KOTIPIZZA GROUP OYJ

ANNUAL REPORT / 2018

KOTIPIZZA GROUP

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ON TO NEW ADVENTURES

A new chapter is beginning in the story of Kotipizza Group.

Kotipizza Group was listed on the main list of the Helsinki stock exchange in July 2015. Going public represented the culmination of one chapter in Kotipizza's story, which already spanned nearly 30 years at the time. The pizza chain established in 1987 had reached a milestone in its evolution: it had become a publicly listed company whose shareholders included ordinary Finnish private investors as well as Finnish and international institutions.

THE chapter that followed in Kotipizza Group was one of continued success: as a listed company, the Group won the trust of investors by focusing on responsible business and transparent communications. When the previous main shareholder, Sentica Partners, sold its holdings in the company in early 2017, Kotipizza Group became one of the most internationally held companies in its size category on the Helsinki stock exchange. The very strong performance of the share price was also indicative of the high level of trust in the company.

ANOTHER new chapter is now beginning in the story of Kotipizza Group. In November 2018, the Norwegian conglomerate Orkla ASA made a public cash tender offer for all shares in Kotipizza Group. This past January, it was confirmed that an absolute majority of the shareholders had accepted Orkla's tender offer.

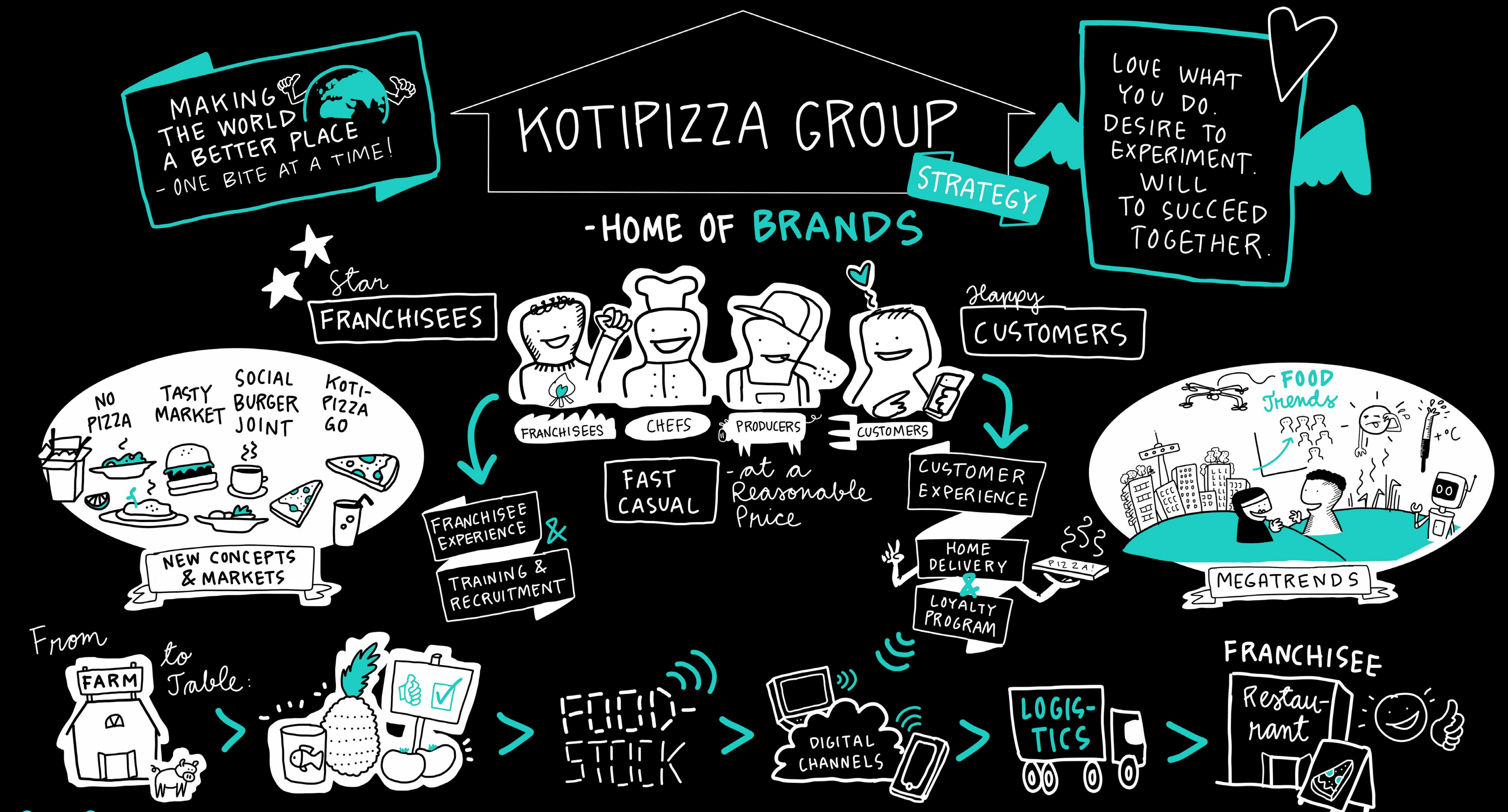
FROM the perspective of the Group's restaurant concepts and their customers, nothing much will change. Kotipizza Group will continue to operate as a Finnish company, managed from Finland, serving Finnish customers. The cornerstones of the Group's concepts will still be the same ideas of high-quality and responsibly produced ingredients, ambitious product development and a dynamic and entrepreneurial franchising model.

"I am completely confident that Kotipizza Group is in good hands."

THE most important thing is that Kotipizza Group and its new owner share very similar values. Orkla ASA has been repeatedly ranked among the world's most responsible companies. I am completely confident that Kotipizza Group is in good hands and in a position to continue writing the next chapter of its story with new resources yet the same values as before. Kotipizza Group will continue to make the world a better place, one bite at a time.

THE story of Kotipizza Group has shown that successful business is built on genuine respect for the environment and people. I look forward to seeing what new adventures our next chapter will bring.

Kalle Ruuskanen
Chairman of the Board
Kotipizza Group Oyj



KOTIPIZZA GROUP
STRATEGY
MAKING THE WORLD A BETTER PLACE - ONE BITE AT A TIME!
LOVE WHAT YOU DO. DESIRE TO EXPERIMENT. WILL TO SUCCEED TOGETHER.
- HOME OF BRANDS
Star FRANCHISEES
Happy CUSTOMERS
FRANCHISEES
CHEFS
PRODUCERS
CUSTOMERS
NO PIZZA
TASTY MARKET
SOCIAL BURGER JOINT
KOTI-PIZZA GO
NEW CONCEPTS & MARKETS
FRANCHISEE EXPERIENCE &
TRAINING & RECRUITMENT
FAST CASUAL
- at a Reasonable Price
CUSTOMER EXPERIENCE
HOME DELIVERY & LOYALTY PROGRAM
PIZZA!
FOOD Trends
+°C
MEGATRENDS
From FARM to Table:
FOOD-STOCK
DIGITAL CHANNELS
LOGIS-TICS
FRANCHISEE
Restau-rant

SUCCESS IS DRIVEN BY CULTURE

Our home of brands is more than the sum of its parts.

In its strategy announced in 2018, Kotipizza Group characterised itself as a home of brands. In other words, the Group focuses on developing and operating fast casual restaurant concepts and chains.

THE GROUP'S largest and best-known concept is Kotipizza, a national chain of some 280 restaurants that nearly everyone in Finland is familiar with. In 2015, Kotipizza was complemented by the Mexican fast casual Chalupa chain, followed in 2017 by the Social Burgerjoint restaurant, which has since begun to evolve into a national burger chain. In 2018, the international No Pizza restaurant concept was added to the portfolio, with a proof-of-concept restaurant currently operating in Helsinki. Our brand portfolio also includes the Kotipizza Go concept for eating on the go, and the Tasty Market lunch restaurant concept announced in 2018.

THE STRATEGY of being a home of brands has proved to be a successful one. The growth of the Kotipizza chain has continuously exceeded the overall growth of the Finnish restaurant and fast food market.

SOCIAL Burgerjoint has also grown at a good rate, even faster than expected. The chain has enjoyed a great deal of positive publicity, with its products almost unanimously praised by food industry experts and ordinary customers alike.

AT KOTIPIZZA Group, we all celebrate each other's success. The success of the individual brands also creates concrete benefits for the other concepts. In our home of brands, we openly share knowledge and experiences. Best practices and the lessons learnt from mistakes help each chain improve their operations further. This makes us more than the sum of our parts.

A CULTURE of cooperation and openness must be built through conscious effort. To this end, we have launched a project in Kotipizza Group to define our company culture and develop it towards even greater openness. The premise for this development is the idea that culture concerns every employee, which is why everyone must have the opportunity to participate in its creation.

OUR CULTURE project will continue through this year, and a company culture is never truly finished, as it must be dynamic and always evolving. Nevertheless, we have already identified one of the cornerstones of our culture and our internal cooperation: we talk a big game, but we also deliver.

Tommi Tervanen
CEO
Kotipizza Group Oyj

"A culture of cooperation and openness must be built through conscious effort."

OUR BRAND IS STRONGER THAN EVER

Investments in digital and deliveries increased Kotipizza's sales.

The past financial year was another successful period for the Kotipizza chain. Our sales hit an all-time high, we achieved excellent results in a reputation survey and we introduced many new elements to our concept. The renewal of our online store and delivery service, in particular, will strengthen our position as a leader in the fast casual dining business in the coming years. Our investments in digitality are also reflected in the enhanced assurance of food safety and the digital gift cards launched in December.

KOTIPIZZA'S brand awareness and reputation are stronger than they have ever been. Consumer perceptions of Kotipizza's quality, in particular, have improved significantly. Perceived quality is influenced by many factors, but the new pizzas introduced during the past financial year played an especially important role in elevating it. Launched during the year under review, the rainbow trout plank pizza, cold-smoked rainbow trout kotzone and seasonal mushroom pizza all represent the quality and values that reflect Kotipizza's current image and investments in sustainability. The brand has an attractive look and taste, which has helped us reach entirely new target audiences.

OUR sales continued to grow and we improved our monthly record twice during the year. The sales growth of our online store was even more dramatic, about 50 per cent per month on average. The growth in online sales was significantly boosted by the redesigned online store launched in August and our marketing investments in the development of the delivery concept. Cumulative chain sales grew by 15 per cent, which is three times higher than the growth rate of the fast casual market on average.

THE target we set in our roadmap published in the previous financial year was to have 275 restaurants in the Kotipizza chain by the end of 2018. With 280 (266) restaurants at the end of the financial year, we exceeded this target. We believe that there is still room in the market for the expansion of Kotipizza, especially in growth centres. During the financial year, we opened 22 new restaurants, closed a few and made certain changes to business premises and franchisees.

"75% would recommend becoming a Kotipizza franchisee."

IN spite of the chain's growth and concept renewal initiatives, satisfaction among Kotipizza franchisees has remained at a record-high level. As many as 75 per cent of Kotipizza franchisees would recommend becoming a franchisee. We aim to maintain a high level of satisfaction among our franchisees by investing further in training and the development of multi-franchisee capabilities and by supporting franchisees in employee recruitment.

IN the coming financial year, we will focus on further improving our online store and delivery service as well as the other concept updates we began last year. Responsibility is at the heart of what we do, and this will not change. We will continue to be a responsible pioneer among fast casual restaurant chains in Finland.

Heidi Stirkkinen
COO
Kotipizza Group Oyj

PRODUCT DEVELOPMENT IS KEY TO GROWTH

Chalupa continues to refine its concept to become the perfect example of contemporary Mexican fast casual dining.

The past financial year was a significant period for Chalupa in terms of concept development. In the preceding year, we had opened several new restaurants – also outside the Helsinki metropolitan area – and grown into a genuinely national chain. This past year, our focus was on refining the concept, the renewal of the menu as well as marketing.

WE simplified our menu to make it even more easier for customers to place their orders. We recognised that the concept of having customers freely make choices to build their meals could be perceived as difficult by some. We also recognised that, in Finnish lunch culture, having a limited number of choices is acceptable and people want to be able to place their orders quickly and have the food served promptly. To this end, we have added several pre-designed meals to our menu. We have also taken concrete measures at our restaurants to make ordering easier. We believe that focusing on product development is key to growth.

WE commissioned a marketing survey to assess Chalupa's brand awareness and image. The results indicated that the chain's brand awareness was not yet at the level we had hoped to achieve after three years of operations. Based on the findings, we carried out a long marketing campaign in the autumn to increase Chalupa's brand awareness within our target group. The campaign was a success, with our visibility rising from seven to 30 per cent. Our sales also showed a slight increase towards the end of the year. In addition to digital marketing, we engaged in local marketing in the streets around our restaurants.

WE are a pioneer in offering vegan options. Half of our main choices of fillings are vegan, and vegetables also represent the majority of the other ingredients used in our burritos and tacos. This is a fact that we need to communicate to our customers even more effectively. The guiding principles of our menu are still freshness and healthy eating.

OUR main goal for the current financial year is to launch the Chalupa lunch buffet concept. We have already tested the lunch buffet at our restaurants in Helsinki's Kalasatama district and Jyväskylä. Based on these experiences, we will expand the buffet concept to other Chalupa restaurants as well. The buffet concept is especially effective in shopping centres and locations near office buildings, which benefit from a high volume of lunch customers. Our plan is to introduce the buffet concept at approximately half of the existing Chalupa restaurants this year, while the rest will operate under the current concept.

"We are a pioneer in offering vegan options."

WE will continue to develop our existing restaurants and further refine the Chalupa concept this year. We are not planning to open new restaurants at the present time. Instead, we will focus on strengthening the Chalupa chain's position and our fast casual concept with the Group's support.

Iman Gharagozlu
Creative Director
Chalupa Oy

FROM ONE TO MANY

One restaurant grew into a chain of four during the financial year.

Social Burgerjoint had a very successful year in 2018. We won awards, opened new restaurants and broke sales records. In just one year, a small restaurant in Helsinki's Sörnäinen district turned into a chain of four restaurants and a significant player in the burger business in the Helsinki metropolitan area.

OUR first year as part of Kotipizza Group was a period of tremendous growth. The restaurant we opened in the Citycenter shopping centre in Helsinki in June has been very popular from day one. We opened another restaurant in the Redi shopping centre in Helsinki in the autumn. In spite of the challenges faced by the shopping centre early on, we have been satisfied with the monthly sales figures. In December, we opened our first restaurant managed by a franchisee in Kerava, which is also the first Social Burgerjoint outside the Helsinki metropolitan area. The restaurant in Kerava has got off to a good start.

WE have also made waves internationally. In September, our Kimchi burger won the Best Burger award at the European Street Food Awards in Berlin. Achieving international recognition in an industry competition was very satisfying for us.

ONE of the cornerstones of our success is that we spent a lot of time developing our product. No changes were made to the flagship burger during the year. Aside from seasonal products, the menu has remained the same as it was before the new restaurants were opened. Our Mibrasa charcoal grill gives our burger a unique smoky flavour, which has helped us increase the sales of our restaurants from one month to the next.

LATE in the year, we launched a new vegan burger that has been a resounding success. Our vegan burgers are supplied by Moving Mountains, a UK-based company known for its commitment to sustainability. The growing popularity of vegetarian and vegan eating is evident in our customer base and we want to respond to this trend by offering delicious plant-based menu items.

