Tokmanni Group Corporation

Report by the Board of Directors and financial statements

Report by the Board of Directors 2016	2
Group key figures and calculation of financial ratios	8
Shares and share capital	11
Financial statements	
Consolidated financial statements (IFRS)	
Consolidated income statement	13
Consolidated statement of financial position	14
Consolidated statement of cash flows	15
Consolidated statement of changes in equity	16
Notes to the consolidated financial statements	
Accounting policies for the consolidated financial statements	17
Notes to the consolidated income statement	25
Notes to the consolidated statement of financial position	27
Management of financial risks	37
Related party transactions	41
Other notes	43
Parent company's financial statements (FAS)	
Parent company's income statement	44
Parent company's balance sheet	45
Parent company's cash flow statement	46
Notes to the parent company's financial statements	47
Signing of Report by the Board of Directors and the financial statements	52
Auditor's report	53

Report by the Board of Directors 2016

The principal line of business of Tokmanni Group Corporation is to sell administrative services to the other companies in the Tokmanni Group. These companies include Retail Leasing Oy, whose line of business is to own and lease property, plant and equipment to the other Group companies. Retail Leasing Oy is also the parent of Nordic Disco AB (Sweden) which, in turn, is the parent of Tokmanni Oy. Tokmanni Oy engages in wholesale, retail and speciality goods trade in collaboration with its subsidiary, Tarjousmaxi Oy. Taitomanni Oy is a company owned by Tokmanni Oy in which there was no activity during the financial period. The Group also includes Retail Property Investment Oy that engages in the property business by investing in its own property companies which, in turn, construct store premises for the use of the Group companies. At the end of the financial period, the company owned one property company, Kiinteistö Oy Tokmanni Närpiö.

2016 Highlights

Tokmanni developed according to expectations in 2016. Revenue grew 2.7% to EUR 775.8 million (755.3) and adjusted EBITDA totaled EUR 62.8 million (58.5), 8.1% of revenue (7.7%). Group EBIT totaled EUR 49.2 million (39.1).

The uncertainty of the Finnish economy continued to affect the Finnish retail market in 2016. Competition remained fierce and particularly department stores suffered from Finland's weak economic situation, and also from the growth in popularity of online retailers. In July the department store Anttila announced its bankruptcy and started its clearance sale.

Tokmanni Group Oy had 22,274,436 shares at the beginning of 2016. Tokmanni Group Corporation issued a bonus issue (a share split) in April 2016 where one new share was given to shareholders for each share (1:1). In total 22,274,436 shares were issued. Tokmanni Group Corporation was successfully introduced on the Nasdaq Helsinki stock exchange after the completion of its Initial Public Offering. In the IPO, Tokmanni Group Corporation issued 14,319,880 new shares and consequently, Tokmanni Group Corporation had 58,868,752 outstanding shares at the end of the year.

During 2016, the Group opened seven new and relocated stores in total, out of which four were opened in store space released by Anttila.

Market development 2016

The uncertainty of the Finnish economy continued to affect the Finnish retail market in 2016. Competition remained fierce and particularly department stores suffered from Finland's weak economic situation, and also from the growth in popularity of online retailers.

The retail market recovered slightly for the full year 2016 and the sales of department stores and hypermarket chains grew 1.1%. Growth, which occurred for the first time since 2012, was based primarily on grocery sales growth. The liberalization of opening hours reshuffled market structures in 2016. This benefitted larger stores and hypermarkets, especially with regards to grocery sales, whereas it had a negative effect on smaller stores. Price competition in the grocery market remained high. The challenges in the non-grocery market continued and according to the FTGA the non-grocery market decreased by -1.4% in the review period January-December 2016.

Operational development

Store network development

Based on efficient roll-out and short ramp up of new stores, extending the store network is one of the drivers for the Group's revenue and earnings growth. Tokmanni Group has 162 (156) stores across Finland and has identified several additional locations suitable for new stores across Finland.

Tokmanni opened seven new and relocated stores in total in 2016 increasing its selling space by approximately 8,000 square meters, slightly lower than the target for 2016. The number includes the 2,500 square meter store space reduction of the Tammisto store, with the target to optimize sales per square meter. During 2017, the Group plans to open at least nine new stores and two relocated stores, in total eleven new or relocated stores, corresponding to approximately 22,000 square meters of additional selling space. In addition, Tokmanni is in negotiations regarding nine stores released by Anttila with the aim to sign some contracts in 2017. These stores would bring a good addition to Tokmanni's 2017 new store plan and would speed up the plan to grow the store network to approximately 200 stores.

Financial development

Revenue development

Tokmanni's revenue for the financial period 2016 totaled EUR 775.8 million (755.3), a growth of 2.7%. Growth was based on the growth from stores opened and relocated in 2015 and 2016. Like-for-Like revenue remained at the previous year's level, -0.1%. The development was impacted by the third quarter market turbulence caused by Anttila's clearance sale. With the exception of the third quarter, the Group's Like-for-Like revenue has shown growth throughout the year, signaling that the measures taken to improve like-for-like revenue are progressing well. The number of baskets increased to 44.7 million, a growth of 3.4% compared to the corresponding period previous year (43.3). This shows that Tokmanni's brand awareness is continuously improving and that new customers are finding their way to the stores.

Through the smart shopping trend consumers have become pronouncedly price-conscious, actively comparing prices. The internet has increased the transparency of the retail market by introducing efficient tools for information gathering and price comparisons to consumers. The internet and online stores have become a natural part of consumers' and retailers' everyday life. Tokmanni's website has approximately 800,000 monthly visits on average and in December the site had a record high 1.3 million visits. The popularity of Tokmanni's online store is growing and an increasing amount of customers are frequenting the store. Tokmanni's online revenue grew approximately 45% in the review period January-December 2016.

Profitability development

The gross profit for the financial period 2016 totaled EUR 268.4 million (257.5), 34.6% (34.1%). Adjusted gross profit totaled EUR 267.9 million (258.1), a gross profit margin of 34.5% (34.2%).

In 2016 the share of direct imports remained at last year's level 22% (22%). The Group has focused on improving the sourcing efficiency and sourcing through its Shanghai office. In 2016 12% (10%) of sold products was sourced through Tokmanni's Shanghai sourcing office. Tokmanni will continue to increase the share as part of its strategy to improve profitability by increasing the share of direct sourcing and the share of private labels. In 2016 the PLNL products' (Private Labels, Non-branded products and Licensed products) share of sales was 34% (34%). In 2016 the private label's share of PLNL products increased, affecting Group gross margin positively.

Operating expenses for the review period financial period 2016 totaled EUR 207.4 million (207.7), 26.7% of revenue (27.5%). Adjusted operating expenses amounted to EUR 208.5 million (203.7), 26.9% of revenue (27.0%). The slight increase in operating expenses was due to the opening of new stores and lengthening of opening hours. Tokmanni has renegotiated some of its rental agreements, which has had a positive effect on operating expenses.

EBITDA for the financial period 2016 was EUR 64.3 million (53.9), 8.3% of revenue (7.1%). Adjusted EBITDA for the review period totaled EUR 62.8 million (58.5), 8.1% of revenue (7.7%). Tokmanni's profitability improvement was due to sourcing efficiency improvements, the increase of private labels, improved campaign management as well as good cost management. January-December 2016 EBIT amounted to EUR 49.2 million (39.1), 6.3% million of revenue (5.2%).

The financial expenses for the financial period 2016 amounted to EUR 15.3 million (21.3), which includes a one-off financial cost of EUR 4.4 million, which relates to activated, capitalized emission fees from previous loans, which have been released in conjunction with the refinancing. In conjunction with its listing, Tokmanni Group Corporation repaid its shareholder loans and related interest, EUR 96.0 million in refinanced it long term loans. Tokmanni Group Corporation's IPO costs EUR 5.8 million have been recorded in the Group's balance sheet, decreasing equity.

The profit before taxes for the financial period January-December 2016 totaled EUR 34.0 million (18.2). Taxes for the review period amounted to EUR 6.8 million (3.4). The net result for the financial period was EUR 27.2 million (14.8). Earnings per share was 0.50 euros (0.33). Return on Capital Employed (ROCE) was 14.5% (11.6%). Return on Equity (ROE) was 18.1% (12.0%).

Balance sheet, financial position and cash flow

The 2016 cash flow from operating activities was strong EUR 62.5 million (35.0). This was due to improved results and more efficient working capital management. Cash and cash equivalents at the end of the year 2016 totaled EUR 57.6 million (48.9)

At the end of the year 2016 Tokmanni Group had interest bearing debt of EUR 173.5 million (293.8). In the fourth quarter the Group made a voluntary prepayment of loan of EUR 25.0 million. In conjunction with its IPO, Tokmanni Group repaid its shareholder loans and related interest, EUR 96.0 million in total and refinanced its long term loans. The Group's net debt/adjusted EBITDA was 1.85 at the end of the review period and it decreased from 2.7 at the end of 2015. Tokmanni's target is to maintain a good capital structure where net debt/adjusted EBITDA is below 2.0. Tokmanni's equity ratio was 36.3% (2015: 29.6% including shareholder loans).

Capital Expenditure

The net capital expenditure for the review period January-December 2016 totaled EUR 9.8 million (9.0), including EUR 2.4 million of unfinished construction work relating to the Närpiö store, and which by nature is not capital expenditure but temporary financing. In accordance with Tokmanni's practices, a sales-and-leaseback agreement will be made for the Närpiö property in 2017. Capital expenditure for 2017 is expected to be higher than previous years, due to the high selling space increase. Tokmanni will increase its selling space by at approximately 22,000 square meters. Opening a middle sized new store requires approximately EUR 0.5 million in capital expenditure. Depreciation amounted to EUR 15.1 million (14.8) in 2016.

Strategy

Tokmanni's goal is to continue strengthening its position as the leading general discount retailer in Finland by leveraging its key competitive advantages: the strong perceived price image, an attractive and wide assortment and a good in-store customer experience.

Tokmanni aims to deliver stable and profitable growth over the long term by

- leveraging its unified brand image, enhanced store concept and category management, as well as focusing on digital solutions and a multichannel approach to drive like-for-like revenue growth,
- continuing to increase the amount of net new selling space by approximately by approximately 12,000 square meters annually, translating into approximately five new or relocated stores, and
- improving profitability and working capital management through improved processes
- and tools in sourcing, supply chain management and category management.

Financial targets

The Board of Directors has adopted the following financial and other targets for Tokmanni:

- Tokmanni's target is to increase the amount of net new selling area by approximately 12,000 square meters annually, translating into approximately five new or relocated stores;
- Tokmanni's long-term target is to achieve low single digit revenue growth of like-for-like stores;
- Tokmanni's long-term target is to progressively expand to an adjusted EBITDA margin of approximately 10 percent driven by improving gross margin levels and maintaining stable operating expenses in relative terms;
- Tokmanni intends to maintain an efficient long-term capital structure – adjusted net debt in relation to adjusted EBITDA of below 2.0x.
- Tokmanni targets is to distribute approximately 70% of Tokmanni's net result as dividends for the year subject to capital structure, financial condition, general economic and business conditions and future prospects.

Personnel

Tokmanni is a significant employer in Finland and the Group had 3,224 (3,293) employees at the end of the year 2016. On average Tokmanni has 3,209 employees during the year. Out of the total number of employees 86.0% (84.9%) worked in the stores, 6.4% (7.8%) in the warehouse and 7.6% (7.3%) in support functions. During the third quarter 2016 the dispatch function of Tokmanni's logistics center in Mäntsälä was outsourced to Barona Logistics and as a consequence 35 employees were transferred to Barona. The aim of the cooperation is to ensure the accuracy of delivery times and lead times, while at the same time optimizing the use of resources in accordance with company needs Personnel costs for the review period totaled EUR 96.4 million (92.3), 12.4% of revenue.

Corporate Responsibility

Responsibility is part of the daily work of every member of Tokmanni's personnel. Tokmanni's key corporate responsibility focus areas are business integrity, responsible sourcing and products, fair treatment and efficient use of resources. Tokmanni's responsibility issues are covered in depth in the the Group's corporate responsibility report which will be published in week 8. The report has been prepared in accordance with the G4 guidelines of the Global Reporting Initiative (GRI).

Shares and shareholders

Tokmanni Group Oy had 22,274,436 shares at the beginning of 2016. Tokmanni Group Corporation issued a bonus issue (a share spit) in April 2016 where one new share was given to shareholders for each share (1:1). In total

22,274,436 shares were issued. Tokmanni Group Corporation was successfully introduced on the Nasdaq Helsinki stock exchange after the completion of its Initial Public Offering. Trading in Tokmanni Group Corporation's shares started on the pre-list of Nasdaq Helsinki on 29 April 2016 and on the official list on 3 May 2016. In the IPO company issued 14,319,880 new shares and consequently, Tokmanni Group Corporation had 58,868,752 outstanding shares at the end of the year. Tokmanni Group Corporation received approximately EUR 95.9 million in proceeds from the listing, which net of costs related to the IPO, increased company's equity. During 2016, 51.667.656 Tokmanni Group Corporation shares were traded on Nasdaq Helsinki and the value of shares traded was EUR 375.6 million.

At the end of the review period Tokmanni Group Corporation's biggest shareholders were Cidron Disco S.a.r.l 30.50%, Rockers Tukku Oy 15.01%, Elo Pension Company 4.59%, Varma Mutual Pension Insurance Company 4.54% and Mandatum Life Insurance Company Limited 3.99%.

Tokmanni Group Corporation has one share series and all shares carry equal voting rights at the general meeting. The share has no nominal value. Corporation does not hold any of its own shares.

Corporate Governance

On 12 April 2016, the extraordinary general meeting of shareholders of the Tokmanni Group Corporation decided to increase the number of members on the Board of Directors to seven, and elected Kati Hagros and Thérèse Cedercreutz as new members. Both new members are independent of the Company and the Company's significant shareholders. The change in the number of the members of the Board of Directors and the election of the new members of the Board of Directors entered into force immediately upon the commencement of trading in the shares on the pre-list of the Helsinki Stock Exchange on April 29th 2016.

Organization of the Board of Directors

The Board of Directors of Tokmanni Group Corporation has established a Finance and Audit Committee and a Nomination Committee. The Board has appointed the following members to the Committees:

Finance and Audit Committee: Robert Furuhjelm, Christian Gylling, Kati Hagros

Nomination Committee: Robert Furuhjelm, Christian Gylling, Seppo Saastamoinen

Tokmanni Group Corporation publishes a separate Corporate Governance and statement and remuneration report for 2016 in accordance with the Securities Market Association Corporate Governance Code 2015. The statement will be published during week 8 on the corporate website.

Organizational changes

LL.M Sirpa Huuskonen has been appointed Group HR Director and member of the Executive Group as of May 2nd 2016. Executive Group member M. Sc. (Econ.), Business Development Director, Jari Laine left Tokmanni as of August 10th 2016. M.Sc. (Econ.)Hanna Nikoskelainen has been appointed Business Development Director and Executive Group member as of January 30th 2017. Sales Director and Executive Group member Panu Porkka left Tokmanni at the end of 2016. M.Sc. (Econ.) Mathias Kivikoski has been appointed Sales Director and Executive Group member as of January 16th 2017.

