing operations	4 469	452
Loss before taxes from discontinued operations	-	- 140
Accounting profit/loss before taxes	**4 469**	**312**
At Finland's statutory income tax rate of 20% (2016: 20 %)	894	62
Effect of non-deductible expenses on taxes:		
Other non-deductible expenses	19	31
Other	93	19
Taxes from previous periods and changes to taxes		- 15
Taxes on income statement	1 005	97
Income tax expenses reported for continuing operations in the income statement	1 005	124
Effect of discontinued operations on taxes	-	- 27
	1 005	**97**

Deferred taxes

Deferred taxes are related to the following:

	Consolidated balance sheet		Consolidated income statement	
1000 EUR	**2017**	**2016**	**2017**	**2016**
Accelerated depreciation for tax purposes	- 74	- 65	9	10
Undeductible provision	10	36	-	- 5
Fair value of derivatives	60	73	- 14	- 37
Tax losses	280	166	- 116	- 158
Capitalised transaction costs	10	11	13	- 40
Intangible assets	-	14	3	-
Financial lease liabilities	27		28	
Management's incentive schemes	109		- 109	
Deferred taxes, net	**422**	**235**	**- 187**	**- 230**

Based on the consolidated balance sheet:		
Deferred tax assets	488	289
Deferred tax liabilities – continuing operations	- 66	- 54
Deferred tax assets, net	**422**	**235**

Reconciliation of deferred tax assets, net

1000 EUR	**2017**	**2016**
Opening balance	235	5
Total deferred taxes for the period	187	230
Closing balance on 31 January	**422**	**235**

9. PROPERTY, PLANT AND EQUIPMENT

1000 EUR	**Property**	**Plant and equipment**	**Total**
Acquisition price			
1 February 2015	271	2 173	2 444
Additions	-	611	611
Reduction/disposals	- 20	- 169	- 189
31 January 2016	**251**	**2 615**	**2 866**
Additions	-	910	910
31 January 2017	**251**	**3 525**	**3 776**
Decpreciation and impairment			
1 February 2015	- 262	- 1 374	- 1 636
Depreciation for the year	- 6	- 272	- 278
Reduction/disposals	20	30	50
31 January 2016	**- 248**	**- 1 616**	**- 1 864**
Depreciation for the year	- 3	- 452	- 455
Reduction/disposals	-	- 319	- 319
31 January 2017	**- 251**	**- 2 387**	**- 2 638**
Net book value			
31 January 2017	-	1 138	1 138
31 January 2016	3	999	1 002
31 January 2015	9	799	808

10. INTANGIBLE ASSETS

1000 EUR	Goodwill	Intangible rights	Other long-term expenses	Total
Acquisition price				
31 January 2015	**36 263**	**196**	**2 585**	**39 044**
Additions	-	-	1 364	1 364
Reduction/disposals	-	-1	-	-1
31 January 2016	**36 263**	**195**	**3 949**	**40 407**
Additions	-	-	859	859
Reduction/disposals	-		- 133	- 133
31 January 2017	**36 263**	**195**	**4 675**	**41 133**
Depreciation and impairment				
31 January 2015	**- 444**	**- 171**	**- 1 381**	**- 1 996**
Depreciation	-		- 456	- 457
Impairment	-	- 17	-	- 17
31 January 2016	**- 444**	**- 189**	**- 1 837**	**- 2 470**
Depreciation	-	- 2	- 521	- 522
31 January 2017	**- 444**	**- 191**	**- 2 358**	**- 2 992**
Net book value				
31 January 2017	35 819	4	2 317	38 140
31 January 2016	35 819	6	2 112	37 937
31 January 2015	35 819	25	1 204	37 048

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

11. INVENTORIES

1000 EUR	2017	2016
Raw materials (at cost)	2 621	2 614
Work in progress (at cost)	375	637
Finished goods (at cost or net realisable value)	90	134
Total inventories at the lower of cost and net realisable value	**3 087**	**3 385**

There was no impairment on inventories in 2017, while in 2016 impairment totalled EUR 62,000. Impairment is included in the change in inventories in the income statement.

12. TRADE AND OTHER RECEIVABLES

1000 EUR	2017	2016
Trade receivables, current	5 209	4 090
Trader receivables from related parties	0	8
Other receivables	552	847
	5 761	**4 945**

Trade receivables from 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 146,000 in January 2017 (2016: EUR 356,000).

On 31 January 2017, a credit loss provision of EUR 52,000 was recognised for doubtful receivables (2016: EUR 91,000). See below for the changes in impairment on trade receivables (credit loss provision).

	Individually impaired
31 January 2015	**157**
Change of the year	-66
31 January 2016	**91**
Change of the year	-39
31 January 2017	**52**

On 31 January, the ageing analysis of trade receivables was as follows:

1000 EUR	2017	2016
Payment not overdue	4 776	3 051
Past due but not impaired		
< 30 days	346	694
> 30 days	87	353
Total	**5 209**	**4 098**

Non-current receivables include trade receivables that will not fall due until more than 12 months after the reporting date. Such receivables amounted to EUR 488,000 on 31 January 2017 (EUR 199,000 on 31 January 2016).