WE have done very little paid marketing, relying instead on our own channels and customer referrals. Our success and the gourmet burger phenomenon in general have enabled us to achieve a lot of positive media visibility. I believe this will continue in the coming financial year.

OUR goal is to open eight new franchises in the coming financial year. Our primary focus is on expanding outside the Helsinki metropolitan area. Interest in starting new Social Burgerjoint restaurants is high and we are actively working to identify suitable locations and franchisees. I expect us to maintain our growth in the coming year.

"Interest in starting new Social Burgerjoint restaurants is high."

Mika "Pikkis" Tuomonen
Creative Director and The Burgermeister
The Social Burger Joint Ltd

THE STORY OF NO PIZZA HAS BEGUN

No Pizza says yes to sustainability.

It all began with a dream. Kotipizza Group CEO Tommi Tervanen had a dream about a new pizza concept, which we began to develop in the Group during the past financial year. It began with a strong vision of a contemporary fast casual pizza chain and a sourdough crust. With extensive experience in the food industry and the world of pizza, Kotipizza Group's Creative Director Risto Mikkola and Manager of Food Safety and Quality Heikki Sikström are second to none when it comes to creating a unique world of flavours.

WE wanted No Pizza to be a contemporary fast casual pizza restaurant with a bar service concept at its core. With a casual but stylish restaurant environment, a carefully designed selection of wines and beers as well as curated background music, the No Pizza concept has been a fascinating addition to the home of brands that is our parent company.

THE No Pizza proof of concept restaurant opened for business in June at the Citycenter shopping centre in Helsinki. The goal has been to test the concept, develop it further and refine the aspects that work best. The No Pizza menu went through a few changes during the year, including the introduction of seasonal products and testing a lunch buffet concept, among other things. Locally produced ingredients and the seasonal approach will feature more prominently on the menu.

DIGITALITY is a big part of the No Pizza customer experience, which is in line with the consumption habits of our target audience. Spontaneous eating and ordering of food are popular among the target group and one of the biggest current trends in food. The pizzas can be ordered and paid through online banking interfaces or a mobile application, either in advance or at the restaurant. No Pizza accepts almost every method of payment except cash. The no cash mentality is part of our responsible approach: a restaurant that does not handle cash is safer for its employees and it eliminates the need to use cars to transport cash, which is environmentally responsible.

NO Pizza will continue to refine its product range and customer experience in the coming year. Our location in the heart of Helsinki gives us the opportunity to learn about different customer types and optimise the customer experience, thereby making it possible to replicate it internationally.

"The no cash mentality is part of our responsible approach."

I AM confident that we will really get going in the new financial year. The No Pizza story has only just begun. It has tremendous potential to become a new hit concept.

Riikka Ahtiainen
Head of New Markets & Concepts
Kotipizza Group Oyj

INDUSTRY-LEADING CUSTOMER SERVICE

Foodstock is a forerunner in sourcing sustainably produced ingredients for customers.

Foodstock had another year of very strong growth in 2018. Our customers are Finland's best and fastest-growing restaurant chains and we have been successful in supporting their growth.

WE have invested in our customer service and the results are reflected in a very high level of customer satisfaction. I am proud of our customer service team, which received the highest score in the Kotipizza franchisee satisfaction survey.

WE continued on our path of tremendous growth during the past financial year. Success for our customers means success for us. Our growth was particularly boosted by the Kotipizza Group's restaurant brands, including the Kotipizza chain and our new customers, Social Burgerjoint and No Pizza. We took over responsibility for Social Burgerjoint's sourcing and logistics at the start of the financial year and the process continued as the year went on. At the same time, Social Burgerjoint grew from one restaurant to a chain of four restaurants.

IN spite of our fast growth and increasing volumes over the past few years, we have been able to maintain a very high level of delivery reliability and even improve it further. This is a high priority for us, and we will continue to focus on it this year.

OUR second key priority, and the core of our entire business, is sustainability. We are forerunners in introducing responsibly produced ingredients in chain-managed companies and, consequently, the consumer market. We continued to promote sustainable fishing by introducing MSC certified anchovies to the Kotipizza chain. Produced from European anchovy, it is superior in quality to the traditional anchovies made from European sprat. Consumers are becoming increasingly aware of the origin of ingredients and the sustainability of food. It is important for us to supply our customer chains with ingredients that are produced as sustainably as possible.

OUR most significant project during the financial year was switching the Kotipizza chain's beverage supplier to Hartwall. The diverse new line-up of drinks was available at all Kotipizza restaurants in the late autumn. The selection will be expanded further this year with shots in three flavours to be added to the soft drink machines. Flavour shots are very popular among the restaurants' target audience, and we are pleased to have the exclusive opportunity to introduce them in Finland.

THIS financial year, we will focus on maintaining our excellent level of customer satisfaction and operational reliability. We will also continue our IT projects, including the renewal of our online store and ERP system. Our goal is to develop the digital customer experience, which is why all of our investments this financial year will be related to IT development projects. I expect our growth to continue in this new financial year.

Anssi Koivula
Managing Director
Helsinki Foodstock Oy

"Our goal is to further develop the digital customer experience."

TOGETHER WE ARE MORE

A stronger company culture supports growth.

The number of employees in Kotipizza Group continued to grow in 2018, with new experts hired in the Group's management as well as new franchisees and employees in the Group's chains. Our shared values – desire to experiment and love what you do – will become increasingly important as the number of employees increases.

LAST year, Kotipizza Group recruited talent in the areas of marketing and operative functions. We focused particularly on experts on the training of franchisees and professionals specialising in business locations. As the Group's chains are set to see significant growth in the coming years, focusing resources on industry professionals represents an investment in our future.

AT the end of the financial year, Kotipizza Group had a total of 33 employees, 16 of whom were women. All of them were in a permanent employment relationship. A total of 14 people worked in the Kotipizza chain's management, three of whom were women. Nine of these employees were in a permanent employment relationship, four were part-time and one was on a fixed-term contract. Foodstock had 12 employees, consisting of eight women and four men. All 12 of them were on permanent contracts. The chain management of both Chalupa and Social Burgerjoint consisted of two men. Social Burgerjoint also had 29 restaurant employees, of whom 15 were men and 14 were women. Of the restaurant employees, 24 were permanent and five were part-time. No Pizza had six restaurant employees, consisting of two men and four women. Two were permanent and the rest were part-time. In total, the Group management employed 98 people at the end of the financial year.

KOTIPIZZA Oyj held employee cooperation negotiations in May, concerning eight employees. The reason for the negotiations was the need to reorganise the Group's operations in a situation where Kotipizza Group is growing rapidly, and where new chains and concepts have been established to operate alongside the Kotipizza chain. The negotiations stemmed from the plan to concentrate Kotipizza's operations in Kotipizza Group. The plan did not entail a need to reduce the total number of people employed by the Group. The outcome of the negotiations was that the number of people employed by the Group increased by one.

KOTIPIZZA restaurants were run by almost 300 franchisees, who in total had approximately 1,700 employees. On average, each restaurant employed six people, some of whom may have been working on a part-time basis. The 13 Chalupa restaurants run by franchisees employed a total of 20 people.

IN the previous year, the Group defined its values, which guide our work. We continued to focus on the development of our company culture in 2018. In the spring, we evaluated the current situation of the company culture, defined our target culture and planned measures for achieving that target. One notable change during the year was the addition of an HR Director in October. The development of company culture is part of the Group's sustainability-related efforts aimed at investing in employee well-being.

A strong and cohesive company culture helps us support our franchisees better. Our business has seen significant growth in recent years, and we will pursue continued growth in the coming year. Achieving this goal will require a strong contribution from all of us. Focusing on the well-being of our industry-leading talent is an important investment in our future.

"A strong and cohesive company culture helps us support our franchisees better."

"Consumer trends support Kotipizza Group's investments in fast casual concepts."

RESTAURANT INDUSTRY CONTINUES TO GROW

The sales of Kotipizza Group's chains have grown at a faster rate than the Finnish restaurant and fast food market on average.

According to the Finnish Hospitality Association MaRa, Finnish restaurant businesses continued to see positive development in 2018. The total net sales of restaurant businesses is estimated to have grown by five per cent. In spite of the positive development, it should be noted that the Finnish tourism and restaurant industry went through "a lost decade" after 2008–2009, and it is only in the past two years that service demand has returned to the levels seen before the financial crisis.

GROWTH has been particularly strong in the fast food market. MaRa estimates that the sales of fast food restaurants in Finland increased by as much as nearly 10 per cent in 2018.

THE total value of the Finnish restaurant market is approximately 5.3 billion euros. The most important factors influencing the development of the sector include the general economic development, consumers' disposable income, taxation and government regulations. Consumers' preferences and, increasingly, food trends influence financial development within the sector.

THE growth of the combined sales of Kotipizza Group's chains and the Kotipizza chain, in particular, has continuously outperformed the growth of the entire restaurant market and the fast food market in recent years. 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 remain favourable in 2019, supported by favourable trends in the Finnish national economy and consumer confidence, although it appears that the peak of this growth period has already been passed. Development will be particularly strong in the fast food sector, as fast food restaurants account for a considerable proportion of restaurant dining.

FINNISH consumers still spend a smaller proportion of their income on restaurant dining than consumers in most of the countries of comparison. Thus, we have reason to believe that the growth of restaurant dining will continue in the coming years.

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 at an affordable price in a restaurant environment.

OUT OF LOVE FOR FOOD AND PEOPLE

Sustainability increases the value of Kotipizza Group's business.

Sustainable business is not only a more profitable way to do business. In our view, it is the only way to do business. Sustainable companies are more attractive service providers, employers and business partners. Sustainability with genuine impact stems from the company's mission and guides all of its operations.

THIS is what we strive to achieve at Kotipizza Group. This past financial year, we made social, financial and environmental responsibility even more integral aspects of our decision-making than before. Sustainability issues were emphasised not only in Kotipizza, but also in the Group's other restaurant chains to an increasing extent. For consumers, this is reflected in the fresh, Finnish and responsible ingredients and safe food served by the restaurant chains and in the sustainable choices made by the chains.

WE continued our value-driven sustainability work in 2018. This means we allocate investments to measures that are both sustainable and financially effective. Because financial and social responsibility are intertwined, our value-driven work for sustainability both creates value in our financial result and benefits society and the environment. Approaching corporate sustainability from the point of view of value creation allows us to see not only our successes but also our areas of development.

THE creation of value is based on using natural resources as sustainably as possible and compensating for our environmental impact through actions that benefit the environment and society. We create value in cooperation with our stakeholders through profitable operations. Our actions turn into positive capital that is shared with our supply chain, franchisees and their employees as well as our customers and the Group's personnel.

THIS principle of value creation is reflected in, for example, our commitment to continuously increasing the use of domestic ingredients. Local sourcing means shorter distances in transport, which makes it easier to monitor suppliers and reduces emissions. The revenue stays in Finland, which creates jobs in the area. Our customers appreciate local ingredients that makes them feel good. Franchisees love selling products that make them proud and their customers happy.

IN addition to the value-driven approach to sustainability, we sought to make our sustainability efforts more comprehensive during the financial year. The Kotipizza chain focused particularly on franchisee training, the well-being of restaurant employees and the chain's reputation as an employer. You can find more examples of the chain's actions related to sustainability in the infographic. The Group's other chains invested particularly in achieving and maintaining a pioneering position in offering high-quality vegetarian and vegan options and local food.

"SUSTAINABILITY WITH GENUINE IMPACT STEMS FROM OUR MISSION AND GUIDES EVERYTHING WE DO."

In the parent company, we analysed and documented Kotipizza Group's company culture, which served as the initial step in our efforts to develop our internal processes and employee well-being.

WE believe that continuously investing in sustainability will increase the brand equity of the company as a whole. It is our understanding that our sustainability efforts have had a positive impact on the sales performance of the Kotipizza chain and the rapid growth of Social Burgerjoint. Our commitment to sustainability was also a contributing factor in Orkla ASA's decision to make a tender offer for Kotipizza Group near the end of the financial year. Our common sustainable values and ways of working played a role in bringing the two companies together. The business combination will help us make the world a better place, one bite at a time.

CLIMATE change has emerged as an increasingly important theme with respect to the future of society and the environment. As clean and sufficient natural resources are a precondition for food production and human well-being, climate change is a critical factor in Kotipizza Group's success. For this reason, we intend to pay particular attention during this financial year to the climate impact of our operations and seek ways to reduce our climate footprint. One example of this is the campaign we have started to measure and reduce food waste in the Kotipizza chain.

OUR goal is to achieve a balance between the positive and negative climate impacts of our operations. This will involve measuring our carbon footprint, developing waste management at our restaurants, further reducing food waste and providing consumers with opportunities and encouragement to make climate-friendly choices. We will continue to strive to do our best and openly share our successes as well as our shortcomings in this area.

19 Kotipizza employees completed a vocational degree through our training

We reduced waste by 15,000 kg

We paid 100% of our taxes to Finland

We employed 2,000 people

We joined the Ykkösketjuun campaign to call for corporate responsibility legislation in Finland

We raised more than €10,000 for the Nenäpäivä charity campaign

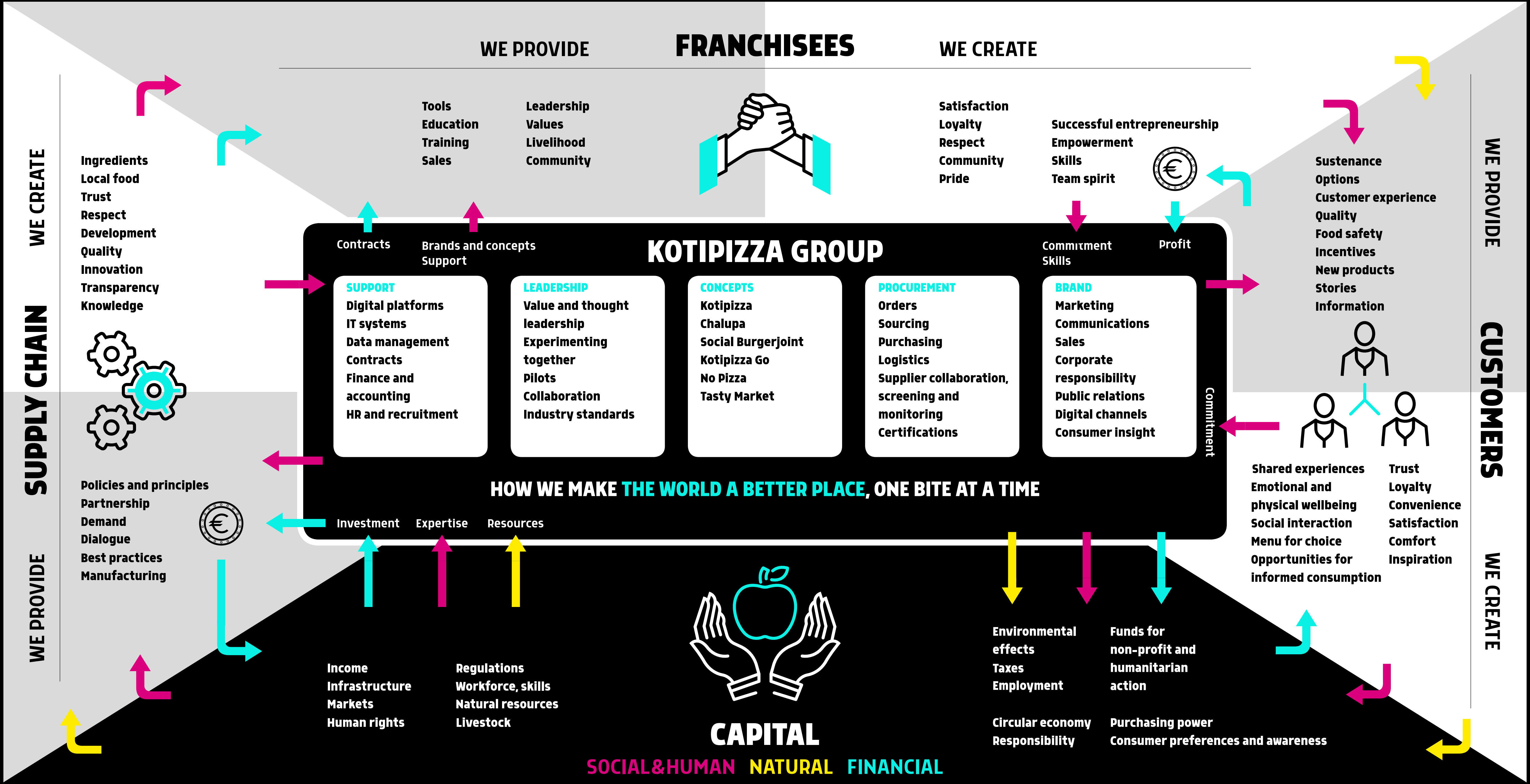
65% of our ingredients were of domestic origin