Changes in Tokmanni's insider and disclosure policies

As a consequence to the Market Abuse Regulation ((EU) No 596/2014,"MAR"), which came into effect on July 3rd 2016, Tokmanni Group Corporation has made changes to its insider and disclosure policies. As of July 3rd 2016, Persons Discharging Managerial Responsibilities (PDMR) Tokmanni are the members of Tokmanni Group's Board of Directors, the CEO, the deputy to the CEO and the CFO.

Risk management

Tokmanni Group Corporation's risk management is guided by its risk management policy confirmed by the Board of Directors. The objective of Tokmanni's risk management is to support the Group's values, strategy and business continuity by anticipating and managing potential risks involved in the activities. The aim is to assess the risks systematically in order to promote the in-depth planning and decision-making process.

The responsibility for the practical implementation of risk management lies with Group management. Risks are assessed on a regular basis and managed holistically. Tokmanni Group Corporation's risks are discussed in Tokmanni's Board of Directors' Finance and Audit Committee semi-annually.

The chairman of the Finance and Audit Committee regularly reports on risk management to the Board. The most significant risks and uncertainty factors are disclosed to the market in the report by the Board of Directors and any material changes to these risks in the business reviews and half year financial reports.

Tokmanni's most significant risks and uncertainties

Market risk

Tokmanni's business performance and profitability are exposed to consumer behavior in the Finnish retail market. The overall poor economic situation which has continued for a long time in Finland and among others the increase in unemployment have affected the consumer purchasing power and has led to a drop in demand. In the retail market in turn, this has been reflected in more aggressive price competition, especially in the grocery segment. If the weak economic conditions would continue and the price competition would increase also in the non-grocery market it could have a negative impact on Tokmanni's business. To manage market risks Tokmanni monitors the market as part of the Group's everyday business operations, and adapt sales promotion measures and pricing strategies as a response to changing market conditions.

Reputation risk

Failures in Tokmanni's product safety control or quality assurance of the supply chain may result in financial losses and loss of customer confidence. Different aspects of responsibility, manufacturing of products, responsible sourcing, the importance of fair and equal treatment of employees is becoming even more is even more pronounced to customers. Possible failures in implementing the responsibility aspects would cause negative publicity and affect Group reputation. The aforementioned quality and reputation risks are managed, among others through quality and sustainability audits, by requiring suppliers and other partners to comply with BSCI's and the Group's Code of Conduct, through internal audit measures as well as rigorous internal compliance training.

Information system and information security risks

Dependence on information systems, telecommunications and external service providers has grown also at Tokmanni. Also the integration of networks, outsourcing services as well as online and mobile retail have increased the challenges related to effective information security control. Extended malfunctions in information systems, payment systems or in other parts of the supply chain can cause major losses in sales. Tokmanni focuses even more on identifying the risks associated with data security and in increasing data security capabilities.

Risks related to Tokmanni's private labels and direct sourcing

Tokmanni increases the number of private label products in all product categories as part of its target to improve profitability. Tokmanni's private label products generally have a low price image and have higher margins than branded products. Tokmanni is also focusing on direct sourcing, leaving the middlemen out and doing business directly with the suppliers. Increasing direct sourcing can increase risks related to the availability of products, the need for working capital, as well as product quality and safety-related business risks. Failure to increase the Tokmanni's private labels and direct sourcing may also endanger the implementation of the strategic objectives, which can have a negative impact on Tokmanni's business and financial position. To manage the above mentioned risks, the Group among others takes advantage of its sourcing joint venture established in Shanghai, continues to develop and optimize its sourcing model and conducts manufacturing audits.

Brand perception and marketing risk

Tokmanni's Like-for-Like revenue growth is largely dependent on its advertising and the effectiveness and efficiency of marketing programs. The success of the advertising and marketing program requires that Tokmanni manages advertising and marketing costs effectively to keep the marketing investment returns at an acceptable level and to increase the number of customers through improved awareness. To manage the marketing risk, Tokmanni monitors the market and measures marketing and advertising efficiency constantly. Tokmanni's marketing processes have been developed to be agile and flexible, allowing for a very rapid response to potential negative effects.

Employee competencies and key employee risks

Tokmanni's strategy implementation and strategic changes require new kind of competencies and skilled personnel. Tokmanni's ongoing development and the need for specialized expertise will increase the risk of key employees and reliance on the competence of individual people. Tokmanni focuses on essential competencies in recruitment, competence development, learning on the job and training to reduce key employee risks.

Currency risks

Tokmanni is exposed to currency risk through its purchasing practices. Unfavorable changes in currency exchange rates may increase the cost of the products purchased in currencies other than in euros and Tokmanni may not be able to transfer all such costs to its products. Tokmanni's main foreign currency is the US dollar. Of Tokmanni’s products purchased during the review period ending December 31st, 2016 approximately 90 per cent were euro denominated and about 10 per cent US dollar denominated. Tokmanni hedges at least half of purchases made in USD for an average period of five months.

Inventory turnover and working capital management

Tokmanni strives to improve working capital management with better processes and tools in sourcing, supply chain management and category management. If the Group fails to improve working capital management this can have a negative impact on the Group's financial position and profitability. Tokmanni continuously monitors the inventory turnover, product life cycles and assortment management as part of the Group's everyday business operations management and take corrective action if necessary.

Events after the reporting period

In February, Tokmanni’s Deputy CEO and CFO M.Sc. Sixten Hjort (61) announced that he will retire from the Group by the end of June. Tokmanni has initiated the successor recruitment process.

On February 9th 2017 Cidron Disco S.à r.l (“Cidron”, a company ultimately owned by Nordic Capital Fund VII1), together with associated co-investment vehicles) sold 9 million shares in Tokmanni Group Corporation, corresponding to 15.29% of all Tokmanni Group Corporation shares and votes, in an accelerated book-building process. After the shares sale Cidron owns 8,952,301 Tokmanni Group Corporation shares, corresponding to 15.21% of all shares and votes.

Market outlook

During 2016 the Finnish economy has seen slight recovery which has been primarily based on the growth of private consumption. The Finnish Finance Ministry predicts that GDP will grow by 0.9% in 2017 and 1.0% in 2018, but that the growth of private consumption will temporarily slowdown in 2017 as among others a result of accelerating inflation, wage development due to the Competitive Pact (KiKy) as well as annual working time changes. Tokmanni expects the Finnish retail market to grow slightly, but tough competition to continue especially in the grocery market. At the same time specialty stores and online stores will continue to strengthen their position.

Although the weak economic situation has accelerated the growth of discount stores in the Finnish retail market as a whole, growth is expected to continue as the economy recovers. When customers have taken discount retailers as a regular shopping place and become accustomed to discount retailers and found the value for money of those products favorable they are likely to remain regular customers also when the economy recovers. The value for money trend which has prevailed internationally for a long time is therefore expected to continue.

The bankruptcy clearance sale of Anttila department store has ended and the last stores closed in December 2016. The bankruptcy caused a disturbance on the market in the second half of 2016 but in the longer term, Anttila's exit from the market creates opportunities for companies such as Tokmanni both regarding retail space as well as the redistribution of Anttila's customer base.

Tokmanni’s outlook for 2017: good growth, profitability improves

Tokmanni expects good revenue growth for 2017 based on the revenue from new stores opened in 2016 and 2017 and low single digit Like-for Like revenue growth. Profitability (adjusted EBITDA%) is expected to improve from the previous year. The Group continues to develop its business to improve competitiveness and profitability. In 2017 Tokmanni will increase its selling space by 22,000 square meters. Capital expenditure is expected to be at a higher level than previous years due to the high selling space increase.

Board of Director’s dividend proposal

Based on the strong cash flow and cash position, the Board of Directors proposes that a dividend of 0.41 euro per share in accordance with Tokmanni Group Corporation’s dividend policy and an extraordinary dividend of 0.10 euro, 0.51 euro in total be paid for the financial period ending December 31st 2016. The parent company’s distributable funds total 148,659,286.33 euro, which includes 34,006,856.80 euro in profit for the year. There are 58,868,752 shares with dividend rights. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date 28 March 2017. The dividend payment date proposed by the Board is 4 April 2017. Tokmanni Group Corporations’s liquidity is good and the proposed profit distribution does not endanger Tokmanni Group Corporation’s solvency.

Group key figures and calculation of financial ratios

Key figures	1-12/2016	1-12/2015	1-12/2014
Revenue, MEUR	775.8	755.3	734.3
Like-for-like revenue development, %	-0.1	-0.6	-0.3
Number of baskets, M	44.7	43.3	42.3
Gross profit, MEUR	268.4	257.5	248.6
Gross margin, %	34.6	34.1	33.9
Adjusted gross profit, MEUR	267.9	258.1	247.5
Adjusted gross margin, %	34.5	34.2	33.7
Operating expenses	-207.4	-207.7	-195.7
Adjusted operating expenses	-208.5	-203.7	-193.9
EBITDA, MEUR	64.3	53.9	56.5
EBITDA, %	8.3	7.1	7.7
Adjusted EBITDA, MEUR	62.8	58.5	57.1
Adjusted EBITDA, %	8.1	7.7	7.8
Operating profit (EBIT), MEUR	49.2	39.1	43.0
Operating profit margin EBIT, %	6.3	5.2	5.9
Adjusted EBIT, MEUR	47.7	43.7	43.6
Adjusted EBIT, %	6.1	5.8	5.9
Net financial items, MEUR	-15.2	-20.9	-22.2
Net capital expenditure, MEUR	9.8	9.0	13.2
Net debt / adjusted EBITDA	1.8	2.7	3.0
Net cash from operating activities, MEUR	62.5	35.0	34.7
Return on capital employed, %	14.5	11.6	12.9
Return on equity, %	18.1	12.0	16.2
Personnel at the end of the period	3 224	3 293	3 118
Personnel on average in the period	3 209	3 193	3 086

* The amount of shares 2015 and 2016 has been adjusted with the effects of the bonus issue (‘share split’) carried out 04/2016.

Per-share data	2016	2015	2014
Earnings per share (EUR/share)*	0.50	0.33	0.37
Dividend per share	0.51 **	-	-
Equity per share */***	3.08	3.02	2.55
Share price at 31 December	8.50	-	-
Highest price during the period	9.88	-	-
Lowest price during the period	6.26	-	-
Average price during the period	7.62	-	-
Share turnover (thousands)	51 668	-	-
Share turnover, %	87.8	-	-
Market capitalization at 31 December (MEUR)	500.4	-	-
Number of shares at 31 December (thousands)	58 869	22 274	22 274
Number of shares, weighted average during the financial period (thousands)*	54 095	44 549	44 527

* The amount of shares 2016, 2015 and 2014 has been adjusted with the effects of the bonus issue (‘share split’) carried out 04/2016.

** Proposal by the Board of Directors to the Annual General Meeting

*** Including shareholder loans

Adjustments affecting comparability

MEUR	1-12/2016	1-12/2015	1-12/2014
Gross profit	**268.4**	**257.5**	**248.6**
Changes in fair value of currency derivatives	-0.5	0.6	-1.1
Adjusted Gross Profit	**267.9**	**258.1**	**247.5**
Operating expenses	**-207.4**	**-207.7**	**-195.7**
Changes in fair value of electricity derivatives	-1.1	0.3	-0.2
Brand harmonization costs	-	3.5	2.0
IPO costs*	-	0.2	-
Adjusted operating expenses	**-208.5**	**-203.7**	**-193.9**
EBITDA	**64.3**	**53.9**	**56.5**
Operating profit (EBIT)	**49.2**	**39.1**	**43.0**
Changes in fair value of currency derivatives	-0.5	0.6	-1.1
Changes in fair value of electricity derivatives	-1.1	0.3	-0.2
Brand harmonization costs	-	3.5	2.0
IPO costs*	-	0.2	-
Adjusted EBITDA	**62.8**	**58.5**	**57.1**
Adjusted operating profit (adj. EBIT)	**47.7**	**43.7**	**43.6**

*as of January 1st, 2016 IPO costs are recorded in the balance sheet

Calculation of Group's financial ratios

Like-for-like revenue	=	Like-for like revenue growth: Like-for-like revenue growth is calculated by taking into account the revenue growth of stores that are not considered to be net new and relocated stores, as defined by Tokmanni to include: (i) new stores opened; (ii) store relocations where the store size changes by 30 percent or more; (iii) store expansions where the store size changes by 30 percent or more; and (iv) closed stores. If the store falls in one of these categories, it is regarded as a net new or relocated store in its opening year and in the following calendar year.
Number of baskets	=	Number of customer transactions during the relevant period
Gross profit	=	Revenue - Materials and services
Adjusted gross profit	=	Gross profit - Changes in fair value of currency derivatives
Operating expenses	=	Employee benefits expenses + Other operating expenses
Adjusted operating expenses	=	Operating expenses - (Changes in fair value of electricity derivatives + Brand harmonisation costs + Costs related to the Offering)
EBITDA	=	Operating profit + Depreciation and Amortisation
Adjusted EBITDA	=	EBITDA - (Changes in fair value of currency derivatives + Changes in fair value of electricity derivatives + Brand harmonisation costs + Costs related to the Offering)
Adjusted EBIT	=	EBIT - (Changes in fair value of currency derivatives + Changes in fair value of electricity derivatives + Brand harmonisation costs + Costs related to the Offering)
Net financial items	=	Financial income - Financial expenses
Net debt	=	Interest bearing debt - Shareholder loans - Cash and cash equivalents
Net debt / adjusted EBITDA	=	Net debt / Adjusted EBITDA

Net cash from operating activities	=	Sum of changes in current non-interest bearing operating receivables, changes in inventories and changes in current non-interest bearing operating liabilities
Capital employed	=	Balance sheet total - Deferred tax liability and other non-interest-bearing liabilities
Return on capital employed, %	=	Profit before taxes + Interest and other financial expenses / Average capital employed
Return on equity, %	=	Net result for the financial period / Average equity including shareholder's loan
Number of personnel	=	Number of personnel at the end of the period
Number of personnel on average	=	Number of personnel on average in the financial period
Equity ratio	=	Equity + Shareholder loans / Balance sheet total

Calculation of Group's per-share data

Earnings Per Share	=	Net profit / Number of shares weighted average during the financial period
Equity per share	=	Equity / Number of shares at the end of the reporting period
Average price during the period	=	Share turnover in euro terms divided by the number of shares traded during the period
Share turnover	=	Number of shares traded during the period
Market capitalization at 31 December	=	Number of shares x share price on the balance sheet date
Number of shares at 31 December	=	Number of shares on the balance sheet date

Shares and share capital

Tokmanni Group Oy had 22,274,436 shares at the beginning of 2016. The Group issued a bonus issue (a share split) in April 2016 where one new share was given to shareholders for each share (1:1). In total 22,274,436 shares were issued. Tokmanni was successfully introduced on the Nasdaq Helsinki stock exchange after the completion of its Initial Public Offering. Trading in Tokmanni's shares started on the pre-list of Nasdaq Helsinki on 29 April 2016 and on the official list on 3 May 2016. In the IPO Tokmanni issued 14,319,880 new shares and consequently, Tokmanni had 58,868,752 outstanding shares at the end of the year.

Tokmanni has one share series and all shares carry equal voting rights at the general meeting. The share has no nominal value. Tokmanni does not hold any of its own shares.

