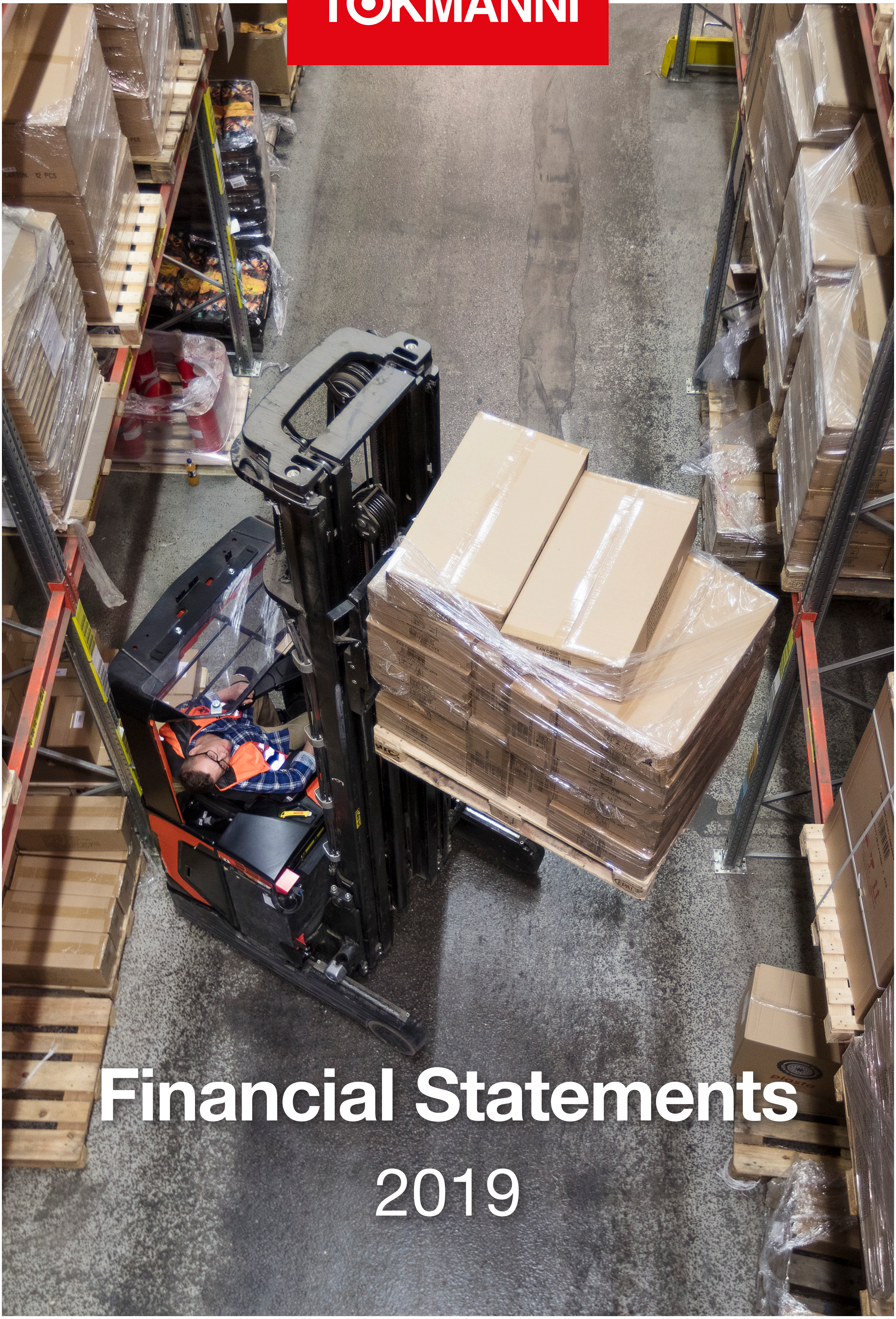
TOKMANNI



Financial Statements

2019

Report by the Board of Directors and financial statements

REPORT BY THE BOARD OF DIRECTORS

Highlights 2019 2
Tokmanni's business 2
Operating environment and market development 2
Operational development 3
Financial development 4
Acquired businesses 5
Tokmanni's long-term financial targets 5
Strategy 6
Personnel 6
Corporate responsibility 7
Shares and shareholders 8
Share-based incentive schemes 9
Governance 9
Information contained in the notes to the financial statements 10
Risk management 10
Market outlook 12
Key events after the financial year 13
Tokmanni's outlook for 2020 13
Board of directors dividend proposal 13
Non-financial information 13
Group key figures and calculation of financial ratios 19
Calculation of the Group's key figures 21
Shares and share capital 23

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated income statement 25
Consolidated statement of financial position 26
Consolidated statement of cash flows 27
Consolidated statement of changes in equity 28
Notes to the consolidated financial statements 29
1. Accounting policies used in the consolidated financial statements 29
1.1 Basic information on the Group 29
1.2 Accounting policies used in the financial statements 29
1.3 Accounting policies used in the consolidated financial statements 29
1.4 Accounting policies requiring management judgement and major sources of estimation uncertainty 30
1.5 Application of new and revised IFRS standards – IFRS 16 Leases 31
1.6 Forthcoming IFRS standards 32
2. Business performance 33
2.1 Segment information 33
2.2 Income 33
2.3 Materials and services 34
2.4 Other operating expenses 34
2.5 Depreciation 35
2.6 Employee benefit expenses 35
2.7 Financial income and expenses 36
2.8 Income taxes for the financial period and deferred tax balances 37
3. Assets and liabilities 39
3.1 Property, plant and equipment 39
3.2 Intangible assets 44
3.3 Inventories 47
3.4 Other receivables and income tax receivables 48
3.5 Non-current receivables and other non-current financial assets 49
3.6 Other liabilities and income tax liabilities 49
3.7 Non-current non-interest-bearing liabilities 50
3.8 Cash and cash equivalents 50
3.9 Investments in joint ventures 50
4. Capital structure, financing and risk management 51
4.1 Equity 51
4.2 Financial assets and liabilities 52
4.3 Management of financial risks 58
4.4 Capital management 61
4.5 Contingent liabilities, assets and commitments 62
5. Other 63
5.1 Related party transactions 63
5.2 Provisions and contingencies 65
5.3 Events after the end of the reporting period 65

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

Parent company's income statement 66
Parent company's balance sheet 67
Parent company's cash flow statement 68
Notes to the parent company's financial statements 69
1. Accounting policies 69
2. Breakdown of revenue by market area 70
3. Personnel and members of administrative bodies 70
4. Other operating expenses 70
5. Group contribution 70
6. Income taxes 70
7. Auditor's fees 70
8. Related party transactions 71
9. Investments 71
10. Receivables 71
11. Equity 72
12. Non-current liabilities 72
13. Current liabilities 73

Signing of Report by the Board of Directors and the financial statements 74

Auditor's report .... **Virhe. Kirjanmerkkiä ei ole määritetty.**

REPORT BY THE BOARD OF DIRECTORS 2019

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.

Taitomanni Oy is a company owned by Tokmanni Oy, whose business is to provide Group companies with personnel rental and support services in the retail sector. The Group also includes Retail Property Investment Ltd, which carries out a real estate business by investing in own real estate companies that build store premises for Group company use.

Highlights 2019

During 2019, Tokmanni continued to implement its strategy and pursue its goal-oriented development of the company. The main focus during the year was on improving profitability. Actions were taken particularly to improve the gross margin by growing the sales of its private label products and increasing direct imports as well as to boost the efficiency of processes in order to reduce the relative share of fixed expenses.

Revenue for 2019 grew by 8.5% on the previous year to EUR 944.3 million (870.4). Like-for-like revenue for stores grew by 4.3%. Comparable gross margin was 34.4% (33.9%). Comparable EBIT totalled EUR 70.4 million (51.9), and the comparable EBIT margin was 7.5% (6.0%). The ratio of net debt to comparable EBITDA (rolling 12 months) was 2.9 at the end of 2019.

Expanding the store network is one of the key means of growing Tokmanni's revenue and operating profit. Tokmanni has an efficient process of rolling out and ramping up new stores. At the end of 2019 Tokmanni had 191 stores across the country, as well as an online store. The company increased its retail space by about 20,000 square metres during 2019. At the end of 2019, Tokmanni stores had a retail space of approximately 460,000 square meters in total.

Tokmanni's business

Tokmanni is the largest nationwide general discount retail chain in Finland. Tokmanni is a customer-oriented general discount retailer whose competitive advantages are its cheap prices, attractive assortment, and a nationwide store network combined with an online store, an efficient business model and the ability to react rapidly to factors influencing customer satisfaction.

Tokmanni offers a wide assortment of products that offer great value for money in the home renovation and cleaning, clothing and leisure, and interior decoration and garden categories, for example. Tokmanni's selection consists of its own private label and exclusive products as well as unlabelled products and leading international brands.

Operating environment and market development

Competitive field

Tokmanni is the market leader in Finland's general discount retail market. Tokmanni's competitors in this market are several smaller local companies. Tokmanni is the only general discount retailer in Finland with a nationwide network of stores. In addition to emphasising low prices, Tokmanni focuses on its product selection and store concept and on the continuous development of the customer service in order to distinguish itself from other discount retailers.

Tokmanni offers its customers a wide assortment of non-grocery and grocery products. As a result, Tokmanni's target markets are fragmented.

Hypermarkets carry a large product assortment, from fresh food to consumer goods. They are mostly located in the suburbs of the largest cities and benefit from repeated visits thanks to their fresh food offering. Tokmanni also has a wide selection of consumer goods. Its low prices and attractive product selection that sets it apart from hypermarkets give it a competitive edge over the latter.

Speciality discount retailers with low prices and a strong assortment of private label goods offer a comprehensive assortment in individual product groups, such as sports products or home electronics. Tokmanni's primary competitive advantages over speciality discount retailers come from its nationwide store network and a significantly more extensive assortment. At Tokmanni, customers can purchase the products they need from several different categories at the same place. Additionally, Tokmanni's assortments include extremely low-priced and intriguing batches of products that may not necessarily be available elsewhere.

In recent years, the importance of international online stores has also increased in Finland. Competition has increased especially in the product categories of clothing and home electronics, and online stores are expected to grow further over the next few years. Tokmanni continuously develops its digital services to meet the changed needs of its consumers and to develop the total customer experience. Tokmanni's competitive advantages over other online stores are the low prices of its products, its attractive and extensive assortment and its nationwide chain of stores that enables customers to pick up and return products quickly and conveniently.

Market development

The retail sector is undergoing a structural transformation and a digital revolution. Competition from Finnish and international rivals continues to intensify both in brick-and-mortar stores and online. In Tokmanni's view, consolidation into larger companies will probably continue in the European discount retail market. Besides online retail, general discount retail is one of the fastest growing segments in the retail sector. Companies with strong know-how in online retail, combined with a comprehensive network of brick-and-mortar stores, are best positioned to succeed over their competition. As a result of changing market conditions and stiffer competition, there is a need to boost operational and cost efficiency.

Tokmanni continuously monitors market developments and the competitive environment and actively develops its own business to maintain its competitive advantages. Tokmanni has identified the following as its competitive advantages: low prices, an interesting and wide product assortment, and a lean and efficient operating model, a nationwide store network combined with a click & collect service, and an inspiring and comprehensive shopping experience.

According to the FGTA, the non-grocery market grew by 2.7% for the full year 2019, with the trend being strong especially in home and leisure products. The revenue of department store and hypermarket chains grew by 3.7%. Tokmanni clearly outperformed the rest of the market in terms of growth.

The member companies of the FGTA operate the department store and hypermarket chains of K-Citymarket, Prisma, Sokos, Tokmanni and Minimani. However, it is important to note that the statistics compiled by the FGTA only cover part of Tokmanni's addressable market and exclude online sales, for example.