See Note 21 on the credit risk concerning trade receivables. Note 21 also explains how the Group manages and measures the credit quality of trade receivables that are neither past due nor impaired.

13. CASH AND SHORT-TERM DEPOSITS

1000 EUR	2017	2016
Cash at bank and in hand	9 650	8 099
	9 650	**8 099**

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.

In the consolidated financial statements, these bank accounts are shown in other receivables, not in cash at banks and in hand. See Note 12 for further details.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following items on 31 January:

1000 EUR	2017	2016
Cash at bank and in hand	9 650	8 099
Cash and cash equivalents	**9 650**	**8 099**

14. GOODWILL IMPAIRMENT TESTING

For impairment testing purposes, goodwill acquired through business combinations has been allocated to the following two cash-generating units (CGU) below, which are also operating and reporting segments.

- Franchising CGU
- Wholesale CGU

Carrying amount of goodwill allocated to each of the CGUs

1000 EUR	2017	2016
Franchising CGU	29 419	29 419
Wholesale CGU	6 400	6 400
Total	**35 819**	**35 819**

The Group performed its annual impairment test in January 2017 and 2016.
The recoverable amounts for each CGU were determined based on the value in use.

Franchising CGU
The recoverable amount of the Franchising CGU (EUR 62,786,000 on 31 January 2017) was determined based on the value used in cash flow projections for financial budgets approved by senior management for a five-year period. The pre-tax discount rate applied to cash flow projections was 6.61% (2016: 7.87%), and cash flows beyond the five-year period were extrapolated using a growth rate of 1% (2016: 1%), which is assessed not to exceed the long-term average growth rate for the franchising sector. The decrease in the discount rate as compared to the previous year resulted from updating the interest rate of the Finnish 10-year government bonds and the CGU's equity-to-net-debt ratio to correspond to the situation at the end of the financial year 2017, as these values are used for calculating the discount rate.

Wholesale CGU
The recoverable amount of the Wholesale CGU (EUR 22,653,000 on 31 January 2017) was determined based on the value used in cash flow projections for financial budgets approved by senior management for a five-year period. The pre-tax discount rate applied to cash flow projections was 6.61% (2016: 7.87%), and cash flows beyond the five-year period were extrapolated using a growth rate of 1% (2016: 1%), which is assessed not to exceed the long-term average growth rate for the wholesale sector. The decrease in the discount rate as compared to the previous year resulted from updating the interest rate of the Finnish 10-year government bonds and the CGU's equity to net debt ratio to correspond the situation at the end of the financial year 2017, as these values are used for calculating the discount rate.

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 related to 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 account of 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 that 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 points	Increase in discount rate
	(% points)	(% points)
Franchising CGU	16.0	6.0
Wholesale CGU	2.5	17.0

15. FINANCIAL LIABILITIES

Interest-bearing loans and borrowings

1000 EUR	Effective interest rate	Maturity	2017	2016
	%			
Current interest-bearing loans and borrowings				
Bank loan	floating	12 months	1 150	850
Other current loans				
Car instalment credits		12 months	-	109
Financial lease liabilities	fixed	12 months	15	82
Total current interest-bearing loans and borrowings			**1 165**	**1 041**
Non-current interest-bearing loans and borrowings				
Bond issues	9,024	3.4.16	-	-
Bank loan	floating	7.8.21	9 500	9 500
Bank loan	floating	7.8.21	1 500	1 900
Bank loan	floating	7.2.23	3 813	4 563
Other non-current loans				
Car instalment credits		more than 12 month	-	43
Financial lease liabilities		more than 12 month	1 017	357
Loans from Group companies		1.12.17	-	-
Total non-current interest-bearing loans and borrowings			**15 829**	**16 363**
Total interest-bearing loans and borrowings			**16 994**	**17 404**

Bank loans

The parent company has three bank loans withdrawn in August 2015 with a total nominal value of EUR 17 million. The loans are secured against business mortgages and pledged shares of subsidiaries. The 9.5 MEUR bank loan is a bullet loan of EUR 9.5 million and falls due in full on 7 August 2021. The two other bank loans are repaid in accordance with their repayment schedules over their maturity periods. The company's bank loans involve covenants relating to the amount of interest-bearing debt and profitability.

Other loans

During the financial year 2016, the company repaid its other loans in full (EUR 5,886,000 in total) in conjunction with its listing on NASDAQ Helsinki.

The Group has no unused loan commitments.

Financial lease liabilities

The Group's agreements that are related to furniture and fixtures at its own restaurants, as well as cars, are considered to fulfil the requirements of IAS 17 for financial leases. On the reporting date, the Group's liabilities related to these amounted to EUR 1,031,000.

1000 EUR	2017	2016
Gross financial lease liabilities, minimum rents according to maturity periods		
Within 12 months	20	129
More than 12 months but no more than 5 years	1 279	431
Total	**1 299**	**560**
Future accrual of financial expenses	- 268	- 121
Current value of financial lease liabilities	1 031	439
Current value of financial lease liabilities according to maturity periods		
Within 12 months	15	82
More than 12 months but no more than 5 years	1 017	357
Total	**1 031**	**439**

The Group also has agreements that related to furniture and fixtures delivered to the franchisees. These agreements are considered to fulfil the requirements of IAS 17 for financial leases. On the reporting date, the Group's lease receivables and corresponding payments from the financing company related to these agreements amounted to EUR 870,000 (EUR 581,000). On the balance sheet, these are included in non-current receivables and in other non-current liabilities.