Tokmanni's shares on the Nasdaq Helsinki stock exchange

	2016
Turnover, EUR	375 640 988
Volume	51 667 656
High	9.88
Low	6.26
WVAP	7.62
Last	8.50
Market cap 31.12.2016	500 384 392

Division of shares 31.12.2016

Number of shares	**Shareholders**		**Shares**		**Votes**	
	Number	%	**Number**	%	**Number**	%
1 - 100	1 730	29.056	108 784	0.185	108 784	0.185
101 - 500	2 706	45.448	751 719	1.277	751 719	1.277
501 - 1 000	801	13.453	647 966	1.101	647 966	1.101
1 001 - 5 000	548	9.204	1 178 292	2.002	1 178 292	2.002
5 001 - 10 000	56	0.941	404 178	0.687	404 178	0.687
10 001 - 50 000	60	1.008	1 316 868	2.237	1 316 868	2.237
50 001 - 100 000	18	0.302	1 256 814	2.135	1 256 814	2.135
100 001 - 500 000	16	0.269	3 659 720	6.217	3 659 720	6.217
500 001 - 999 999 999 999	19	0.319	49 544 411	84.161	49 544 411	84.161
Total	5 954	100.000	58 868 752	100.000	58 868 752	100.000
Out of which nominee registered	7		5 174 205	8.789	5 174 205	8.789

Ownership structure on 31 December 2016

Group	**Nr of shareholders**	**%**	**Nr of shares**	**%**
Private Corporations	257	4.32	11 533 447	19.59
Banks and insurance companies	31	0.52	10 174 446	17.28
Public sector entities	10	0.17	8 498 374	14.43
Non-profit organisations	58	0.97	590 366	1.00
Households	5 576	93.65	4 650 088	7.90
Outside Finland	22	0.37	18 247 826	31.00
Nominee registered			5 174 205	8.80
Total	**5 954**	**100.00**	**58 868 752**	**100.00**

Tokmanni's major shareholders by number of shares 31.12.16

	Owner	Shares	%
1	Cidron Disco S.A.R.L.	17 952 301	30.50
2	Rockers Tukku Oy	8 836 825	15.01
3	Elo Pension Company	2 700 000	4.59
4	Varma Mutual Pension Insurance Company	2 675 000	4.54
5	Mandatum Life Insurance Company Limited	2 350 000	3.99
6	Nordea Fennia Fund	1 846 970	3.14
7	Nordea Pro Finland Fund	1 582 737	2.69
8	Ilmarinen Mutual Pension Insurance Company	1 275 000	2.17
9	Evli Finnish Small Cap Fund	762 195	1.29
10	Veritas Pension Insurance Company Ltd.	750 000	1.27
11	Mandatum Life Unit-Linked	707 078	1.20
12	Etera Mutual Pension Insurance Company	675 000	1.15
13	Säästöpankki Korko Plus-Sijoitusrahasto	661 312	1.12
14	Kaleva Mutual Insurance Company	650 000	1.10
15	Fondita Nordic Small Cap Investment Fund	600 000	1.02
16	Väänänen Heikki	600 000	1.02
17	Säästöpankki Kotimaa	537 107	0.91
18	Sivula Harri	450 000	0.76
19	Kirkon Eläkerahasto	363 931	0.62
20	SEB Finland Small Cap Investment Fund	287 000	0.49

Consolidated financial statements (IFRS)

Consolidated income statement

MEUR	Note	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Revenue		**775.8**	**755.3**
Other operating income	3	3.4	4.0
Materials and services		-507.4	-497.8
Employee benefits expenses	6, 25	-96.4	-92.3
Depreciation	5	-15.1	-14.8
Other operating expenses	4	-111.1	-115.4
Share of profit (loss) in joint ventures		0.0	0.0
OPERATING PROFIT		**49.2**	**39.1**
Financial income	7	0.1	0.4
Financial expenses	7	-15.3	-21.3
PROFIT/LOSS BEFORE TAX		**34.0**	**18.2**
Income taxes	8, 13	-6.8	-3.4
Net result for the financial period		**27.2**	**14.8**
Profit for the year attributable to			
Equity holders of the parent company		27.2	14.8

Consolidated statement of comprehensive income

Net result for the financial period	**27.2**	**14.8**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	0.0	0.0
Comprehensive income for the financial period, net of tax	**0.0**	**0.0**
Comprehensive income for the financial period	**27.2**	**14.8**
Comprehensive income for the financial period attributable to		
Equity holders of the parent company	27.2	14.8

Earnings per share	**2016**	**2015**
Equity holders of the parent company	27.2	14.8
Number of shares, weighted avarage during the financial period (thousands)*	54 095	44 549
Undiluted earnings per share (EUR/share)*	0.50	0.33

* The amount of shares 2016 and 2015 has been adjusted with the effects of the bonus issue (‘share split’) carried out 04/2016.

Consolidated statement of financial position

MEUR	Note	31 Dec 2016	31 Dec 2015
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	9	90.7	92.7
Goodwill	10	128.6	128.6
Other intangible assets	10	3.6	3.7
Non-current receivables	12, 18	0.1	0.1
Investments in joint ventures and other financial assets	11	0.2	0.2
Deferred tax asset	13	5.0	5.2
NON-CURRENT ASSETS, TOTAL		**228.1**	**230.5**
CURRENT ASSETS			
Inventories	14	155.2	160.0
Trade and other receivables	15, 18	17.0	14.4
Income tax receivables		0.7	1.2
Cash and cash equivalents	16	57.6	48.9
CURRENT ASSETS, TOTAL		**230.5**	**224.5**
ASSETS, TOTAL		**458.6**	**455.0**
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent company			
Share capital	17	0.1	0.0
Reserve for invested unrestricted equity	17	110.0	18.8
Translation differences		0.0	0.0
Retained earnings		56.5	29.3
EQUITY, TOTAL		**166.6**	**48.1**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	13	5.3	6.0
Non-current interest-bearing liabilities	18, 19, 22	170.3	273.2
Non-current non-interest-bearing liabilities	18, 22	8.1	16.1
NON-CURRENT LIABILITIES, TOTAL		**183.6**	**295.3**
CURRENT LIABILITIES			
Current interest-bearing liabilities	18, 19, 22	3.2	20.6
Trade payables and other current liabilities	18, 21, 22	103.5	91.0
Income tax liabilities	21	1.7	0.0
CURRENT LIABILITIES, TOTAL		**108.4**	**111.7**
EQUITY AND LIABILITIES, TOTAL		**458.6**	**455.0**

Consolidated statement of cash flows

MEUR	Note	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Cash flows from operating activities			
Net result for the financial period		27.2	14.8
Adjustments:			
Non-cash items		13.1	15.3
Financial income	7	-0.1	-0.4
Financial expenses	7	15.3	21.3
Income taxes	8	6.8	3.4
Change in current non-interest-bearing receivables		-2.4	-0.4
Change in inventories		4.7	-8.5
Change in current non-interest-bearing liabilities		13.1	7.4
Interest paid and other financial expenses		-11.5	-12.6
Interest received		0.1	0.1
Income taxes paid		-4.0	-5.5
Net cash from operating activities		**62.5**	**35.0**
Cash flows from investing activities			
Purchases of tangible and intangible assets		-10.0	-15.7
Proceeds from disposal of tangible and intangible assets		0.2	6.4
Investments in subisidiary shares		0.0	0.3
Net cash from investing activities		**-9.8**	**-9.0**
Cash flows from financing activities			
Proceeds from share issue		90.1	0.0
Repayments of finance lease liabilities		-3.4	-2.8
Proceeds from loans		125.0	0.0
Repayment of loans		-255.8	-26.7
Net cash from financing activities		**-44.1**	**-29.5**
Net change in cash and cash equivalents		**8.7**	**-3.5**
Cash and cash equivalents at beginning of the financial period		48.9	52.4
Cash and cash equivalents at end of the financial period		57.6	48.9

Consolidated statement of changes in equity

MEUR	Note	Share capital	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Equity attributable to owners of the parent	Total equity
Equity 1 Jan 2016		**0.0**	**18.8**	**0.0**	**29.3**	**48.1**	**48.1**
Comprehensive income							
Net result for the financial period					27.2	27.2	27.2
Translation differences				0.0		0.0	0.0
Total comprehensive income for the financial period				**0.0**	**27.2**	**27.2**	**27.2**
Share issue			95.9			95.9	95.9
Bonus issue		0.1	-0.1			0.0	0.0
Costs directly attributable to the issue of new shares net of tax			-4.6			-4.6	-4.6
Equity 31 Dec 2016		**0.1**	**110.0**	**0.0**	**56.5**	**166.6**	**166.6**

MEUR	Note	Share capital	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Equity attributable to owners of the parent	Total equity
Equity 1 Jan 2015		**0.0**	**18.8**	**0.0**	**14.4**	**33.2**	**33.2**
Comprehensive income							
Net result for the financial period					14.8	14.8	14.8
Translation differences				0.0		0.0	0.0
Total comprehensive income for the financial period				**0.0**	**14.8**	**14.8**	**14.8**
Equity 31 Dec 2015		**0.0**	**18.8**	**0.0**	**29.3**	**48.1**	**48.1**

Notes to the consolidated financial statements

NOTE 1.
Accounting policies used in the consolidated financial statements

Basic information on the Group

Tokmanni Group Corporation (Finnish limited liability company, business ID 2483212-7) is the parent company of the Tokmanni Group. The shares of the parent company are listed on the Nasdaq Helsinki exchange. Share trading started on the pre-list on 29 April 2016 and on the main list 3 May 2016.

The principal line of business of Tokmanni Group Corporation is to sell administrative services to the other companies in the Group. These companies include Retail Leasing Oy, whose line of business is to own and lease property, plant and equipment to the other Group companies. Retail Leasing Oy is also the parent of Nordic Disco AB (Sweden) which, in turn, is the parent of Tokmanni Oy. Tokmanni Oy engages in wholesale, retail and speciality goods trade in collaboration with its subsidiary, Tarjousmaxi Oy. Taitomanni Oy is a company owned by Tokmanni Oy in which there was no activity during the financial period.The Group also includes Retail Property Investment Oy that engages in the property business by investing in its own property companies which, in turn, construct store premises for the use of the Group companies. At the end of the financial period, the company owned one property company, Kiinteistö Oy Tokmanni Närpiö.

Tokmanni Group Corporation is domiciled in Helsinki and its registered address is Isolammintie 1, 04600 Mäntsälä. Copies of the parent company financial statements and the consolidated financial statements are available at the Group's head office at Isolammintie 1, 04600 Mäntsälä. At its meeting of 23 February 2017, the Board of Directors of Tokmanni Group Corporation approved the financial statements for publication. Under the Finnish Limited Liability Companies Act, the shareholders may either adopt or reject the financial statements at the Annual General Meeting held after their publication. In addition, the AGM may also decide to amend the financial statements.

Accounting policies used in the financial statements

These financial statements are compiled in accordance with the International Financial Reporting Standards (IFRS) and in particular with the IAS and IFRS standards and SIC and IFRIC interpretations in force on 31 December 2016. The term "International Financial Reporting Standards" refers to the standards adopted in the Finnish Accounting Act and provisions issued under it in accordance with the procedure under Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the EU. The notes to the consolidated financial statements also comply with Finnish accounting and company legislation that complements the IFRS provisions.

Unless otherwise specified in the present accounting policies, the information in the financial statements is based on historical cost. The consolidated financial statements are presented in euro which is the operating and reporting currency of the Group's parent company. The information is given in millions of euro unless otherwise mentioned.

The Group Management makes judgements on the choice of accounting policies and their application. In the financial statements at hand, the Management judgements relate to the valuation of inventories and the classification of lease agreements. Additional information on these judgements is available under "Accounting policies requiring management judgement and major sources of estimation uncertainty".

Accounting policies used in the consolidated financial statements

Consolidation policies - subsidiaries

The consolidated financial statements include not only the parent company, Tokmanni Group Corporation, but also the subsidiaries controlled by the Group. Control is deemed to arise when the Group, while being involved with the entity, becomes exposed to the entity's variable returns or is entitled to such variable returns and the Group is able to affect those returns by exercising its power over the entity. In practice, control normally arises when the Group owns over half of the voting rights in the subsidiary. The acquired subsidiaries have been consolidated in the consolidated financial statements from the date at which the Group acquires control, until the moment at which this control expires.

All internal transactions, receivables and liabilities, unrealised profits and internal distribution of profit are eliminated at the preparation of the consolidated financial statements. Unrealised losses are not eliminated if the loss is caused by impairment of an asset.

Mutual share ownership within the Group is eliminated using the acquisition method. Considerations transferred and the identifiable assets as well as liabilities assumed of the acquiree are valued at their fair value of the date of acquisition. Acquisition-related costs are recognised as expenses, excluding the expenses incurred for the issuance of debt or equity securities. The consideration transferred does not include transactions treated separately from the acquisition, and the impact of such transactions is recognised in profit or loss at acquisition. On 31 December 2016 or on 31 December 2015, there were no non-controlling interests within the Group. The way to recognise the goodwill generated through subsidiary acquisitions and business acquisitions is described later in the policies under "Goodwill".

Consolidation policies - joint ventures

The Group also includes a joint arrangement operating in Hong Kong, classified as a joint venture (Tokmanni – Europris Sourcing Ltd.). A joint arrangement is one where two or several parties exercise joint control. Joint control means contractually agreed sharing of control over the arrangement, and it prevails only if decisions about relevant activities require unanimous consent of the parties sharing the control. A joint arrangement is either a joint operation or a joint venture. In a joint operation, the Group has rights based on the assets and obligations based on the liabilities in the arrangement, while a joint venture is an arrangement where the Group has rights to the net assets of the arrangement.

A joint venture is consolidated using the equity method. If the Group's share of the losses from the joint venture exceeds the carrying amount of the investment, it will be recognised in the statement of financial position at zero, while the losses in excess of the carrying amount are not consolidated unless the Group is committed to meeting the obligations of the joint venture. The Group's share of the net profit for the financial period of the joint venture, proportional to its ownership interest, is disclosed prior to the operating profit.

Translation of items in foreign currencies

Transactions in foreign currencies are converted into the functional currency using the exchange rate of the transaction date. Gains and losses resulting from the translation of foreign currency transactions and items are recognised in profit or loss, disclosed after the operating profit in financial income and expenses. The following items included in the purchase costs of the financial period constitute an exception:

- Exchange rate gains or losses arising from the translation of trade payables in foreign currencies.
- Exchange rate gains or losses arising from the changes in the fair values of currency options that hedge purchases quoted in foreign currencies.

The income and expenses in the statement of comprehensive income and the separate income statement of a foreign subsidiary are translated into euro at the exchange rates of the transaction dates, while the statement of financial position is translated using the closing rates of the reporting period. The translation of the net profit for the financial period and of the comprehensive income by using different rates in the income statement / statement of comprehensive income on the one hand and in the statement of financial position on the other hand, gives rise to a translation difference recognised in equity, with the respective changes recognised under other comprehensive income. The translation differences arising from the elimination of the acquisition cost of a foreign subsidiary and the post-acquisition equity items are recognised under other comprehensive income. When a subsidiary is disposed of, either in full or in part, the cumulative translation differences are recognised in profit or loss as a part of capital gains or losses.

Translation differences arising prior to 1 January 2013, the Group's date of transition to IFRSs, are recognised in line with the respective relief under IFRS 1 in retained earnings at the adoption of IFRS. Later, these items will not be recognised in profit or loss if a subsidiary is disposed of. Starting from the transition date, the translation differences arising at the preparation of the consolidated financial statements are disclosed as a separate item in equity.