Operational development

Store network development

Expanding the store network is one of the key means of growing Tokmanni's revenue and operating profit. Tokmanni has an efficient process of rolling out and ramping up new stores. Tokmanni's target is to expand its store network to include more than 200 stores and to increase its new retail selling space by approximately 12,000 square metres in net terms every year, which means around five new, enlarged or relocated stores. At the end of 2019 Tokmanni had 191 stores (186 stores on 31 December 2018).

In 2019, Tokmanni transformed eight Ale-Makasiini stores, two TEX stores and one Säästökuoppa store under the Tokmanni brand name, and opened new Tokmanni stores in Loppi, in the Tesoma district of Tampere, in Vääksy and in Virrat. In addition, Tokmanni relocated to new premises in Hanko and Juuka, reopened a refurbished store on Kehräämöntie in Kajaani and refurbished and expanded stores in Turenki and Hollola and in the Skanssi shopping centre in Turku. In Hanko, the company closed two small Tokmanni stores as it opened a new, large store. In Siilinjärvi, Tokmanni centralised all of its store operations into the Tokmanni store that has been in operation in the town for many years by closing the Ale-Makasiini located in other premises nearby.

By 7 February 2020, Tokmanni had bought Perhemarket store in Pudasjärvi and agreed on the opening of two new stores and two enlarged stores during 2020. During the spring, Perhemarket store will be transformed to under the Tokmanni brand and new Tokmanni store will be opened in Aura, and the current Tokmanni stores at the Citycenter shopping centre in Helsinki and in Kauhajoki will be expanded considerably. The Tokmanni store located in the Myyrmäki district of Vantaa will be relocated in March from the Isomyyri shopping centre to the Myyrmanni shopping centre, where it will have better commercial premises than currently.

Tokmanni is focusing on its store concept and on continuously developing the shopping experience. During 2019, 10 Tokmanni stores were designed in accordance with Tokmanni's latest store concept, which emphasises effortless and pleasant shopping experiences. Under this concept, the stores have such features as wide aisles, informative signage and well-defined product areas.

In 2019, Tokmanni opened car washes adjacent to its stores in Lielahti in Tampere and in Länsikeskus in Turku. Open all hours, the Tokmanni Car Washes allow customers to wash and vacuum clean their cars as well as to check the tyre pressures of their cars, bicycles or other vehicles.

Tokmanni considers a store to be new or relocated over the duration of its opening year and the following calendar year. On average, a new store becomes profitable after around 12 months and reaches its full capacity within around 24 months. New and relocated stores include new stores opened and store relocations where the store size changes by 30% or more and the assortment increases or is reduced substantially.

Financial development

Seasonality

Tokmanni's business is subject to seasonality, which has a significant effect on its revenue, profitability and cash flows. Generally, Tokmanni's revenue, profitability and cash flows are lowest in the first quarter and highest in the fourth quarter due to Christmas sales.

Revenue for the full year 2019

Revenue for 2019 grew by 8.5% on the previous year to EUR 944.3 million (870.4). Like-for-like revenue for stores grew by 4.3%. Demand for Tokmanni's leisure goods, electrical equipment and tools, and cleaning and cosmetics products was excellent.

Like-for-like customer numbers in stores grew by 2.3% and the total number of customers grew by 6.9% year-on-year. The like-for-like basket size increased by 1.9% to EUR 17.9 (17.8).

Tokmanni's online revenue accounted for 0.6% (0.5%) of its total revenue, an increase of 43.5% year-on-year.

The proportion of private labels and direct imports of total sales developed favourably. In 2019, direct imports accounted for 25.6% of revenue (24.4%). A total of 16.2% (15.9%), figure has been adjusted to reflect the 2019 reporting principle) of products sold were procured through Tokmanni's sourcing company in Shanghai. Tokmanni's private label products, exclusive brands and non-branded products represented 31.7% of revenue (31.7%).

Profitability for the full year 2019

Gross profit in 2019 totalled EUR 325.2 million (295.3) and the gross margin was 34.4% (33.9%). Comparable gross profit was EUR 325.3 million (295.0), corresponding to a comparable gross margin of 34.4% (33.9%). The trend in the gross profit was mainly due to professional sourcing and the sales structure.

Operating expenses were EUR 198.9 million (188.1), or 21.1% of revenue (21.6%). Comparable operating expenses were EUR 197.9 million (189.5), or 21.0% of revenue (21.8%). The increase in operating expenses in euro terms was mainly due to the additional operating expenses that came from the new stores added to the store network. The high sales volume also had an impact on operating expenses in euro terms.

The expenses recognised on the sales bonus scheme, which covers all personnel and pays out bonuses quarterly, amounted to EUR 1.4 million (1.4) in 2019. The expenses booked from the annual bonus scheme for the Group's key persons totalled EUR 1.0 million (0.6) in 2019. Tokmanni also has a share-based incentive scheme for the Group's key persons. The expenses recognised on the share-based incentive scheme totalled EUR 0.3 million (0.1) in 2019. Personnel expenses in 2019 totalled EUR 114.0 million (106.9).

EBITDA for 2019 amounted to EUR 130.6 million (111.2), and the EBITDA margin was 13.8% (12.8%). Comparable EBITDA totalled EUR 131.6 million (109.5), and the comparable EBITDA margin was 13.9% (12.6%).

EBIT totalled EUR 69.4 million (53.6), and the EBIT margin was 7.3% (6.2%). Comparable EBIT totalled EUR 70.4 million (51.9), and the comparable EBIT margin was 7.5% (6.0%). Tokmanni's long-term target is gradually to increase its comparable EBIT margin to around 9% by improving the gross margin and reducing the relative share of operating expenses of revenue from the current level.

Net financial expenses totalled EUR 10.5 million (10.6). The result before taxes was EUR 58.9 million (42.9). Taxes for the period amounted to EUR 11.8 million (8.6). The net result for 2019 was EUR 47.1 million (34.4).

Earnings per share were EUR 0.80 (0.58). The return on capital employed was 11.8%, and the return on equity was 26.8% (there is no comparison figure available, as no adjustment was made for IFRS 16 for 2017).

Balance sheet, cash flow and financial position

At the close of 2019, Tokmanni's inventories amounted to EUR 222.8 million (190.5). The increase was due to growth in the store network, later start of the winter and to the controlled addition of stock keeping units to the assortment.

Due to the increase in inventories, cash flow for the full year 2019 decreased slightly year-on-year and was EUR 84.0 million (86.0). The company's cash and cash equivalents totalled EUR 29.1 million (37.9) at the end of 2019.

At the close of 2019, Tokmanni's interest-bearing debt totalled EUR 409.3 million (416.6), including EUR 99.6 million (99.4) in corporate bonds and loans from financial institutions. Following the adoption of the IFRS 16 standard, leases were transferred to liabilities and assets on the balance sheet, which increased the amount of liabilities significantly compared with what was reported before.

The ratio of net debt to comparable EBITDA (rolling 12 months) was 2.9 at the end of 2019. Tokmanni intends to maintain an efficient long-term capital structure, and its long-term goal is to keep the ratio of net debt to comparable EBITDA below 3.2.

Tokmanni's equity ratio was 25.3% (23.3%).

Investments

Net capital expenditure for the full year 2019 totalled EUR 15.4 million (19.8). Capital expenditure was mainly focused on the expansion of the store network, renovations of stores and the development of digital services. Depreciation in 2019 amounted to EUR 61.2 million (57.6). The growth in depreciation and amortisation was mostly attributable to an increase in leased assets (IFRS 16).

Capital expenditure in 2020 is expected to be around EUR 16 million.

Acquired businesses

Tokmanni acquired four stores in northern Finland: Centtilä in Keminmaa, Säästökuoppa in Sodankylä and the TEX stores in Rovaniemi and Kemijärvi. Tokmanni took control of the business operations of these stores on 1 January 2019.

Tokmanni's long-term financial targets

Tokmanni's Board of Directors updated in February 2019 the Group's long-term financial targets for comparable EBITDA margin and the ratio of net debt to comparable EBITDA due to IFRS 16, effective from 1 January 2019. The comparable EBITDA margin was replaced by a comparable EBIT margin and the net debt to comparable EBITDA target changes. At the same time, the targeted amount of stores were updated.

- Tokmanni's long-term target is to achieve low single digit growth in like-for-like revenue,
- Tokmanni's target is to increase its store network to cover more than 200 stores as well as to increase its new selling area by some 12,000 square metres in net terms every year, which means around five new or relocated stores each year,
- Tokmanni's long-term goal is to gradually increase the comparable EBIT margin to about 9 percent by improving the gross margin and reducing the relative share of current operating expenses from the current levels,
- Tokmanni intends to maintain an efficient long-term capital structure by keeping the ratio of net debt to comparable EBITDA below 3.2,
- Tokmanni's aim is to distribute around 70 per cent of net income for each financial year in dividends, depending on the capital structure, financial position, general economic and business conditions and future prospects.

Strategy

Tokmanni's goal is to continue to reinforce its position as the leading general discount retailer in Finland by making the most out of its key competitive advantages, which are its low perceived price image, wide and attractive assortment, lean and efficient operation model, nationwide store network combined with an online store and inspiring shopping experience.

Tokmanni aims for stable and profitable long-term growth by:

- utilising its consistent brand image and needs-based product category management, continuously developing the store concept and assortment, and investing more and more in digitalisation and multi-channel operations so as to support growth in like-for-like revenue;
- continuing to increase its retail space by some 12,000 square metres in net terms each year, which means around five new or relocated stores each year; and
- improving profitability and management of working capital with better processes and tools used in sourcing and in supply chain and product category management, and by improving store efficiency.

Strategic measures taken in 2019

During 2019, Tokmanni continued to implement its strategy and pursue its goal-oriented development of the company. The main focus during the year was on improving profitability. Actions were taken particularly to improve the gross margin by growing the sales of its private label products and increasing direct imports as well as to boost the efficiency of processes in order to reduce the relative share of fixed expenses.

Some of the key measures taken by Tokmanni to improve the gross margin include increasing direct imports and growing the sales of its private label products. These measures integrally involve increasing sourcing through the sourcing company in Shanghai and boosting the efficiency of such sourcing, as well as growing the sales of stock lots. Moreover, Tokmanni is focusing on improving its product category specific operations by reducing shrinkage and ensuring inventories do not become obsolete. Tokmanni succeeded well in all of the aforementioned measures during 2019.

Tokmanni's goal is to reduce the relative share of fixed expenses. Measures aimed at reducing the relative share of rents and maintenance costs at premises were carried out according to plan in 2019. Additionally, Tokmanni focused on making its retail functions more efficient and improved the fluency of the store personnel work and the allocation of their time. The company initiated measures for boosting the efficiency of the supply chain, but the key benefits derived from this will only be realised in the future. Tokmanni's goal is to make the entire delivery process from the goods supplier all the way to the customer more efficient, creating cost-efficiency without forgetting customer satisfaction.

Tokmanni continues to strengthen customer trust by focusing on low prices, a diverse assortment, renewing the store concept and enhancing the customer service. The renewed and expanded assortment in several different product categories was well-received by customers in 2019. Likewise, new stores were opened and existing stores were expanded and renovated successfully. An increasing number of stores have been designed in accordance with Tokmanni's latest store concept, which emphasises effortless and pleasant shopping experiences. Under this concept, the stores have such features as wide aisles, informative signage and well-defined product areas. Strong growth in revenue and customer numbers as well as the extremely strong customer satisfaction level (Net promoter Score, NPS) indicate that the company's measures have been successful.

Tokmanni continued to develop the combination of its online store and brick-and-mortar stores so as to serve customers even better than before. With the online store, the company focused on improving internal efficiency, deploying new tools that serve customers and ensuring the product offering is attractive. Supported by the various measures implemented by Tokmanni, the online store's sales developed favourably in 2019.