Other financial liabilities

1000 EUR	2017	2016
Financial liabilities at fair value through profit or loss		
Derivatives not designated as hedges		
Interest rate swap contracts not included in hedge accounting	298	367
Total financial liabilities at fair value through profit or loss	**298**	**367**
Total other financial liabilities	**298**	**367**

An interest rate swap contract was rearranged in conjunction with refinancing arrangements during the financial year 2016. The interest rate swap contract is defined as a hedging instrument, and the related profits or losses are included in other comprehensive income. The nominal value of the contract is EUR 8.5 million, and the contract will expire in August 2021.

16. TRADE AND OTHER PAYABLES

1000 EUR	2017	2016
Trade payables	4 836	5 130
Other payables	3 645	1 752
Total	**8 481**	**6 882**

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
- Payables to related parties are contingent considerations for acquisitions of subsidiaries.

17. CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of financial assets and liabilities by category

Values on 31 January 2017

Balance sheet item, 1000 EUR	Note	Financial assets and liabilities measured at fair value through profit or loss	Loans and other receivables	Available-for-sales (AFS) financials assets and liabilities	Financial assets and liabilities at amortised cost	Carrying amounts by balance sheet item	Fair value
Non-current financial assets							
Non-current receivables			874			874	874
Current financial assets							
Trade and other receivables	12		5 761	13		5 774	5 774
Cash and cash equivalents	13		9 650			9 650	9 650
Carrying amount by category		**-**	**16 285**	**13**	**-**	**16 298**	**16 298**
Non-current financial liabilities							
Interest-bearing liabilities	15				15 829	15 829	15 829
Derivative financial instruments	18	298				298	298
Other non-current liabilities				-	2 745	2 745	2 745
Current financial liabilities							
Interest-bearing liabilities	15				1 165	1 165	1 165
Tade and other payables	16			-	8 481	8 481	8 481
Carrying amount by category		**298**	**-**	**-**	**28 219**	**28 517**	**28 517**

Values on 31 January 2016

Balance sheet item, 1000 EUR	Note	Financial assets and liabilities measured at fair value through profit or loss	Loans and other receivables	Available-for-sales (AFS) financials assets and liabilities	Financial assets and liabilities at amortised cost	Carrying amounts by balance sheet item	Fair value
Non-current financial assets							
Non-current receivables			783			783	783
Non-current financial assets				2		2	2
Current financial assets							
Trade and other receivables	12		4 945	19		4 964	4 964
Cash and cash equivalents	13		8 099			8 099	8 099
Carrying amount by category		**-**	**13 827**	**21**	**-**	**13 848**	**13 848**
Non-current financial liabilities							
Interest-bearing liabilities	15				16 363	16 363	16 363
Derivative financial instruments	18	367				367	367
Other non-current liabilities				-	2 462	2 462	2 462
Current financial liabilities							
Interest-bearing liabilities	15				1 041	1 041	1 041
Tade and other payables	16			-	6 882	6 882	6 882
Carrying amount by category		**367**	**-**	**-**	**26 748**	**27 115**	**27 115**

The non-current assets include trade receivables that will fall due for payment after more than 12 months from the reporting date, as well as rental receivables classified as a financial lease. Other non-current liabilities comprise collateral debts and buy-back commitments classified as financial leases.

Available-for-sale assets include investments in non-listed shares and the receivables related to the divested business of Francount. Current trade receivables available for sale and other receivables of EUR 13,000 are included on the balance sheet for the year 2017 (EUR 19,000 in 2016) in the line item "Assets related to divestments". Investments available for sale are measured at acquisition cost, as their fair value cannot be measured reliably.

The management estimates 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 instrument transactions principally with financial institutions with a credit rating. 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 the DCF method with a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

18. FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy for the Group's assets and liabilities.
The fair value measurement hierarchy including qualitative disclosure for assets on 31 January 2017:

		Fair value measurement			
1000 EUR	**Date of valuation**	**Total**	**Quoted prices in active markets (Level1)**	**Significant observ-able inputs (Level 2)**	**Significant unobserv-able inputs (Level 3)**
Liabilities measured at fair value:	**31. tammi-kuuta 2017**				
Derivate financial liabilities					
Interest rate swaps		298		298	

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

Fair value hierarchy for financial instruments measured at fair value on 31 January 2016

Liabilities measured at fair value

1000 EUR	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivate financial liabilities				
Interest rate swaps	367		367	

19. PROVISIONS

1000 EUR	Ehdollinen vastuu
1 February 2016	**90**
Change of the year	- 90
31 January 2017	**-**
Current provisions, total	-

The provisions relate to lease contracts for empty facilities. On the reporting date, the Group had no empty facilities.