Property, plant and equipment

Property, plant and equipment include land areas, buildings and refurbishment expenses related to them, as well as machinery and equipment. In the statement of financial position, property, plant and equipment are measured at cost less accumulated depreciation and eventual impairment losses.

Assets, with the exception of land, are depreciated over their useful lives using the straight-line depreciation method, while land is not subject to depreciation. Depreciation commences when the asset is ready for use and functioning in the way expected by Management. When an item in property, plant and equipment is classified as one held for sale in line with IFRS 5 *Non-current assets held for sale and discontinued operations*, depreciation is no longer recorded.

The estimated useful lives are as follows:

Buildings and constructions	15	years
Machinery and equipment	5	years

The capital gains and losses from retirements and disposals of property, plant and equipment are recognised in profit or loss and disclosed in other operating income or expenses. Capital gain or loss is defined as the difference between the sales price and the residual acquisition cost. The normal repair, service and maintenance expenses of property, plant and equipment are recognised as expenses in the income statement during the period in which they are incurred.

The residual value, useful life and depreciation method of an asset item are re-examined at least at the end of each financial period and adjusted, if necessary, to reflect the changes in the expected economic benefits.

Intangible assets

Goodwill

The goodwill generated from business combinations is recognised as the excess of the aggregate of the consideration transferred, the non-controlling interests in the acquiree and any previous interest held, over the fair value of the acquired net assets. The goodwill generated from business combinations prior to 1 January 2013 corresponds to the carrying amount under the earlier FAS, used as the deemed cost under the IFRS standard 1.

Goodwill is not subject to amortisation, but is tested for impairment on an annual basis and also whenever there

is an indication of impairment. Goodwill is recognised at deemed cost defined at the IFRS transition less impairment.

Other intangible assets

Intangible assets are recognised in the statement of financial position at their cost, on condition that the cost can be determined reliably and it is probable that the Group will receive the expected economic benefits from the asset. The other intangible assets of the Group are mainly IT software and licenses. They are recognised at acquisition cost less amortisation and impairment losses. The cost is the purchase price and all other expenses directly incurred for making the asset available for its intended use.

Intangible assets with definite useful lives will be amortised using the straight-line method over their known or estimated useful lives. Intangible assets with a fixed timeframe are amortised and recognised as expenses over the respective contract period. Once the intangible asset is classified as held-for-sale, amortisation is no longer recorded. The amortisation period for other intangible assets is five years on average.

The estimated useful lives and residual values are reviewed at least at the end of each financial period, and, if they differ significantly from earlier estimates, the amortisation periods are adjusted correspondingly.

Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is defined using the weighted average method. The cost of finished goods includes all costs of purchase, including direct transportation and handling costs and other costs. The net realisable value is the estimated sales price obtainable through normal business, less the estimated product expenses and the estimated indispensable expenses related to materialised sales.

Leases

The Group engages in considerable intra-Group lease operations related to property, plant, equipment and intangible assets, the respective economic impacts of which are eliminated in the consolidated financial statements. In addition, the Group has leased properties and cars from third parties.

Group as lessee

The lease agreements on property, plant and equipment in which the Group carries a material share of the risks and benefits typical of ownership, are classified as finance leases.

An asset acquired through a finance lease is recognised in the statement of financial position at the commencement of the lease at the fair value of the leased asset at the inception of the lease, or at the present value of the minimum lease payments, whichever is lower.

Assets acquired through finance leases are depreciated over the shorter of their useful lives or the lease period. The leases payable are divided into finance expenses and debt repayments over the lease period, so that the residual debt at each period is subject to the same rate of interest. Contingent rents are recognised as expenses during the periods they are incurred. Lease obligations are included in financial liabilities.

Lease agreements in which the risks and benefits typical of ownership are substantially all carried by the lessor are accounted for as operating leases. The operating lease payments are recognised as expenses in profit or loss over the lease term. Contingent rents are recognised as expenses during those periods in which they are incurred.

When a lease agreement includes parts relating to both land and buildings, the classification of each item is made separately.

Group as lessor

The Group is a lessor mainly in the intra-Group lease agreements, and the economic impacts of them are eliminated in the consolidated financial statement. Lease agreements outside the Group play an insignificant role.

Arrangements that may involve a lease agreement

When an arrangement starts, the Group looks at the substance of the arrangement to define whether it is a lease agreement or whether a lease agreement is included in the arrangement. A lease agreement exists if execution of the arrangement depends on the use of a particular asset and the arrangement gives the right to use the said asset. If the arrangement includes a lease agreement, it will be subject to the requirements under IAS 17. The other elements of the arrangements are subject to the respective IFRS provisions.

Impairment of intangible and tangible assets

At the end of each reporting period, the Group estimates whether there are indications of the value of any asset being impaired. Should there be such indication, the respective recoverable amount will be assessed. The impairment testing of goodwill takes place at least once a year and also whenever there is an indication of impairment.

The recoverable amount is the higher of the fair value less the costs of disposal of the asset, or its value in use. The value in use refers to the future net cash flows, discounted to their present value, estimated to be obtained from the asset or cash-generating unit. The discount rate is the pre-tax rate which reflects the current assessment view on the time value of money and on the risks associated with the asset.

The impairment loss will be recognised immediately in profit or loss if the carrying amount of the asset item exceeds the recoverable amount. If the impairment loss relates to a cash-generating unit, it is first recognised as an element decreasing the goodwill allocable to the cash-generating unit, followed by a decrease in other assets in

the unit on a pro rata basis. Coinciding with this, the useful life of the asset subject to impairment is re-assessed. The impairment loss recognised for an asset other than goodwill can be reversed if there has been a change in the estimates used for determining the recoverable amount for the asset in question. However, the reversal of the impairment loss cannot exceed the carrying amount of the assets without the earlier impairment loss recognition. The impairment loss of goodwill is not reversible.

Employee benefits

The Group companies have defined contribution plans, with the related payments expenses in profit or loss during the period in which the contributions are paid. The Group does not have a legal or constructive obligation to make additional contributions in the event that the recipient of the premium payments is not able to pay out the pension benefits. All arrangements not meeting such criteria are defined benefit plans. At the end of the reporting or comparison period, the Group had no such arrangements.

On the above dates, the Group had no shared-based reward arrangements covered by the scope of IFRS 2 *Share based payments.*

Provisions and contingencies

A provision is recorded when the Group has a legal or constructive obligation as a result of an earlier event, and when the materialisation of the obligation is probable and its amount can be reliably estimated. Provisions are valued at the present value of the expenses required to cover the obligation. The discount rate used for the calculation of the present value is chosen to reflect the current market view of the time value of money and the risks associated with the obligation. If it is possible to have compensation for part of the obligation from a third party, the compensation is recognised as a separate asset when the reimbursement in virtually certain. The amounts of the provisions are estimated at each closing of the accounts, and they will be adjusted to correspond with the best current estimate. Changes in provisions are recognised in the income statement under the same item where the original provision was recorded. The increase in the provision resulting from the passing of time is recognised as interest expenses. At the end of the reporting or comparison period, the Group did not have any provisions.

A contingent liability is a possible obligation arising from past events, the existence of which is confirmed only if an uncertain event beyond the Group's control occurs. A contingent liability is also deemed to be a present obligation where payment is not probable or the amount cannot be measured reliably. Contingent liabilities are specified in the Notes.

Current tax and deferred tax

The tax expense is constituted by the current tax and the deferred tax. Taxes are recognised in profit or loss except when they are directly related to items under equity or other comprehensive income, in which case the tax is also recognised under such items. Current tax is calculated on the basis of taxable income using the valid tax rates.

Deferred taxes are calculated on the basis of temporary differences between the carrying amount and taxable value. The most significant temporary differences in the Group arise from property, plant and equipment (depreciation difference and finance leasing) as well as from goodwill that is deductible in taxation.

In the Group, the investments made in subsidiaries are subject to the recognition of deferred tax liability unless the Group is able to control the timing of the reversal of temporary differences and it is probable that the reversal will not occur in the foreseeable future. A deferred tax asset is recognised to the extent that it is probable that there will be taxable income in the future, against which the temporary difference can be used. The criteria for recognising deferred tax assets are always assessed at the end of a reporting period. Deferred tax liabilities are normally recognised in full in the statement of financial position.

Deferred taxes are calculated using the tax rates in force on the date of the financial statements, and, when the tax rates change, on the known new rates if they are substantively enacted by the end of the reporting period.

Revenue recognition principles

The Group is engaged in the wholesale, retail and specialty goods trade. Its revenue comes from the sale of goods and, when the revenue is calculated, the sales proceeds are adjusted for indirect taxes and sales adjustment items. Revenue from the sale of goods is recognised when the major risks, benefits and control from the ownership of the goods have been taken over by the buyer, and it is probable that the Group will obtain the economic benefits related to sales. Most of the sales are cash or credit card sales, and therefore the proceeds are recognised as revenue at the moment the products are delivered to the buyers. Other operating income includes mainly rental income and service sales proceeds.

Financial assets and liabilities

Financial assets

The Group's financial assets are classified on initial recognition into the following categories: Financial assets at fair value through profit or loss and Loans and receivables. With respect to financial assets other than those recognised at fair value through profit or loss, the transaction costs are added to the historical cost. All purchases and sales of financial assets are recognised on the transaction date, which is the date on which the Group commits to the purchase or sale of the financial instrument. Derecognition of financial assets takes place when the Group has lost the contractual right to the cash flows or when it has transferred a significant part of the risks and income outside the Group.

Financial assets at fair value through profit or loss

This group includes financial assets that are classified on initial recognition at fair value recognised through profit or loss. The items classified in this group by the Group include derivatives that are not subject to hedge accounting. Financial assets that will mature within 12 months of the end of the reporting period are included in current assets. The items in this group are measured at fair value, based principally on the market price quoted at the end of the reporting period. Should an item not have a quoted market price, it is measured by using general valuation methods mainly based on observable market information. Any realised or unrealised gains and losses resulting from changes in the fair value are recognised in profit or loss during the financial period in which they arise.

Loans and receivables

This group includes non-derivative assets that have fixed or determinable payments and are not quoted on the active market. The Group does not hold them for sale or classify them on initial recognition as held-for-sale. They are measured on the basis of amortised cost using the effective interest method, and they are included, in line with their inherent nature, in either current or non-current assets.

Cash and cash equivalents

Cash and cash equivalents include money in cash, demand deposits at banks and other current liquid investments readily convertible to an amount of cash known in advance, with a minor risk of change in value. The maximum maturity of the items classified in cash and cash equivalents is three months from the moment of acquisition.

Impairment of financial assets

At the end of each reporting period, the Group reviews items measured at amortised cost to assess whether there is objective evidence of the impairment of the financial asset or group in question. For each significant item, the impairment analysis is made separately based on empirical evidence.

The Group will recognise an impairment loss on trade receivables once it has objective evidence that the receivable cannot be collected in full. Significant economic difficulties, probable bankruptcy, payment defaults or delay in payments by the debtor constitute evidence of impairment of trade receivables. The amount of the impairment loss, recognised in profit or loss, is determined as the difference between the carrying amount of the receivables and the expected future cash flows. Should the amount of the impairment loss diminish in a later period and the decrease can be objectively associated with an event after the recognition of the impairment, the recognised loss is reversed in profit or loss.

Financial liabilities

The Group's financial liabilities are classified on initial recognition as either financial liabilities at fair value through profit or loss, or financial liabilities measured at amortised cost. For financial liabilities other than those recognised at fair value through profit or loss, the transaction costs are deducted from the historical cost. All financial liability transactions are recognised on the contract date, or the date on which the Group commits to the contractual terms of the financial liability. The derecognition of financial liabilities takes place when the Group's contractual obligation has been met or cancelled or the obligation has expired.

The arrangement fees related to loan commitments are recognised as transaction costs to the extent that it is probable that the entire loan commitment or part of it will be drawn out, and in this case the fee will be recognised in the statement of financial position until the loan is drawn out. The arrangement fee related to loan commitments at the withdrawal is recognised under transaction costs. To the extent that it is probable that the loan commitment will not be drawn out, the arrangement fee is recognised as an advance payment for liquidity-related services and is amortised over the loan commitment period.

The policies determining the fair values of all financial assets and liabilities are outlined in Note 18.

Derivative contracts

The Group concludes derivative contracts only for the purpose of hedging, but does not apply hedge accounting. The derivatives include electricity derivative contracts and currency derivatives. Electricity derivative contracts are used as a hedge against variation in electricity prices, to the maximum of the Group's own electricity consumption. The Group can use interest rate swap agreements to hedge against interest flow risks caused by long-term loans from credit institutions. Currency derivatives and options provide hedging against the changes in the cash flows of forecast purchases in foreign currencies. Derivative contracts are measured at fair value when the Group becomes a contractual party, and later they are further measured at fair value. The gains and losses thus arising are accounted for in line with the purpose of use of the derivative contract.

Equity

The share capital disclosed is based on the nominal value of the shares. The expenses associated with the issuance or purchase of equity instruments is disclosed as an item decreasing equity. If equity instruments are repurchased, their acquisition cost is deducted from equity.

Operating profit

IAS 1 *Presentation of Financial Statements* provides no definition for the concept of operating profit. The Group defines operating profit as revenue plus other operating income less purchase expenses and changes in inventory. Moreover, the expenses incurred for

employment benefits, depreciation and amortisation, any impairment losses and other operating expenses are deducted. Other income statement items are disclosed below operating profit. Exchange differences are included in financial items, with the exception of the following items included in the purchase costs of the financial period:

- Exchange gains or losses arising from the conversion of trade payables in foreign currencies.
- Exchange gains or losses arising from changes in the fair values of currency options that hedge purchases quoted in foreign currencies.
- Realised currency derivatives exchange gains or losses

Accounting policies requiring management judgement and major sources of estimation uncertainty

When preparing the financial statements, it is necessary to make certain assessments and assumptions about the future, although the actual outcomes may prove different. Moreover, Management must use its judgement in choosing and applying the accounting policies.

Management discretion related to the items in the financial statements

The Group Management makes judgements on the choice of accounting policies and their application. This applies, in particular, to the cases where the currently effective IFRS norms allow for alternative ways to recognise measure or disclose the items. The most significant areas where Management has used judgement are related to the classification of the Group's lease agreements and measurement of its inventories.

Leases

When classifying the leases, the Group has assessed the cases in which the risks and benefits associated with ownership and related to the leases can be deemed to have been transferred to the Group. These leases are accounted for as finance leases. Lease agreements in which the risks and benefits typical of ownership are substantially all carried by the lessor are recorded as operating lease. The most important classification criteria are the following:

- The present value of the minimum lease payments payable in proportion to the leased asset's fair value at the inception of the lease: in order for the lease to be classified as a finance lease, the present value must constitute a material part of the fair value of the leased asset. There are no observable prices available for certain assets, such as properties in certain localities, and in this case Management must use its judgement when assessing the fair value of these assets.
- The proportion of the lease period of the total useful life of the leased assets: in order for the lease to be classified as a finance lease, the lease period must account for the major part of the total useful life of the asset in question. When examining this criteria, the Group Management must likewise base its decision on judgements.

When classifying leases, each lease is seen as a whole, considering also other impacting factors.