10/10 of our new pizza toppings were fish and plant-based

75% of our franchisees would recommend Kotipizza franchising to interested parties

Our online store sold 56,909 pizzas topped with MSC tuna or prawn

All of our brick-and-mortar restaurants implemented digital self-monitoring of food safety


FRANCHISEES
WE PROVIDE
Tools
Education
Training
Sales
Leadership
Values
Livelihood
Community
WE CREATE
Satisfaction
Loyalty
Respect
Community
Pride
Successful entrepreneurship
Empowerment
Skills
Team spirit
SUPPLY CHAIN
WE CREATE
Ingredients
Local food
Trust
Respect
Development
Quality
Innovation
Transparency
Knowledge
WE PROVIDE
Policies and principles
Partnership
Demand
Dialogue
Best practices
Manufacturing
CUSTOMERS
WE PROVIDE
Sustenance
Options
Customer experience
Quality
Food safety
Incentives
New products
Stories
Information
WE CREATE
Shared experiences
Emotional and physical wellbeing
Social interaction
Menu for choice
Opportunities for informed consumption
Trust
Loyalty
Convenience
Satisfaction
Comfort
Inspiration
KOTIPIZZA GROUP
Contracts
Brands and concepts
Support
Commitment
Skills
Profit
Commitment
SUPPORT
Digital platforms
IT systems
Data management
Contracts
Finance and accounting
HR and recruitment
LEADERSHIP
Value and thought leadership
Experimenting together
Pilots
Collaboration
Industry standards
CONCEPTS
Kotipizza
Chalupa
Social Burgerjoint
Kotipizza Go
No Pizza
Tasty Market
PROCUREMENT
Orders
Sourcing
Purchasing
Logistics
Supplier collaboration, screening and monitoring
Certifications
BRAND
Marketing
Communications
Sales
Corporate responsibility
Public relations
Digital channels
Consumer insight
HOW WE MAKE THE WORLD A BETTER PLACE, ONE BITE AT A TIME
Investment
Expertise
Resources
Income
Infrastructure
Markets
Human rights
Regulations
Workforce, skills
Natural resources
Livestock
CAPITAL
SOCIAL&HUMAN NATURAL FINANCIAL
Environmental effects
Taxes
Employment
Funds for non-profit and humanitarian action
Circular economy
Responsibility
Purchasing power
Consumer preferences and awareness

GROUP CHAINS IN NUMBERS

Koti Pizza

In financial year 2018, there were 280 restaurants in Finland

The chain had 1 food truck

There were 295 franchisees

Average purchase in a brick-and-mortar restaurant was 19.9€

Average purchase online was 28.4€

Number of online orders with home delivery grew by 49.8%

Sales in the chain increased by 14.9%

Average restaurant purchase grew by 5.3%

Chalupa – Mexican Kitchen

In financial year 2018, there were 13 restaurants in Finland

The chain had 1 food truck

There were 13 franchisees

Average purchase in a brick-and-mortar restaurant was 14.4€

Sales in the chain increased by 25.8%

Average restaurant purchase grew by 0.5%

On the menu, 3/6 of fillings were vegetarian

70% of customers were women

Social Burgerjoint

In financial year 2018, there was 4 restaurants in Finland

The chain had 1 food truck

There were 2 franchisees

Average purchase in a brick-and-mortar restaurant was 19.9€

On the menu, 2 out of 6 burgers were vegetarian

2/3 burgers were enjoyed with fries

During the year, 174 461 burgers were sold

90% of ingredients were domestic

KOTIPIZZA GROUP'S YEAR IN BRIEF

Kotipizza Group had an eventful year, with the highlight being the tender offer made by the Norwegian conglomerate Orkla ASA in November.

FEBRUARY
Kotipizza's rainbow trout plank pizza goes on sale.

Kotipizza Group announces the new Tasty Market lunch restaurant concept.

MARCH
The first issue of Quattro Stagioni, Kotipizza's new customer magazine, is published. The magazine will be published four times per year.

Two Kotipizza franchisees, Katja Körkkö from Ii and Esa Tirkkonen from Kotka, win silver medals at the World Pizza Games, an annual event held in Las Vegas.

APRIL
The annual Talvipäivät winter event is held in Ruka, with Kotipizza franchisees and their families participating in large numbers. Franchisees receive awards for strong development in sales and customer volumes as well as for long careers as members of the chain.

MAY
Kotipizza Oyj holds employee cooperation negotiations concerning eight employees due to the need to reorganise the Group's operations in response to its growth. As a result of the negotiations, the number of people employed by the Group increases by one.

JUNE
A proof-of-concept No Pizza restaurant and a Social Burgerjoint restaurant open at the Citycenter shopping centre in Helsinki.

AUGUST
Kotipizza launches a pilot to allow customers to order pizzas via the Amazon Alexa speech-driven AI assistant.

SEPTEMBER
Tommi Tervanen wins the Future CEO of the Year award in Finland.

Kotipizza's new and improved delivery concept is launched. The innovative heat boxes designed for the chain keep pizzas at 60 degrees Celsius during delivery.

Redi shopping centre opens for business in Helsinki, with Kotipizza, Chalupa and Social Burgerjoint restaurants among its food and beverage offering.

Social Burgerjoint's Kimchi Burger wins the Best Burger award at the European Street Food Awards in Berlin.

OCTOBER
The Kotipizza chain holds its annual Syysseminaari autumn event where franchisees receive awards for strong development in sales and customer volume.

NOVEMBER
Orkla ASA, the largest supplier of branded consumer goods in the Nordic region, makes a tender offer to acquire Kotipizza Group. The completion of the transaction would lead to Kotipizza Group becoming part of the Norway-based Orkla ASA Group.

"Two home countries", a documentary about Kotipizza franchisee Ibrahim Khalil, is recognised as the Boldest Act of Communication in a ProCom competition in the field of owned media.

DECEMBER
The first Social Burgerjoint led by a franchisee – and the first outside Helsinki – opens for business in Kerava.

The Kotipizza chain achieves a record-breaking EUR 11.5 million in monthly sales. Online store sales are also at an all-time high.

JANUARY
The terms and conditions for the completion of Orkla ASA's public cash tender offer are satisfied, with Orkla having acquired 98.6% of Kotipizza Group's shares.

EXECUTIVE BOARD

TOMMI TERVANEN
Chief Executive Officer

TIMO PIRSKANEN
Chief Financial Officer and Deputy to the CEO

ANTTI ISOKANGAS
Chief Communications and Corporate Responsibility Officer

HEIDI STIRKKINEN
Chief Operative Officer

ANSSI KOIVULA
Chief Procurement Officer

BOARD OF DIRECTORS

KALLE RUUSKANEN
The Chairman of the Board of Directors

DAN CASTILLO
Member of the Board of Directors

KIM HANSLIN
Member of the Board of Directors

VIRPI HOLMQVIST
Member of the Board of Directors

MINNA NISSINEN
Member of the Board of Directors

PETRI PARVINEN
Member of the Board of Directors

KEY FIGURES

EUR thousands	2018	2017	2016	2015	2014
Chain-based net sales	127,707	108,990	89,900	77,266	69,771
Comparable net sales	91,489	79,858	66,580	56,370	52,226
Annual growth, %	14.6%	19.9%	18.1%	7.90%	-0.9%
Comparable EBITDA	9,389	8,523	6,726	5,026	4,196
% of comparable net sales	10.3%	10.7%	10.1%	8.90%	8.0%
Reported figures					
EBITDA	6,084	7,781	6,225	4,187	4,272
% of comparable net sales	6.6%	9.7%	9.30%	7.4	8.2%
EBIT	4,017	6,421	5,246	3,435	3,794
Loss/profit for the period from continuing operations	3,168	4,479	3,464	328	383
Earnings per share EUR	0.50	0.71	0.55	0.05	-0.43
Net gearing, %	31.0%	24.4%	24.0%	31.80%	634.2%
Equity ratio, %	51.7%	52.0%	51.7%	51.80%	9.3%

Chain sales 2018 and 2017 includes all chain sales of all conceps, vs. 2014-2016 only Kotipizza

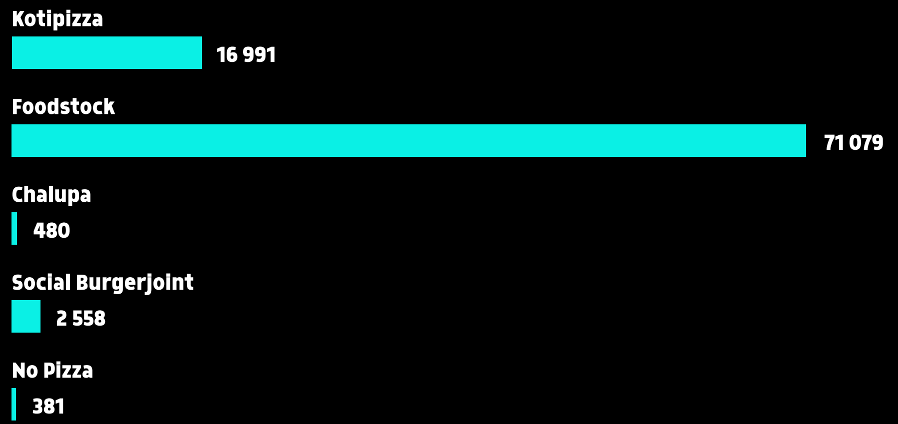
Company dividend policy

The Kotipizza Group aims to distribute 60-80 percent of profits gained during the financial year to its shareholders. 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.

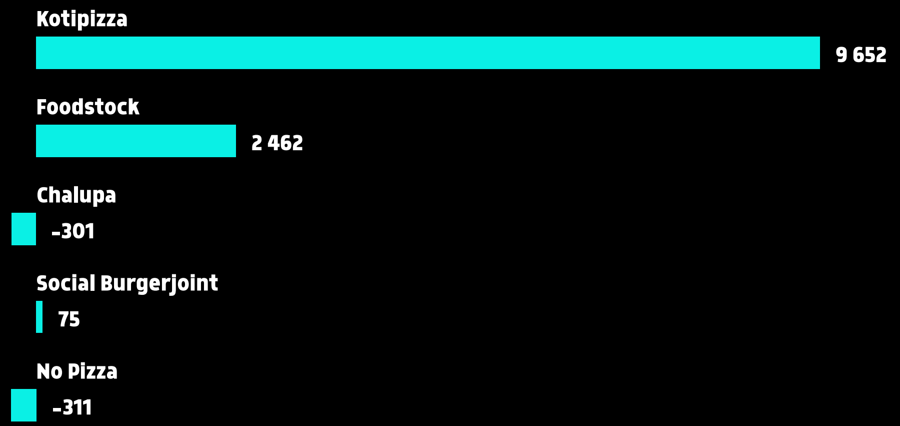
Key figures per business unit

In the financial year 2018, the total number of restaurants in the Kotipizza chain rose to 280 (266). The amount of Chalupa restaurants remained the same being 13 (13). There were three new Social Burgerjoint restaurants in 2018, total being 4 (1), and one No Pizza restaurant.

Comparable net sales (TEUR)



Comparable EBITDA



FINANCIAL STATEMENT
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ANNUAL REPORT

FOR THE PERIOD OF 1 FEBRUARY 2018 – 31 JANUARY 2019

Kotipizza Group Oyj is the parent company of the Group.

Corporate relations

Kotipizza Group Oyj owned 100% of Kotipizza Oyj, Helsinki Foodstock Oy and No Pizza Ltd during the financial year. In addition, the Group owned 60% of Chalupa Ltd and Think Drinks Oy the remaining 40%. The Group also owned 51% of The Social Burger Joint Ltd and the remaining 49% were equally owned by Finnish citizens Mika Tuomonen and Herkko Volanen.

Kotipizza Oyj's 10 largest shareholders 31 January 2019

Shareholders		Shares	Holdings of the shares, %
1	Orkla ASA	5,499,349	86.59
2	Koski Ossi Tapani	10,033	0.16
3	Finnish Foundation for Share Promotion	1,875	0.03
4	Härkönen Marleena Eevastiina	1,840	0.03
5	KPR Holding Oy	1,740	0.03
6	Korvela Markku	1,710	0.03
7	Laitala Kari	1,446	0.02
8	Scharin Vesa	1,000	0.02
9	Virolainen Pekka Aarne	710	0.01
10	Nuutinen Jukka Petteri	597	0.01
	10 largest shareholders in total	**5,520,300**	**86.92**
	Nominee registered	**813,612**	**12.81**
	Other	**17,289**	**0.27**
	Total	**6,351,201**	**100.00**

Information on the largest international shareholders are not updated due to the tender offer made by Orkla ASA on 22 November 2018 to acquire Kotipizza Group Oyj.
A monthly-updated list of the largest shareholders is available on Kotipizza Group Oyj's website at http://kotipizzagroup.com/investors/.

Operations of subsidiaries

Kotipizza Oyj operates a pizza franchise in Finland. Helsinki Foodstock Oy operates as a wholesaler. Its customers include Kotipizza Group's own chain restaurants and other significant fast food operators. Chalupa Ltd engages in restaurant operations through franchising operations. The Social Burger Joint Ltd engages in restaurant operations through its own restaurants and through franchising operations. No Pizza Ltd engages in restaurant operations through its own restaurant.