20. 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:

1000 EUR	2017	2016
Within one year	50	50
After one year but no more than five years	46	108
	96	158

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 Kotipizza 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 Kotipizza Group Oyj has provided guarantees. In addition, Helsinki Foodstock Oy has rental commitments related to office facilities, and the company has given a bank guarantee to secure these liabilities.

Chalupa Oy, the third subsidiary of the Group, has rental commitments related to restaurant operations. The company has given a bank guarantee to secure these commitments, and the parent company Kotipizza Group Oyj has provided an absolute guarantee with regard to the commitments.

The parent company Kotipizza Group Oyj also has fixed-term rental commitments related to office facilities. A bank guarantee has been given to secure these commitments. The rental agreements are fixed-term, ranging from one to three years.

The amounts of commitments and guarantees on the reporting date:

Commitments

1000 EUR	2017	2016
Rental guarantees/rental commitments	4 340	3 699
Bank guarantees	420	420
Rental commitments for premises	28	18

Guarantees

1000 EUR		
Pledged deposits	146	352
Business mortgages	2 500	2 500
Guarantees *)	12	20

*) In addition, the parent company Kotipizza Group Oyj has provided guarantees to secure its subsidiaries' liabilities.

Guarantees on behalf of other companies

Kotipizza Oyj, a subsidiary of the Group, has provided a guarantee on behalf of a business partner.

Kotipizza Oyj charges an annual commission on the guarantee.

The amounts of guarantees on the reporting date:	2017	2016
	3	422

Liabilities secured against business mortgages and pledged shares

During the financial year 2016, the parent company Kotipizza Group Oyj carried out refinancing arrangements and took out three bank loans.

The amounts of commitments and guarantees on the reporting date:

Liability:

1000 EUR	2017	2016
Loans from financial institutions	15 963	16 813

Guarantee:		
Business mortgages	17 500	15 000
Pledged shares, book value	44 237	29 637

21. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are comprised 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, as well as cash and short-term deposits that derive directly from its operations.

The Group is exposed to market, credit and liquidity risks. The Group's senior management oversees the management of these risks.
All derivative activities for risk management purposes are carried out by people with the appropriate skills and experience. 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. The market risk comprises three types of risk: interest rate risk, currency risk and other price risks, such as the equity price risk and the commodity risk. Financial instruments affected by the 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 on 31 January 2017.
The sensitivity analyses have been prepared on the basis that the amount of net debt, the interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant.

Interest rate risk
The interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Group's exposure to the risk of changes in market interest rates primarily relates to the fair value of interest rate derivative instruments and fluctuation in market interest rates.
The Group manages risks by means of interest rate hedging. For this purpose, the Group enters into interest rate derivative agreements when

needed. On 31 January 2017, 53% of the Group's borrowings had been converted into fixed-rate borrowings through an interest rate swap.

Interest rate sensitivity

A shift of 1% in the market interest rate curve would have had an effect of EUR -86,000 on the result on 31 January 2017. Interest rate sensitivity has been calculated assuming that the interest rate curve will rise by 1 percentage point. Sensitivity describes the effect on the result before taxes.

Foreign currency risk

The 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 primarily relates to the Group's operating activities (when revenues or expenses are denominated in a currency other than the Group's presentation currency).
On 31 January 2017, the Group did not have any significant exposures in foreign currencies.

Credit risk

The 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 the credit risk through its operating activities (primarily trade receivables) and financing activities, including deposits with banks and financial institutions, transactions denominated in foreign currencies and other financial instruments.

Trade receivables

The customer credit risk is managed by each business unit in accordance with the Group's established policy, procedures and control concerning customer credit risk management.
Outstanding trade receivables are regularly monitored, and an impairment analysis is performed on each reporting date on an individual basis for major clients. The Group considers the concentration of risk with regard to trade receivables to be low, as its customers are located in several geographical areas and receivables per customer are reasonable.

Financial instruments and cash deposits

The credit risk related to 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 intended to minimise the concentration of risks and therefore prevent financial losses resulting from a counterparty's failure to make payments. The Group's maximum exposure to the credit risk for the components of the consolidated balance sheet on 31 January 2017 and on 31 January 2016 corresponds to the carrying amounts presented in Note 17.

Liquidity risk

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

Year ended 31 January 2017

1000 EUR	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	-	288	1 063	14 893	767	17 010
Other financial liabilities		-	-	2 789	-	2 789
Trade and other payables	-	7 836	645	-	-	8 480
Derivatives	-	24	73	223	-	320
	-	**8 147**	**1 781**	**7 654**	**11 000**	**28 600**

Year ended 31 January 2016

1000 EUR	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	-	349	789	4 903	11 363	17 404
Other financial liabilities	2	-	-	2 460	-	2 462
Trade and other payables	-	6 264	618	-	-	6 882
Derivatives	-	21	84	260	40	405
	2	**6 634**	**1 491**	**7 623**	**11 403**	**27 153**

Capital management

For the purpose of the Group's capital management, capital includes issued share capital 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 objective, the Group's capital management aims to ensure that it meets financial covenants related to the interest-bearing loans and borrowings. Failure to meet financial covenants would permit the creditor to immediately call back loans and borrowings. There were no breaches of the financial covenants of any interest-bearing loans and borrowings during the financial 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 its capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In practice, the development of the capital structure is monitored monthly using various indicators of the capital structure, which are reported to the company's Board of Directors.