Personnel

Tokmanni is a significant employer in Finland, and the chain's store network extends from Hanko in the south all the way to Sodankylä in the north. The motivated and satisfied Tokmanni employees work together to serve the customers, enabling the company to reach its goals. For this reason, it is paramount to ensure that the employees possess the right kind of competence and are committed to achieving the common goals. Tokmanni rewards its personnel for good and productive work, and every Tokmanni employee is covered by the performance bonus system.

Tokmanni had 3,659 (3,558) employees at the end of 2019. On average, Tokmanni employed 3,647 (3,415) people during 2019. Out of Tokmanni's total personnel, 85.4% (86.3%) worked at the stores, 7.1% (6.0%) at warehouses and 7.5% (7.6%) in other functions.

Tokmanni's different personnel groups have varying competence needs, which the company addresses by coaching personnel very actively. Supervisors, in particular, are an important group from the point of view of wellbeing at work. Additionally, the entire personnel's competence is developed systematically with a view to building career paths. The study groups arranged by Tokmanni allow employees to complete competence-based qualifications through apprenticeship training. Warehouse employees, for example, have the opportunity to complete a vocational qualification in logistics, while store employees are offered various vocational qualifications in business and management. Employees with a higher education degree can enrol in the Trainee programme, and experts are also sent to training events outside the company. During 2019, over 3,300 Tokmanni employees took part in customer service training.

The aim of Tokmanni's wellbeing at work activities is to provide the best conditions for productive work and coping at work. Following the cooperation agreement with LocalTapiola General Mutual Insurance Company, in 2019 Tokmanni increased its investment in occupational safety training. Among other events, Tokmanni organised the Varma Day, where all regional managers and Group key personnel received training in the working capacity management practices followed at Tokmanni. Tokmanni's wellbeing at work team subsequently provided training on the topic to the company's store managers. During the year, more than 300 occupational health consultations were held to support the working capacity of partially incapacitated employees, and the practices of the Flexible Work model were fine-tuned. Moreover, Tokmanni deployed the Työkykytutka working capacity monitoring tool in cooperation with Mehiläinen in order to facilitate the early detection of working capacity risks. The company also introduced direct appointments to an occupational physiotherapist, various digital coaching sessions for supporting wellbeing at work and Huolikulma chat through the OmaMehiläinen service as a low-threshold mental health service.

Tokmanni has a diversity steering group and project group, whose members broadly represent Tokmanni's employees. The group's goal is to ensure that Tokmanni hires people with various backgrounds in order to broaden and better serve its diversifying customer base.

The job satisfaction and activity of Tokmanni's employees are measured with an annual personnel survey, in addition to a quick survey of a few key indicators every autumn to ensure that the agreed development measures and goals are fulfilled. The employee satisfaction related score (Net promoter Score, NPS) was 36 in 2019 (2018: 24).

All Tokmanni employees are covered by the quarterly incentive bonus scheme, with the exception of logistics personnel. Tokmanni's logistics employees are paid a personal productivity bonus based on their monthly performance, on top of their monthly basic salary.

Personnel expenses in 2019 totalled EUR 114.0 million (106.9). The salaries of full-time employees covered by the commercial sector's collective agreement were raised by 1.6% on 1 April 2019. Most of Tokmanni's employees are covered by the agreement.

Corporate responsibility

Corporate responsibility is one of Tokmanni's business drivers. The key corporate responsibility focus areas at Tokmanni are business integrity, fair treatment, responsible sourcing and products, and efficient use of resources. These themes were determined based on the materiality analysis Tokmanni commissioned in 2015, and they remain relevant. Tokmanni's corporate responsibility will be presented comprehensively in the Corporate Responsibility Report to be published in the week beginning on 16 March 2020 and which is prepared in accordance with the GRI standards. In addition, matters related to corporate responsibility will be discussed in the "Non-financial information" section in the Board of Directors' Report.

Key corporate responsibility achievements in 2019

Tokmanni's Corporate Responsibility Report was awarded the honourable mention of Riser of the Year in the corporate responsibility reporting competition held by FIBS, a corporate responsibility organisation.

Tokmanni continued to invest in solar power plants, installing new solar power plants on the roofs of 18 stores in 2019. Tokmanni also installed LED lighting at 36 of its stores.

Tokmanni reused, recycled or recovered almost all, or 98% (92%), of its waste. To reduce food waste, Tokmanni launched a pilot for an evening discount on expiring food products at 20 of its stores. It also introduced plastic bags containing 60% recycled plastic for its Christmas sales.

Tokmanni reported to the Carbon Disclosure Project (CDP) for the first time and began validating Science-Based Targets for the reduction of greenhouse gas emissions.

Tokmanni continued to develop risk management in its sourcing chain also from a corporate responsibility perspective. In 2019, 96% (98%) of direct purchases from risk countries were made from third-party audited factories. In addition, Tokmanni continued to conduct factory inspections at new and high-risk factories, especially in risk countries, and updated its general terms and conditions for sourcing, its code of conduct for sourcing and its internal systems in order to support risk management. Tokmanni also made progress in its policies on high-risk raw materials in its product selection. Tokmanni joined amfori BEPI (Business Environmental Performance Initiative) in order to influence the climate impacts of its factories in risk countries.

Tokmanni entered into a two-year corporate social responsibility partnership with the Finnish Red Cross (FRC), with the aim of endorsing work for combatting loneliness and social exclusion across Finland by supporting FRC's friend volunteers. In addition, Tokmanni continued to support the charity organisation Veikko ja Lahja Hurstin Laupeudentyö ry together with Unilever Finland and participated in the Mielinauha campaign of MIELI Mental Health Finland.

Tokmanni strengthened diversity and equality within the company by introducing gender-neutral job titles and asking job applicants to state whether they had more than one mother tongue on their job applications. Tokmanni also offered trainee positions to young people and work trial positions to people at risk of social exclusion in order to strengthen their employment skills. Additionally, Tokmanni employed around 1,000 summer employees and Tutustu työelämään ja tienaa summer trainees across Finland.

The Compliance unit is responsible for Tokmanni's compliance with guidelines. The unit is headed by the Chief Compliance Officer, who reports directly to the Chief Executive Officer and also informs the Board of Directors. In addition to the Chief Compliance Officer, the Compliance unit includes four Compliance Officers, each of whom has a specific area of responsibility. The Compliance team convened regularly during 2019, handling all reports received through the whistleblowing channel in an appropriate manner. The whistleblowing channel is available to all Tokmanni employees, who can report violations anonymously through it. Tokmanni also updated the content of the Ethical Code of Conduct e-learning course, which is compulsory for every Tokmanni employee.

In addition to working on various projects, Tokmanni held its annual Responsibility Day at its Mäntsälä administrative and logistics centre in June.

Shares and shareholders

Tokmanni Group Corporation's share capital amounted to EUR 80,000, and it had 58.868.752 shares outstanding at the end of 2019. During 2019, a total of 23.805.712 Tokmanni shares were traded on the Nasdaq Helsinki for a total price of EUR 213.8 million. The final trade in Tokmanni shares on the Nasdaq Helsinki was executed at a price of EUR 12.62. The highest quote for the share was EUR 12.74 and the lowest was EUR 7.09. The volume-weighted average price of the share was EUR 9.00. At the end of December 2019, the market value of the shares was EUR 742.9 million.

Tokmanni Group Corporation has one share class, with each share entitling its holder to one vote at a general meeting of the company. The shares have no nominal value. Tokmanni does not own any treasury shares.

At the end of December 2019, Tokmanni had 16.199 registered shareholders. At the end of 2019, the largest shareholders of Tokmanni Group Corporation were Takoa Invest Oy with 17.91%, Elo Mutual Pension Insurance Company with 8.58%, Varma Mutual Pension Insurance Company with 5.35%, Ilmarinen Mutual Pension Insurance Company 3.48 % and OP-Finland Value Fund with 2.28% ownership.

Financial and insurance institutions held 40.13%, non-financial corporations held 22.48% and public-sector entities held 18.68% of the shares, while households held 15.50% and non-profit institutions 2.19%. Direct foreign ownership was 1.04% of the shares. Of all the above mentioned shares, 28.69% were nominee-registered.

More information about Tokmanni's shares and shareholders is available at and management holdings is available at n the company's website.

Authorising the Board of Directors to decide on the repurchase of the company's own shares

The general meeting authorized the Board of Directors to decide on repurchase or accepting as pledge, using the company's non-restricted equity, a maximum of 2.943.000 own shares, which corresponds to approximately 5% of the company's total shares at the time of convening the meeting. The repurchase may take place in one or more tranches.

The shares shall be repurchased in a proportion other than the shareholders' current shareholdings in the company in public trading arranged by Nasdaq Helsinki Ltd at the trading price of the moment of repurchase. The shares shall be repurchased and paid in accordance with the rules of Nasdaq Helsinki Ltd.

The company may repurchase the shares to execute its incentive program or corporate acquisitions or other business arrangements or investments related to the company's operations, to improve its capital structure, or to be otherwise further transferred, retained by the company or cancelled.

The authorisation is proposed to include the right for the Board of Directors to decide on all other matters related to the repurchase of shares. The authorisation is effective until the Annual General Meeting held in 2020, yet no further than until 30 June 2020. The Board of Directors did not use the authorization it received in 2019.

Share-based incentive schemes

The Board of Directors of Tokmanni Group Corporation resolved to continue its share-based incentive program directed to the key employees in February 2019. The aim of the program is to combine the objectives of the shareholders and the key employees in order to increase the value of the Company in the long-term, to commit the key employees to implement the Company's strategy, and to offer them a competitive reward program based on earning and accumulating the Company's shares.

The performance share program includes the calendar year 2019. The potential reward of the program will be based on the Company's earnings per share on 31 December 2019 and on the market value development 1.1-31.12.2019. In 2019, the expense recognized for the share-based incentive scheme was EUR 0.3 million (0.1).

The target group of the program includes the CEO, Deputy CEO, and members of the Executive Group as well as other key employees. The potential rewards, which by nature are taxable income, to be paid correspond to a maximum of 120,000 Tokmanni Group Corporation's shares based on the market value at the moment of granting and will be paid in Tokmanni Group shares and possibly partly in cash. The recipient of the shares is free to use the shares in 1 January 2022. The cash proportion covers taxes and tax-related costs arising from the reward to a key employee. As a rule, if a target group employee's employment or service ends before the shares are releases, the shares will be returned to the company.

Governance

Governance at Tokmanni Group Corporation is based on the Articles of Association approved by the General Meeting of Shareholders, the Finnish Limited Liability Companies Act and the rules and regulations by Nasdaq Helsinki Ltd. with regard to listed companies. Tokmanni complies with the Finnish Corporate Governance Code for listed companies issued by the Securities Market Association.

Decisions taken by the Annual General Meeting

Tokmanni Group Corporation's Annual General Meeting (AGM) was held on 19 March 2019 in Mäntsälä, Finland. The AGM approved the 2018 financial statements and discharged the members of the Board of Directors, as well as the company's CEO, from liability for the financial period.

Dividend payment

The AGM approved the proposal to pay a dividend of EUR 0.50 per share for the financial period that ended on 31 December 2018. The dividend was paid to shareholders who were registered in the company's shareholders register, maintained by Euroclear Finland, on the dividend payment record date, 21 March 2019. The dividend payment date was 4 April 2019.

Board composition and remuneration

The AGM decided that the Board of Directors consist of six members. The AGM elected Juha Blomster, Thérèse Cedercreutz, Kati Hagros, Erkki Järvinen, Seppo Saastamoinen and Harri Sivula as members of the Board. Seppo Saastamoinen was elected as Chairman of the Board of Directors.

The AGM approved the proposal that the remuneration of the members of the Board of Directors remain unchanged as follows:

- The Chairman of the Board of Directors will be paid EUR 84,000 as annual remuneration;
- Each member of the Board of Directors will be paid EUR 30,000 as annual remuneration;

In addition, the Chairman and the members of the Board of Directors will be paid an attendance fee as follows:

- EUR 1,000 per Board meeting for those members of the Board of Directors who are domiciled in Finland;
- EUR 2,000 per Board meeting for those members of the Board of Directors who are domiciled elsewhere in Europe; and
- EUR 3,000 per Board meeting for those members of the Board of Directors who are domiciled outside Europe.