Kotipizza Group (1,000 EUR):	31 January 2019	31 January 2018
	(12 months)	(12 months)
	Parent company	**Parent company**
	FAS	FAS
Revenue	2,110	1,260
Operating loss	-5,475	-2,575
Net result (continuing operations)	3,070	7,475
Total assets on the balance sheet	59,333	54,895

	(12 months)	(12 months)
	Group	**Group**
	IFRS (continuing operations)	IFRS (continuing operations)
Revenue	96,517	84,089
Profit	4,017	6,421
Net result (continuing operations)	3,168	4,479
Total assets on the balance sheet	59,647	61,483

	31 January 2019	31 January 2018
	Parent company	**Parent company**
Operating profit, %	negative	negative
Return on equity, %	negative	negative
Equity ratio	49.8	55.8
Average number of employees	28	15
Salaries and fees	4,297	1,763
Number of shares	6,351,201	6,351,201

The company has one share class. All shares carry equal rights to dividends and the company's assets. The shares do not have a nominal value.

	31 January 2019	31 January 2018
	Group	**Group**
Operating profit, %	4.2	7.6
Return on equity, %	10.1	14.3
Equity ratio	51.7	52.0
Average number of employees	87	50
Salaries and fees	5,379	3,481

The company has one share class. All shares carry equal rights to dividends and the company's assets. On the reporting date, the number of shares was 6,351,201. The shares do not have a nominal value. At the end of the period, the company had 3091 (1615) shareholders. The shareholdings of the Board of Directors and the CEO of Kotipizza Group Oyj and the companies they control are available on Kotipizza Group Oyj's website at http://kotipizzagroup.com/investors/.

TABLEKey figures per share	31 January 2019	31 January 2018	31 January 2017
Earnings per share	0.50	0.71	0.55
Equity per share	4.86	5.04	4.83
Return per share from reserve for invested unrestricted equity	0.00	0.65	0.50
Return from reserve for invested unrestricted equity as a percentage of earnings	0%	92%	91%

Other statutory key figures per share are available on Kotipizza Group Oyj's website at http://kotipizzagroup.com/investors/

Group net sales

Chain-based net sales grew 17.2% (18.2%) year on year in the financial year and were MEUR 127.7 (109.0).

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. They also include sales of the restaurants owned directly by the Group.

Group comparable net sales for the financial year were MEUR 91.5 (79.9) and they grew 14.6% compared to same period in the previous year. Net sales were MEUR 96.5 (84.1). Net sales included MEUR 5.0 of items affecting comparability. These were related to balancing cash flows related to Kotipizza Franchisee co-operative's advertising and marketing within the Kotipizza business unit. The sales growth was mainly based on Foodstock's increased sales volume to the Kotipizza chain supported by the healthy chain-based net sales. Also, Foodstock's other non-Group customers increased the net sales. The net sales of Foodstock grew 10.7% year on year in the financial year. The Kotipizza business unit's net sales grew 13.9% compared to the previous year and were MEUR 22.0 (19.3). The Chalupa business unit's net sales in the financial year were EUR 480,000 (375,000). The Social Burgerjoint business unit's net sales in the financial year were MEUR 2.6 and the No Pizza business unit's EUR 381,000.

Group EBIT

Comparable EBIT of the Group was MEUR 7.32 (7.16) in the financial year. EBIT was MEUR 4.02 (6.42). EBIT included MEUR 3.3 of items affecting comparability. According to the rules of the share-based incentive scheme published by the company's management on 6 May 2016, the scheme will be paid in full in the event of a change in ownership such as the realised voluntary public cash tender offer made by Orkla ASA. Thus, the total cost of the scheme of MEUR 1.4 has now been treated as an item affecting comparability. In addition, all transaction costs of MEUR 0.8 related to the voluntary public cash tender offer made by Orkla ASA have been treated as items affecting comparability. The pilot project costs of EUR 330,000 related to Kotipizza's new pizza order phone service have also been treated as items affecting comparability. Since the phone service pilot project was terminated after the period, similar costs will not be incurred at the same period in the next financial year. Also, the development costs of the international No Pizza concept and Social Burgerjoint, the remuneration costs related to the cooperation negotiations held in the spring and Social Burgerjoint's additional purchase price recorded as costs are treated as items affecting comparability. In addition, non-cash items related to the incentive scheme published by the company on 6 May 2016 and the company's other incentive schemes for the personnel are treated as items affecting comparability.

The MEUR 0.5 write-down of the previously acquired Pizzataxi operations had a negative impact on the operative EBIT. Converting Pizzataxi restaurants into Kotipizza restaurants has proved to be more difficult than expected. In addition, costs related to the opening of No Pizza and Social Burgerjoint restaurants, investments of approximately EUR 100,000 in increasing Chalupa's brand awareness and customer volumes as well as significantly increased amount of depreciation had a negative impact on EBIT. The depreciations are non-cash costs. Gross investments in the period amounted to MEUR 2.13 (2.68).

Financial items and result

Financial expenses of the Group were MEUR -0.45 (-0.74) in the financial year. Income taxes of the Group were MEUR -0.73 (-1.25) in the financial year. The result for the financial year was MEUR 3.17 (4.48). Earnings per share were EUR 0.50 (0.71) in the financial year.

The Group's financial position

Kotipizza Group's balance sheet total at the end of the financial year was MEUR 59.6 (61.5). The Group's non-current assets amounted to MEUR 43.4 (42.7), and current assets amounted to MEUR 16.3 (18.8). The Group's net cash flow from operating activities for the financial year was MEUR 4.66 (5.60). Working capital was tied up in the amount of EUR 959,000 (EUR 318,000).

The net cash flow from investment activities was MEUR -2.13 (-2.68). Investments in tangible and intangible assets for the period amounted to MEUR -2.06 MEUR (-1.40).

The net cash flow from financing activities was MEUR -6.12 (-4.60). The Group's equity ratio was 51.7% (52.0%). Interest-bearing debt amounted to MEUR 13.9 (15.8), of which current debt accounted for MEUR 0.20 (1.49).

INVESTMENTS

Investments in the period amounted to MEUR 2.13 (2.68). The Group's gross investments in non-current assets related mainly to the company's investments in machinery and equipment of the new Social Burgerjoint and No Pizza restaurants and Kotipizza's new and improved online store and delivery application and they amounted to MEUR 2.06 (1.40) in the financial year. In addition, investments include the additional purchase price of EUR 72,000 related to acquiring the Social Burgerjoint operation.

Research and development costs

Research and development costs of the Group amounted to EUR 359,000 (421,000 in 2018). Research and development costs are related to the training of Kotipizza franchisees and to developing new product recipes. The comprehensive concept reform of Kotipizza, Social Burgerjoint and No Pizza was continued in the financial year 2019, and related costs have been recognised as annual costs.

Management and auditors

The members of the Board of Directors of Kotipizza Group Oyj were as follows during the financial year ended 31 January 2019:

Kalle Ruuskanen	Chairman of the Board, Member of the Board since 2 June 2015
Dan Castillo	Member of the Board since 17 May 2017
Kim Hanslin	Member of the Board since 2 June 2015
Virpi Holmqvist	Member of the Board since 17 May 2017
Minna Nissinen	Member of the Board since 2 June 2015
Petri Parvinen	Member of the Board since 2 June 2015

Tommi Tervanen is the CEO. Other members of the management team are Timo Pirskanen, Chief Financial Officer and Deputy to the CEO, Heidi Stirkkinen, Chief Operating Officer, Anssi Koivula, Chief Procurement Officer and Antti Isokangas, Chief Communications and Corporate Responsibility Officer.

The auditor is BDO Oy, Authorised Public Accountants.

Taneli Mustonen, Authorised Public Accountant, serves as the principal auditor.

Resolutions of the general meetings

The Annual General Meeting of Kotipizza Group Oyj held on 16 May 2018 decided that no dividend shall be paid based on the balance sheet for the financial year that ended on 31 January 2018. The Annual General Meeting also decided that EUR 0.65 per share shall be distributed from the reserve for invested unrestricted equity.

In addition, the Annual General Meeting verified the financial statements and granted discharge from liability to the members of the Board of Directors and the CEO for the financial year that ended on 31 January 2018.

The number of the members of the Board of Directors was decided to be six. Dan Castillo, Kim Hanslin, Virpi Holmqvist, Minna Nissinen, Petri Parvinen and Kalle Ruuskanen were elected as the members of the Board of Directors for the next term of office that expires when the next annual general meeting ends. Kalle Ruuskanen was re-elected as the Chairman of the Board.

The remunerations to be paid to the members of the Board of Directors were decided to be as follows: EUR 4,300 per month shall be paid to the Chairman (EUR 51,600 per year) and EUR 2,800 per month to the members (EUR 33,600 per year). Separate meeting remunerations shall not be paid for Board meetings but the chairmen of the Board Committees shall be paid EUR 400 per month (EUR 4,800 per year).

The Annual General Meeting decided to pay the auditor's compensation against the invoice approved by the company. BDO Oy, Authorised public accountants, was elected as the auditor for the next term of office that expires when the next Annual General Meeting ends.

The Annual General Meeting authorised the Board of Directors to decide on repurchasing the company's own shares on the following terms:

Shares may be repurchased and/or pledged up to a maximum of 635,000 shares. The shares may be repurchased through trading on regulated market organised by Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition. Own shares may be repurchased otherwise than in proportion to the holdings of the shareholders. The acquisition of shares reduces the company's distributable unrestricted equity. The authorisation shall be valid until 31 July 2019.

The Annual General Meeting authorised the Board of Directors to decide in one or more rounds on issuing new shares and/or granting option rights and other special rights entitling to shares referred to in Chapter 10, Section 1 of the Finnish Limited Liability Companies Act as follows:

1. Based on the authorisation, a maximum of 635,000 shares may be issued in total.

2. On the basis of the authorisation, the Board of Directors may decide on all terms and conditions related to the issuance of shares and option rights as well as other special rights entitling to shares. The authorisation applies to issuing both new shares and own shares held by the company.

3. The issuance of shares and option rights as well as other special rights entitling to shares may deviate from the shareholders' pre-emptive subscription rights (directed issue), if there is a compelling financial reason for it from the company's point of view, such as financing or executing corporate acquisitions or company reorganization, developing the company's equity structure or implementing the company's incentive schemes.

4. Under the authorisation, the Board of Directors may also decide on a free issuance of shares to the company itself, so that the number of shares held by the company after the issuance is no more than 10% of all shares in the company. This amount includes the shares held by the company itself and its subsidiary as intended in Chapter 15, Section 11, Subsection 1 of the Finnish Limited Liability Companies Act.

5. The authorisation revokes the share issue authorisation granted to the Board of Directors on 17 May 2017 and it shall be valid until 31 July 2019.

The Extraordinary General Meeting of Shareholders of Kotipizza Group Oyj, held on 12 February 2019, and the subsequent Constitutive Meeting of the Board of Directors, passed the following resolutions.

It was resolved that all members be paid EUR 25,000 annually. However, no remuneration shall be paid to the members of the Board of Directors who are employed by Orkla ASA or its group companies. Separate meeting remuneration shall not be paid for meetings of the Board of Directors or for committee meetings. All members of the Board of Directors shall be compensated for travel and other expenses directly related to their Board work.

It was resolved that the number of members of the Board of Directors be six.

It was resolved that the following persons are elected as members of the Board of Directors for a term of office that lasts until the end of the next Annual General Meeting: Rabbe Wikström, Aaron Moore-Saxton, Kalle Ruuskanen, Johanna Paavola, Terje Andersen and Viktor Söderberg. Rabbe Wikström was elected as the Chairman of the Board.

It was resolved that the Audit and Remuneration Committees are discontinued.

It was resolved that the company will, in the future, publish only a half-year report and financial statements bulletin.

Board of Directors' proposal for the distribution of profit

The Board of Directors proposes to the Annual General Meeting that no dividend be paid.

Kotipizza Oyj's development and future outlook

Comparable net sales of Kotipizza for the financial year were MEUR 16.99 (15.11) and they grew 12.5% compared to same period in the previous year. Net sales of Kotipizza for the financial year were MEUR 22.02 (19.34) and they grew 13.9% compared to same period in the previous year. Net sales included MEUR 5.0 of items affecting comparability. These were related to balancing cash flows related to Kotipizza Franchisee co-operative's advertising and marketing within the Kotipizza business unit. Other growth in net sales was due to a strong growth in chain-based net sales resulting in an increase in all net sales related to franchising contracts.

Kotipizza's comparable EBITDA was MEUR 9.65 (8.02) in the financial year and it grew 20.3% compared to same period in the previous year. The improvement in EBITDA was mainly due to favourable development of chain-based net sales in Kotipizza. Kotipizza's EBITDA was MEUR 9.27 (7.93) in the financial year. The pilot project costs of EUR 330,000 related to Kotipizza's new national phone service have been treated as items affecting comparability and similar costs are not expected to be incurred at the same period in the next financial year. In addition, non-cash items related to the incentive scheme published by the company on 6 May 2016 and the company's other incentive schemes for the personnel are treated as items affecting comparability.

According to the Finnish Hospitality Association MaRa, Finnish restaurant businesses continued to see positive development in 2018. The total net sales of restaurant businesses is estimated to have grown by five per cent. In spite of the positive development, it should be noted that the Finnish tourism and restaurant industry went through "a lost decade" after 2008-2009, and it is only in the past two years that service demand has returned to the levels seen before the financial crisis. Growth has been particularly strong in the fast food market. MaRa estimates that the sales of fast food restaurants in Finland increased by as much as nearly 10 per cent in 2018.

The total value of the Finnish restaurant market is approximately 5.3 billion euros. The most important factors influencing the development of the sector include the general economic development, consumers' disposable income, taxation and government regulations. Consumers' preferences and, increasingly, food trends influence financial development within the sector. The growth of the combined sales of the Kotipizza Group's chains and the Kotipizza chain, in particular, has continuously outperformed the growth of the entire restaurant market and the fast food market in recent years. 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 remain favourable in 2019, supported by favourable trends in the Finnish national economy and consumer confidence, although it appears that the peak of this growth period has already been passed. Development will be particularly strong in the fast food sector, as fast food restaurants account for a considerable proportion of restaurant dining. Finnish consumers still spend a smaller proportion of their income on restaurant dining than consumers in most of the countries of comparison. Thus, we have reason to believe that the growth of restaurant dining will continue in the coming years. 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 at an affordable price in a restaurant environment.

Helsinki Foodstock Oy's development and future outlook

Net sales of Foodstock for the financial year were MEUR 71.08 (64.19) and they grew 10.7% compared to same period in the previous year. The growth in net sales was mainly due to favourable development of Kotipizza chain-based net sales, which had a positive boost to Foodstock's delivery volumes for the chain. Sales to other Foodstock's customers also developed favourably.

Foodstock's comparable EBITDA was MEUR 2.46 (1.98) in the financial year and it grew 24.3% compared to same period in the previous year. Foodstock's EBITDA was MEUR 2.42 (1.94) in the financial year. The improvement in EBITDA was due to increased net sales of the business unit. In addition, non-cash items related to the incentive scheme published by the company on 6 May 2016 and the company's other incentive schemes for the personnel are treated as items affecting comparability.