No changes were made to the objectives, policies or processes for managing capital during the financial years that ended on 31 January 2017 and 31 January 2016.

22. GROUP INFORMATION AND SUBSIDIARIES

Information about subsidiaries

The Group's consolidated financial statements include:

			% equity	
Name	**Principal operations**	**Country**	**2017**	**2016**
Kotipizza Oyj	Fast food and franchising	Finland	100%	100%
Helsinki Foostock Oy	Food and beverages wholesale	Finland	100%	100%
Chalupa Oy	Fast food and fast casual	Finland	60%	60%

The ultimate control of the Group

Funds managed by Sentica Partners Oy own 63.30% of the Group's parent company, Kotipizza Group Oyj, meaning that the Group is controlled by them.

Holdings in the company by sector and size, as well as the company's largest shareholders and the holdings of the members of its Board of Directors and Executive Board, are listed on the company's website www.kotipizzagroup.com

23. ISSUED CAPITAL AND RESERVES

The figures are exact values	Number of shares (1,000)	Share capital	Reserve for invested unrestricted equity	Total
31 January 2015	**544 275**	**80 000**	**5 362 752**	**5 442 752**
Reverse share split	- 543 024	-	-	-
Share issue	5 100	-	25 500 000	25 500 000
Cost of issue			- 1 045 282	- 1 045 282
31 January 2016	**6 351**	**80 000**	**29 817 470**	**29 897 470**
Dividend distribution			- 2 222 920	- 2 222 920
31 January 2017	**6 351**	**80 000**	**27 594 550**	**27 674 550**

Total comprehensive incomem net of tax:

The changes in each equity item included in total comprehensive income are presented below:

31 January 2017

1000 EUR	Other reserves	Foreign currency translation reserve	Retained earnings	Total
	-	-	-	-

31 January 2016

1000 EUR	Other reserves	Foreign currency translation reserve	Retained earnings	Total
	-	-	-	-

During the financial year 2016, the Annual General Meeting decided to carry out a reverse share split in accordance with chapter 15, section 9 of the Limited Liability Companies Act. As a result of this, the company's total number of shares decreased to 1,251,201. A total of 5,100,000 new shares were issued through
a share issue carried out on 6 July 2015 in conjunction with the listing of the company on NASDAQ OMX Helsinki.

The Group distributed EUR 2,222,920 of dividends during the financial year 1 February 2016–31 January 2017.

The company has one series of shares. All shares carry equal rights to dividends and the company's assets. The shares do not have a nominal value. The company does not hold treasury shares.

24. RELATED PARTY TRANSACTIONS

Parties are considered to be related when a party has control or significant influence over the other party with regard to decision-making concerning its finances and business operations. The Group's related parties include the parent company, subsidiaries, members of the Board of Directors and the Executive Board and managing director, as well as their family members. The key management comprises the members of the management boards. The total amounts of related party transactions carried out during the period are presented in the table below. The terms and conditions of the related party transactions correspond to the terms and conditions applied to transactions between independent parties.

1000 EUR		Interest paid	Amounts owed to related parties	Purchases from related parties	Outstanding trade payables	Sales to related parties	Outstanding trade receivables
The Group's senior management	2017	0	0	334	58	2	0
	2016	0	0	93	3	0	0
Other related parties	2017	0	0	0	0	0	0
	2016	0	0	0	0	0	0
Controlling entities	2017	0	0	0	0	0	0
	2016	156	0	212	13		
Companies controlled by members of the board	2017	0	0	134	15	0	0
	2016	0	0	405	17	628	8

The transactions with related parties do not include any guarantees, securities or provisions given or received.

1000 EUR		Salaries	Pension expenses
Management and key personnel of the Group			
	2017	748	141
	2016	710	135

The salaries of the Group's management and key personnel include car and telephone benefits, and there are no other benefits. No benefits are applied after service, and the Group has not paid any share-based payments.

Key employees of Kotipizza Group Oyj participate in share-based incentive programmes, which have been categorised as share based programmes paid out as equity. In these programmes, employees perform their work against equity capital instruments (shares).

The program covers three three-year earning periods. Based on the plan, the company may give performance shares in the earning period of 1 February 2016–31 January 2019. For earning periods 1 February 2017–31 January 2020 and 1 February 2018–31 January 2021, the company may give also discretionary matching shares based on the key employees' shareholding in addition to the performance shares. The Board of Directors of the company confirms the performance measures, the type and maximum number of the reward shares as well as eligible key employees at the beginning of each earning period. The calculatory (non-cash) impact of the share-based incentive programme to the Group's financial result and equity was EUR 43 thousand in the financial year 1 February 2016–31 January 2017.

The performance measures applied in the earning period of 1 February 2016–31 January 2019 are the average growth of Kotipizza Group chain's total sales and earnings per share in the three-year earning period.