The annual remuneration of the members of the Board of Directors is paid in company shares and in cash, with around 40% of the annual fee being paid in shares in the company and the rest being paid in cash. The company will pay any costs and transfer tax related to the purchase of the company shares. The shares purchased for a Board member cannot be transferred until 3 years have passed from the date of purchase or before their membership in the Board has ended, whichever is earlier.

The Board members' meeting fees will be paid in cash.

Auditor remuneration and auditor selection

The AGM decided that the auditor be paid remuneration in accordance with a reasonable invoice. PricewaterhouseCoopers Oy, Authorised Public Accountants, was elected as the company's auditor, with Maria Grönroos, APA, as the principal auditor designated by the audit firm. The auditor's term of office ends at the close of the next Annual General Meeting following the election of the auditor.

The Board of Directors' authorisation to decide on the repurchase of the company's own shares

The Annual General Meeting authorised the Board of Directors to decide on repurchasing or accepting as pledge, using the company's non-restricted equity, a maximum of 2,943,000 own shares, which corresponds to around 5% of the company's total shares at the time of convening the meeting. The repurchase may take place in one or more tranches.

The shares shall be repurchased in a proportion other than the shareholders' current shareholdings in the company in public trading arranged by Nasdaq Helsinki Ltd at the trading price at the moment of repurchase. The shares shall be repurchased and paid for in accordance with the rules of Nasdaq Helsinki Ltd.

The company may repurchase shares to execute its incentive programme or corporate acquisitions or other business arrangements or investments related to its operations, to improve its capital structure, or to be otherwise further transferred, retained by the company or cancelled.

The authorisation is proposed to include the right of the Board of Directors to decide on all other matters related to the repurchase of shares. The authorisation is effective until the Annual General Meeting of 2020, but not beyond 30 June 2020.

The minutes of the meeting are available on Tokmanni's website.

Decisions taken in the constitutive meeting of the Board of Directors

At its constitutive meeting following the Annual General Meeting, the Board elected Juha Blomster, Kati Hagros, Erkki Järvinen and Harri Sivula as members of the Finance and Audit Committee.

Executive Group

On 31 December 2019, Tokmanni's Executive Group included the following persons:

- Mika Rautiainen, CEO since 1 June 2018
- Markku Pirskanen, CFO and deputy to CEO, member of the Executive Group since 22 May 2017
- Timo Heimo, Director, Information Management and Supply Chain, member of the Executive Group since 1 December 2018
- Sirpa Huuskonen, HR Director, member of the Executive Group since 1 May 2016
- Tuomas Hyvärinen, Purchasing Director, member of the Executive Group since 21 May 2018
- Mathias Kivikoski, Sales and Marketing Director, member of the Executive Group since 16 January 2017
- Harri Koponen, Store Network and Concept Director, member of the Executive Group since 1 February 2018
- Matti Korolainen, Commercial Director, member of the Executive Group since 1 August 2019
- Janne Pihkala, Strategy and Business Development Director, member of the Executive Group since 1 April 2018

More information on Tokmanni's governance is available on the company's website.

Information contained in the notes to the financial statements

Note 5.1 Related party transactions discloses transactions with related parties and the terms and conditions of the CEO's contract.

Risk management

Tokmanni Group Corporation's risk management is guided by the risk management policy approved by the Board of Directors of Tokmanni. The purpose of Tokmanni's risk management is to support the Group's values and strategy and the continuity of its business operations by anticipating and managing any risks associated with its operations. The goal is to assess risks systematically to promote thorough planning and decision-making.

The Executive Group is responsible for the practical implementation of risk management. Risks are assessed regularly and managed comprehensively. The risks of Tokmanni Group Corporation are reviewed annually by the Finance and Audit Committee of the Board of Directors.

The Chairman of the Finance and Audit Committee reports on risk management to the Board of Directors on a regular basis. The Board of Directors reports the key risks and factors of uncertainty to the markets in the Board of Directors' Report, and communicates material changes to them in the business review and half-year financial report.

Below is a description of the risks and uncertainties that are considered significant for Tokmanni.

Market risk

Tokmanni's profitability and profit from operations as well as sales growth are dependent on the behaviour of consumers and competitors operating in the Finnish retail market. New international market forces and online stores are transforming the sector and its market dynamics, creating pressure in the market and further intensifying competition. If Tokmanni is unable to correctly judge the direction of the market trend and the changes that it demands, it could have an adverse effect on Tokmanni's business. To manage market risks, Tokmanni tracks the market as part of the Group's day-to-day operational management, develops its business processes and services in an agile way, and adapts its sales promotion procedures and pricing strategies in order to respond to the changing market conditions.

Inventory turnover and working capital management

Tokmanni aims to improve the management of working capital with better processes and tools used in sourcing and in supply chain and category management. A failure by Tokmanni to improve its management of working capital could have a negative effect on Tokmanni's financial position and profitability. Tokmanni continuously monitors the turnover of its inventory, the life cycles of products, depreciation on products, and its assortment management as part of the Group's day-to-day operational management, and takes corrective measures, if necessary.

Product quality and responsibility risk

Some of the key measures taken by Tokmanni to improve the gross margin include increasing direct imports and growing the sales of its private label products. Increasing imports rapidly could result in risks related to product quality and to responsibility. If monitoring and quality control in the supply chain fails, it could result in financial losses, an erosion of customer trust and the company's reputation or, in the worst case, risks to customers' health. Tokmanni has strengthened its quality organisation and fine-tuned its sourcing model. In addition, Tokmanni focuses increasingly on extensive pretesting of products and ensures through self-supervision that products comply with regulations governing them. Effective handling of customer feedback also forms a key aspect in the management of product quality. Tokmanni mitigates the responsibility risks related to products by striving to channel all direct sourcing from risk countries to factories audited by amfori BSCI or SA8000.

Data system and data security risks

Tokmanni has become increasingly dependent on data systems, data traffic and external service providers. The interconnectedness of networks, the outsourcing of services and online retail have made it more difficult for companies to monitor their data security effectively. Prolonged disturbances in data systems, payment transmission or elsewhere in the supply chain, or other exceptional situations such as a cyber-attack, could paralyse the company's operations or halt the flow of goods within the Group, causing significant losses in sales. Tokmanni is focusing increasingly on identifying data security risks and increasing its data security capabilities. In addition, Tokmanni is investing in the latest device infrastructure and the development of back-up systems as well as keeping preparedness and recovery plans up to date.

Risks arising from the pace of change in the sector

Achieving business goals in the ongoing transformation of the retail sector requires an active approach and strong competence. Companies must offer products and services that appeal to customers at an accelerating pace. Technological advances will affect products, sales channels and deliveries, among other things. Digital services and online retail continue to grow in importance, as do customer communications supporting them. Tokmanni's aim is to offer its customers low prices, an interesting and wide assortment, comprehensive services, a nationwide network of stores combined with an online store, and an inspiring shopping experience through all of its sales channels. To achieve its goals, Tokmanni has increased the efficiency of its strategic work and clarified responsibilities in order to ensure that its strategically important projects are carried out smoothly from planning to implementation. Part of the strategic work involves evaluating developments taking place in the sector and predicting future changes.

Political country risk in sourcing

The sourcing market is constantly undergoing changes that are beyond the company's control. The changing environmental legislation in China and political instability in such sourcing countries as Turkey, Bangladesh, Myanmar and Pakistan could increase sourcing prices or cause supply problems. Tokmanni focuses increasingly on developing its sourcing models, which would enable it to adjust its sourcing flexibly in the event that risks materialise.

Reputation risk

If Tokmanni fails in its supervision of product safety or in controlling responsibility in the supply chain, it could result in financial losses as well as an erosion or loss of customer trust. The importance of different aspects of responsibility in product manufacturing and sourcing as well as fair and equal treatment of employees is increasingly emphasised by customers. Any failure to implement responsibility perspectives would result in negative publicity for Tokmanni, impacting Tokmanni's reputation. The above-mentioned quality and reputation risks are managed with internal and external quality and responsibility audits, with the compliance requirements of the amfori BSCI Code of Conduct and Tokmanni's Ethical Code of Conduct, with good governance principles and a good corporate management model, and with internal audit measures and a large-scale internal Compliance programme. In addition, Tokmanni has a quality organisation that monitors product safety and quality in the country of origin, at the logistics centre and in the stores.

Risks related to Tokmanni's private label products and direct sourcing

Tokmanni is increasing the number of private label products in all product categories in order to achieve its aim of improving profitability. Tokmanni's private label products usually have a low perceived price image and they offer better margins than the brand products the company sells. Tokmanni is also boosting its capability to make direct procurements by dropping intermediaries and dealing directly with goods manufacturers. An increase in Tokmanni's direct procurements may increase operational risks related to the availability of products, the need for working capital and the quality and safety of products. A failure by Tokmanni to increase the number of its private label products or direct procurements could also jeopardise the company's strategic goals, which could have a negative effect on Tokmanni's business and financial position. To manage the above-mentioned risks, Tokmanni utilises its joint sourcing company in Shanghai, continues to utilise and develop its sourcing model and conducts audits of manufacturers.

Brand image and marketing risk

The growth of Tokmanni's like-for-like sales is dependent on the reach and effectiveness of advertising and marketing programmes. For advertising and marketing programmes to be successful, Tokmanni must, for example, manage its advertising and marketing expenses effectively so as to maintain margins and the return on Tokmanni's marketing investments at a satisfactory level. It must also increase its customer numbers through better brand awareness. To manage its marketing risk, Tokmanni tracks the markets and constantly measures the effectiveness of marketing and advertising. Tokmanni's marketing processes have been developed to be agile and flexible, to enable very rapid reaction to any adverse events.

Personnel competence and key person risks

The execution of Tokmanni's strategy and strategic transformation require new kinds of skills and competences from the personnel. Tokmanni's ongoing development projects and its need for special expertise increase the key person risk and the company's dependence on the competence of individual persons. Tokmanni focuses on recruiting people with the essential competence, developing competence through training and coaching and promoting learning on the job in order to mitigate the key person risk.

Foreign exchange risks

Tokmanni is exposed to foreign exchange risks through its sourcing. Unfavourable changes in foreign exchange rates can raise the acquisition costs of products purchased in other currencies than the euro, and Tokmanni may not be able to pass on all such costs to its customers. The most important foreign currency for Tokmanni is the United States dollar. In the financial year that ended on 31 December 2019, approximately 86% of Tokmanni's product purchases were made in euros and approximately 14% in US dollars. Tokmanni hedges at least half of its purchases made in US dollars for an average period of six months.

Market outlook

According to the view of Finland's Ministry of Finance, economic growth will be sustained by domestic demand in the coming years, as the outlook for foreign trade is fairly weak. The importance of public spending and investments for GDP growth will be emphasised, especially in 2020. In its Economic Survey for winter 2019, the Ministry forecasts that inflation in 2020 will amount to 1.3%. As for GDP growth in 2020, the Ministry forecasts that it will slow down to 1.0% (1.6% in 2019). More information can be found on the website of the Ministry of Finance, at https://vm.fi/en/publications.

Tokmanni expects the Finnish non-grocery market to grow slightly in 2020, and it expects discount stores, speciality discount stores and online stores to further strengthen their position.

Key events after the financial year

The Group does not have any material events after the reporting date.

Tokmanni's outlook for 2020

Tokmanni expects good revenue growth for 2020, based on the revenue from the new stores acquired and opened in 2019 and new stores to be opened in 2020, as well as on slight growth in like-for-like revenue. Group profitability (comparable EBIT margin) is expected to improve on the previous year.