This financial year, we will focus on maintaining our excellent level of customer satisfaction and operational reliability. According to MaRa, the growth of sales in the restaurant sector will remain favourable in 2019, supported by favourable trends in the Finnish national economy and consumer confidence, although it appears that the peak of this growth period has already been passed. Development will be particularly strong in the fast food sector, as fast food restaurants account for a considerable proportion of restaurant dining. Finnish consumers still spend a smaller proportion of their income on restaurant dining than consumers in most of the countries of comparison. Thus, we have reason to believe that the growth of restaurant dining will continue in the coming years. Thus, the growth of existing customers and thus the growth of Helsinki Foodstock's deliveries is expected to follow the overall growth of sales in the restaurant sector in 2019 or at best, even exceed it.

Chalupa Ltd's development and future outlook

Chalupa's net sales in the financial year were EUR 480,000 (375,000). The growth in net sales was due to a growth in chain-based net sales resulting in an increase in all net sales related to franchising contracts. Chalupa's comparable EBITDA was EUR -301,000 (-15,000) in the financial year. Chalupa's EBITDA was EUR -301,000 (-23,000) in the financial year. Investments of approximately EUR 100,000 in increasing the chain's brand awareness and customer volumes had a negative impact to EBITDA. EBITDA did not include items affecting comparability.

According to MaRa, the growth of sales in the restaurant sector will remain favourable in 2019, supported by favourable trends in the Finnish national economy and consumer confidence, although it appears that the peak of this growth period has already been passed. Development will be particularly strong in the fast food sector, as fast food restaurants account for a considerable proportion of restaurant dining. Finnish consumers still spend a smaller proportion of their income on restaurant dining than consumers in most of the countries of comparison. Thus, we have reason to believe that the growth of restaurant dining will continue in the coming years. The sales of Chalupa restaurants are expected to follow the average growth of sales in the restaurant sector in 2019.

No Pizza Ltd's development and future outlook

No Pizza's net sales in the financial year were EUR 381,000. No Pizza's comparable EBITDA was EUR -311,000 in the financial year. No Pizza's EBITDA was EUR -365,000 in the financial year. A comprehensive concept definition that will be followed in the future when opening new restaurants has been recorded as an expense and included in EBITDA as an items affecting comparability.

The development of the proof-of-concept No Pizza restaurant and its concept continued during the period in the restaurant opened at the Citycenter shopping centre in Helsinki in June. The restaurant has been well received by customers, stakeholders and the media, but its sales have not developed as expected. We have taken steps to improve the service concept by paying special attention to the reformation of the lunch concept and the effectiveness of digital ordering.

The Social Burger Joint Ltd's development and future outlook

Social Burgerjoint's net sales in the financial year were MEUR 2.56 (EUR 194,000). Social Burgerjoint's comparable EBITDA was EUR 75,000 (38,000) in the financial year. Social Burgerjoint's EBITDA was EUR 22,000 (38,000) in the financial year. A comprehensive concept reform that will be followed in the future when opening new restaurants has been recorded as an expense and included in EBITDA as an items affecting comparability.

During the period, sales of the Social Burgerjoint restaurants developed as a result of strong growth in customer volumes and new restaurants opened at the Citycenter shopping centre in Helsinki in June and the Redi shopping centre in Helsinki in September. Restaurants' sales increased 440.0% during the last quarter. The chain's first restaurant managed by a franchisee and the first Social Burgerjoint restaurant located outside Helsinki was opened in Kerava during the period. Social Burgerjoint will expand its restaurant network in 2019 mainly by opening new franchising restaurants, and the strong profitable growth is expected to continue.

Risks and uncertainties

The risks and uncertainty factors concerning Kotipizza Group's operations over the long term are related to the company's possible failure to predict consumers' habits and preferences or create interesting concepts, as well as to the possible expansion of the company's business operations into new locations or countries. The competitive situation is expected to remain very tight in the fast-food sector. The company's management cannot affect general market development or consumer behaviour through their actions.

New restaurants have a significant effect on the company's franchising and rental income, sales of ingredients and supplies as well as its income from transport and product streams, and, consequently, on its financial result.

Kotipizza Group is in the process of introducing new restaurant concepts in the Group's new fast casual chains. Kotipizza Group acquired the majority of Day After Day Oy that is responsible for Social Burgerjoint restaurants and the Social Food food truck and operates currently under the name The Social Burger Joint Ltd. The Group's goal is to expand Social Burgerjoint into a national burger chain. The Group has also introduced a pizza restaurant concept No Pizza aimed at international markets and its first restaurant was opened in Helsinki. The No Pizza chain is expected to be expanded first in the Nordic countries and then in other international markets based on master franchising business model. The Group has also announced that it has developed a new Tasty Market lunch restaurant concept and plans to introduce it. In this concept, the customer can choose and combine their lunch from the selection offered by several smart casual brands.

Introducing new concepts involves many risks related to predicting consumers' needs, tastes, preferences and behaviour in the target market, for example. The introduction of concepts also involves the risk that the concepts will not become established in the market and will fail to attract loyal customers. If the introduction of new concepts fails, this will cause the company to incur costs and will have a material adverse effect on its brand, financial standing and operating result.

Material events subsequent to the financial year

The company announced in a stock exchange release on 5 February a preliminary result of the subsequent offer period of Orkla ASA's public cash tender offer for Kotipizza Group Oyj. Together with the shares tendered during the actual offer period and otherwise acquired by Orkla ASA through market purchases, the shares acquired by Orkla ASA in connection with the tender offer represented approximately 99.29% of all the shares and votes in Kotipizza. The full stock exchange release can be read on the company's website.

The company announced in a stock exchange release on 6 February the final result of the subsequent offer period of Orkla ASA's public cash tender offer for Kotipizza Group Oyj. Together with the shares tendered during the actual offer period and otherwise acquired by Orkla ASA through market purchases, the shares acquired by Orkla ASA in connection with the tender offer represented approximately 99.30% of all the shares and votes in Kotipizza. The full stock exchange release can be read on the company's website.

The company announced on 7 February 2019 that Kotipizza Group Oyj's Chief Financial Officer and Deputy to the CEO, M.Sc. (Econ.) Timo Pirskanen will leave the company on 31 March 2019 and begin employment with another company.

The company announced on 7 February 2019 that Kotipizza Group Oyj and Orkla ASA have agreed upon a financial arrangement in which Orkla ASA has lent Kotipizza Group Oyj 14,000,000 euros. This is a related party transaction since Orkla ASA owns approximately 99.3 percent of shares in Kotipizza Group Oyj. Kotipizza Group Oyj will use the funds to be received from Orkla ASA for restructuring Kotipizza Group Oyj's debts. Kotipizza Group Oyj's Board of Directors has assessed that the conditions of the related party transaction are fair and reasonable for all shareholders, considering in particular that the conditions of financing offered by Orkla ASA are significantly more favourable for Kotipizza Group Oyj compared to the conditions of the company's current debt financing. Subsequent to carrying out the financial arrangement, the future financing costs of Kotipizza Group Oyj will therefore decrease.

The company held an extraordinary general meeting on 12 February 2019. Its decisions are listed in this report in section Resolutions of the general meetings.

Consolidated income statement

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2019

1,000 EUR	Note	1.2.2018-31.1.2019	1.2.2017-31.1.2018
Continuing operations			
Turnover	2,3	**96,517**	**84,089**
Other operating income	4	54	105
Change in inventory of raw materials and finished goods (+/-)		470	1,014
Raw materials and finished goods (-)		- 72,073	- 65,173
Employee benefits/expenses (-)	6	- 7,449	- 4,489
Depreciation (-)		- 1,599	- 1,360
Impairment on goodwill (-)	14	- 468	-
Other operating expenses (-)	5	- 11,435	- 7,764
Operating profit		**4,017**	**6,421**
Financial income	7	329	47
Financial expenses	7	- 449	- 738
Profit/loss before taxes from continuing operations		**3,897**	**5,731**
Income taxes	8	- 729	- 1,252
Profit/loss for the period from continuing operations		**3,168**	**4,479**
Profit/loss for the period		**3,464**	**215**
Breakdown of profit/loss			
Attributable to the equity holders of the parent company		3,315	4,504
Attributable to non-controlling interest		- 147	- 26
		3,168	**4,479**
Earnings per share (EUR):			
Undiluted earnings for the period attributable to ordinary equity holders of the parent	24	0.50	0.71
Earnings per share (EUR) for continuing operations:			
Earnings per share adjusted for the effect of dilution	24	0.50	0.71

Items of other comprehensive income

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2019

1,000 EUR	Note	1.2.2018-31.1.2019	1.2.2017-31.1.2018
Profit (loss) for the period		**3,168**	**4,479**
Items of other comprehensive income for the period, net of tax		**-**	**-**
Total comprehensive income for the period, net of tax		**3,168**	**4,479**
Breakdown of comprehensive income for the period			
Attributable to the equity holders of the parent company		3,315	4,504
Attributable to non-controlling interest		- 147	- 26
		3,168	**4,479**

Consolidated balance sheet

31 JANUARY 2019

1,000 EUR	Note	31 January 2019	31 January 2018
Assets			
Non-current assets			
Property, plant and equipment	9	836	939
Goodwill	10	36,846	37,299
Intangible assets	10	3,686	3,113
Non-current financial assets	17	2	2
Non-current trade and other receivables	17	1,848	1,316
Deferred tax assets	8	147	21
		43,365	**42,689**
Current assets			
Inventories	11	4,274	4,088
Trade and other receivables	12,17	7,614	6,707
Current tax receivables		-	4
Cash and cash equivalents	13,17	4,394	7,982
		16,282	**18,781**
Assets classified as held for sale	3	**13**	**13**
Total assets		**59,647**	**61,483**

Consolidated balance sheet

31 JANUARY 2019

1,000 EUR	Note	31 January 2019	31 January 2018
Shareholders' equity and liabilities			
Share capital	22	80	80
Reserve for invested unrestricted equity	22	20,291	24,419
Retained earnings		10,675	7,519
Attributable to non-controlling interest		- 188	- 41
Total shareholders' equity		**30,858**	**31,978**
Non-current liabilities			
Interest-bearing loans and borrowings	15, 17	12,345	14,289
Financial liabilities recognised at fair value through profit or loss	15, 17, 18	170	193
Other non-current liabilities	17	3,958	3,650
Deferred tax liabilities	8	188	171
		16,661	**18,303**
Current liabilities			
Interest-bearing loans and borrowings	15, 17	1,604	1,492
Trade and other payables	16	10,525	9,711
		12,129	**11,202**
Total liabilities		**28,790**	**29,505**
Total shareholders' equity and liabilities		**59,647**	**61,483**

Consolidated statement of changes in equity

FOR THE FINANCIAL YEAR THAT ENDED ON 31 JANUARY 2019

Attributable to the equity holders of the parent company

1,000 EUR	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total	Attributable to non-controlling interest	Total shareholders' equity
1 February 2018	80	24,419	7,519	32,019	- 41	31,978
Result for the period	-	-	3,315	3,315	- 147	3,168
Items of other comprehensive income	-	-	-	-		-
Total comprehensive income	**-**	**-**	**3,315**	**3,315**	**- 147**	**3,168**
Transactions with shareholders						
Management's incentive scheme	-	-	- 188	- 188	-	- 188
Return on equity	-	- 4,128	-	- 4,128	-	- 4,128
Other change			28	28	-	28
Transactions with shareholders in total	**-**	**-4,128**	**-159**	**-4,288**	**-**	**-4,288**
31 January 2019	**80**	**20,291**	**10,675**	**31,045**	**-188**	**30,858**

FOR THE FINANCIAL YEAR THAT ENDED ON 31 JANUARY 2018

Attributable to the equity holders of the parent company

1,000 EUR	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total	Attributable to non-controlling interest	Total shareholders' equity
1 February 2017	80	27,595	2,989	30,664	- 91	30,573
Result for the period	-	-	4,504	4,504	- 26	4,479
Items of other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**4,504**	**4,504**	**- 26**	**4,479**
Transactions with shareholders						
Management's incentive scheme	-	-	61	61	-	61
Return on equity	-	- 3,176	-	- 3,176	-	- 3,176
Other change			- 35	- 35	-	- 35
Acquisition of operations				-	76	76
Transactions with shareholders in total	-	- 3,176	26	- 3,149	76	- 3,073
31 January 2018	**80**	**24,419**	**7,519**	**32,019**	**- 41**	**31,978**

Consolidated cash flow statement

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2019

1,000 EUR	2019	2018
Cash flow from business operations		
Profit before taxes	3,897	5,731
Adjustments to reconcile profit before taxes to net cash flows:		
Depreciation on property, plant and equipment	511	636
Depreciation and impairment on intangible assets	1,530	724
Depreciation and write-downs related to discontinued operations	-	-
Other non-cash adjustments	209	15
Adjustments to reconcile profit for the period	-	11
Financial income	- 14	- 47
Financial expenses	574	738
Change in working capital:		
Change in trade and other receivables (+/-)	- 1,422	- 940
Change in inventories (+/-)	- 186	- 995
Change in trade and other payables (+/-)	649	1,617
Change in provisions (+/-)		
Interest paid (-)	- 411	- 722
Interest received	14	47
Income taxes paid (-)	- 692	- 1,212
Net cash flows from operating activities	**4,660**	**5,603**
Cash flow from investing activities		
Investments in tangible assets (-)		- 34
Investments in non-tangible assets (-)		- 1,370
Other non-current receivables		1
Acquisition of subsidiaries		- 522
Acquisition of operations		**- 750**
Proceeds from the sale of property, plant and equipment		
Net cash flows used in investing activities		**- 2,675**
Cash flow from financing activities		
Returns on equity	- 4,128	- 3,176
Loan repayments (-)	- 1,614	- 1,150
Financial lease payments (+/ -)	- 373	- 270
Net cash flows used in financing activities	**- 6,115**	**- 4,596**
Change in cash and cash equivalents	- 3,588	- 1,668
Cash and cash equivalents on 1 February	7,982	9,650
Cash and cash equivalents on 31 January	**4,394**	**7,982**

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2019

1. Basis of consolidation

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 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 24 April 2019. Kotipizza Group Oyj is domiciled in Finland. Its registered address is Hermannin Rantatie 2, 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 21. Information about other stakeholders is presented in Note 23.

2.1 Basis of consolidation

The consolidated financial statements of Kotipizza Group Oyj have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as well as the IAS and IFRS standards and SIC and IFRIC interpretations effective on 31 January 2019. The International Financial Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish Accounting Act and regulations based on it.

The consolidated financial statements comprise the financial statements of the parent company and all of the subsidiaries in which the parent company has directly or indirectly 50 per cent of the number of votes or otherwise controlling interest in the company as at 31 January 2019.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group no longer 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.

2.2 Adopted new standards

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.

IFRS 15 Revenue from Contracts with Customers replaces IAS 18 and IAS 11 standards and the related interpretations. IFRS 15 includes a five-step model on recognising sales revenue in terms of amount and timing. According to the new standard, revenue is recognised based on the transfer of control either over time or at a point in time. Kotipizza Group Oyj's sales revenue mainly consists of the sale of goods and services to franchisees. Revenue is recognised when all goods and services related to the contract have been delivered and the control of a good has been transferred to the customer. Thus, IFRS 15 standard does not affect the figures of Kotipizza Group Oyj.