Based on earning period of 1 February 2016–31 January 2019, the maximum of 47.204 performance shares can be given as reward, including the cash payment portion of the reward. The potential reward is to be paid as combination of shares (50%) and a cash payment (50%). The cash payment is intended for covering taxes and tax-like charges to be paid by key employee. The Board of Directors thus anticipates that the maximum dilutive effect on the number of the company's registered shares for the first earning period is 0,37%. If the employment of a key employee terminates before the payment of the reward, the reward will not, as a rule, be paid.

Key management personnel have not been granted loans, and the Group has not guaranteed loans to the management personnel.

Managing Director and Board Members:

1000 EUR	2017 Salaries	2017 Pension expenses	2016 Salaries	2016 Pension expenses
Tommi Tervanen, CEO	219	41	218	41
Johan Wentzel, Chairman of the Board	8	-	7	-
Kim Hanslin, Member of the Board	24	-	24	-
Minna Nissinen, Member of the Board since 1 January 2015	24	-	24	-
Petri Parvinen, Member of the Board since 1 January 2015	24	-	24	-
Kalle Ruuskanen, Member of the Board since 1 January 2015	24	-	24	-
Marjatta Rytömaa, Member of the Board since 1 May 2016	5	-	-	-
Mikael Autio, Member of the Board since 1 February 2015	2	-	7	-

25. EARNINGS PER SHARE

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

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

1000 EUR	2017	2016
Profit attributable to ordinary equity holders of the parent		
Continuing operations	3 464	362
Discontinued operations	0	-113
Profit attributable to ordinary equity holders of the parent for basic earnings	**3 464**	**249**
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	3 464	249

	2017	2016
Weighted average number of ordinary shares for basic earnings per share	6 351 201	4 165 487
Effect of dilution: none		
Weighted average number of ordinary shares adjusted for the effect of dilution	**6 351 201**	**4 165 487**

The reverse share split is explained in more detail in Note 23 Capital issued.

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

INCOME STATEMENT

KOTIPIZZA GROUP OYJ
PARENT COMPANY

		1 Feb 2016–31 Jan 2017	1 Feb 2015–31 Jan 2016
1000 EUR		**12 months**	**12 months**
Turnover	1)	**1 246**	**980**
Other operating income	2)	24	2
Purchases during the period		-3	
Personnel expenses	3)	-1 393	-1 649
Depreciation and impairment	4)	-106	-34
Other operating expenses	5)	-1 313	-1 785
Operating loss		**-1 545**	**-2 486**
Financial income and expenses	6)	-523	-3 143
Profit/loss before appropriations and taxes		**-2 069**	**-5 629**
Appropriations	7)	1 484	5 048
Income taxes	8)	0	10
Profit/loss for the period		**-585**	**-571**

BALANCE SHEET

KOTIPIZZA GROUP OYJ
PARENT COMPANY

1000 EUR		31 January 2017	31 January 2016
ASSETS			
Non-current assets			
Intangible assets	9)	392	235
Tangible assets	10)	38	64
Investments	11)	44 524	30 614
Non-current assets total		**44 954**	**30 913**
Current assets			
Short-term receivables	12)	265	15 021
Cash at banks and in hand		7 053	768
Current assets total		**7 318**	**15 789**
Total assets		**52 272**	**46 702**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	13)		
Share capital		80	80
Reserve for invested unrestricted equity		28 640	30 863
Profit/loss from previous financial periods		-1 826	-1 255
Profit/loss from for the period		-585	-571
Total shareholders' equity		**26 309**	**29 117**
Mandatory provisions	14)	0	39
Non-current liabilities	15)	14 813	15 965
Current liabilities	16)	11 150	1 581
Total liabilities		25 963	17 546
Total shareholders' equity and liabilities		**52 272**	**46 702**

ACCOUNTING POLICIES APPLIED TO THE PARENT COMPANY FINANCIAL STATEMENTS

Accounting policies
The financial statements of Kotipizza Group Oyj (parent company) are prepared in accordance with the laws of Finland and the Finnish Accounting Standards as they stand at any given time. The amounts in the financial statements are presented in thousands of euros unless otherwise stated.

The financial statement information is available at: Hermannin Rantatie 2 B, 00580 Helsinki, Finland.

ACCOUNTING PRINCIPLES

Non-current assets
Non-current assets are presented as the difference between the acquisition cost and accrued depreciation. The acquisition cost of fixed assets is depreciated using straight-line depreciation based on the expected useful life of the asset. The acquisition cost of fixed assets only includes the acquisition costs of assets with remaining useful life.

Depreciation is based on the following expected useful lives:

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

Pension expenses
An external pension insurance company manages the pension plan. The expenses are recognised in the income statement for the year during which they occur.

Foreign currency items
Receivables and liabilities denominated in foreign currencies are measured using the exchange rate quoted on the reporting date.

Exchange rate differences have been entered in the income statement.

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

Valuation of receivables
Non-current and current receivables are measured at nominal value. The part of loan or other receivables that involves uncertainty about payment is recognised as impairment on investments in non-current assets.

Comparability
The figures presented in the parent company’s financial statements for different financial periods are comparable.