Board of directors dividend proposal

The parent company's distributable funds total EUR 169,516,025.00, which includes EUR 47,571,901.46 in profit for the year. The Board of Directors proposes that a dividend of EUR 0.62 per share, in total EUR 36,498,626.24 be paid for the financial period ending 31 December 2019. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date 20 March 2020. The dividend payment day proposed by the Board of Directors is 3 April 2020. The Group's liquidity is good and the proposed profit distribution does not endanger Tokmanni's solvency.

Non-financial information

The statement below describes Tokmanni's corporate responsibility through the group's four key corporate responsibility focus areas. The environmental issues of the group are dealt with in the "Efficient use of resources" section; social and personnel matters and respect for human rights are discussed in the "Fair treatment" and "Responsible sourcing and products" sections; and prevention of corruption and bribery are discussed in the "Business integrity" section.

A thorough description of corporate responsibility matters is provided in Tokmanni's Corporate Responsibility Report to be published in the week beginning on 16 March 2020. The report is prepared in accordance with the GRI standards.

Corporate responsibility at Tokmanni

Responsible business operations are a cornerstone of Tokmanni's success, forming an essential part of every Tokmanni employee's day-to-day work. The key corporate responsibility focus areas at Tokmanni are business integrity, fair treatment, responsible sourcing and products, and efficient use of resources. These themes were determined based on the materiality analysis Tokmanni commissioned in 2015 and they take into account stakeholders and business, and they remain relevant for Tokmanni.

The aim of Tokmanni's responsibility work is to minimise business risks, make use of opportunities, and produce added value for stakeholders. Tokmanni has assessed the risks associated with its operations and business relations from a corporate responsibility perspective and strives to minimise them. From this perspective, the biggest challenges faced by the group's business are responsible purchasing and reducing climate impacts throughout the value chain.

Description of Tokmanni's business model

Tokmanni is the largest nationwide general discount retailer in Finland. At the end of 2019 Tokmanni had 191 stores across the country, as well as an online store. Tokmanni is a customer-oriented general discount retailer whose competitive advantages are its cheap prices, attractive assortment, a nationwide store network combined with an online store, an efficient business model and the ability to react rapidly to factors influencing customer satisfaction.

Tokmanni offers a wide assortment of products that offer great value for money in the home renovation and cleaning, clothing and leisure, and interior decoration and garden categories, for example. Tokmanni's assortment consists of its own private label and exclusive brand products as well as non-branded products and leading international brands.

Tokmanni's goal is to grow profitably, and the improvement in profitability is driven by increasing the proportion of direct imports and private label products in sales by utilising the sourcing company in Shanghai, among other things. Tokmanni's products are distributed to the stores mainly from the Group's logistics centre in Mäntsälä. The Group's head office is also located in Mäntsälä. At the end of 2019, Tokmanni employed 3,659 people, of whom 85% worked at the stores, 7% at the warehouse and 8% in support functions.

Business integrity

Responsibility towards our customers, employees, investors and other stakeholders is a core principle in our business operations. Our Code of Conduct governs our operations. Tokmanni observes legislative requirements and corporate governance in everything it does.

The basis of responsibility work at Tokmanni are the company values and Code of Conduct, including the complementary principles, policies and instructions. Tokmanni's Code of Conduct and related principles are approved by the Board of Directors. The policies and instructions are approved by the Executive Group and the heads of department, respectively. The CEO is ultimately responsible for Tokmanni's corporate responsibility matters. He reports these to the Board of Directors. The Board of Directors deals with responsibility matters if necessary, and the presentations and information produced by Tokmanni's responsibility experts serve as support for the decision making.

Tokmanni's Code of Conduct includes the following rules: we treat everyone equally and without discrimination; we minimise accidents at work; we follow laws and regulations; we do not offer bribes; we protect sensitive business information and group assets; we respect privacy; we support fair competition; we minimise our environmental impact; we require responsible production of our products; we communicate transparently and reliably.

In 2019, Tokmanni updated the content of the Code of Conduct e-learning course, which was completed by about 70% of the personnel at Mäntsälä. Due to the delay in updating the course and the Christmas sales season, the warehouse and store personnel and the rest of the employees at Mäntsälä will complete the course in Q1 2020.

BUSINESS INTEGRITY		
Targets for 2019	**Status in 2019**	**Targets for 2020**
Tokmanni employees have been trained in the Code of Conduct	Partially achieved	All Tokmanni employees have been trained in the updated Code of Conduct
All messages sent to Tokmanni's whistleblowing channel are managed appropriately	Achieved	All messages sent to Tokmanni's whistleblowing channel are managed appropriately
Tokmanni has no cases of corruption	Achieved	Tokmanni has no cases of corruption
Tokmanni has no privacy violations	Achieved	Tokmanni has no privacy violations
Tokmanni does not receive any complaints from the authorities regarding its marketing	Partially achieved	Tokmanni does not receive any complaints from the authorities regarding its marketing

Fair treatment

An open and fair corporate culture that respects all personnel is essential for conducting successful and sustainable business activities. With inclusive and fair personnel management, Tokmanni is able to evolve, benefit from new opportunities, reduce business risks and generate added value for all its stakeholders. In 2019, Tokmanni introduced management principles and working community principles that apply to all Tokmanni employees. Both sets of principles are based on the company's values. The Group continuously monitors the standard of good management, supervisory work, the working atmosphere and equal treatment. In the employee satisfaction survey, the personnel rated the question on fair and equal treatment with a grade of 4.3 (on a scale of 1–5).

Tokmanni's aim is a motivated and committed personnel who value the customer, their own work and their employer and contribute responsibly to the company's performance. The personnel are offered various training and development opportunities. The professional expertise of Tokmanni's personnel is developed through conventional training and e-learning courses and in-service training, in all tasks. Tokmanni's in-house experts participate in the development of training and improving personnel skills in collaboration with external training partners. The largest training project of the year was the customer service training that was given to every employee.

The health, working capacity and safety of personnel are ensured with working capacity management. The goal of Tokmanni's working capacity management is to anticipate the occupational health risks of the personnel, improve job satisfaction and lengthen careers. At the end of 2019, the sickness absence percentage of all Tokmanni employees was 4.5. Tokmanni tracks employee satisfaction, focusing on factors such as the development of equality, the working atmosphere, supervisory work and fair management. Development areas are selected each year, and these are monitored on a regular basis. According to the employee satisfaction survey, 92% of Tokmanni employees were very or fairly satisfied with Tokmanni as a workplace. The employee net promoter score (eNPS) was 36.

At the end of 2019, Tokmanni had a total of 3,659 employees, which was 101 more than a year earlier. The average number of Tokmanni personnel in 2019 was 3,647. The figures reported include those who were on periods of absence from the workplace (e.g. on maternity, paternity, parental, childcare, study and job alternation leave). The most common reasons for fixed-term employment relationships were various substitute positions (e.g. for the duration of family or study leave) and seasonal work.

There was a total of 287 safety observations reported at Tokmanni in 2019. A total of 291 workplace accidents, including work-related pain, were reported. Tokmanni will introduce an occupational safety system in February 2020 to facilitate the reporting of safety observations and the investigation and reporting of accidents.

Tokmanni recognises, values and manages diversity. The majority of Tokmanni's employees are women and the age distribution of employees is wide. Tokmanni employs a large number of young workers at its stores and in other tasks across the organisation through summer jobs and various forms of work experience. The company also believes it is especially important to provide the best possible service to all of its customers. Tokmanni has established procedures for handling cases of inappropriate treatment and for preventing such occurrences. The guidelines state that an intervention must be made immediately in cases of inappropriate treatment.

In 2019, Tokmanni continued to progress systematically towards its diversity targets through three projects: the employment of people at risk of social exclusion and people with intellectual and developmental disabilities; the integration of diversity into HR processes; and the implementation of operating models that are attractive to young people at the stores. The company adopted gender-neutral job titles and began asking in the recruitment stage whether job applicants had a mother tongue other than Finnish or Swedish. The diversity working group and steering group continued their work as planned.

The company is currently developing HR key performance indicators (KPIs), and this will continue during 2020.

Targets for 2019	Status in 2019	Targets for 2020
Implementation of the values continues Focus areas for 2019: - Developing customer service - Enhancing competence, customer service and supervisory work in the purchasing function - Developing workplace skills	Achieved	- Workplace skills are made compulsory induction training through an e-learning course for all Tokmanni employees - New employees recruited for the stores receive customer service training from their supervisors - Coaching programme for the extended management is launched
- A system for reporting safety observations is in place - Safety observations are made and reported more actively, and occupational health and safety are improving	Partially achieved	- The occupational safety system is deployed in February 2020. All Store Managers undergo occupational safety training in 2020. - The number of safety observations is increased further in order to develop the occupational safety culture and reduce the number of accidents
Development of knowledge management continues (personnel NPS in 2019)	Partially achieved	- eNPS > 36
		- Diversity is taken into consideration in every recruitment case

Responsible sourcing and products

Responsibility is a key element of Tokmanni's sourcing process. The process is supported by Tokmanni's principles and guidelines for responsible sourcing. As a member of the amfori Business Social Compliance Initiative (amfori BSCI), Tokmanni is committed to complying with the amfori BSCI Code of Conduct. Tokmanni also requires its supplier factories to be committed to operating in accordance with the amfori BSCI Code of Conduct, and these suppliers must also demand the same from their own suppliers and producers.

The supervision of responsibility in sourcing focuses in particular on risk countries, which according to the World Bank's classification have the greatest risk of labour and human rights violations. The primary focus is on suppliers within Tokmanni's more immediate sphere of influence, i.e. private label and exclusive distribution product suppliers. Tokmanni requires factories manufacturing these products in risk countries to be audited in accordance with the amfori BSCI or SA8000. The toy industry's ICTI Care audits can also be accepted for toy factories on a case-by-case basis. Sourcing agreements with brand product suppliers must also contain a commitment stating that production accords with the requirements of the amfori BSCI. The assessment of responsibility begins at the supplier tendering stage, as responsibility issues are taken into account in the competitive bidding.

In 2019, 96% (98%) of direct purchases from risk countries were made from amfori BSCI audited factories.

In addition to commissioning amfori BSCI audits, Tokmanni conducts its own audits to monitor and develop responsibility in its sourcing. In 2019, Tokmanni carried out a total of 52 (98) own responsibility and quality audits, covering 12.4% (13%) of the active suppliers in risk countries. Tokmanni's own audits focus simultaneously on product quality and on verifying the responsibility of factories, i.e. the results of their amfori BSCI audits. Tokmanni aims to conduct at least 70 (100) of its own audits in 2020.

Respect for human rights

Responsible sourcing at Tokmanni means, in particular, ensuring that the fundamental rights of employees are respected throughout the supply chain. Human rights are the cornerstone of Tokmanni's corporate responsibility work, and its operations accord with the provisions of the UN's International Bill of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact, among others. Regarding human rights, Tokmanni's operations are also steered by the UN Guiding Principles on Business and Human Rights. In line with the due diligence principle, Tokmanni evaluates and monitors the effects of its operations on human rights, taking any corrective measures, if necessary, and communicates them as far as possible within its degree of participation, possibility and power of influence. Tokmanni has published its Human Rights Principles and a summary of its Human Rights Report for 2016 on its website. This report is still relevant.

The salient potential human rights impacts in Tokmanni's operations are related to health and safety, safety of buildings, excessive overtime, lack of a living wage, child labour and forced labour. The negative impacts identified can affect a range of human rights, including the right to work, the right to health, the right to life and the right to a family life. Tokmanni's measures concerning its purchasing operations consisted of further developing an action plan for responsible sourcing, piloting and developing a supplier management system, developing a grievance mechanism and a process for correcting detected deficiencies, and going deeper into the supply chain in accordance with the UN Guiding Principles on Business and Human Rights, especially with regard to high-risk raw materials.