Inventories

The items included in the Group's inventories are classified in different categories based on their turnover times, and the products with the slowest turnover times are subject to impairment loss recognition. Impairment recognition calls for judgements and estimates based on issues such as the future demand for the products. Changes in these assessments may impact the measurement of inventories in future financial periods.

Major assumptions about the future and uncertainties related to the estimates

The major assumptions about the future and the key sources of uncertainty related to estimations concerning the end of the reporting period, associated with a risk of changes in the carrying amount of assets and liabilities during the following period, are hereunder:

Goodwill impairment testing

In impairment testing, the Group must assess indications of impairment based on both internal and external sources of information. The Group Management must make assessments while analysing the information obtained from these sources and making its conclusions. When determining the value in use, the Group estimates future market trends, such as the growth rate and profitability. The most impacting factors underpinning the estimates are the average EBIT margin (EBIT/revenue) and the discount rate. Changes in these assumptions may have a material impact on the estimated future cash flows. Note 10 *Goodwill* includes additional information on the sensitivity of the recoverable amount to the changes in the assumptions made.

Application of new and revised IFRS standards

The Group has applied as from 1 January 2016 the following new and amended standards that have come into effect:

- Amendment to IAS 1 *Presentation of Financial Statements*: *Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016). The amendments clarify the guidance in IAS 1 in relation to applying the materiality concept, disaggregating line items in the balance sheet and in the statement of profit or loss, presenting subtotals and to the structure and accounting policies in the financial statement. The amendments have had a minor impact on the presentation of Tokmanni Group Corporation's consolidated financial statements.

- Amendments to IFRS 11 *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (effective for financial years beginning on or after 1 January 2016): The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. The amendments have had no impact on Tokmanni Group Corporation's consolidated financial statements.
- *Annual Improvements to IFRSs* (2012-2014 cycle) (effective for financial years beginning on or after 1 January 2016): The annual improvements process provide a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The cycle contains amendments to four standards. Their impacts vary standard by standard but are not significant.

The Group has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

- New IFRS 15 *Revenue from Contracts with Customers* and amendments to IFRS 15 – *Clarifications to IFRS 15 Revenue from Contracts with Customers** (effective for financial years beginning on or after 1 January 2018): IFRS 15 creates an extensive framework for revenue recognition, at what amounts and at what point of time. The new standard replaces current IAS 18 *Revenue*, IAS 11 –standards and related interpretations *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs.* According to IFRS 15 revenue is 23ecognized when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements. The Group has made a preliminary assessment of the impacts of IFRS 15 on Tokmanni Group Corporation's consolidated financial statements, according to which the impact will not be considerable on the financial statements. The Group's revenue consists of retail sales, where the customer gets control of the goods at the time of purchase. No variable considerations or separate performance obligations, that would have material significance when the goods are taken into use, have been identified. The Group has no loyalty program. When it comes to online sales the amount of returned goods has, based on experience, been minor. According to the preliminary plan Tokmanni Group Corporation will take the standard into use in the financial period starting 1 January 2018 applying the retroactive method.
- IFRS 16 *Leases** (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17-standard and related interpretations. IFRS 16 requires the lessees to recognize the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The Group has started the assessment of the impacts of the standard, according to which the Group's assets and interest-bearing liabilities will increase substantially when the classification of leases as either finance leases or operating leases is eliminated The IFRS 16 standard also impacts the income statement, because unlike current accounting practice where the lease cost is recognized in the income statement, a depreciation charge for lease assets and an interest expense on finance lease liabilities will be recognized in the income statement. The standard will also impact the key figures and notes to the financial statements. The treatment of the Group lease agreements related to stores and equipment will change with the standard. According to the preliminary plan Tokmanni Group Corporation will take the standard into use in the financial period starting 1 January 2019. The Group's assessment of the euro impacts of the standard change will be clarified during 2017.
- Amendments to IAS 7 *Statement of Cash Flows-Disclosure Initiative** (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments have an impact on the disclosures in Tokmanni Group Corporation's consolidated financial statements.
- *Annual Improvements to IFRSs* (2014-2016 cycle)* (effective for financial years beginning on or after 1 January 2017 for IFRS 12 and on or after 1 January 2018 for IFRS 1 and IAS 28). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. Their impacts vary standard by standard but are not significant.
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and*

its Associate or Join Venture * (the effective date has been postponed indefinitely). The amendments address to clarify the requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments have no impact on Tokmanni Group Corporation's consolidated financial statements.

- IFRIC 22 Interpretation *Foreign Currency Transactions and Advance Consideration** (effective for financial years beginning on or after 1 January 2018). When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 *The Effects of Changes in Foreign Exchange Rates* is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation has no impact on Tokmanni Group Corporation's consolidated financial statements.
- IFRS 9 *Financial Instruments** (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The group is currently assessing the impacts of the IFRS 9.
- Amendments to IAS 12 *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* *(effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments have no impact on Tokmanni Group Corporation's consolidated financial statements.

* = not yet endorsed for use by the European Union

The introduction of other standards or amendments to standards is not expected to impact Tokmanni Group Corporation's income, financial position or notes at adoption.

NOTE 2.
Segment information

As a result of the nature of Tokmanni’s operations, the Group only has one operating segment to report. This is based on the fact that the Group’s purchasing and logistics are managed in a centralised manner, the opening of new and closing of existing stores is a Group-level decision, and the stores are deemed to be the Group’s distribution channels. By the end of 2015, Tokmanni Group consolidated all seven stores brands operating under different chain names under one, Tokmanni brand. The Group only operates in Finland.

The chief operating decision-maker is the CEO, whose decision-making criterion in assessing performance and resource allocation is the Group EBITDA.

The Group’s revenue is fully generated through the sale of goods, i.e. the group has no sale of services. All revenue is generated in Finland and all assets are also located in Finland. There are no single customers for which the revenues received amount to more than 10% of the Group’s revenues.

Notes to the consolidated income statement

NOTE 3.
Other operating income

MEUR	2016	2015
Rental income	0.3	0.8
Income from services	2.0	1.8
Other operating income	1.1	1.4
Total	3.4	4.0

Service commission includes slot machine income, income from Veikkaus Oy's pools and income arising from property use expenses charged from subtenants. Other income includes among others, income from the sale and leaseback arrangement of the Mäntsälä logistics centre as well as from sales of pallets.

NOTE 4.
Other operating expenses

MEUR	2016	2015
Rental expenses	-44.6	-45.7
Marketing expenses	-14.1	-15.9
Real estate and store site expenses	-31.2	-30.4
Purchased services	-6.6	-7.2
Other expenses	-14.6	-16.3
Total	-111.1	-115.4

Auditors' fees
KPMG Oy Ab, Authorised Public Accountants

MEUR	2016	2015
Audit	-0.1	-0.1
Other services	-0.3	-0.1
Tax services	0.0	0.0
Total	-0.4	-0.2

NOTE 5.
Depreciation and amortisation

MEUR	2016	2015
Intangible assets		
IT software and licences	-1.7	-1.7
Other intangible assets	0.0	0.0
Total	-1.7	-1.7
Property, plant and equipment		
Buildings and constructions	-6.4	-5.6
Machinery and equipment	-7.0	-7.5
Total	-13.4	-13.1
Total	-15.1	-14.8

The Group has not recognised impairments for tangible or intangible assets in the 2015 and 2014 financial periods.

NOTE 6.
Employee benefit expenses

MEUR	2016	2015
Wages, salaries and fees	-77.0	-74.5
Pension expenses - defined contribution plans	-14.3	-13.6
Other social security expenses	-5.1	-4.2
Total	-96.4	-92.3
Number of personnel on average in the financial period	3 209	3 193

The information on Management’s employment-related benefits is in Note 25, Related party transactions.

NOTE 7.
Financial income and expenses

MEUR	2016	2015	
Interest income and other financial income			
Interest income on financial assets at amortised cost	0.0	0.0	
Dividend income	0.0	0.0	
Foreign exchange gains on cash and cash equivalents	0.1	0.1	
Gains in fair value of financial assets at fair value throw profit or loss			
Interest rate derivatives, non-hedge accounting	0.0	0.3	
Total	0.1	0.4	
Interest expenses and other financial costs			
Interest expenses on financial liabilities at amortised cost	-11.2	-17.1	*
Interest expenses on finance leases	-3.8	-3.8	
Foreign exchange losses on cash and cash equivalents	-0.1	-0.1	
Other financial costs	-0.2	-0.2	
Total	-15.3	-21.3	
Total	-15.2	-20.9	

*2016 includes a one-off cost relating to activated, capitalized emission fees from previous loans.

Exchange rate differences are also recorded under purchases in the financial period. Changes in the fair value of currency derivatives are recognised as adjustments of purchases in the period by EUR 0.5 million (EUR -0.6 million). Changes in the fair value of commodity derivatives are recognised as adjustments of other operating expenses by EUR 1.1 million (EUR -0.3 million).

NOTE 8.
Income taxes

MEUR	2016	2015
Income taxes for the financial period	-7.3	-3.7
Income taxes for previous financial periods	0.0	0.3
Change in deferred taxes	0.5	0.1
Total	-6.8	-3.4

Tax effects related to other comprehensive income

MEUR	2016	2015
Exchange differences on translating foreign operations	0.0	0.0

Reconciliation between the income tax expense in the income statement and the Group's tax expense at the Finnish tax rate of 20.0% (20.0%):

MEUR	2016	2015
Profit/loss before tax	34.0	18.2
Income taxes at Finnish tax rate 20,0 % (20,0 %)	-6.8	-3.6
Differing tax rates of foreign subsidiaries	0.0	0.0
Tax-exempt income	0.0	0.0
Non-deductible expenses	0.0	0.0
Use of tax losses not recognised earlier	0.0	0.0
Unrecognised deferred tax assets from losses in taxation	0.0	0.0
Income taxes for previous financial periods	0.0	0.3
Total	-6.8	-3.4

Notes to the consolidated statement of financial position

NOTE 9.
Property, plant and equipment

Property, plant and equipment 2016:

MEUR	Land and waters	Buildings	Machinery and equipment	Prepayments	Total
Acquisition cost as at 1 Jan	0.1	84.2	48.7	0.0	133.0
Additions	0.1	4.5	4.8	3.3	12.8
Disposals	0.0	-0.1	-1.5	-1.0	-2.5
Acquisition cost as at 31 Dec	0.2	88.6	52.0	2.4	143.2
Accumulated depreciation as at 1 Jan	0.0	-17.3	-23.0	0.0	-40.3
Depreciation charge for the financial period	0.0	-6.4	-7.0	0.0	-13.4
Accumulated depreciation of disposals	0.0	0.1	1.1	0.0	1.1
Accumulated depreciation as at 31 Dec	0.0	-23.6	-28.9	0.0	-52.5
Carrying amount as at 1 Jan	0.1	66.9	25.7	0.0	92.7
Carrying amount as at 31 Dec	0.2	65.0	23.1	2.4	90.7

Property, plant and equipment 2015:

MEUR	Land and waters	Buildings	Machinery and equipment	Prepayments	Total
Acquisition cost as at 1 Jan	0.6	72.7	40.6	2.5	116.4
Additions	0.3	11.7	9.0	5.9	26.9
Disposals	-0.8	-0.2	-0.9	-8.4	-10.3
Acquisition cost as at 31 Dec	0.1	84.2	48.7	0.0	133.0
Accumulated depreciation as at 1 Jan	0.0	-11.8	-16.0	0.0	-27.8
Depreciation charge for the financial period	0.0	-5.6	-7.5	0.0	-13.1
Accumulated depreciation of disposals	0.0	0.1	0.6	0.0	0.7
Accumulated depreciation as at 31 Dec	0.0	-17.3	-23.0	0.0	-40.3
Carrying amount as at 1 Jan	0.6	60.9	24.6	2.5	88.6
Carrying amount as at 31 Dec	0.1	66.9	25.7	0.0	92.7

Buildings and constructions also include related refurbishing costs of store properties.

Property, plant and equipment include assets acquired through finance leases as follows:

MEUR	Buildings	Machinery and equipment	Total
31 Dec 2016			
Acquisition cost	76.0	0.6	76.6
Accumulated depreciation	-17.9	-0.3	-18.2
Carrying amount	58.1	0.3	58.4

MEUR	Buildings	Machinery and equipment	Total
31 Dec 2015			
Acquisition cost	72.8	1.2	73.9
Accumulated depreciation	-13.5	-0.6	-14.1
Carrying amount	59.3	0.6	59.9

The Group has leased the Mäntsälä logistics centre, certain store properties and cars from external parties.

NOTE 10.
Intangible assets

Intangible assets 2016:

MEUR	Goodwill	IT software and licences	Other intangible assets	Prepayments	Total
Acquisition cost as at 1 Jan	128.6	9.4	0.0	0.0	138.0
Additions	0.0	1.5	0.1	0.0	1.6
Disposals	0.0	0.0	0.0	0.0	0.0
Acquisition cost as at 31 Dec	128.6	10.9	0.1	0.0	139.6
Accumulated depreciation as at 1 Jan	0.0	-5.7	0.0	0.0	-5.7
Depreciation charge for the financial period	0.0	-1.7	0.0	0.0	-1.7
Accumulated depreciation as at 31 Dec	0.0	-7.4	-0.1	0.0	-7.4
Carrying amount as at 1 Jan	128.6	3.7	0.0	0.0	132.3
Carrying amount as at 31 Dec	128.6	3.5	0.1	0.0	132.1

Intangible assets 2015:

MEUR	Goodwill	IT software and licences	Other intangible assets	Prepayments	Total
Acquisition cost as at 1 Jan	128.6	8.3	0.0	0.1	137.0
Additions	0.0	1.1	0.0	0.0	1.1
Disposals	0.0	0.0	0.0	-0.1	-0.1
Acquisition cost as at 31 Dec	128.6	9.4	0.0	0.0	138.0
Accumulated depreciation as at 1 Jan	0.0	-4.0	0.0	0.0	-4.1
Depreciation charge for the financial period	0.0	-1.7	0.0	0.0	-1.7
Accumulated depreciation as at 31 Dec	0.0	-5.7	0.0	0.0	-5.7
Carrying amount as at 1 Jan	128.6	4.3	0.0	0.1	132.9
Carrying amount as at 31 Dec	128.6	3.7	0.0	0.0	132.3

The Group does not have any intangible asset items acquired through finance leases.

Allocation of goodwill and testing practice

For impairment testing purposes goodwill is allocated to the Group, which constitutes one group of cash-generating units and the Group's reporting segment.

The group of cash-generating units is tested for impairment by comparing the carrying amounts of the group of cash-generating units with the respective recoverable amounts. The tested carrying amounts include property, plant and equipment, goodwill and other intangible assets and net working capital. The Group performs annual impairment testing on the goodwill during the last quarter of each reporting period. Impairment testing is also performed whenever there is an indication of the recoverable amount from an asset or the group of cash-generating units being less than the carrying amount. Besides goodwill, the Group has no other intangible assets deemed to have an indefinite useful life.

Impairment is the amount by which the asset's carrying amount exceeds the recoverable amount. An impairment loss is recognised immediately in profit or loss. Recognition of impairment loss has an adverse effect on the Group's result and thereby also on its equity, but does not influence the Group's cash flows. When an impairment loss is recognised, the useful life of the asset subject to impairment is re-evaluated.

No impairment loss has been recognized during the financial periods 2016 and 2015.