Changes resulting from the new Accounting Act in the result and balance sheet formulas have been taken into account with regard to the comparison information. The new Accounting Act came into effect on 1 January 2016.

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

Notes to the income statement

1.	**Turnover**	**31 January 2017**	**31 January 2016**
	Turnover by business line:		
	Administrative services	1 165	863
	Income from premises	81	117
	Total	**1 246**	**980**

2.	**Other operating income**	**31 January 2017**	**31 January 2016**
	Other income	24	2
	Total	**24**	**2**

3.	**Personnel expenses**	**31 January 2017**	**31 January 2016**
	Salaries and fees	1 134	1 392
	Pension expenses	206	213
	Other indirect employee costs	53	44
	Total	**1 393**	**1 649**

3.1.	**Average number of employees**	**11**	**11**

4.	**Depreciation and impairment**	**31 January 2017**	**31 January 2016**
	Depreciation according to plan		
	Other non-current expenses	95	13
	Machinery and equipment	12	21
	Total	**106**	**34**

5.	**Other operating expenses**	**31 January 2017**	**31 January 2016**
	Most significant items:		
	Operating leases and other property costs	141	243
	Marketing expenses	71	30
	Administrative expenses	564	1 201
	Machinery and equipment expenses	310	153
	Other expenses	227	158
	Total	**1 313**	**1 785**

5.1.	**Auditor's fees**	**31 January 2017**	**31 January 2016**
	Statutory audit	20	47
	Other advisory services	25	173
	Total	**45**	**220**

6.	**Financial income and expenses**		
	Other financial income and expenses	**31 January 2017**	**31 January 2016**
	From Group companies	96	194
	From others	4	0
	Total	**101**	**194**

Interest and other financial expenses		
To Group companies	-53	-163
To others	-571	-3 173
Total	**-624**	**-3 336**
Total financial income and expenses	**-523**	**-3 142**

7. Appropriations	**31 January 2017**	**31 January 2016**
Group contribution received	1 484	5 048
Total appropriations	**1 484**	**5 048**

8. Income taxes	**31 January 2017**	**31 January 2016**
Income taxes for the period	0	10

Notes to the balance sheet

9. Intangible assets	**31 January 2017**	**31 January 2016**
Acquisition cost at the beginning of the financial year	255	19
Additions	252	236
Acquisition cost at the end of the financial year	508	255
Accumulated depreciation at the beginning of the financial year	-20	-7
Depreciation for the period	-95	-13
Accumulated depreciation at the end of the financial year	-115	-20
Balance sheet value on 31 January	393	235
Total intangible assets	**393**	**235**

10. Tangible assets

Plant and equipment	**31 January 2017**	**31 January 2016**
Acquisition cost at the beginning of the financial year	135	116
Additions	28	19
Reductions	-107	0
Acquisition cost at the end of the financial year	56	135
Accumulated depreciation at the beginning of the financial year	-71	-50
Depreciation for the period	53	-21
Accumulated depreciation at the end of the financial year	-18	-71
Balance sheet value on 31 January	38	64
Total tangible assets	**38**	**64**

11. Investments	**31 January 2017**	**31 January 2016**
Shares and holdings		
Acquisition cost at the beginning of the financial year	30 547	30 517
Additions	13 689	30
Acquisition cost on 31 January	44 236	30 547
Capital loans granted		
At the beginning of the financial year	67	0
Additions	221	67
At the end of the financial year	288	67

The capital loans were granted to Group companies under separate agreements.

Total investments	**44 524**	**30 614**

12. Receivables

Current receivables	31 January 2017	31 January 2016
Receivables from Group companies	15	14 730
Trade receivables from Group companies	139	115
Trade receivables from other companies	0	1
Receivables from companies other than Group companies		
Accrued receivables	111	123
Other receivables	0	52
Total current receivables	**265**	**15 021**
Total receivables	**265**	**15 021**

13. Shareholders' equity

	31 January 2017	31 January 2016
Share capital at the beginning of the financial year	80	80
Increase in share capital	0	0
Share capital on 31 January	**80**	**80**
Reserve for invested unrestricted equity at the beginning of the financial year	30 863	5 363
Increase during the financial year, initial public offering	0	25 500
Dividends	-2 223	0
Reserve for invested unrestricted equity at the end of the financial year	**28 640**	**30 863**
Retained earnings at the beginning of the financial year	-1 826	-1 255
Profit/loss for the period	-585	-571
Retained earnings on 31 January	**-2 411**	**-1 826**
Total shareholders' equity	**26 309**	**29 117**

Distributable funds		
Reserve for invested unrestricted equity	28 640	30 863
Retained earnings	-1 826	-1 255
Profit/loss for the period	**-585**	**-571**
Total distributable funds	**26 229**	**29 037**

14. Mandatory provisions

Empty premises	0	39
Mandatory provisions total	**0**	**39**

15. Non-current liabilities

	31 January 2017	31 January 2016
Loans from financial institutions (1 to 5 years)	10 250	4 463
Loans from financial institutions (more than 5 years)	4 563	11 500
	14 813	**15 963**
Other non-current liabilities	0	2
Total non-current liabilities	**14 813**	**15 965**

16. Current liabilities

	31 January 2017	31 January 2016
Loans from financial institutions	1 150	850
Trade payables to Group companies	0	21
Trade payables to companies other than Group companies	139	277
Accrued liabilities	285	354
Other current liabilities	89	79
Total current liabilities	**1 663**	**1 581**
Total liabilities	**16 476**	**17 546**

Breakdown of the most significant accrued liabilities:

Personnel expenses	164	232
Interest expenses	118	122
Total accrued liabilities	**283**	**354**

Structure and financing arrangements

Frankis Finland Oy (2159381-0) merged with the parent company Kotipizza Group Oyj (2416007-6).