Human rights impacts are monitored constantly through audits and communication with suppliers, among other measures. Any negative impacts are addressed immediately. A partial solution for several salient human rights impacts in risk countries would be functional trade unionisation and collective bargaining. These could promote such aspects as the payment of a living wage and reasonable working hours.

In 2019, Tokmanni developed the management of responsibility risks in the area of human rights. The company updated its sanctions guidelines and general terms and conditions for sourcing particularly from the perspective of responsibility and began planning the pilot for a supplier management system at the sourcing office in Shanghai. Additionally, Tokmanni began to develop responsibility indicators for factories and updated the sourcing action plan from a responsibility risk perspective.

In future, the company will continue to improve the management of corporate responsibility risks with regard to the most-sold products in the different product categories and to human rights in the supply chains. In its own audits, Tokmanni focuses particularly on factories where the estimated risk of human rights violations is the highest. In the longer term, Tokmanni will strive to create a well-functioning feedback channel down to the factory level.

The most important measures for eliminating or mitigating human rights impacts in Tokmanni's own operations consist of improving occupational health and safety.

Product responsibility

Product safety is one of Tokmanni's main corporate responsibility themes. Tokmanni aims to ensure that all the products it sells are safe to use. The company ensures product safety, responsibility and due diligence by conducting self-supervision, visiting suppliers and carrying out product testing itself or commissioning tests from third parties.

In 2019, Tokmanni's aim was to concentrate on the safety and quality of its private label products, its licenced brand products and the products it imports, as well as to improve the quality control process together with the quality team in Shanghai so that the focus in quality control can be reliably moved closer to the suppliers. The indicator used in this assessment is the number of instances of non-compliance for these product categories. The number of non-compliance cases in 2019 was 10 (20), most of which were due to deficiencies in electrical safety in the different product types of an individual supplier. An example of such a deficiency was a quality defect in LED decoration light transformers. In 2019, Tokmanni conducted three product recalls in its capacity as the party with product liability, one of which was a recall of decoration lights with a faulty transformer and two were recalls of products brought to the market by a European supplier and distributed by Tokmanni.

In the final quarter of 2017, Tokmanni introduced a system that enables it to gain more accurate information on products returned by customers. The information generated by the system since the final quarter of 2018 can be compared to that of a year earlier, making it easier to react to customer feedback. With respect to quality control, Tokmanni will focus in 2020 on the most-sold products in the different product categories, where the risks related to quality are often also the highest.

Targets for 2019	Status in 2019	Targets for 2020
- Further development of risk management in responsible sourcing with regard to the most-sold private label products in the different product categories and to the biggest human rights risks	Achieved	- Defining a responsibility indicator for suppliers - Updating the sanctions guidelines and introducing the updated general terms and conditions for sourcing and responsible sourcing guidelines, improving the contract management process
- Verifying amfori BSCI audits with at least 100 own audits. At least 25% of new sourcing factories in risk countries will be audited by Tokmanni, in addition to amfori BSCI	Not achieved	- 70 own factory audits and own factory audit process updated
- No serious faults related to product safety have been found in products sold by Tokmanni, and none have caused any accidents - Further development of the quality control process for the most-sold products in different product categories - Setting targets for the number of certified products manufactured from recycled raw materials in each product category	Partially achieved	- No serious faults related to product safety have been found in products sold by Tokmanni, and none have caused any accidents - Conducting an overall assessment and update of quality control processes in sourcing - - Defining certification targets and measurement systems for high-risk raw materials

Efficient use of resources

Tokmanni's most significant environmental issues are energy consumption and the related emissions as well as waste and waste management. Tokmanni implements a range of measures that aim to achieve a more resource-efficient business. The Group is constantly examining new opportunities to cut energy consumption and make use of renewable energy sources at its properties, and it aims to make its logistics more environmentally friendly. Tokmanni also monitors the amount of waste generated at its warehouse and in its stores and is actively improving the reuse and recycling of its waste.

Energy-efficient business

The reduction of climate impacts is one of the most important areas of corporate responsibility at Tokmanni. The target is to achieve carbon neutrality regarding its properties, air travel and leased vehicles by 2030.

Most of the climate impacts during the lifecycle of Tokmanni's products arise during the manufacture and use of the products. The company has limited opportunities to affect these impacts and their measurement is challenging. The main focus of Tokmanni's climate strategy in 2019 is to reduce the energy consumption and carbon dioxide emissions of its properties. The target can be achieved by reducing energy consumption, improving energy efficiency, using renewable energy, obtaining renewable energy certificates and compensating for air travel emissions.

Environmentally sound logistics

In spite of its growth and the expansion of its store network, Tokmanni is aiming to keep the greenhouse gas emissions from transport at the 2015 level in relation to revenue. Tokmanni strives to concentrate its transport needs with long-term contractors, and with these partners it looks for ways to reduce carbon dioxide emissions and other environmental impacts from transport.

Resource efficiency

Tokmanni seeks to minimise the amount of waste sent to incinerator plants by reducing waste, and by increasing the reuse and recycling of waste. In 2019, Tokmanni recycled approximately 32% and reused 50% of its waste. The latter was achieved by reusing pallets in transportation. In 2020, Tokmanni aims to achieve a recycling rate of 35% and to maintain the reuse rate at 50%. To raise the recycling rate, the company will strive to increase the recycling of clear plastic film and to train the store personnel in various aspects of recycling at individual stores.

The location-based emissions of Tokmanni's properties decreased by about 9% (1%) in 2019. While the need for heating was smaller in 2019 than in the previous year, especially in the final months, the average emissions factor for Finland also decreased from the year before. LED lighting was installed at numerous locations (36), which reduced power consumption.

In 2019, Tokmanni installed solar panels on the roofs of 18 stores. The amount of solar power utilised in 2019 was 1,609 MWh. LED lighting was installed in 36 stores during the year, and cumulatively the installations cut electricity consumption by 22.5% in like-for-like stores.

For 2020, Tokmanni's target is to reduce the amount of location-based emissions at its properties by 3%.

EFFICIENT USE OF RESOURCES		
Targets for 2019	**Status in 2019**	**Targets for 2020**
- Reduction of location-based carbon dioxide emissions at the properties (scope 1 and 2) by 3%	Achieved	- Reduction of location-based carbon dioxide emissions at the properties (scope 1 and 2) by 3%
- Maintaining greenhouse gas emissions from transport at the 2015 level in relation to revenue	Achieved	- Maintaining greenhouse gas emissions from transport at the 2015 level in relation to revenue
- Waste recycling rate is 36% and reuse rate is 44% - Comparable power consumption -5% - Power consumption (total) -2%	Achieved	- Recycling rate 35% - Reuse rate 50% - Comparable power consumption -4% - Power consumption (total) -3%

Group key figures and calculation of financial ratios

Key figures	1-12/2019	1-12/2018	1-12/2017
Revenue, 1,000 EUR	944 276	870 390	796 476
Like-for-like revenue development, %	4.3	5.6	-1.3
Customer visit development %	6.9	6.9	3.6
Gross profit, 1,000 EUR	325 197	295 305	267 054
Gross margin, %	34.4	33.9	33.5
Comparable gross profit, 1,000 EUR	325 278	295 043	268 062
Comparable gross margin, %	34.4	33.9	33.7
Operating expenses, 1,000 EUR	-198 892	-234 348	-217 834
Comparable operating expenses, 1,000 EUR	-197 923	-235 744	-216 986
EBITDA, 1,000 EUR	130 556	64 937	53 100
EBITDA, %	13.8	7.5	6.7
Comparable EBITDA, 1,000 EUR	131 605	63 279	54 956
Comparable EBITDA, %	13.9	7.3	6.9
Operating profit EBIT, 1,000 EUR	69 386	50 252	38 752
Operating profit margin EBIT, %	7.3	5.8	4.9
Comparable EBIT, 1,000 EUR	70 435	48 593	40 608
Comparable EBIT, %	7.5	5.6	5.1
Net financial items, 1,000 EUR	-10 454	-5 583	-5 830
Net capital expenditure, 1,000 EUR	15 428	19 754	8 133
Net debt / comparable EBITDA *	2.9	2.1	2.4
Net cash from operating activities, 1,000 EUR	84 021	44 877	27 095
Return on capital employed, %	11.8	14.6	11.4
Return on capital employed %, rolling 12 months	11.8	15.0	12.0
Return on equity, %	26.8	21.2	16.0
Return on equity %, rolling 12 months	30.1	23.4	18.3
Equity ratio, %	25.3	36.4	35.3
Personnel at the end of the period	3 659	3 558	3 255
Personnel on average in the period	3 647	3 415	3 232

* Rolling 12 months comparable EBITDA

Per-share data	2019	2018	2017
Earnings per share, EUR/share	0.80	0.61	0.45
Equity per share, EUR/share	3.14	2.96	2.77
Dividend per share, EUR/share *	0.62	0.50	0.41
Payout ratio, % *	77.4	82.3	91.6
Effective dividend yield, % *	4.9	7.0	5.7
Price/earnings ratio (P/E)	15.76	11.82	16.21
Share price at 31 December	12.62	7.18	7.25
Highest price during the period	12.74	8.04	11.13
Lowest price during the period	7.09	6.42	6.66
Average price during the period	9.00	7.30	8.17
Share turnover, thousands	23 806	30 094	63 315
Share turnover, %	40.4	51.1	107.6
Market capitalisation at 31 December, 1,000 EUR	742 924	422 678	426 798
Number of shares at 31 December, thousands	58 869	58 869	58 869
Number of shares, weighted average during the financial period, thousands	58 869	58 869	58 869

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

Alternative Performance Measures (APM)

Tokmanni reports EBITDA and EBIT as of its key performance indicators and makes adjustments to improve comparability and provide a better view of Tokmanni's operational performance. EBITDA is a non-IFRS indicator that represents operating profit before depreciation and amortisation. Comparable EBITDA and EBIT represents key figures excluding items that Tokmanni's management considers to be exceptional and non-recurring, including changes in the fair value of electricity and currency derivatives, which are adjusted by Tokmanni, as they are unrealised gains or losses related to Tokmanni's open cash flow hedge positions and are therefore not related to Tokmanni's operational performance during the review periods.

Tokmanni's management uses comparable EBITDA and EBIT margin as a key performance indicators to assess Tokmanni's underlying operational performance.