IFRS 9 Financial Instruments and its amendments. IFRS 9 has replaced the previous standard IAS 39 Financial Instruments: Recognition and Measurement. The Group has adopted the standard as of 1 February 2018. In accordance with the transitional provisions of IFRS 9, the figures for the comparison period have not been adjusted. The figures for the comparison period data have been prepared in accordance with IAS 39. The most significant effects of IFRS 9 were related to the classification of financial assets and liabilities that is based on the business models defined by the management and the cash flow characteristics of financial assets. In accordance with the standard, Kotipizza Group Oyj has estimated the amount of future credit loss by segment and the credit loss is recognised as a percentage of all open trade receivables by segment. The calculated credit loss is recognised in the amount that corresponds to the total amount of expected credit loss during the period of validity. The application of the new credit loss recognition model had no impact on retained earnings on 1 February 2018.

2.3 New standards to be subsequently adopted

IFRS 16 Leases, which will replace the IAS 17 standard and the related interpretations, will be effective on the financial year that begins on 1 February 2019 or later. IFRS 16 requires lessees to recognise lease agreements on the balance sheet as a lease obligation and a related right-of-use asset. Kotipizza Group Oyj will apply the exception included in IFRS 16, which allows it not to recognise short-term leases with a lease period of 12 months or less and leases that are of minor value for the asset in the balance sheet. The Group will apply a simplified approach to the adoption of the standard, meaning that the comparative figures of the previous year will not be adjusted.

The adoption of IFRS 16 will have a significant effect on Kotipizza Group Oyj's assets and interest-bearing liabilities. Both the asset and the liability for business premises, vehicles as well as machinery and equipment will be recognised in the Group's balance sheet. The lease liability will be recognised at the present value of the lease payments discounted at the interest rate of the additional credit. The standard will also have an essential effect on certain key figures such as equity ratio and gearing.

The standard will also have a significant impact on the Kotipizza Group Oyj's income statement. As a lessee, Kotipizza Group Oyj will no longer present rental expenses but those are presented as depreciation for the period from the fixed asset items. IFRS 16 standard defines subleasing as a transaction for which an underlying asset is re-leased by a lessee ("intermediate lessor") to a third party, and the lease ("head lease") between the head lessor and lessee remains in effect. Kotipizza Group Oyj is the intermediate lessor in most of its business premise leases, where the Group's companies operating franchises sublease business premises to franchisees. Business premises to be subleased will be treated in accordance with IFRS 16 from the perspective of the lessee. Based on the completed IFRS 16 decision tree analysis, Kotipizza Group Oyj has come to an interpretation that a subleased agreement is not an agreement under IFRS 16 because the lessee has no controlling interest in the asset. Thus, the revenue that Kotipizza Group Oyj receives from a franchisee for using the premises will be treated as income from a contract with customer in accordance with IFRS 15 standard. In addition to business premises, Kotipizza Group Oyj has no other items to be subleased. Kotipizza Group Oyj estimates that the Group's EBITDA will significantly increase as a result of the changing treatment of rental costs and revenues. No significant effect on the company's taxable result is expected.

2.4 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.

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 IFRS 9 Financial Instruments 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 IFRS 9, 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.

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 from a sale when the obligations related to the good or service are fulfilled as the good or service has been delivered to the customer and the customer acquires control of the transferred good or service. The Group's revenue mainly consists of goods sold through wholesale and services sold through franchising. Revenue from the wholesale is recognised when the goods have been passed to the customer and the control of the goods has been transferred to the customer. Revenue from rendering services through franchising are recognised over time mainly on a monthly basis and the recognition is allocated to the month in which the service was rendered and the control transferred to the customer.

The sales of goods consist of goods sold to internal and external customers through the Group's wholesale business. Revenue is recognised at a certain point in time when the good has been passed to and the control has been transferred to the customer.

Revenue from rendering services are recognised over time mainly for the month or at least for the financial year in which the service was rendered and the control transferred to the customer. Revenue based on the franchising contract, such as concept fees, marketing fees, rental income and enrolment fees are recognised on the above-mentioned criteria over time.

e) 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 based on temporary differences between the carrying amounts and tax bases. However, the deferred tax liability will not be recognised from the initial recognition of goodwill or when it arises from 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.

Deferred tax will be recognised for investments in subsidiaries except when the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In the Group, the most significant temporary differences arise from depreciation of property, plant and equipment, valuation of derivative contracts at fair value, unused tax losses and fair value adjustments made in connection with acquisitions.

Deferred taxes are measured using tax rates or tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will arise in the future against which the temporary differences can be utilised. However, deferred tax assets will not be recognised when it arises from 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. Criteria for recognising deferred tax assets are assessed at the end of each reporting period.

f) 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 3. All other notes to the financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

g) 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:

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

h) 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.

i) Financial assets

The Group's financial assets consist of trade receivables, certain other receivables and accrued income as well as cash and cash equivalents. A financial asset is measured at initial recognition at fair value plus transaction costs directly attributable to the acquisition except for trade receivables that are measured at the transaction price when they do not have a significant financial component. After the adoption of IFRS 9, all of the Group's financial assets are classified as financial assets at amortised costs when they were previously classified under IAS 39 as loans and other receivables. This classification change did not result in changes in the carrying amounts of the financial assets. The Group does not have any derivative financial assets.

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.

j) Impairment of financial assets

The Group estimates the amount of future credit loss by business unit and the credit loss is recognised as a percentage of all open trade receivables by business unit. The calculated credit loss is recognised in the amount that corresponds to the total amount of expected credit loss during the period of validity.

Impairment of financial assets is recognised if there is objective evidence of impairment due to one or more events and the event causing the loss has an impact on the 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.

k) Financial liabilities

The Group's financial liabilities consist of interest-bearing loans, trade payables, other loans and derivative financial liabilities. With the exception of derivative financial liabilities, financial liabilities are classified as financial liabilities at amortised cost in accordance with IFRS 9. Derivative financial liabilities, on the other hand, are classified as financial liabilities recognised at fair value through profit or loss. Financial liabilities are initially recognised at fair value less transaction costs. Subsequently, they are measured at amortised cost using the effective interest method, except for derivative financial liabilities that are measured at fair value. With regard to financial liabilities, the adoption of IFRS 9 did not result in a material change to the previous measurement or accounting treatment in accordance with the IAS 39.

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.

l) 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.

m) 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.

n) 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.

o) Cash and cash equivalents and short-term deposits

The Group's cash and cash equivalents consist of cash at banks and in hand, bank deposits available on demand and short-term deposits with an initial maturity of three months or less.

For the purpose of the Group's cash flow statement, cash and cash equivalents consist of cash at banks and in hand, bank deposits available on demand and other short-term deposits defined hereinabove, net of outstanding bank overdrafts.

p) 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.

q) Pensions and other 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.

The Group's key personnel has been involved in share-based incentive schemes, which are classified as equity-settled share-based schemes and in which persons perform work against the Group's equity instruments (shares). According to the rules of the share-based incentive scheme, the scheme will be paid in full in the event of a change in ownership such as the realised voluntary public cash tender offer made by Orkla ASA. Due to the change in ownership, the total cost of the scheme of EUR 1.4 million that corresponds to the maximum amount of the share-based incentive scheme, has been recognised as an expense in the last quarter of the financial year.

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:

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.

2. Segment information

The Group's segments are divided into business units. The reporting business units are Kotipizza, Foodstock, Chalupa, Social Burgerjoint and No Pizza. The Kotipizza business unit, the Chalupa business unit, the Social Burgerjoint business unit and the No Pizza business unit provide services to the Group's franchisees and operate the restaurants owned by the Group. The Foodstock business unit operates as a wholesaler to the Group's other business units and third party clients. Transfer pricing between the segments is based on market price bases. Reporting figures for the parent company are included in the 'Other'.

Business units 2019	**External revenues**	**Internal revenues**	**Total**	**EBITDA**
1,000 EUR				
Kotipizza	22,019	2,930	24,949	9,268
Foodstock	71,079	896	71,975	2,419
Chalupa	480	14	494	- 301
Social Burgerjoint	2,558	2	2,560	22
No Pizza	381	-	381	- 365
Other	-	2,110	2,110	- 4,960
Eliminations	-	- 5,952	- 5,952	-
Total	**96,517**	**- 0**	**96,517**	**6,084**

Business units 2018	**External revenues**	**Internal revenues**	**Total**	**EBITDA**
1,000 EUR				
Kotipizza	19,335	2,327	21,661	7,925
Foodstock	64,185	544	64,729	1,936
Chalupa	375	42	416	- 23
Other	194	1,260	1,454	- 2,057
Eliminations	-	- 4,172	- 4,172	-
Total	**84,089**	**-**	**84,089**	**7,781**

Over 10% of Helsinki Foodstock's net sales come from one third party client.

The assets and liabilities of the business units are not regularly reported to the chief operating decision-maker. Therefore, this information is not disclosed. On 31 January 2019, the Group had business operations geographically mainly in Finland.

Result	**2019**	**2018**
Result of the reporting segments	3,897	5,731
Result of the Group before taxes, continuing operations	**3,897**	**5,731**

3. Operating income

Turnover	2019	2018
1,000 EUR		
Income from the sale of goods and services	71,079	64,185
Rental and service income	25,438	19,903
Total	**96,517**	**84,089**

Income from the sale of goods and services is mainly recognised at a point in time.

Rental and service income is recognised over time.

Breakdown of sales revenue

1.2.2018–31.1.2019	Kotipizza	Helsinki Foodstock	Chalupa	Social Burgerjoint	No Pizza	Other	Elim.	Total
1,000 EUR								
Sales revenue								
Income from the sale of goods		71,975					-896	71,079
Rental and service income	24,949		494	2,560	381	2110	-5,056	25,438
Total	24,949	71,975	494	2,560			-5,056	96,517

Assets and liabilities based on customer agreements

There are no assets and liabilities based on customer agreements. Services and goods will not be invoiced or delivered in advance. Services will be invoiced as soon as they have been performed and the goods will be invoiced as soon as they have been delivered. Receivables have a term of 14 to 30 days.

4. Other operating income

1,000 EUR	2019	2018
Gain on disposal of property, plant and equipment	-	11
Other income	54	33
Government grants	-	61
Total	**54**	**105**

Other income includes rental income from equipment and other contractual charges, among other items.

5. Other operating expenses

1,000 EUR	2019	2018
Rental expenses	506	214
External services	1,674	1,281
Machinery and equipment expenses	1,858	825
Travel expenses	391	439
Marketing expenses	4,546	3,912
Administrative expenses	815	505
Other expense items	1,646	587
Total other operating expenses	**11,435**	**7,764**

Auditor's fee

1,000 EUR	2019	2018
Auditing fee	69	89
Other services	49	36
Total	**118**	**125**

Research and development costs

Research and development costs amounted to EUR 359,000 (EUR 421,000 in 2018). Research and development costs are related to the training of Kotipizza franchisees and to developing new product recipes. The comprehensive concept reform of Kotipizza, Social Burgerjoint and No Pizza was continued in the financial year 2019. Research and development costs have been recognised as annual costs.

6. Employee benefits

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

1,000 EUR	2019	2018
Salaries and fees	5,379	3,481
Other indirect employee costs	129	97
Pension costs (defined contribution plans)	864	741
Share-based costs	1,077	170
Total employee benefits	**7,449**	**4,489**

7. Financial income and expenses, items recognised through profit or loss

1,000 EUR	2019	2018
Interest income on trade receivables	14	14
Other financial income from contingent liabilities	-	0
Other financial income	315	33
Total financial income	**329**	**47**

Impairment of the additional purchase price that was a non-current liability is included in the other financial income of the financial year.

1,000 EUR	2019	2018
Interest on loans and borrowings	442	405
Interest expenses related to financial lease liabilities	- 168	125
Total interest expense	**274**	**529**
Other financial costs	68	206
Expenses related to loans	38	18
Profit/loss from financial instruments recognised at fair value through profit or loss	69	- 15
Total financial expenses	**449**	**738**

Interest expenses of the financial year include the decrease in interest expense due to change in calculation method of residual values of financial leasing cars.

Cash flow hedging

The parent company has a interest rate swap agreement. The swap agreement has an underlying asset that will end in the next financial year because the company has agreed on new intra-group loan arrangements. The market value of the interest rate swap was EUR -170,000 on the reporting date.

8. Income taxes

The major components of income tax expenses for the financial years that ended on 31 January 2019 and on 31 January 2018 include the following:

Consolidated income statement

1,000 EUR	2019	2018
Current income tax:		
Current income tax charge	845	762
Deferred tax:		
Related to origination and reversal of temporary differences	- 115	490
Income tax expenses reported in the income statement	**729**	**1,252**

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.	-	-
Total taxes related to items of other comprehensive income	**-**	**-**
Total deferred taxes for the period	**- 115**	**490**

Reconciliation of tax expenses and the accounting profit multiplied by Finland's domestic tax rate for 2019:

1,000 EUR	2019	2018
Profit/loss before taxes from continuing operations	3,897	5,731
Loss before taxes from discontinued operations	-	-
Accounting profit/loss before taxes	**3,897**	**5,731**
At Finland's statutory income tax rate of 20% (2019: 20%)	779	1,146
Effect of non-deductible expenses on taxes:		
Other non-deductible expenses	48	76
Other	- 98	30
Taxes from previous periods and changes to taxes		
	729	1,252
Income tax expenses reported for continuing operations in the income statement	729	1,252
Effect of discontinued operations on taxes	-	-
	729	1,252

Deferred taxes

Deferred taxes are related to the following:	Consolidated balance sheet		Consolidated income statement	
1,000 EUR	**2019**	**2018**	**2019**	**2018**
Accelerated depreciation for tax purposes	- 72	- 92	20	- 18
Non-deductible provision	31	15	16	4
Fair value of derivatives	5	5	-	-
Tax losses	134	- 67	206	- 346
Capitalised transaction costs	4	7	- 3	- 3
Intangible assets	- 56	- 83	28	- 19
Financial lease liabilities	- 40	60	- 100	33
Management's incentive schemes	- 27	-	- 27	- 109
Other	- 18	6	- 24	- 31
Deferred taxes, net	**- 40**	**- 150**	**115**	**- 490**

Based on the consolidated balance sheet:		
Deferred tax assets	147	21
Deferred tax liabilities - continuing operations	- 188	- 171
Deferred taxes, net	**- 40**	**- 150**

9. Property, plant and equipment

1,000 EUR	**Property**	**Machinery and equipment**	**Total**
Acquisition price			
1 February 2016	**251**	**2,615**	**2,866**
Additions		910	910
31 January 2017	**251**	**3,525**	**3,776**
Additions	-	416	416
Reductions/disposals	-	- 72	- 72
31 January 2018	**251**	**3,869**	**4,120**
Additions	**-**	**619**	**619**
Reductions/disposals	**-**	**- 449**	**- 449**
31 January 2019	**251**	**4,039**	**4,290**
Depreciation and impairment			
1 February 2016	**- 248**	**- 1,616**	**- 1,864**
Depreciation charge for the year	**- 3**	- 452	- 455
Reductions/disposals		**- 319**	**- 319**
31 January 2017	**- 251**	**- 2,387**	**- 2,638**
Depreciation charge for the year		**- 542**	**- 542**
31 January 2018	**- 251**	**- 2,929**	**- 3,180**
Depreciation charge for the year	-	- 536	- 536
Reductions/disposals	-	263	263
31 January 2019	**- 251**	**- 3,202**	**- 3,453**
Net book value			
31 January 2019		836	836
31 January 2018		939	939
31 January 2017		1,138	1,138
31 January 2016	3	999	1,002

Reductions in machinery and equipment are mainly due to the changed calculation method of residual values of financial leasing cars.