The execution of the merger was registered on 30 June 2016.

Merger consideration

No merger consideration will be paid.

Commitments	**31 January 2017**	**31 January 2016**
Leasing commitments, own (incl. VAT)		
Within one year	122	20
More than on year	122	43
	244	**63**
Commitments secured against business mortgages and pledged shares		
Commitment: loans from financial institutions	15 963	16 813
Guarantee: business mortgage	16 000	15 000
pledged shares, book value	44 236	29 637
Contingent liabilities for Group companies	unlimited	unlimited
Business mortgages for Group companies	1000	1000
Other commitments		
Lease commitments for premises (fixed-term agreements)	0	0
Leasing residual value liabilities (incl. VAT)	147	0
Guarantee		
Lease guarantee	12	20

Interest rate derivative instrument

The parent company has entered into a new interest rate swap agreement. The swap agreement has an underlying asset.

The market value of the interest rate swap was EUR -298,000 on the reporting date. The negative market value is presented in the notes to the financial statements and is not included in the income statement.

CASH FLOW STATEMENT OF THE PARENT COMPANY

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2017

1000 EUR	2017	2016
Operating activities		
Profit before taxes	-585	-581
Group contributions received	-1484	0
Adjustments to reconcile proft before taxes to net cash flow:		
Depreciation on property, plant and equipment	12	21
Depreciation and impairment on intangible assets	95	13
Financial income	-101	-194
Financial expenses	624	3 337
Change in working capital:		
Change in trade and other receivables (+/–)	1 067	160
Change in trade and other payables (+/–)	-197	-111
Change in provisions (+/–)	-40	40
Interest paid and other financial expenses (–)	-523	-5 601
Income tax paid	0	-52
Net cash flows from operating activities	**-1 132**	**-2 968**
Cash flows from investing activities		
Investments in acquisitions of subsidiaries	0	-30
Investments in tangible assets (–)	14	-19
Investments in intangible assets (–)	-251	-236
Loans granted (–)	-221	-2 472
Net cash flows used in investing activities	**-458**	**-2 757**
Cash flows from financing activities		
Share issue	0	25 500
Group contribution received	1 484	0
Dividends paid	-2 223	0
Withdrawals of loans	9 766	17 000
Loan repayments (–)	-1 152	-36 073
Financial leasing payments (–)		-40
Net cash flows used in financing activities	**7 876**	**6 387**
Change in cash and cash equivalents	6 286	662
Cash and cash equivalents on 1 February	768	106
Cash and cash equivalents on 31 January	**7 053**	**768**

KOTIPIZZA GROUP OYJ

Signatures of the CEO and the members of the Board of Directors

24 April 2017

Johan Wentzel
Chairman of the Board

Kim Hanslin
Member of the Board

Kalle Ruuskanen
Member of the Board

Minna Nissinen
Member of the Board

Petri Parvinen
Member of the Board

Marjatta Rytömaa
Member of the Board

Tommi Tervanen
CEO

A report on the audit performed has been issued today.

Helsinki, 24 April 2017

Ernst & Young Oy
Authorized public accountants

Antti Suominen
KHT (Authorized public accountant)

KOTIPIZZA GROUP OYJ

ACCOUNTING BOOKS USED FROM 1 FEBRUARY 2016 TO 31 JANUARY 2017

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

Electronically stored accounting ledgers are stored in accordance with the guidance of the Accounting Standards Board.

DOCUMENT TYPES USED FROM 1 FEBRUARY 2016 TO 31 JANUARY 2017

List of document types		
Journals	NORDEA	Bank statements
Journals	MU	Memos vouchers, salaries
Sales and sales credit invoices	ML,MHL	Sales invoices NAV
Cash journals	SUOR_NORD	Reference payments NAV
Purchase and purchase credit invoices	OL, OHL	Purchase invoices NAV
Payment journals	MAKS_NORDE	Purchase payments NAV
VAT transactions	ALVILM	VAT entries
Notes of the financial transactions		Notes

CALCULATION OF KEY FIGURES

OPERATING PROFIT, % =

$$\frac{\text{Operating profit}}{\text{Turnover}} \times 100$$

EQUITY RATIO % =

$$\frac{\text{Shareholders' equity}}{\text{Total assets}} \times 100$$

RETURN ON EQUITY, % =

$$\frac{\text{Net result}}{\text{Shareholders' equity}} \times 100$$

EARNINGS PER SHARE =

$$\frac{\text{Profit/loss for the period}}{\text{Number of shares}} \times 100$$

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