1,000 EUR	1-12/2019	1-12/2018	1-12/2017
Gross profit	**325 197**	**295 305**	**267 054**
Changes in fair value of currency derivatives	81	-263	1 008
Comparable Gross Profit	**325 278**	**295 043**	**268 062**
Operating expenses	**-198 892**	**-234 348**	**-217 834**
Changes in fair value of electricity derivatives	968	-1 396	-392
Loss on real estate sales			1 239
Comparable operating expenses	**-197 923**	**-235 744**	**-216 986**
EBITDA	**130 556**	**64 937**	**53 100**
Operating profit (EBIT)	**69 386**	**50 252**	**38 752**
Changes in fair value of currency derivatives	81	-263	1 008
Changes in fair value of electricity derivatives	968	-1 396	-392
Loss on real estate sales			1 239
Comparable EBITDA	**131 605**	**63 279**	**54 956**
Comparable operating profit (adj. EBIT)	**70 435**	**48 593**	**40 608**

Calculation of the Group's key figures

Like-for-like revenue	=	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 the revenue growth of relocated stores, as defined by Tokmanni to include: (i) new stores opened; (ii) store relocations where the store size changes by 30 per cent or more and the assortment increases or is reduced substantially; and (iii) store expansions where the store size changes by 30 per cent or more. 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.
Customer visit development, %	=	Number of customer transactions
Gross profit	=	Revenue - Materials and services
Comparable gross profit	=	Gross profit - Changes in the fair value of currency derivatives
Operating expenses	=	Employee benefits expenses + Other operating expenses
Comparable operating expenses	=	Operating expenses - Changes in fair value of electricity derivatives
EBITDA	=	Operating profit + Depreciation
Comparable EBITDA	=	EBITDA - Changes in fair value of currency and electricity derivatives
Comparable EBIT, %	=	EBIT - Changes in fair value of currency and electricity derivatives
Net financial items	=	Financial income - Financial expenses
Net debt	=	Interest-bearing debt - Cash and cash equivalents
Net debt / Comparable EBITDA	=	$\frac{\text{Net debt}}{\text{Comparable EBITDA}}$
Capital employed	=	Balance sheet total - Deferred tax liability and other non-interest-bearing liabilities
Return on capital employed, %	=	$\frac{\text{Profit before taxes + Interest and other financial expenses}}{\text{Capital employed, average at the beginning and end of the reporting period}}$
Return on capital employed, %, rolling 12 months	=	$\frac{\text{Profit before taxes + Interest and other financial expenses (preceding 12 months)}}{\text{Capital employed, average for the preceding 12 months}}$
Return on equity, %	=	$\frac{\text{Net result for the financial period}}{\text{Equity, average at the beginning and end of the reporting period}}$
Return on equity, %, rolling 12 months	=	$\frac{\text{Net result for the preceding 12 months}}{\text{Equity, average for the preceding 12 months}}$
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	=	$\frac{\text{Equity}}{\text{Balance sheet total - Advances received}}$

Calculation of the 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
Dividend per share	=	Dividend for the financial year / Number of shares, weighted average during the financial period
Payout ratio	=	Dividend per share / Earnings per share
Effective dividend yield	=	Dividend per share / Closing price for the financial year
Price/earnings ratio (P/E)	=	Closing price for the financial year / Earnings per share
Closing price for the financial year	=	Share price at balance sheet date 31 Dec
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 capitalisation	=	Number of shares x Share price on the balance sheet date
Number of shares	=	Number of shares on the balance sheet date

Shares and share capital

There were no changes in the amount of shares during the financial period 2019.

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 in 2019

Turnover, EUR	213,837,540
Volume	23,805,712
High, EUR	12.74
Low, EUR	7.09
WVAP, EUR	9.00
Last, EUR	12.62
Market cap 31 Dec, EUR	742,923,650

Division of shares 31 December 2019

	Shareholders Number	%	Shares Number	%	Votes Number	%
1-100	5,689	35.12	296,125	0.50	296,125	0.50
101-500	6,330	39.08	1,737,326	2.95	1,737,326	2.95
501-1,000	2,125	13.12	1,673,976	2.84	1,673,976	2.84
1,001-5,000	1,740	10.74	3,679,188	6.25	3,679,188	6.25
5,001-10,000	156	0.96	1,125,294	1.91	1,125,294	1.91
10,001-50,000	104	0.64	2,227,747	3.78	2,227,747	3.78
50,001-100,000	23	0.14	1,655,604	2.81	1,655,604	2.81
100,001-500,000	20	0.12	4,971,437	8.45	4,971,437	8.45
500,001-	12	0.07	41,502,055	70.50	41,502,055	70.50
Total	**16,199**	**100.00**	**58,868,752**	**100.00**	**58,868,752**	**100.00**
Out of which nominee registered	10		16,888,002	28.69	16,888,002	28.69

Ownership structure on 31 December 2019

	Shares Number	%
Private Corporations	13,231,963	22.48
Public sector organisations	10,994,745	18.68
Households	9,122,217	15.50
Financial and insurance institutions	23,622,821	40.13
Non-profit organisations	1,287,621	2.19
Outside Finland	609,385	1.04
Total	**58,868,752**	**100.00**
Out of which nominee registered	16,888,002	28.69

Tokmanni's major shareholders by number of shares 31 December 2019

	Shares	% of shares
Takoa Invest	10,544,688	17.91
Elo Mutual Pension Insurance Company	5,050,000	8.58
Varma Mutual Pension Insurance Company	3,150,526	5.35
Ilmarinen Mutual Pension Insurance Company	2,045,767	3.48
OP-Finland Fund	1,343,910	2.28
Evli Finnish Small Cap Fund	900,000	1.53
Veritas Pension Insurance Company Ltd.	690,000	1.17
Kirkon Eläkerahasto	628,458	1.07
Nordea Fennia Fund	612,178	1.04
Säästöpankki Kotimaa	586,527	1.00
Evli Finland Select Fund	490,000	0.83
Sivula Harri	461,574	0.78
OP-Finland Small Firms Fund	388,673	0.66
OP Life Assurance Company Ltd	385,122	0.65
Nordea Pro Finland Fund	370,298	0.63
Fondita Nordic Small Cap Investment Fund	320,000	0.54
Säästöpankki Pienyhtiöt	214,474	0.36
Jukka Saastamoinen Oy	214,000	0.36
FIM Fenno Sijoitusrahasto	212,727	0.36
Alfred Berg Finland	185,731	0.32

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated income statement

1,000 EUR	Note	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Revenue	2.2	**944 276**	**870 390**
Other operating income	2.2	4 251	3 980
Materials and services	2.3	-619 079	-575 084
Employee benefits expenses	2.6	-113 986	-106 906
Depreciation	2.5	-61 171	-14 686
Other operating expenses	2.4	-84 912	-127 444
Share of profit (loss) in joint ventures	3.9	5	3
Operating profit		**69 386**	**50 252**
Financial income	2.7	22	12
Financial expenses	2.7	-10 476	-5 595
Profit/loss before tax		**58 932**	**44 668**
Income taxes	2.8	-11 806	-8 918
Net result for the financial period		**47 126**	**35 751**
Profit for the year attributable to			
Equity holders of the parent company		47 126	35 751

Consolidated statement of comprehensive income

1,000 EUR	1 Jan - 31 December 2019	1 Jan - 31 December 2018
Net result for the financial period	**47 126**	**35 751**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	2	5
Comprehensive income for the financial period, net of tax	**2**	**5**
Comprehensive income for the financial period	**47 128**	**35 755**
Comprehensive income for the financial period attributable to		
Equity holders of the parent company	47 128	35 755

Earnings per share	2019	2018
Equity holders of the parent company	47 126	35 751
Number of shares, weighted average during the financial period (thousands)	58 869	58 869
Earnings per share (EUR/share)	0.80	0.61

Consolidated statement of financial position

1,000 EUR	Note	31 December 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3.1	315 036	86 555
Goodwill	3.2	135 016	134 566
Other intangible assets	3.2	5 617	5 826
Non-current receivables	3.5	2 619	2 620
Investments in joint ventures	3.9	21	16
Other financial assets	3.5	147	147
Deferred tax asset	2.8	1 770	
NON-CURRENT ASSETS, TOTAL		**460 227**	**229 731**
CURRENT ASSETS			
Inventories	3.3	222 798	190 482
Trade and other receivables	3.4	17 945	20 643
Income tax receivables	3.4	786	1 521
Cash and cash equivalents	3.8	29 129	37 868
CURRENT ASSETS, TOTAL		**270 658**	**250 514**
ASSETS, TOTAL		**730 885**	**480 244**
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent company			
Share capital	4.1	80	80
Reserve for invested unrestricted equity	4.1	109 902	109 902
Translation differences		17	15
Retained earnings		74 664	64 537
EQUITY, TOTAL		**184 663**	**174 535**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	2.8		467
Non-current interest-bearing liabilities	4.2	359 325	169 342
Non-current non-interest-bearing liabilities	3.7	6 307	6 800
NON-CURRENT LIABILITIES, TOTAL		**365 632**	**176 609**
CURRENT LIABILITIES			
Current interest-bearing liabilities	4.2	49 932	3 669
Trade payables and other current liabilities	3.6	126 919	122 677
Income tax liabilities	3.6	3 739	2 755
CURRENT LIABILITIES, TOTAL		**180 590**	**129 100**
EQUITY AND LIABILITIES, TOTAL		**730 885**	**480 244**

Consolidated statement of cash flows

1,000 EUR	Note	31 December 2019	31 December 2018
Cash flows from operating activities			
Net result for the financial period		47 126	35 751
Adjustments:			
Depreciation	2.5	61 171	14 686
Capital gains and losses on non-current assets		87	-24
Financial income and expenses	2.7	10 454	5 583
Income taxes	2.8	11 806	8 918
Other adjustments		277	-2 512
Change in working capital:			
Change in current non-interest-bearing receivables		-1 788	-1 292
Change in inventories		-28 875	-19 817
Change in current non-interest-bearing liabilities		4 373	15 670
Interest paid		-10 093	-5 254
Other financing items		-149	-115
Income taxes paid		-10 367	-6 715
Net cash from operating activities		**84 021**	**44 877**
Cash flows from investing activities			
Purchases of tangible and intangible assets		-15 497	-19 778
Proceeds from disposal of tangible and intangible assets		69	24
Loans granted		-254	-1 976
Proceeds from repayments of loans		85	
Net cash from investing activities		**-15 596**	**-21 729**
Cash flows from financing activities			
Repayments of lease liabilities	3.1	-47 730	
Repayments of finance lease liabilities	3.1		-3 679
Dividends paid		-29 434	-24 136
Net cash from financing activities		**-77 164**	**-27 815**
Net change in cash and cash equivalents		**-8 739**	**-4 667**
Cash and cash equivalents at beginning of the financial period		37 868	42 534
Cash and cash equivalents, corporate arrangements		29 129	37 868

Consolidated statement of changes in equity

1,000 EUR	Note	Share capital	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Equity attributable to owners of the parent	Total equity
Equity 1 Jan 2019	4.1	**80**	**109 902**	**15**	**64 537**	**174 535**	**174 535**
Adjustment of implementation of IFRS 16					-7 709	-7 709	-7 709
Adjusted equity 1 Jan 2019		**80**	**109 902**	**15**	**56 828**	**166 825**	**166 825**
Comprehensive income							
Net result for the financial period					47 126	47 126	47 126
Translation differences				2		2	2
Total comprehensive income for the financial period				**2**	**47 126**	**47 128**	**47 128**
Dividends					-29 434	-29 434	-29 434
Incentive scheme					145	145	145
Equity 31 Dec 2019		**80**	**109 902**	**17**	**74 664**	**184 663**	**184 663**

1,000 EUR	Note	Share capital	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Equity attributable to owners of the parent	Total equity
Equity 1 Jan 2018	4.1	**80**	**109 902**	**11**	**52 852**	**162 844**	**162 844**
Comprehensive income							
Net result for the financial period					35 751	35 751	35 751
Translation differences				5		5	5
Total comprehensive income for the financial period				**5**	**35 751**	**35 755**	**35 755**
Dividends					-24 136	-24 136	-24 136
Incentive scheme					71	71	71
Equity 31 Dec 2018		**80**	**109 902**	**15**	**64 537**	**174 535**	**174 535**

Notes to the consolidated financial statements

1. Accounting policies used in the consolidated financial statements

1.1 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.

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. Taitomanni Oy is a company owned by Tokmanni Oy, whose business is to provide Group companies with personnel rental and support services in the retail sector. The Group also includes Retail Property Investment Oy, which carries out a real estate business by investing in own real estate companies that build store premises for Group company use. Retail Property Investment Oy can also own, manage, sell, rent and purchase real estates. Tokmanni Group Corporation is the parent company of Retail Leasing Oy and Retail Property Investment Oy.

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 and on the company website www.tokmanni.fi. At its meeting of 14 February 2020, 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.

1.2 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 2019. 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 thousands of euro unless otherwise mentioned.

The preparation of the financial statements in accordance with the IFRS requires Group management makes judgements regarding the selection and application of accounting policies and, estimates and assumptions that may affect the measurement of the reported assets and liabilities, contingent assets and liabilities and the recognition of income and expenses. Information on major issues requiring judgement are presented in "Accounting policies requiring management judgment and key uncertainties related to estimates".

1.3 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.

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 acquire 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. On 31 December 2019 or on 31 December 2018, 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 Note 3.2 Intangible assets.