10. Intangible assets

1,000 EUR	Goodwill	Intangible rights	Other long-term expenses	Total
Acquisition price				
31 January 2016	**36,263**	**195**	**3,949**	**40,407**
Additions			859	859
Reductions/disposals			- 133	- 133
31 January 2017	**36,263**	**195**	**4,675**	**41,133**
Additions	1,480		1,611	3,091
31 January 2018	**37,743**	**195**	**6,286**	**44,224**
Additions			1,632	1,632
Reductions/impairment	- 277			- 277
31 January 2019	**37,466**	**195**	**7,918**	**45,579**
Depreciation and impairment				
31 January 2016	**- 444**	**- 189**	**- 1,837**	**- 2,470**
Depreciation		- 2	- 521	- 522
31 January 2017	**- 444**	**- 191**	**- 2,358**	**- 2,992**
Depreciation			- 818	- 818
31 January 2018	**- 444**	**- 191**	**- 3,177**	**- 3,810**
Depreciation/impairment	- 176		- 1,059	- 1,234
31 January 2019	**- 620**	**- 191**	**- 4,236**	**- 5,047**
Net book value				
31 January 2019	36,846	4	3,682	40,532
31 January 2018	37,299	4	3,109	40,412
31 January 2017	35,819	4	2,317	38,140
31 January 2016	35,819	6	2,112	37,937

The reduction in goodwill is due to the impairment of the acquired operation.

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

1,000 EUR	2019	2018
Raw materials (at cost)	4,038	3,717
Work in process (at cost)	236	371
Total inventories at the lower of cost and net realisable value	**4,274**	**4,088**

There was no impairment on inventories in 2019 or in 2018. Impairment is included in the change in inventories in the income statement.

12. Trade and other receivables

1,000 EUR	2019	2018
Trade receivables, current	6,973	6,057
Other receivables	642	663
	7,614	**6,720**

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.

On 31 January 2019, a credit loss provision of EUR 287,000 was recognised for doubtful receivables (2018: EUR 31,000). See below for the changes in impairment on trade receivables (credit loss provision).

	Credit loss provision
31 January 2016	**91**
Change for the year	-39
31 January 2017	**52**
Change for the year	-21
31 January 2018	**31**
Change for the year	256
31 January 2019	**287**

A significant part of the credit loss provisions recorded during the financial year are related to recording restructuring debts of Helsinki Foodstock's single customer in the loan loss provision.

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

1,000 EUR	2019	2018
Payment not overdue	5,793	4,530
Past due but not impaired		
< 30 days	648	661
> 30 days	532	866
Total	**6,973**	**6,057**

Non-current receivables include trade receivables that will not fall due until more than 12 months after the reporting date.

See Note 20 on the credit risk concerning trade receivables. Note 20 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

1,000 EUR	2019	2018
Cash at banks and in hand	4,394	7,982
	4,394	**7,982**

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

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

1,000 EUR	2019	2018
Cash at banks and in hand	4,394	7,982
Cash and cash equivalents	**4,394**	**7,982**

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:

1,000 EUR	2019	2018
Franchising CGU	30,446	30,899
Wholesale CGU	6,400	6,400
Total	**36,846**	**37,299**

The Group performed its annual impairment test in January 2019 and 2018.
The recoverable amounts for each CGU were determined based on the value in use.

Franchising CGU

The recoverable amount of the Franchising CGU (EUR 99,998,000 on 31 January 2019) 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 7.02% (2018: 7.11%), and cash flows beyond the five-year period were extrapolated using a growth rate of 1% (2018: 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 2019, as these values are used for calculating the discount rate. Impairment on goodwill of EUR 453,000 recorded for the Franchising CGU is related to the Pizzataxi operation acquired in 2017. Converting Pizzataxi restaurants into Kotipizza restaurants has proved to be more difficult than expected and so far only two Pizzataxi restaurants converted into Kotipizza restaurants have been opened.

Wholesale CGU

The recoverable amount of the Wholesale CGU (EUR 26,122,000 on 31 January 2019) 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 7.02% (2018: 7.11%), and cash flows beyond the five-year period were extrapolated using a growth rate of 1% (2018: 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 2019, 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
- 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.

15. Financial liabilities

Interest-bearing loans and borrowings

1,000 EUR	Effective interest rate	Maturity	2019	2018
	%			
Current interest-bearing loans and borrowings				
Bank loan	floating	12 months	1,400	1,150
Other current loans				
Car instalment credits		12 months	-	-
Financial lease liabilities	fixed	12 months	204	342
Total current interest-bearing loans and borrowings			**1,604**	**1,492**
Non-current interest-bearing loans and borrowings				
Bank loan	floating	7.8.21	9,500	9,500
Bank loan	floating	7.8.21	700	1,100
Bank loan	floating	7.11.21	2,000	3,063
Other non-current loans				
Car instalment credits		more than 12 months	-	-
Financial lease liabilities	fixed	more than 12 months	145	627
Total non-current interest-bearing loans and borrowings			**12,345**	**14,289**
Total interest-bearing loans and borrowings			**13,949**	**15,781**

Bank loans

The parent company has three bank loans withdrawn at the end of the financial year on 31 January 2019 with a total nominal value of MEUR 13.6. The loans are secured against business mortgages and pledged shares of subsidiaries. The company's bank loans involve covenants relating to the amount of interest-bearing debt and profitability. When the financial year ends, the company has agreed on new intra-group loan arrangements and that all interest-bearing bank loans fall due in full on 7 February 2019. At the same time, interest rate hedging on loans is terminated as it is no longer necessary.

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 349,000.

1,000 EUR	2019	2018
Gross financial lease liabilities, minimum rents according to maturity periods		
Within 12 months	215	455
More than 12 months but no more than 5 years	149	581
Total	**364**	**1,037**
Future accrual of financial expenses	- 16	- 68
Current value of financial lease liabilities	349	969
Current value of financial lease liabilities according to maturity periods		
Within 12 months	204	342
More than 12 months but no more than 5 years	145	627
Total	**349**	**969**

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 1,830,000 (EUR 1,312,000). On the balance sheet, these are included in non-current receivables and in other non-current liabilities.

Other financial liabilities

1,000 EUR	2019	2018
Financial liabilities recognised at fair value through profit or loss		
Derivatives not designated as hedges		
Interest rate swaps	170	193
Total financial liabilities at fair value through profit or loss	**170**	**193**
Total other financial liabilities	**170**	**193**

16. Trade and other payables

1,000 EUR	2019	2018
Trade payables	6,062	6,196
Other payables	4,463	3,515
Total	**10,525**	**9,711**

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

17. Carrying amounts of financial assets and liabilities by category

Values on 31 January 2019

Balance sheet item, 1,000 EUR	Note	Financial assets/ liabilities measured at fair value through profit or loss and included in hedge accounting	Loans and other receivables	Financial assets/ liabilities at amortised cost	Carrying amounts by balance sheet item	Fair value
Non-current financial assets						
Non-current receivables			-	1,850	1,850	1,850
Current financial assets						
Trade and other receivables	12		-	7,614	7,614	7,614
Cash and cash equivalents	13		-	4,394	4,394	4,394
Carrying amount by category		**-**	**-**	**13,857**	**13,857**	**13,857**
Non-current financial liabilities						
Interest-bearing liabilities	15			12,345	12,345	12,345
Derivative financial instruments	18	170			170	170
Other non-current liabilities				3,958	3,958	3,958
Current financial liabilities						
Interest-bearing liabilities	15			1,604	1,604	1,604
Trade and other payables	16			10,525	10,525	10,525
Carrying amount by category		**170**	**-**	**28,432**	**28,602**	**28,602**

Values on 31 January 2018

Balance sheet item, 1,000 EUR	Note	Financial assets/ liabilities measured at fair value through profit or loss and included in hedge accounting	Loans and other receivables	Financial assets/ liabilities at amortised cost	Carrying amounts by balance sheet item	Fair value
Non-current financial assets						
Non-current receivables			1,318		1,318	1,318
Current financial assets						
Trade and other receivables	12		6,720		6,720	6,720
Cash and cash equivalents	13		7,982		7,982	7,982
Carrying amount by category		**-**	**16,019**	**-**	**16,019**	**16,019**
Non-current financial liabilities						
Interest-bearing liabilities	15			14,289	14,289	14,289
Derivative financial instruments	18	193			193	193
Other non-current liabilities				3,650	3,650	3,650
Current financial liabilities						
Interest-bearing liabilities	15			1,492	1,492	1,492
Trade and other payables	16			9,711	9,711	9,711
Carrying amount by category		**193**	**-**	**29,143**	**29,335**	**29,335**

Non-current receivables	**2019**	**2018**
Financial support and buy-back commitments	1,848	1,316
Other receivables	2	2
Total	**1,850**	**1,318**

Non-current liabilities	**2019**	**2018**
Guarantees received	2,110	1,885
Other non-current provisions	-	394
Financial support and buy-back commitments	1,848	1,313
Other payables	-	57
Total	**3,958**	**3,650**

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.

The management estimates that cash, 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.

Fair value measurement hierarchy including qualitative disclosure for assets on 31 January 2019:

Financial assets/liabilities measured at fair value through profit or loss and included in hedge accounting

		Fair value measurement			
1,000 EUR	**Date of valuation**	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	31 January 2019				
Derivative financial liabilities					
Interest rate swaps		170		170	

Fair value hierarchy for financial instruments measured at fair value on 31 January 2018:

Financial assets/liabilities measured at fair value through profit or loss and included in hedge accounting

1,000 EUR	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivative financial instruments				
Interest rate swaps	193		193	

19. Commitments and contingencies

The Group has entered into commercial leases on premises and certain items of machinery that it sublets to franchisees. These leases have an average life between three and five years.

Future minimum rentals payable for other leases

1,000 EUR	**2019**	**2018**
Within one year	5,198	4,040
After one year but no more than five years	9,888	8,449
More than five years	393	362
	15,478	12,851

Future minimum rentals receivable for other leases

1,000 EUR	**2019**	**2018**
Within one year	4,508	3,637
After one year but no more than five years	8,948	8,403
More than five years	263	362
	13,718	12,402

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 Ltd, the 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 Social Burger Joint Ltd, the 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

1,000 EUR		**2019**	**2018**
	Rental guarantees	1,211	974
	Bank guarantees	443	420

Guarantees

1,000 EUR			
	Pledged deposits	0	146
	Business mortgages	17,500	17,500
	Guarantees *)	0	12

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

Guarantees on behalf of other companies

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

The amounts of guarantees on the reporting date:

	2019	**2018**
	0	3

Liabilities secured against business mortgages and pledged shares

During the financial year 2018, the parent company Kotipizza Group Oyj had three bank loans that are secured against business mortgages and pledged shares. The loans have been explained in further detail in Note 15.

The amounts of commitments and guarantees on the reporting date:

Liability:

1,000 EUR		**2019**	**2018**
	Loans from financial institutions	13,600	14,813

Guarantee:

1,000 EUR			
	Business mortgages	17,500	17,500
	Pledged shares, book value	44,236	44,236

20. 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 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 2019.

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 2019, 50% 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 a calculated effect of EUR -68,000 on the result on 31 January 2019. Interest rate sensitivity has been calculated assuming that the interest rate curve will rise by 1 percentage point and that the effect of the company's interest rate swap will be taken into account. 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 2019, 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 2019 and on 31 January 2018 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 2019

1,000 EUR	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	-	396	1,208	5,745	6,600	13,949
Other financial liabilities		-	-	3,958	-	3,958
Trade payables	-	6,062			-	6,062
Other payables		3,703	760			4,463
Derivatives	-	170	-	-	-	170
	-	**10,331**	**1,968**	**9,703**	**6,600**	**28,602**

Year ended 31 January 2018

1,000 EUR	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	-	288	1,204	10,478	3,812	15,781
Other financial liabilities		-	-	3,843	-	3,843
Trade payables	-	6,194		-	2	6,196
Other payables		2,830	685			3,515
Derivatives	-	24	73	96	-	193
	-	**9,336**	**1,962**	**14,224**	**3,814**	**29,335**

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 2019 and 31 January 2018.

21. Group information and subsidiaries

Information about subsidiaries

The Group's consolidated financial statements include:

Name	Principal operations	Country	% of equity 2019	2018
Kotipizza Oyj	Fast food and franchising	Finland	100%	100%
Helsinki Foodstock Oy	Food and beverages wholesale	Finland	100%	100%
Chalupa Ltd	Fast food, fast casual	Finland	60%	60%
The Social Burger Joint Ltd	Fast food, fast casual	Finland	51%	51%
No Pizza Ltd	Fast food, fast casual	Finland	100%	

The ultimate control of the Group

At the end of the period, the company had 404 shareholders. Orkla ASA's holding in the company and its share capital was 98.63% during the period on 22 January 2019 and Orkla ASA's holding in the company and its share capital was 99.29% during the period on 4 February 2019.

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.

22. 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
Return on equity			- 2,222,920	- 2,222,920
31 January 2017	6,351	80,000	27,594,550	27,674,550
Return on equity			- 3,175,601	- 3,175,601
31 January 2018	6,351	80,000	24,418,949	24,498,949
Return on equity			- 4,128,464	- 4,128,464
31 January 2019	6,351	80,000	20,290,485	20,370,485

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 Finnish 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 4,128,464.11 euros of equity during the financial year 1 February 2018-31 January 2019.

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.

The Board of Directors of Kotipizza Group Oyj resolved on 6 May 2016 upon a long-term share-based incentive programme intended for the executive board. According to the rules of the share-based incentive scheme, the scheme will be paid in full in the event of a change in ownership such as the realised voluntary public cash tender offer made by Orkla ASA. Thus, the total cost of the scheme of EUR 1.4 million that corresponds to the maximum amount of the share-based incentive scheme, has been recorded as an expense in the last quarter of the financial year.

23. 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.

1,000 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	2019	0	0	0	0	0	0
	2018	0	0	0	0	1	1
Other related parties	2019	0	0	0	0	0	0
	2018	0	0	0	0	0	0
Controlling entities	2019	0	0	0	0	0	0
	2018	0	0	0	0	0	0
Companies controlled by members	2019	0	0	177	12	0	0
of the board	2018	0	0	179	10	0	0

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

1,000 EUR		**Salaries**	**Pension expenses**
Management and key personnel of the Group			
	2019	985	175
	2018	912	172

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. The Group has paid a total of EUR 1,077,000 in share-based payments during the financial year.