Determining cash flows

The recoverable amount is the higher of the fair value less costs of disposal of the asset, or its value in use. In testing the goodwill of Tokmanni, the recoverable amount is based on value in use (present value), determined by discounting the estimated net cash flows for the moment of review.

Estimated net cash flows are constituted of two elements: three-year cash flows based on the business plan adopted by Management, and the so-called terminal value after the forecast period. New stores are taken into account, so that new stores where investment decisions have been approved by the testing day, are included. The terminal value is determined by extrapolating the forecasted cash flows. In the calculations, the growth factor for the years after the forecast period is 1.0% which is not estimated to be in excess of long-term growth in the sector.

The assumptions of cash flow growth and improved profitability reflect Management's view of the development of sales and expenses during the forecast period. The cash flows calculated on the basis of the budget and forecasts have, however, been adjusted in impairment testing by eliminating the estimated cash flows that are estimated to be generated through rearrangements not yet committed to, and cash flows that are estimated to be generated through improving or enhancing the performance of an asset.

The assumptions used in impairment testing are mainly the same as those underpinning the business plan and forecasts. The assumptions used are based on historical trends and on market data from external information sources. In determining the future cash flow projections, the assumptions calling for major Management judgement are those related to market and profitability outlooks.

If the assumptions used for the calculation of the amounts change, the recoverable amount used in impairment testing may also change.

Discount rate

The discount rate applied in determining the recoverable amount is the pre-tax weighted average cost of capital (WACC), calculated for Tokmanni. The elements of WACC are risk-free interest rate, equity beta, market risk premium, small company risk premium, credit margin, and the capital structure employed. The pre-tax WACC used was 10,3 % (11,0 %).

Sensitivity analysis in impairment testing

The key assumptions used in determining value in use are defined by the Management of Tokmanni. The most important assumptions are:

- discount rate; and
- average operating profit margin (operating profit/revenue)

The assumptions are based on expectations of future events believed to be realistic under the current circumstances. The assumptions have been adopted by the Executive Group and Board of Directors.

Sensitivity analyses have been made on the assumption that the average EBIT margin will decrease both during the forecast period and thereafter, and that the discount rate will increase. The table below presents a change in the key assumption which (with other assumptions remaining unchanged) would cause the recoverable amount to equal the carrying amount.

2016	Value used	Change
1. Discount rate (before tax)	10.3%	9.6 percentage point increase
2. Average operating profit margin (operating profit/revenue)	6.9%	2.4 percentage point decrease each year

2015	Value used	Change
1. Discount rate (before tax)	11.0%	10.2 percentage point increase
2. Average operating profit margin (operating profit/revenue)	6.8%	3.1 percentage point decrease each year

The consequential effects of the change in the value of the above key assumptions on other variables have not been taken into consideration in the sensitivity analysis. In estimating the recoverable amount, Management did not find that a reasonably possible change in any of the core variables used would result in a situation where the recoverable amounts of units would be less than their carrying amounts.

NOTE 11.
Investments in joint ventures

MEUR	2016	2015
Acquisition cost as at 1 Jan	0.0	0.0
Share of result for the financial period	0.0	0.0
Disposals	0.0	0.0
Translation differences	0.0	0.0
Acquisition cost as at 31 Dec	0.0	0.0

Tokmanni Oy owns 50% of the shares of the Hong Kong based joint venture Tokmanni-Europris Sourcing Ltd. The joint venture owns the Tokmanni-Europris (Shanghai) Trading Co., Ltd., a Shanghai-based procurement company. The joint venture is consolidated by using the equity method. The Group's share of the net profit for the financial period of the joint venture, proportional to its ownership interest, is disclosed prior to the operating profit. The company is the cornerstone of goods procurements made in China and the Far East. The company's operations include identifying and selecting local suppliers, ensuring the correct quality, monitoring delivery times, and ensuring responsible operations on the part of suppliers.

NOTE 12.
Non-current receivables

MEUR	2016	2015
Derivatives, non-hedge accounting		
Commodity derivatives	0.1	0.1

NOTE 13.
Deferred tax assets and liabilities

Change in deferred tax balances (2016):

MEUR	1 Jan 2016	Recognised in income statement	31 Dec 2016
Deferred tax asset			
Deferred tax assets due to loss in the financial year 2015	0.1	-0.1	0.0
Fair value on derivatives	0.4	-0.3	0.1
Sale and lease back of Mäntsälä logistic centre	1.8	-0.1	1.7
Other finance leases	3.0	0.2	3.2
Total	5.2	-0.2	5.0
Deferred tax liabilities			
Fair value on derivatives	0.2	0.0	0.2
Freight expenses related to inventories	0.4	0.0	0.3
Cumulative depreciation differences	1.1	-0.2	1.0
Deductible goodwill amortization, reversal	3.4	0.1	3.5
Arrangement fees of financial liabilities paid	1.0	-0.8	0.2
Total	6.0	-0.7	5.3
Net deferred tax liabilities	0.8		0.2

Change in deferred tax balances (2015):

MEUR	1 Jan 2015	Recognised in income statement	31 Dec 2015
Deferred tax asset			
Deferred tax assets due to loss in the financial year 2015	0.0	0.1	0.1
Fair value on derivatives	0.3	0.1	0.4
Sale and lease back of Mäntsälä logistic centre	1.9	-0.1	1.8
Other finance leases	2.7	0.3	3.0
Total	4.9	0.4	5.2
Deferred tax liabilities			
Fair value on derivatives	0.2	-0.1	0.2
Freight expenses related to inventories	0.3	0.0	0.4
Cumulative depreciation differences	1.2	-0.1	1.1
Deductible goodwill amortization, reversal	2.5	0.8	3.4
Arrangement fees of financial liabilities paid	1.4	-0.4	1.0
Total	5.7	0.3	6.0
Net deferred tax liabilities	0.8		0.8

On 31 December 2016, the Group did not have any unused tax-loss carry-forward.

NOTE 14.
Inventories

MEUR	2016	2015
Inventories	155.2	160.0
Total	155.2	160.0

The financial statements include a write-down in inventories for obsolescent and slowly moving products, with the impairment per 31 December amounting to EUR 2.5 million (EUR 2.0 million).

NOTE 15.
Trade and other receivables

MEUR	2016	2015
Loans and other receivables		
Trade receivables	1.5	1.7
Financial assets at fair value through profit or loss		
Derivatives, non-hedge accounting	0.9	0.7
Other receivables		
Prepayments and accrued income	3.5	3.9
Income tax receivables	0.7	1.2
Other receivables	11.0	8.1
Other receivables, total	15.3	13.2
Total	17.7	15.6

The receivables are not associated with any significant credit risk concentrations, and the maximum credit risk corresponds to the carrying amount of the receivables at year's end. The impairment losses recognised in the Group’s trade receivables are not significant. The other receivables item includes EUR 0.0 million (EUR 0.2 million) worth of advance payments for inventories and EUR 6.3 million (EUR 5.3 million) of invoiced annual bonus receivables.

Ageing analysis of trade receivables (external parties)

MEUR	2016	2015
Not overdue	1.3	1.5
Overdue	0.2	0.2
Less than 30 days	0.2	0.1
Between 31-60 days	0.0	0.0
Between 61-75 days	0.0	0.0
Over 75 days	0.0	0.1
Total	1.5	1.7

Prepayments and accrued income

MEUR	2016	2015
Annual discounts	0.5	0.9
Receivable from occupational health care payments	0.8	0.8
Receivables from Veikkaus	0.2	0.1
Prepayments	0.4	0.3
Consumables expenses	0.9	1.1
Other prepayments and accrued income	0.8	0.7
Total	3.5	3.9

NOTE 16.
Cash and cash equivalents

MEUR	2016	2015
Cash and cash equivalents	57.6	48.9
Total	57.6	48.9

NOTE 17.
Equity

	Number of shares	Share capital (MEUR)	Reserve for invested non-restricted equity (MEUR)	Total (MEUR)
31 Dec 2014	22 274 436	0.0	18.8	18.8
31 Dec 2015	22 274 436	0.0	18.8	18.8
Bonus issue	22 274 436	0.1	-0.1	0.0
Share issue	14 319 880		91.2	91.2
31 Dec 2016	58 868 752	0.1	110.0	110.1

Tokmanni Group Corporation's general meeting on 12 April 2016 decided to authorize the Board of Directors to issue 20 000 000 new shares in a proportion other than that of the shareholders' current shareholdings in the company. The shares can be can be offered as referred to in Chapter 9 Section 3 of the Limited Liability Companies Act in a proportion other than the current shareholdings in connection with the company's Initial Public Offering (IPO). The shares can be offered to the Group employees as part of the IPO at a lower price. The Board has the right to decide on any other terms and conditions of the share issue. The authorization ended on 31 December and it was not used.

Tokmanni Group Corporation has one series of shares. The maximum number of the shares or the nominal value of the share has not been determined. Each share provides one voting right. All issued shares have been paid in full.

The descriptions of the equity reserves are hereunder.

Reserve for invested unrestricted equity

The reserve for invested unrestricted equity includes other equity type investments and the subscription price of the shares less transaction costs to the extent that it has not by explicit decision been registered in the share capital.

Translation differences

The translation differences reserve contains the translation differences arising from the conversion of the financial statements of foreign companies. The changes in the reserve are disclosed in comprehensive income.

Dividends

After the balance sheet date, the Board has proposed for the financial year ended on 31 December 2016 to distribute in accordance with the company's dividend policy, a dividend of EUR 0.41 per share and an extra dividend of EUR 0.10 per share, a total of EUR 0.51 per share. This dividend amounts to a total of EUR 30.0 million. The remaining part of the retained earnings be retained in unrestricted shareholders' equity.

NOTE 18.
Financial assets and liabilities

Financial assets and liabilities 31 Dec 2016:

MEUR	Financial assets and liabilities at fair value through income statement	Loans and other receivables	Other financial liabilites	Carrying amounts of assets as per balance sheet	Fair value	
Non-current financial assets						
Derivatives, non-hedge accounting	0.1			0.1	0.1	
Current financial assets						
Derivatives, non-hedge accounting	0.9			0.9	0.9	
Trade receivables		1.5		1.5	1.5	
Cash and cash equivalents		57.6		57.6	57.6	
Total	1.0	59.1		60.1	60.1	
Non-current financial liabilities						
Loans from financial institutions			99.1	99.1	99.1	*
Long-term finance lease liabilities			71.2	71.2	71.2	
Derivatives, non-hedge accounting	0.3			0.3	0.3	
Current financial liabilities						
Loans from financial institutions			-0.3	-0.3	-0.3	**
Finance lease liabilities			3.5	3.5	3.5	
Derivatives, non-hedge accounting	0.3			0.3	0.3	
Trade payables			64.3	64.3	64.3	
Total	0.6		237.8	238.4	238.4	
Financial assets and liabilities, total	0.4	59.1	-237.8	-178.2	-178.2	

* Loans from financial institutions, adjusted with arrangement fees paid.
** Long-term debt from financial institutions, adjusted by short-term emission fees carried forward

Financial assets and liabilities 31 Dec 2015:

MEUR	Financial assets and liabilities at fair value through income statement	Loans and other receivables	Other financial liabilites	Carrying amounts of assets as per balance sheet	Fair value	
Non-current financial assets						
Derivatives, non-hedge accounting	0.1			0.1	0.1	
Current financial assets						
Derivatives, non-hedge accounting	0.7			0.7	0.7	
Trade receivables		1.7		1.7	1.7	
Cash and cash equivalents		48.9		48.9	48.9	
Total	0.8	50.7		51.4	51.4	
Non-current financial liabilities						
Loans from financial institutions			115.4	115.4	115.4	*
Other loans, shareholder loans			86.5	86.5	86.5	
Long-term finance lease liabilities			71.3	71.3	71.3	
Derivatives, non-hedge accounting	0.9			0.9	0.9	
Current financial liabilities						
Loans from financial institutions			17.1	17.1	17.1	*
Finance lease liabilities			3.5	3.5	3.5	
Derivatives, non-hedge accounting	1.0			1.0	1.0	
Trade payables			52.4	52.4	52.4	
Total	1.9		346.2	348.1	348.1	
Financial assets and liabilities, total	-1.1	50.7	-346.2	-296.7	-296.7	

* Loans from financial institutions, adjusted with arrangement fees paid.

The carrying amounts of current items are substantially all estimated to correspond to their fair values.

Policies applied by the Group in determining the fair value of all financial instruments

The following price quotes, assumptions and measurement models have been used in determining the fair values of the financial assets and liabilities given in the table:

Derivatives

The fair values of forward exchanges and options are determined using counterparty price quotations. Moreover, the Group has made its own verification calculation using generally accepted methods of valuation. The fair values of commodity derivatives are determined using publicly quoted market prices.

Finance lease liabilities

The fair value of financial lease liabilities is estimated by discounting future cash flows with a rate corresponding to that of the lease agreements.

Loans from financial institutions

The fair values of loans have been calculated on the basis of the present value of future cash flows, using the rates at the end of the financial period. Substantially all carrying amounts of the loans correspond to fair values, since the loans are floating-rate loans and the Group's risk premium has not changed to any essential degree. The loans are broken down by maturity in Note 22.

Trade receivables and other receivables, as well as trade payables and other liabilities

The initial carrying amounts of non-derivative receivables and liabilities correspond to their fair value since the impact of discounting is not material, considering the maturity of these receivables and liabilities.

Fair value hierarchy of the financial assets and liabilities measured at fair value

Level 1 instruments are subject to active trading in the market, and therefore their fair values are directly based on the market price. The fair value of the level 2 instruments is based on available market data. The fair value of level 3 instruments is not based on observable market information (unobservable inputs).

The Group's financial assets and liabilities measured at fair value (i.e., all of the Group's derivatives and lease liabilities) are level 2 of the fair value hierarchy as per IFRS 13. The fair value of these instruments at the end of the reporting period, 31 Dec 2016 was EUR 0.4 million (31 Dec 2015: EUR -1.1 million).

NOTE 19.
Finance lease liabilities

Maturity of finance lease liabilities:

MEUR	2016	2015
Gross finance lease liabilities - minimum lease payments by maturity		
No later than 1 year	7.2	7.4
Later than 1 year and no later than 5 years	31.8	27.4
Later than 5 years	72.2	79.9
Total	111.3	114.6
Future finance charges	-36.6	-39.8
Present value of finance lease liabilities	74.7	74.9
Present value of finance lease liabilities due as follows		
No later than 1 year	3.5	3.5
Later than 1 year and no later than 5 years	18.5	13.6
Later than 5 years	52.7	57.7
Total	74.7	74.9

The fair value of finance lease liabilities is estimated by discounting future cash flows with a rate corresponding to that of the lease agreements. Additional information on the assets leased with finance lease is in Note 9. Contingent rents paid on the basis of finance leases in 2016 amounted to EUR 0.1 million (2015: EUR 0.1 million). Contingent rents are recognised under other operating expenses.