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

Managing Director and Board members: **1,000 EUR**	**2019 Salaries**	**Pension expenses**	**2018 Salaries**	**Pension expenses**
Tommi Tervanen, CEO	323	57	338	64
Kalle Ruuskanen, Chairman of the Board	48	-	38	-
Kim Hanslin, Member of the Board	31	-	24	-
Minna Nissinen, Member of the Board since 1 January 2015	35	-	25	-
Petri Parvinen, Member of the Board since 1 January 2015	32	-	24	-
Virpi Holmqvist, Member of the Board since 17 May 2017	31		17	
Dan Castillo, Member of the Board since 17 May 2017	31		17	
Marjatta Rytömaa, Member of the Board until 17 May 2017	-	-	2	-
Johan Wentzel, Chairman of the Board until 17 May 2017	-	-	2	-

24. 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:

1,000 EUR	2019	2018
Profit attributable to ordinary equity holders of the parent		
Continuing operations	3,168	4,479
Profit attributable to ordinary equity holders of the parent for basic earnings	**3,168**	**4,479**
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**3,168**	**4,479**

	2019	2018
Weighted average number of shares for basic earnings per share	**6,351,201**	**6,351,201**
Diluted	**0**	**10,119**
Weighted average number of shares adjusted for the effect of dilution	**6,351,201**	**6,361,320**

The Board of Directors of Kotipizza Group Oyj resolved on 6 May 2016 upon a long-term share-based incentive programme intended for the executive board. According to the rules of the share-based incentive scheme, the scheme will be paid in full in the event of a change in ownership such as the realised voluntary public cash tender offer made by Orkla ASA. Thus, the total cost of the scheme of EUR 1.4 million that corresponds to the maximum amount of the share-based incentive scheme, has been recorded as an expense in the last quarter of the financial year and the costs of the incentive scheme do not have a dilutive effect on the total number of shares.

25. Material events subsequent to the financial year

The company announced in a stock exchange release on 5 February a preliminary result of the subsequent offer period of Orkla ASA's public cash tender offer for Kotipizza Group Oyj. Together with the shares tendered during the actual offer period and otherwise acquired by Orkla ASA through market purchases, the shares acquired by Orkla ASA in connection with the tender offer represented approximately 99.29% of all the shares and votes in Kotipizza. The full stock exchange release can be read on the company's website.

The company announced in a stock exchange release on 6 February the final result of the subsequent offer period of Orkla ASA's public cash tender offer for Kotipizza Group Oyj. Together with the shares tendered during the actual offer period and otherwise acquired by Orkla ASA through market purchases, the shares acquired by Orkla ASA in connection with the tender offer represented approximately 99.30% of all the shares and votes in Kotipizza. The full stock exchange release can be read on the company's website.

The company announced on 7 February 2019 that Kotipizza Group Oyj's Chief Financial Officer and Deputy to the CEO, M.Sc. (Econ.) Timo Pirskanen leaves the company on 31 March 2019 and begins employment with another company.

The company announced on 7 February 2019 that Kotipizza Group Oyj and Orkla ASA have agreed upon a financial arrangement in which Orkla ASA has lended Kotipizza Group Oyj 14,000,000 euros. This is a related party transaction since Orkla ASA owns approximately 99.3 percent of shares in Kotipizza Group Oyj. Kotipizza Group Oyj will use the funds to be received from Orkla ASA for restructuring Kotipizza Group Oyj's debts. Kotipizza Group Oyj's Board of Directors has assessed that the conditions of the related party transaction are fair and reasonable for all shareholders, considering in particular that the conditions of financing offered by Orkla ASA are significantly more favourable for Kotipizza Group Oyj compared to the conditions of the company's current debt financing. Subsequent to carrying out the financial arrangement, the future financing costs of Kotipizza Group Oyj will therefore decrease.

Income statement

KOTIPIZZA GROUP OYJ
PARENT COMPANY

	Note	1.2.2018–31.1.2019	1.2.2017–31.1.2018
1,000 EUR		**12 months**	**12 months**
Turnover	1	**2,110**	**1,260**
Other operating income	2	44	109
Purchases during the period		-10	-7
Personnel expenses	3	-4,755	-2,116
Depreciation and impairment	4	-156	-149
Other operating expenses	5	-2,708	-1,670
Operating loss		**-5,475**	**-2,575**
Financial income and expenses	6	-609	2,665
Profit/loss before appropriations and taxes		**-6,084**	**91**
Appropriations	7	9,928	8,070
Income taxes	8	-774	-686
Profit/loss for the period		**3,070**	**7,475**

BALANCE SHEET

KOTIPIZZA GROUP OYJ
PARENT COMPANY

1,000 EUR	Note	31 January 2019	31 January 2018
ASSETS			
Non-current assets			
Intangible assets	9	348	459
Tangible assets	10	47	58
Investments	11	44,918	44,844
Non-current assets total		**45,312**	**45,361**
Current assets			
Non-current receivables	12	1278	288
Current receivables	12	11,711	8,471
Cash at banks and in hand		1,031	775
Current assets total		**14,020**	**9,534**
Total assets		**59,333**	**54,895**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	13		
Share capital		80	80
Reserve for invested unrestricted equity		21,336	25,464
Profit/loss from previous financial periods		5,064	-2,411
Profit/loss for the period		3,070	7,475
Total shareholders' equity		**29,550**	**30,608**
Non-current liabilities	14	12,370	13,895
Current liabilities	15	17,413	10,391
Total liabilities		29,783	24,286
Total shareholders' equity and liabilities		**59,333**	**54,895**

Cash flow statement of the parent company

FOR THE FINANCIAL YEAR THAT ENDED ON 31 JANUARY 2019

1,000 EUR	2019	2018
Business		
Profit before taxes	-6,084	8,161
Adjustments to reconcile profit before taxes to net cash flows:		
Depreciation on property, plant and equipment	16	16
Depreciation and impairment on intangible assets	141	133
Other income and expenses which do not involve payment	-40	0
Financial income	-42	-3,522
Financial expenses	651	857
Change in working capital:		
Change in trade and other receivables (+/-)	-3,980	-19,707
Change in trade and other payables (+/-)	1,212	617
Interest paid and other financial expenses (-)	-526	2,665
Interest received and other financial income	19	
Income tax paid (-)	-689	0
Cash flow from business operations	**-9,323**	**-10,780**
Cash flows from investing activities		
Investments in acquisitions of subsidiaries	-74	-607
Investments in tangible assets (-)	-4	-37
Investments in intangible assets (-)	-30	-200
Loans granted (-)	-250	-85
Dividends received from subsidiaries	0	3,516
Cash flow from investing activities	**-358**	**2,587**
Cash flows from financing activities		
Share issue	0	0
Group contribution received	10,360	8,070
Equity distribution paid	-4,128	-3,176
Group contribution paid	-432	0
Withdrawals of loans	5,350	0
Loan repayments (-)	-1,213	-2,979
Financial lease payments (-)	0	0
Cash flow from financing activities	**9,937**	**1,915**
Change in cash and cash equivalents	256	-6,278
Cash and cash equivalents on 1 February	775	7,053
Cash and cash equivalents on 31 January	**1,031**	**775**

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, 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 non-current assets is depreciated using straight-line depreciation based on the expected useful life of the asset. The acquisition cost of non-current 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	3-5 years

Foreign currency items

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 a loan and other such receivables whose accumulation involves uncertainty is recorded in impairments of investments in non-current assets.

Notes to the parent company's financial statements

Notes to the income statement

1.	Turnover	31 January 2019	31 January 2018
	Turnover by business line:		
	Administrative services	2,084	1,235
	Income from premises	25	25
	Total	**2,110**	**1,260**

1.1	Related party transactions
	The company's turnover consists of administrative services charges from subsidiaries.

2.	Other operating income	31 January 2019	31 January 2018
	The unnecessary RGI Serbia agreement has been recognised from the non-current loans.	40	0
	Other income	4	109
	Total	**44**	**109**

3.	Personnel expenses	31 January 2019	31 January 2018
	Salaries and fees	4,297	1,763
	Pension expenses	411	316
	Other indirect employee costs	47	38
	Total	**4,755**	**2,116**

3.1.	Average number of employees	30	15

4.	Depreciation and impairment	31 January 2019	31 January 2018
	Depreciation according to plan		
	Other non-current expenses	141	133
	Machinery and equipment	16	16
	Total	**156**	**149**

5.	Other operating expenses	31 January 2019	31 January 2018
	Most significant items:		
	Non-mandatory indirect employee costs	155	105
	Facility expenses	137	117
	Machinery and equipment expenses	535	332
	Marketing expenses	69	97
	R&D expenses	74	297
	Administrative expenses	1,576	613
	Other expenses	163	109
	Total	**2,708**	**1,670**

5.1.	Auditor's fees	31 January 2019	31 January 2018
	Statutory audit	41	58
	Other advisory services	56	23
	Total	**96**	**80**

6.	Financial income and expenses	31 January 2019	31 January 2018
	Other financial income and expenses		
	From Group companies	20	3,516
	From others	0	6
	Total	**20**	**3,522**
	Interest and other financial expenses		
	To Group companies	-135	-116
	To others	-493	-741
	Total	**-628**	**-857**
	Total financial income and expenses	**-609**	**2,665**

7.	Appropriations	31 January 2019	31 January 2018
	Group contribution received	**10,360**	**8,070**
	Group contribution paid	**-432**	**0**
	Total appropriations	**9,928**	**8,070**

8.	Income taxes	31 January 2019	31 January 2018
	Income taxes for the period	774	686

Notes to the balance sheet

9.	Intangible assets	31 January 2019	31 January 2018
	Acquisition cost at the beginning of the financial year	707	507
	Additions	30	200
	Acquisition cost at the end of the financial year	738	707
	Accumulated depreciation at the beginning of the financial year	-248	-115
	Depreciation for the period	-141	-133
	Accumulated depreciation at the end of the financial year	-389	-248
	Balance sheet value on 31 January	349	459
	Total intangible assets	**349**	**459**

10.	Tangible assets		
	Machinery and equipment	**31 January 2019**	**31 January 2018**
	Acquisition cost at the beginning of the financial year	93	56
	Additions	4	37
	Reductions	0	0
	Acquisition cost at the end of the financial year	96	93
	Accumulated depreciation at the beginning of the financial year	-34	-18
	Depreciation for the period	-15	-16
	Accumulated depreciation at the end of the financial year	-49	-34
	Balance sheet value on 31 January	47	58
	Total tangible assets	**47**	**58**

11.	Investments	31 January 2019	31 January 2018
	Shares and holdings		
	Acquisition cost at the beginning of the financial year	44,844	44,236
	Additions	74	607
	Acquisition cost on 31 January	44,918	44,844
	Total investments	**44,918**	**44,844**

12. Receivables

Non-current receivables	31 January 2019	31 January 2018
Capital loans granted		
At the beginning of the financial year	288	288
Additions	990	0
At the end of the financial year	**1,278**	**288**

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

Current receivables	31 January 2019	31 January 2018
Receivables from Group companies	11,065	8,170
Trade receivables from Group companies	327	152
Trade receivables from other companies	0	1
Receivables from companies other than Group companies		
Accrued receivables	162	148
Value added tax receivables	157	0
Total current receivables	**11,711**	**8,471**
Total receivables	**12,989**	**8,759**

13.	Shareholders' equity	31 January 2019	31 January 2018
	Share capital at the beginning of the financial year	80	80
	Share capital on 31 January	**80**	**80**
	Reserve for invested unrestricted equity at the beginning of the financial year	25,464	28,640
	Return on equity	-4,128	-3,176
	Reserve for invested unrestricted equity at the end of the financial year	21,336	25,464
	Retained earnings at the beginning of the financial year	5,064	-2,411
	Profit/loss for the period	3,070	7,475
	Retained earnings on 31 January	8,134	5,064
	Total shareholders' equity	**29,550**	**30,608**

Distributable unrestricted equity		
Reserve for invested unrestricted equity	21,336	25,464
Retained earnings	5,064	-2,411
Profit/loss for the period	3,070	7,475
Total distributable funds	**29,470**	**30,528**

14.	Non-current liabilities	31 January 2019	31 January 2018
	Loans from financial institutions (1 to 5 years)	12,200	13,600
	Loans from financial institutions (more than 5 years)	0	63
		12,200	**13,663**
	Non-current accrued liabilities	170	193
	Other non-current liabilities	0	40
	Total non-current liabilities	**12,370**	**13,895**

15.	Current liabilities	31 January 2019	31 January 2018
	Liabilities to Group companies	13,575	7,658
	Loans from financial institutions	1,400	1,150
	Trade payables to Group companies	3	1
	Trade payables to companies other than Group companies	261	155
	Accrued liabilities	1,611	1,367
	Other current liabilities	564	60
	Total current liabilities	**17,413**	**10,391**
	Total liabilities	**29,783**	**24,286**
	Breakdown of the most significant accrued liabilities:		
	Personnel expenses	313	267
	Taxes	85	686
	Interest expenses	102	112
	Other accrued liabilities	1,110	302
	Total accrued liabilities	**1,611**	**1,367**

Commitments	31 January 2019	31 January 2018
Leasing commitments, own (incl. VAT)		
within one year	116	128
more than one year	147	71
	263	**198**
Commitments secured against business mortgages and pledged shares		
Commitment: loans from financial institutions	13,600	14,813
Guarantee: business mortgage	16,000	16,000
pledged shares, book value	44,236	44,236
Contingent liabilities for Group companies	unlimited	unlimited
Business mortgages for Group companies	1,000	1,000
Other commitments		
Leasing residual value liabilities (incl. VAT)	223	191
Lease commitments, within one year	510	197
Lease commitments, after one year but no more than five years	1,169	233

Guarantee	31 January 2019	31 January 2018
Lease guarantee	0	12

Interest rate derivative instrument

The parent company has a interest rate swap agreement. The swap agreement has an underlying asset.
The market value of the interest rate swap was EUR -170,000 on the reporting date (EUR -193,000 in 2018). The negative market value is recognised as expenses.

Kotipizza Group Oyj

Business ID 2416007-6

Helsinki, dd Month 2019

Signatures of Board of Directors and Managing Director of annual report and financial statements:

Rabbe Wikström
Chairman of the Board

Aaron Moore-Saxton
Member of the Board

Kalle Ruuskanen
Member of the Board

Johanna Paavola
Member of the Board

Terje Andersen
Member of the Board

Viktor Söderberg
Member of the Board

Tommi Tervanen
CEO

Auditor's note::

A report on the audit performed has been issued today.

Helsinki, dd Month 2019

BDO Oy
Authorised Public Accountants

Taneli Mustonen
Authorised Public Accountant

Kotipizza Group Oyj

ACCOUNTING BOOKS USED FROM 1 FEBRUARY 2018 TO 31 JANUARY 2019

Journal	Filed in electronic format (NAV)
Nominal ledger	Filed in electronic format (NAV)
Purchases ledger	Filed in electronic format (NAV)
Sales ledger	Filed in electronic format (NAV)
Balance book and balance sheet specifications	Archived 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 2018 TO 31 JANUARY 2019

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
Property, plant and equipment	KOKP	Property, plant and equipment

Calculation of key figures

Operating profit, % =	Operating profit / Turnover	X100
Return on equity, % =	Net result / Shareholders' equity	X 100
Equity ratio % =	Shareholders' equity / Total assets	X 100
Earnings per share =	Profit/loss for the period / Number of shares	
Equity per share =	Shareholders' equity / Number of shares	
Return from reserve for invested unrestricted equity per share =	Return from reserve for invested unrestricted equity / Number of shares	
Return from reserve for invested unrestricted equity, % of earnings =	Return from reserve for invested unrestricted equity / Profit/loss for the period	

KOTIPIZZA GROUP

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