NOTE 20.
Derivative contracts

31 Dec 2016	Fair value (MEUR)	Underlying value (MEUR)	Secured energy (MWh)
Foreign exchange forward contracts and options	0.8	15.2	
Electricity derivatives			
System price	-0.3	3.0	115.1
Area price	-0.1	0.6	87.7

31 Dec 2015	Fair value (MEUR)	Underlying value (MEUR)	Secured energy (MWh)
Foreign exchange forward contracts and options	0.3	15.6	
Electricity derivatives			
System price	-1.8	2.7	131.5
Area price	0.4	1.0	87.7

NOTE 21.
Trade payables and other non-current and current non-interest-bearing liabilities

MEUR	2016	2015
Trade payables and other current non-interest-bearing liabilities		
Current financial liabilities at amortised cost		
Trade payables	64.3	52.4
Current financial assets at fair value through profit or loss		
Derivatives, non-hedge accounting (liabilities), interest-free	0.3	1.0
Other liabilities		
Other non-interest-bearing liabilities	15.8	14.5
Accrued liabilities	23.2	23.1
Income tax liabilities	1.7	0.0
Other liabilities, total	40.6	37.6
Trade payables and other current non-interest-bearing liabilities, total	105.2	91.0

Current accrued liabilities

MEUR	2016	2015
Wages and salaries including social expenses	6.3	6.6
Holiday pay	12.4	11.8
Compulsory insurances	3.6	3.3
Current interest liabilities	0.2	0.1
Other accrued liabilities	0.7	1.3
Total	23.2	23.1

MEUR	2016	2015
Non-current non-interest-bearing liabilities		
Non-current financial assets at fair value through profit or loss		
Derivatives, non-hedge accounting	0.3	0.9
Other liabilities		
Accrued liabilities, shareholder loans interest payable	0.0	6.9
Mäntsälä logistic centre, sale and leaseback arrangement	7.8	8.3
Other liabilities, total	7.8	15.2
Non-current non-interest-bearing liabilities, total	8.1	16.1

NOTE 22.
Management of financial risks

In its normal business operations, the Group is exposed to many financial risks, the principal types of which are currency and interest-rate risks. The objective of the Group's risk management is to minimise the adverse effects of changes in the financial market on the Group's financial performance. The general principles of the Group's risk management are adopted by the Board of Directors. The responsibility for practical implementation of financial risk management is shouldered by the Group's CFO, with such management comprising the identification and assessment of the risks, and furnishing the Group with the necessary instruments of risk hedging. In risk management, the Group employs forward exchanges, currency options and electricity derivative contracts. The Group does not engage in hedge accounting under IAS 39.

Exchange rate risk

The Group is exposed to currency risks from its purchases. The most significant foreign currency for the Group is the US dollar (USD). According to Tokmanni's hedging principles, about half of the purchases in USD are hedged for an average length of five months. Currency hedging takes place through forward exchanges and currency options. The Group's import and finance departments collaborate to draft a monthly updated estimate of the purchases in USD. Since the Group's non-current loans are fully in euro, financial liabilities do not involve any currency risk.

Currency derivatives are recognised at their acquisition value and are measured at the end of the financial period at their fair value in profit or loss.

The Group's foreign exchange positions (in euro) at the end of the reporting period:

MEUR	2016	2015
Trade payables	3.3	2.1
Forecasted purchases in the next 6 months	28.3	29.2
Cash and cash equivalents	-0.1	-0.6
Total	31.4	30.7
Currency options	-15.2	-15.6
Position, total	**16.3**	**15.1**

The table below shows the impacts on the Group's profit before taxes, as well as the impact on equity. Should the euro strengthen or weaken against the USD (+/- 10%), with the other factors remaining unchanged, the Group's profit before taxes would be affected by EUR 1.6 million (2015: EUR 1.5 million) positively or negatively. The sensitivity analysis is based on the currency position at the end of the reporting period.

MEUR	2016	2015
Change	+/-10%	+/-10%
Effect on profit before tax	1.6	1.5
Effect on equity	0.0	0.0

Interest rate risk

The Group's revenues and operational cash flows are largely independent of fluctuations in the market rates of interest, and, therefore, the Group's exposure to interest rate risks is mainly related to its external loan portfolio. According to its risk management principles, the Group aims to have at least two-thirds of the loans with fixed interest rates or hedged against interest rate changes, subject to discretion of the Board of Directors. The Board of Directors evaluates the Group's exposure to interest rate risks and the level of hedging on a regular basis and makes interest rate hedging decisions if needed. The average annual rate of the Group's interest-bearing liabilities was about 2.8% in 2016 (2015: 6.0%).

The following table shows the Group's interest position at the end of the reporting period:

MEUR	2016	2015
Fixed interest rate		
Financial liabilities	74.7	161.4
Floating interest rate		
Financial liabilities	100.0	137.4
Floating interest rate position, total	**100.0**	**137.4**

The table below shows the impacts on the Group’s profit before taxes, as well as the impact on equity. Should the interests increase or decrease (+/- 0.5 percentage points), with the other factors remaining unchanged, the Group’s profit before taxes would be affected by EUR 0.5 million (2015: EUR 0.7 million) negatively or positively. The sensitivity analysis is based on the risk position at the end of the reporting period.

MEUR	2016	2015
Change	+/-0.5%	+/-0.5%
Effect on profit before tax	0.5	0.7
Effect on equity	0.0	0.0

Credit risks

The Group’s credit exposure is constituted of the credit risk related to the receivables from business operations, and the counterparty risk associated with other financial instruments.

The Group has no significant credit risk concentrations related to receivables because its clientele is widely spread, the sales are mainly retail sales against cash, and no single customer or group of customers is dominant from the Group's perspective. Note 15 presents the breakdown of trade receivables by maturity.The credit losses with impact on profit or loss incurred during the financial period were not significant. The maximum amount of the Group’s credit loss corresponds to the carrying amount of financial assets at the end of the reporting period (note 18).

Part of the purchases from the Far East need to be paid in advance, and the respective risk is minimised by long-term cooperation with suppliers. In the autumn of 2013, the Group opened a procurement company in Shanghai, China together with the Norwegian discount store chain, Europris AS. The Shanghai company has 20 employees. The company is the cornerstone of goods procurements made in China and the Far East. The company’s operations include identifying and selecting local suppliers, ensuring the correct quality, monitoring delivery times, and ensuring responsible operations on the part of suppliers.

Liquidity risk

During the reporting period, the uncertainty of the financial market has not increased the risks related to the availability of funding to any significant extent. The Group seeks to follow the financing required in business operations by analysing the sales cash flow forecasts in order to have sufficient liquid assets to fund the operations and to repay loans at maturity.

The availability and flexibility of the Group's financing is guaranteed through sufficient credit facilities, balanced maturity distribution of the loans and sufficiently long loan periods, and by using several financial institutions and forms for the procurement of funding. On December 31, 2016 the Group had EUR 34 million (EUR 34 million) in credit limit reserves and their maturity profile is linked to the maturity of underlying finance agreements In addition, the Group had EUR 25 million of undrawn long-term loans.

The Group has not identified any significant liquidity risk concentration in relation to its financial assets or sources.

Liability-related defaults and violations of contractual terms

Loans from financial institutions contain a covenant according to which the Group has to achieve a certain ratio of net debt in relation to adjusted EBITDA. Operations in accordance with the loan covenants are reported lenders on a quarterly basis. The Group's management monitors compliance with loan covenants on a regular basis. In 2016, Tokmanni has met the required covenants.

The following table illustrates the Group's financial liability maturity break down. The amounts are undiscounted and they include both the future interest payments and the principal repayments.

Maturity of contractual cash flows of non-derivative financial liabilities:

MEUR	Carrying amount 31 Dec 2016	Cash flows based on agreements	Less than 1 year	1-2 years	2-3 years	3-4 years	Over 4 years	
Loans from financial institutions	98.8	105.2	1.2	1.2	1.2	1.2	100.4	*
Finance lease liabilities	74.7	111.3	7.2	7.2	7.0	7.1	82.8	
Trade payables	64.3	64.3	64.3					
Total	237.8	280.7	72.7	8.4	8.2	8.3	183.2	

MEUR	Carrying amount 31 Dec 2015	Cash flows based on agreements	Less than 1 year	1-2 years	2-3 years	3-4 years	Over 4 years	
Loans from financial institutions	132.5	156.2	25.1	25.7	13.3	92.1	0.0	*
Shareholder loans	86.5	117.6	0.0	0.0	0.0	117.5	0.0	
Finance lease liabilities	74.9	114.6	7.4	6.9	6.8	6.7	86.8	
Trade payables	52.4	52.4	52.4					
Total	346.2	440.9	84.9	32.7	20.2	216.3	86.8	

* Loans from financial institutions, adjusted with arrangement fees paid.

The table above includes all the instruments in force at the closing of the accounts, as well as their contractual loan principals and interests. The Group does not have financial liabilities liable to be called in for repayment before their maturity.

Maturity of contractual cash flows of derivative financial liabilities:

MEUR	Carrying amount 31 Dec 2016	Cash flows based on agreements	Less than 1 year	1-2 years	2-3 years	3-4 years	Over 4 years
Commodity derivatives	0.6	0.6	0.3	0.2	0.1	0.0	0.0
Foreign exchange forward contracts and options	0.0	0.0	0.0				
Total	0.6	0.6	0.3	0.2	0.1	0.0	0.0

MEUR	Carrying amount 31 Dec 2015	Cash flows based on agreements	Less than 1 year	1-2 years	2-3 years	3-4 years	Over 4 years
Commodity derivatives	1.8	1.8	0.9	0.5	0.3	0.1	0.0
Foreign exchange forward contracts and options	0.1	0.1	0.1				
Total	1.9	1.9	1.0	0.5	0.3	0.1	0.0

The cash flows related to interest derivatives are disclosed in net. The cash flows related to currency and electricity derivative contracts are based on their fair values at the end of the reporting period with the maturity corresponding to the due date.

Commodity risks

In its operations, the Group is exposed to a commodity risk caused by the possible impacts of the electricity price risk on the Group's energy costs. The Group hedges itself against electricity price changes through electricity derivative contracts in line with the policy determined by the Tokmanni Board. However, the maximum amount corresponds to the Group's estimated electricity consumption. The hedge level covers about 85% of the consumption for one year ahead, gradually decreasing over a period of about 3-4 years.

The changes in the value of the derivatives hedging the price of electricity supplied during the financial period are included in the adjustments of other operating expenses.

The carrying amount (EUR) of electricity derivative contracts at the end of financial period:

MEUR	2016	2015
Electricity derivative contracts	-0.3	-1.4

The table below shows the impacts on the Group's profit before taxes, as well as the impact on equity. Should the prices of electricity increase or decrease (+/- 10%), with the other factors remaining unchanged, the Group's profit before taxes would be affected by EUR 0.4 million (EUR 0.4 million) positively or negatively. The sensitivity analysis is based on the risk position at the end of the reporting period.

MEUR	2016	2015
Change	+/-10%	+/-10%
Effect on profit before tax	0.4	0.4
Effect on equity	0.0	0.0

Capital management

The objective of the Group’s capital management function is to retain an optimal capital structure in line with the Group’s strategy. By managing its capital, the Group ensures that its business operations will continue without interruption, thus guaranteeing cash flow financing under all circumstances, allowing for investments according to the Group’s strategy and increasing shareholder value long-term.

MEUR		2016	2015
Interest-bearing liabilities		173.5	293.8
Cash and cash equivalents		57.6	48.9
Interest-bearing net debt		115.9	244.9
Total equity according to IFRS		166.6	48.1

	Target level	2016	2015
Net debt / adjusted EBITDA	< 2.0	1.8	2.7
Equity ratio, incl. shareholder loans		36.3%	29.6%

NOTE 23.
Operating leases

Group as lessee

The Group has leased most of its store premises. The leases are in force from eight to twelve years on average. The agreements have varying renewal terms and other index terms.

Minimum lease payments payable based on other non-terminable leases:

MEUR	2016	2015
No later than 1 year	47.6	49.0
Later than 1 year and no later than 5 years	133.3	127.7
Later than 5 years	57.9	61.7
Total	238.7	238.4

Rental expenses paid based on operating leases amounted to EUR 44.4 million (EUR 45.1 million) recognised in profit or loss, with contingent rents accounting for EUR 42.6 million (EUR 43.7 million) of the whole. Contingent rents are recognised under other operating expenses.

Group as lessor

The Group has sublet certain business premises. The rental expenses incurred for these premises, as well as the minimum lease payments obtainable in the future on the basis of the subleases, are not significant for the Group.

NOTE 24.
Contingent liabilities, assets and commitments

MEUR	2016	2015
Loans for which property has been given as collateral		
Loans from financial institutions	100.0	137.4
Collateral given		
Business mortgages	0.0	937.5
Pledged subsidiary shares	0.0	270.2

Leasing obligations related to Group operating lease agreements are presented in note 23.

NOTE 25.
Related party transactions

The Group's related parties are the Board of Directors and Executive Group members, including the CEO and Deputy CEO, as well as subsidiaries and joint ventures. The owners related parties are defined by societies and persons who have control, joint control or significant influence in the Tokmanni Group .

The line of business of Retail Leasing Oy (a Tokmanni Group Corporation subsidiary) is to own and lease property, plant and equipment to the other Group companies. Retail Leasing Oy is the parent of Nordic Disco AB (Sweden), which in turn is the parent of Tokmanni Oy.

The disclosed transactions with related parties include those not eliminated in the consolidated financial statements of Tokmanni Group Corporation. All transactions with related parties are on market-based terms.

The Tokmanni - Europris Sourcing Ltd joint venture, which has been consolidated using the equity method, sells purchasing services to the Group.

The Group’s parent and subsidiary relationships are as follows:

Company	Domicile	Shareholding	Voting rights
Parent company Tokmanni Group Corporation	Finland		
Retail Property Investment Oy	Finland	100%	100%
Kiinteistö Oy Tokmanni Närpiö	Finland	100%	100%
Retail Leasing Oy	Finland	100%	100%
Nordic Disco AB	Sweden	100%	100%
Tokmanni Oy	Finland	100%	100%
Tarjousmaxi Oy	Finland	100%	100%
Taitomanni Oy	Finland	100%	100%

Specification of transactions carried out with related parties

Transactions during the financial period 2016 including receivables, payables and liabilities per 31 Dec 2016 carried out with related parties:

MEUR	Majority owner and related parties to majority owner	Board of Directors and management	Joint ventures
Income statement			
Revenue and other operating income		0.0	
Other operating expenses		1.6	0.8
Financial expenses	2.1	0.5	
Balance sheet			
Assets			0.1

Transactions during the financial period 2015 including receivables, payables and liabilities per 31 Dec 2015 carried out with related parties:

MEUR	Majority owner and related parties to majority owner	Board of Directors and management	Joint ventures	
Income statement				
Revenue and other operating income		0.0		
Other operating expenses		5.2	0.9	
Financial expenses	5.6	1.4		
Balance sheet				
Assets			0.2	
Liabilities	75.1	18.3		
Shareholder loans	69.5	16.9		*
Interest liabilities, shareholder loans	5.6	1.3		

* The related parties have given shareholder loans as follows:

- At the closing of the books on 31 December 2015, shareholder loans amounted to EUR 86.5 million, with the related parties accounting for EUR 86.4 million.
- The principal, the interest and other credit can be paid at the dissolution or bankruptcy of the company only in subordination to other loans.
- The annual interest rate of the shareholder loans are 8%, with the accumulated interest fully recognised in profit or loss.
- The interests of the Management shareholder loans have been paid, while the accumulated interests for others have been capitalised.
- The loan was reimbursed in 2016.

Management employee benefits

The key management personnel includes the members of the Board of Directors and Executive Group, and the CEO.

Heikki Väänänen has been appointed CEO of Tokmanni Group Corporation as of 1st of April, 2016 and before this he has acted as CEO of Tokmanni Oy and Tarjousmaxi Oy.

EUR		2016	2015	
Heikki Väänänen	CEO of the Group companies	370 445	346 417	
Harri Sivula	Chairman of the Board	98 000	190 000	
Robert Furuhjelm	Member of the Board	31 500	20 000	
Christian Gylling	Member of the Board	32 500	20 000	
Sven-Olof Kulldorff	Member of the Board	34 500	20 000	
Michael Haaning	Member of the Board	0	20 000	until 12 April 2016
Seppo Saastamoinen	Member of the Board	28 500	20 000	
Kati Hagros	Member of the Board	29 000	0	from 12 April 2016
Thérèse Cedercreutz	Member of the Board	27 000	0	from 12 April 2016
CEO of the Group companies and members of the Board of Directors		651 445	636 417	
Executive Group		1 135 851	1 112 172	
Monetary salaries, fees and fringe benefits, total		1 787 297	1 748 588	

Pension benefits

In Tokmanni Group Corporation, the pensions of the key management personnel are determined in line with the general provisions applied in Finland to employee pensions (Employee Pensions Act). The CEO's statutory pension cost was 63 828 EUR in 2016 (2015: 59 757 EUR).

Termination benefits

If the company gives notice to the CEO of the Group companies, he will have the right to receive compensation corresponding to the maximum of 18 months' overall pay, including the six-month period of notice. Under corresponding circumstances, the other Executive Group members will have the right to compensation corresponding to the maximum of 6 months' overall pay.

Other notes

NOTE 26.
Events after the end of the reporting period

No significant changes in the Groups business activities have occurred after the end of the reporting period.

Parent company's financial statements (FAS)

Parent company's income statement €	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
REVENUE	**457 200.00**	**1 384 700.00**
Other operating income	1 065.45	4 063.94
Wages, salaries and employee benefits		
Wages, salaries and fees	-605 456.20	-599 205.79
Social security expenses		
Pension expenses	-50 589.85	-113 227.20
Other social security expenses	-10 356.66	-20 971.75
	-666 402.71	-733 404.74
Other operating expenses	-515 996.81	-525 478.98
OPERATING PROFIT	**-724 134.07**	**129 880.22**
Financial income and expenses		
Internal income from investments	23 000 000.00	0.00
Other interests and financial income		
From group companies	5 314 102.61	6 179 071.00
From others	92.24	0.60
	5 314 194.85	6 179 071.60
Interests and other finacial expenses		
To others	-10 831 772.91	-6 919 280.23
Financial income and expenses	17 482 421.94	-740 208.63
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	**16 758 287.87**	**-610 328.41**
Appropriations		
Group contribution	20 000 000.00	620 000.00
Income taxes	-2 751 431.07	-1 934.20
NET RESULT FOR THE FINANCIAL PERIOD	**34 006 856.80**	**7 737.39**

Parent company's balance sheet

€	31 Dec 2016	31 Dec 2015
ASSETS		
NON-CURRENT ASSETS		
Investments		
Holdings in group companies	26 172 739.99	26 172 739.99
NON-CURRENT ASSETS, TOTAL	**26 172 739.99**	**26 172 739.99**
CURRENT ASSETS		
Non-current receivables		
Amounts owed by group companies	212 840 746.43	82 526 643.82
Current receivables		
Trade receivables	0.00	1 130.02
Amounts owed by group companies	43 000 300.00	4 167 050.13
Other receivables	65 143.25	0.00
Prepayments and accrued income	39 419.90	393 153.32
	43 104 863.15	4 561 333.47
Recevables, total	255 945 609.58	87 087 977.29
Cash in hand and at banks	52 403 704.38	0.00
CURRENT ASSETS, TOTAL	**308 349 313.96**	**87 087 977.29**
ASSETS, TOTAL	**334 522 053.95**	**113 260 717.28**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	80 000.00	5 600.00
Reserve for invested unrestricted equity	114 629 589.41	18 777 160.17
Retained earnings	22 840.12	15 102.73
Net result for the financial period	34 006 856.80	7 737.39
EQUITY, TOTAL	**148 739 286.33**	**18 805 600.29**
LIABILITIES		
Non-current liabilities		
Loans from financial institutions	100 000 000.00	0.00
Other liabilities	0.00	86 512 727.27
Accruals and deferred income	0.00	6 887 115.26
	100 000 000.00	93 399 842.53
Current liabilities		
Trade payables	39 257.73	471 827.26
Amounts owed to group companies	83 635 462.93	61 133.63
Other payables	25 758.33	195 668.35
Accruals and deferred income	2 082 288.63	326 645.22
	85 782 767.62	1 055 274.46
LIABILITIES, TOTAL	**185 782 767.62**	**94 455 116.99**
EQUITY AND LIABILITIES, TOTAL	**334 522 053.95**	**113 260 717.28**

Parent company's cash flow statement

1 000 €

	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Cash flows from operating activities		
Profit/loss before taxes	16 758	-610
Adjustments:		
Financial income and expenses	-17 482	740
Cash flow before change in working capital	**-724**	**130**
Change in working capital:		
Increase (-) / decrease (+) of current receivables	895	-932
Increase (+) / decrease (-) of current non-interest bearing liabilities	-348	765
Cash flow from operating activities before financial items and taxes	**-178**	**-38**
Interest and other financial expenses paid from operating activities	-4 874	-32
Direct income taxes paid	-992	-53
Cash from operating activities	**-6 044**	**-122**
Cash flows from investing activities		
Granted loans (+)	-125 000	0
Cash from investing activities	**-125 000**	**0**
Cash flows from financing activities		
Change in internal bank account liabilities	83 213	0
Change in internal bank account receivables	2 891	-518
Paid share issue deducted with IPO expenses	90 123	0
Proceeds from long-term loans	125 000	25
Repayments of long-term loans	-118 400	0
Group contributions	620	615
Cash from financing activities	**183 447**	**122**
Change in cash in hand and at bank	**52 404**	**0**
Cash in hand and at bank at the beginning of the period	0	0
Cash in hand and at bank at the end of the period	52 404	0

Notes to the parent company's financial statements

Basis of preparation

Tokmanni Group Corporation is a Finnish limited liability company and its shares are listed on the Nasdaq Helsinki exchange. Share trading started on the pre-list on 29 April 2016 and on the main list 3 May 2016.

Principles used for preparing the financial statements

Tokmanni Group Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS) and in accordance with the accounting regulation for listed companies.

Valuation of financial instruments

Financial instruments are valued at acquisition cost.

Cash in hand and at banks

The company has a Group account agreement in Nordea, which includes all Group companies' Nordea bank accounts. The Group companies' cash and cash equivalents shown in the group account is shown as asset or liability from the Group companies.

Recognition of pensions

The company's pension cover is arranged by external pension insurance companies. Pension expenditure is recognised as an expense in the year in which it is accrued.

Income tax

Income tax includes the income tax payments for the period based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent company's income statement and balance sheet.

Notes to the income statement

1 000 €

	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Breakdown of revenue by market area		
Finland	457	1 385
Personnel and members of administrative bodies		
Average number of employees	1	1
Salaries of CEO and members of the Board of Directors	605	599

The CEO and members of the Board do not have pension plans that differ from the statutory provisions.

Monetary salaries, fees and fringe benefits by institution are
defined in the Group Note 25 Related party transactions,
" Monetary salaries, fees and fringe benefits”

	2016	2015
Other operating expenses		
Purchased services	164	308
Other expenses	352	217
Total	516	525
Group contribution		
Group contribution received	20 000	620
Income taxes		
Ordinary operations	2 751	2
Auditor's fees		
Audit	53	52
Other fees and services	256	98
Tax councelling	17	23
Total	326	173

Financial income and expenses

Financial income for the review period include subsidiary dividend income EUR 23.0 million
and financial expenses include EUR 5.8 million IPO expenses

Related party transactions

All transactions involving related parties are executed on arm length basis.

Notes to the balance sheet, assets

1 000 €

	31 Dec 2016	31 Dec 2015
NON-CURRENT ASSETS		
Investments		
Holdings in group companies		
Acquisition cost as at 1 Jan	26 173	26 173
Acquisition cost as at 31 Dec	26 173	26 173
Group companies	Shareholding	
Retail Property Investment Oy, Mäntsälä	100	100
Retail Leasing Oy, Helsinki	100	100
Group Companies	Carrying amount	
Retail Property Investment Oy, Mäntsälä	1 000	1 000
Retail Leasing Oy, Helsinki	25 173	25 173
CURRENT ASSETS		
Non-current receivables		
Amounts owed by group companies		
Loan receivables	207 527	76 348
Prepayments and accrued income, interest receivables	5 314	6 179
Total	212 841	82 527
Current receivables		
Amounts owed by group companies		
Trade receivables	0	656
Other receivables, group dividend receivables	23 000	0
Other receivables, group contribution receivables	20 000	620
Other receivables, group account receivables	0	2 891
Total	43 000	4 167
Other receivables		
Trade receivables	0	1
Other receivables	65	0
Prepayments and accrued income	39	393
Total	105	394
Current receivables	43 105	4 561
Prepayments and accrued income		
VAT-receivable	0	51
Other prepayments and accrued income	39	342
Total	39	393

Notes to the balance sheet, liabilities

1 000 €

	31 Dec 2016	31 Dec 2015
EQUITY		
Restricted equity		
Share capital as at 1 Jan	6	6
Bonus issue	74	0
Share capital as at 31 Dec	80	6
Restricted equity	80	6
Unrestricted equity		
Reserve for invested unrestricted equity as at 1 Jan	18 777	18 777
Bonus issue	95 852	
Reserve for invested unrestricted equity as at 31 Dec	114 630	18 777
Retained earnings as at 1 Jan	23	15
Net result for the financial period	34 007	8
Total	34 030	23
Unrestricted equity	148 659	18 800
Equity	148 739	18 806
CALCULATION OF DISTRIBUTABLE EQUITY		
Retained earnings	23	15
Net result for the financial period	34 007	8
Reserve for invested unrestricted equity	114 630	18 777
Total	148 659	18 800
NON-CURRENT LIABILITIES		
Shareholder loans	0	86 513
Shareholder loans, interest liabilities	0	6 887
Loans from financial institutions	100 000	0
Total	100 000	93 400
CURRENT LIABILITIES		
Amounts owed to group companies		
Trade payables	150	1
Accruals and deferred income	272	60
Other liabilities, internal account payable	83 213	0
Total	83 635	61
Accruals and deferred income		
Amortised personnel costs	207	318
Interest payable	154	0
Income tax payable	1 708	0
Other accruals and deferred income	12	9
Total	2 082	327

Securities and contingent liabilities

1 000 €

	2016	2015
Collateral given by the parent company related to loans from financial institutions		
Business mortgages	0	312 500
Pledged subsidiary shares	0	25 173
Pledged loan receivables	0	57 012
Leasing liabilities		
Payable during the next financial year	14	14
Payable subsequently	5	20
Total	20	34

Signing of Report by the Board of Directors and the financial statements

Mäntsälä, 23 February 2017

Harri Sivula
Chairman of the Board

Sven-Olof Kulldorff
Member of the Board

Christian Gylling
Member of the Board

Robert Furuhjelm
Member of the Board

Seppo Saastamoinen
Member of the Board

Kati Hagros
Member of the Board

Thérèse Cedercreutz
Member of the Board

AUDITOR'S NOTE

Our auditor’s report has been issued today.

Helsinki, 23 February 2017

KPMG Oy Ab

Ari Eskelinen
Authorized Public Accountant

KPMG Oy Ab
Töölönlahdenkatu 3 A
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This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Tokmanni Group Oyj

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tokmanni Group Oyj (business identity code 2483212-7) for the year ended 31 December, 2016. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

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

— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

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

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

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

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

KPMG Oy Ab, a Finnish limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Business ID 1805485-9
Domicile Helsinki

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of Goodwill (notes 1 and 10 to the consolidated financial statements)

- The goodwill balance carried in the consolidated statement of financial position totaled to EUR 129 million as of 31 December 2016. Goodwill is not amortized, but is tested at least annually for impairment.
- There is a risk that the acquired businesses may not trade in line with the initial expectations and forecasts, and therefore the carrying amount of goodwill may exceed its recoverable amount, resulting in an impairment.
- The Group determines recoverable amounts based on the value-in-use method. Value in use relies on discounted future cash flows. Due to estimation uncertainty related to future cash flow forecasts, high level of management judgement associated with the assumptions and the significance of the recognized goodwill, impairment of goodwill is deemed to be a key audit matter.

We involved KPMG valuation specialists and considered impairment of goodwill overall to determine whether an impairment had arisen. Our audit procedures included, among others:

- We challenged the key assumptions used in the calculations of impairment testing.
- We assessed the budgeting process and the reasonableness of the cash flow projections, including comparing the projections to the budgets approved by the Board of Directors.
- We considered key inputs in the calculations, such as the discount rates and growth rates, through comparing them to market data, budgets approved by the Board of Directors and Group's own historical data.
- We tested the arithmetical accuracy of the calculations of impairment testing.

We considered the disclosures in respect of impairment testing, including the presentation of the key assumptions used and the sensitivity analyses.

Monitoring and valuation of inventory (notes 1 and 14 to the consolidated financial statements)

- The inventory balance in the consolidated statement of financial position totaled to EUR 155 million as of 31 December 2016
- Group carries out the business through a wide network of stores, which increases the importance of functioning IT systems, internal controls and management monitoring to ensure the correctness of inventory balances.
- Valuation of inventory includes management judgement. Such judgement includes management estimates of future sales and

Our audit procedures included, among others:

- We assessed the organization of the overall control environment and the adequacy of monitoring reports used by management.
- We attended physical inventory counts in selected stores and in the central warehouse.
- We performed data-analysis to test the accuracy of inventory pricing and the reliability of system reports and calculations used for inventory valuation.

inventory aging structure, for example. Therefore the write-offs recognized on inventories may subsequently prove insufficient.

— We critically assessed the inventory valuation principles and the adequacy of the provisions made, taking into account historical company data.

Revenue recognition (note 1 to the consolidated financial statements)

— The revenue for the financial year ended 31 December 2016 totaled to EUR 776 million.

— Group carries out the business through a wide network of stores, which increases the importance of functioning IT systems, internal controls and management monitoring to ensure a correct sales reporting.

— The number of sales transactions is considerable. Sales transactions are primarily registered to the cashier system, which is separated from the accounting. Recording of the sales in the accounting completely and in a timely manner is therefore highly dependent on the functionality of IT systems, including for example, the transfer of data from the cashier system to the accounting system.

— Furthermore, effective internal controls over the IT systems and related monitoring procedures, including IT security and system access controls, are critical to ensure the completeness of sales reporting.

Our audit procedures included, among others:

— We assessed the organization of the control environment and the accuracy of sales monitoring reports used by management.

— In respect of the IT systems, system access controls and segregation of duties we assessed:

  — the organization of the control environment

  — the effectiveness of system based controls

— We assessed and tested the reconciliation controls for the transfer of the sales from the cashier system to the accounting system.

— We used data analysis based on store level data to identify and analyze trends and anomalies.

— We made audit visits to selected stores to assess controls related to sales.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

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

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

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

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

Helsinki 23 February 2017

KPMG OY AB

ARI ESKELINEN
Authorised Public Accountant