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.

1.4 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. In addition, the management of the Group makes judgement-based decisions pertaining to the selection and application of the accounting principles used in the financial statements. This particularly applies in cases where the existing IFRS regulations allow for alternative methods of recognition, measurement and presentation.

The most significant areas where Management has used judgement are listed under. More detailed descriptions of the discretionary are presented in notes of the related items.

- Classification of leases, Note 3.1
- Measurement of inventories, Note 3.3
- Goodwill impairment testing, Note 3.2

1.5 Application of new and revised IFRS standards – IFRS 16 Leases

The IFRS 16 *Leases* standard came into effect on 1 January 2019. The standard concerns the definition of leases and the principles related to recognising, measuring and presenting leases, as well as the information provided about leases in financial statements. The purpose of the standard is to ensure that financial statements provide meaningful information about the effect of leases on the reporting entity's financial position, result and cash flows.

Transition

The Tokmanni Group adopted the IFRS 16 standard on 1 January 2019, and its adoption brings a significant part of Tokmanni's leases onto the balance sheet. A right-of-use asset is recognised for leases, as well as a financial liability corresponding to the lease liability, and their balance sheet value is based on the present value of future rent payments. Short-term and low-value assets are subject to an exemption, and these items remain off the balance sheet. Tokmanni primarily acts as a lessee, and the Group has leases related to its business operations, such as its logistics centre, store facilities, vehicles and IT equipment.

Tokmanni applies the IFRS 16 standard using the simplified approach, meaning that comparison figures are not adjusted and the cumulative effect arising from the adoption of the standard is recognised at the time of adoption, 1 January 2019. The Group has chosen to calculate assets in accordance with the standard from the beginning of the lease, which is why assets and liabilities were unequal at the time of adoption. The difference arising from this was recognised in retained earnings on 1 January 2019. Previously, in accordance with IAS 17, assets and liabilities related to agreements classified as financial leases were recognised in a right-of-use asset item and lease liabilities in line with IRFS 16.

Application of practical means

Short-term leases intended to last for less than 12 months are treated as short-time leases, and are not recognised on the balance sheet. The lease period was determined at the time of adoption, based on the knowledge at that time. Low-value leases are also excluded from calculations made in accordance with the IFRS 16 standard. These agreements are recognised as an expense in other operating expenses over the duration of the lease.

A consistent discount rate is applied to leases with similar characteristics. This rate is determined based on the underlying asset class, the duration of the lease and the lessee's risk premium. At the time of transition, the weighted average interest rate on incremental credit was 2.30%.

Management discretion in applying the IFRS 16 standard

At the beginning of a lease, the management assesses the probability of exercising any extension option. If it is relatively certain that Tokmanni will exercise such an option, the extension will be included in the lease period. Consequently, the lease period included in the option will affect the value of the lease liability and right-of-use asset at the beginning of the lease. Of Tokmanni's leases, lease agreements on store facilities often include significant option conditions. Their main purpose is to enable the lease to continue after the end of the original lease period.

When determining the agreement period, it is essential to consider all relevant aspects related to the duration of the agreement. Short-term leases intended to last for less than 12 months are covered by the exemption related to IFRS 16, and are not recognised on the balance sheet. Instead, they are recognised as an expense on the income statement. If an open-ended lease agreement or an extendable fixed-term lease agreement has a notice period of less than 12 months, but Tokmanni intends to continue the lease agreement for an unspecified period of time without terminating the agreement, such agreements are nevertheless considered to be in compliance with the IFRS 16 standard. At the time of amending a short-term agreement (changes are made to the lease agreement or its duration), the agreement will be reassessed as a new lease.

Effects of the adoption of the IFRS 16 standard

The adoption of IFRS 16 has a significant effect on Tokmanni's balance sheet, income statement and key figures. On the balance sheet, interest-bearing liabilities and non-current assets are considerably higher than with IAS 17. Depreciation on fixed asset items and interest expenses arising from lease liabilities are recognised on the income statement, instead of rental payments, which increases Tokmanni's EBITDA and operating profit. Income tax will change due to the recognition of deferred taxes. The adoption of the standard will also affect the presentation of the Group's cash flow statement. However, cash flows will remain unchanged. Rental payments are presented in cash flow from operating activities in terms of financial expenses, and loan repayments are presented in cash flow from financing activities.

Effect on the opening balance

1,000 EUR	31 Dec 2018	Effect of IFRS 16	1 Jan 2019
Assets			
Property, plant and equipment	86 555	233 941	320 496
Deferred tax asset		1 927	1 927
Other non-current assets	143 176		143 176
Current assets	250 514		250 514
Total	**480 244**	**235 868**	**716 112**
Equity and liabilities			
Equity	174 535	-7 709	166 825
Non-current interest-bearing liabilities	169 342	200 425	369 767
Current interest-bearing liabilities	3 669	43 153	46 822
Other liabilities	132 699		132 699
Total	**480 244**	**235 868**	**716 112**

Effect of IFRS 16 at 1 Jan 2019

1,000 EUR	Right-of-use fixed assets	Lease liabilities
Real estate	233 123	242 747
Cars	536	556
IT equipment	282	275
Total	**233 941**	**243 577**

Reconciliation of the operating lease at 31 Dec 2018 to the lease liabilities at 1 Jan 2019

1,000 EUR	
Operating lease commitment at 31 Dec 2018	303 120
Finance lease liabilities recognised as at 31 Dec 2018	73 645
Discounted by using incremental borrowing rate	-16 710
Short-term leases	-51
Leases of low-value assets	-3 397
Non-lease components included in lease payments	-39 385
Lease liabilities recognised at 1 Jan 2019	317 223
of which non-current	270 130
of which current	47 093

1.6 Forthcoming IFRS standards

IFRS standards which will come into force and would affect Tokmanni Group Corporation's consolidated income statement, statement of financial position or notes at the time of the adoption are not known at the closing of the accounts.

2. Business performance

2.1 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 and all operate under the Tokmanni brand. The Group only operates in Finland. 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.

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

2.2 Income

Accounting policies

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 income other than that associated with the sale of goods or services, such as rental income, capital gains on the disposals of tangible and intangible assets, insurance compensation and various other service fees and commissions. Service sales proceeds are recognised when the service has been provided.

1,000 EUR	2019	2018
Revenue		
Revenue from the sale of goods	944 135	870 390
Revenue from services	141	
Total	**944 276**	**870 390**
Other operating income		
Service income	2 271	2 217
Rental income	219	293
Other operating income	1 762	1 470
Total	**4 251**	**3 980**
Total	**948 527**	**874 370**

The Group's revenue is fully generated through the sale of goods and services. Service income recognised under other operating income includes slot gaming and betting bonuses of the store premises. Rental income consists of the cost of using real estate for sub-tenants. Other income includes among others, income from the sale and leaseback arrangement of the Mäntsälä logistics centre as well as from sales of pallets.

2.3 Materials and services

1,000 EUR	2019	2018
Purchases during the period	-648 291	-588 533
Increase / decrease in inventories	29 765	13 829
External services	-553	-381
Total	**-619 079**	**-575 084**

2.4 Other operating expenses

Accounting policies

Other operating expenses include the acquisition costs other than those for goods and services sold, such as rental expenses, marketing expenses, maintenance expenses for real estate and store sites, IT expenses and purchased services. Other operating expenses also include losses on the disposal of tangible and intangible assets as well as the realised and unrealised losses on derivatives used for hedging commodity risks.

1,000 EUR	2019	2018
Rental expenses	-3 847	-49 526
Marketing expenses	-14 344	-15 160
Real estate and store site expenses	-33 425	-34 342
IT expenses	-7 068	-5 113
Purchased services	-9 225	-10 329
Other expenses	-17 002	-12 974
Total	**-84 912**	**-127 444**

The items grouped under Other expenses in the table include expenses related to the use of outsourced workforce and other personnel expenses, travel-related expenses and office and administrative expenses. Other expenses also include other operating expenses such as credit card commissions and banking and insurance expenses.

Following the adoption of IFRS 16 as of 1 January 2019, Tokmanni does not recognise lease expenses for leases recognised on the balance sheet, and therefore the lease expenses for 2019 and 2018 are not comparable. The rental expenses for the financial period consist of the variable lease payments on other leases, more information on which is provided in Note 3.1 Property, plant and equipment.

Auditors' fees

1,000 EUR	2019	2018
PricewaterhouseCoopers Oy		
Audit	-105	
Other services	-4	
Total	**-109**	
KPMG Oy Ab		
Audit		-96
Other services	-8	-26
Tax services	-10	-5
Total	**-18**	**-127**
Total	**-127**	**-127**

2.5 Depreciation

1,000 EUR	2019	2018
Intangible assets		
IT software and licences	-1 650	-1 664
Other intangible assets	-20	-20
Total	**-1 670**	**-1 684**
Property, plant and equipment		
Buildings and constructions	-51 891	-6 618
Machinery and equipment	-7 609	-6 384
Total	**-59 500**	**-13 002**
Total	**-61 171**	**-14 686**

The Group has not recognised impairments for tangible or intangible assets in reported financial periods.

Following the adoption of IFRS 16 as of 1 January 2019, Tokmanni recognises depreciation on right-of-use assets related to leases recognised on the balance sheet, and therefore the depreciation for 2019 and 2018 is not comparable. Depreciation on right-of-use assets by asset class is presented in Note 3.1 Property, plant and equipment.

2.6 Employee benefit expenses

Accounting policies

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.

1,000 EUR	2019	2018
Wages, salaries and fees	-94 235	-87 092
Pension expenses - defined contribution plans	-16 822	-16 641
Other social security expenses	-2 929	-3 173
Total	**-113 986**	**-106 906**
Number of personnel on average in the financial period	3 647	3 415

According to the performance bonus model covering the entire personnel, the bonuses are based on realised quarterly sales and capped on the basis of the EBITDA margin. The bonuses are paid to every Tokmanni employee who has been paid salaries by Tokmanni during the bonus review period and who has worked during the same period. The employee must also be employed by Tokmanni at the time of payment. The expenses arising from the performance bonuses during the financial period amounted to EUR 1,380 thousand (EUR 1,398 thousand).

The annual bonus scheme for the Group's key personnel is divided into two parts: a short-term bonus paid annually in cash and a share-based long-term bonus paid over a period of three years. The share-based bonus scheme is the company's long-term incentive scheme for its management and key personnel. The targets for the annual bonus scheme were based on the company's growth and profits. In the share-based bonus scheme, the targets for the 2019 earning period were based on the Group's earnings per share (EPS) and on the development of the company's market capitalisation.

Expenses totalling EUR 1,000 thousand (EUR 569 thousand) were recorded for the annual bonus scheme for the Group's key personnel in 2019, and expenses of EUR 280 thousand (105 thousand) were recorded for the share-based bonus scheme. Additional information on the share-based bonus scheme is presented in note 4.1 Equity, Share-based payments.

The information on Management's employment-related benefits is in Note 5.1 Related party transactions.

2.7 Financial income and expenses

1,000 EUR	2019	2018
Interest income and other financial income		
Interest income on financial assets at amortised cost	22	7
Dividend income	2	1
Foreign exchange gains on cash and cash equivalents	-1	0
Other financing income	0	4
Total	**22**	**12**
Interest expenses and other financial costs		
Interest expenses on financial liabilities at amortised cost	-1 527	-1 710
Interest expenses on leases	-8 793	
Interest expenses on finance leases		-3 755
Foreign exchange losses on cash and cash equivalents	-2	-8
Other financial costs	-155	-123
Total	**-10 476**	**-5 595**
Total	**-10 454**	**-5 583**

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 -81 thousand (EUR 263 thousand). Changes in the fair value of commodity derivatives are recognised as adjustments of other operating expenses by EUR -968 thousand (1,396 thousand).

Following the adoption of IFRS 16 as of 1 January 2019, the interest expenses arising from lease liabilities are recognised for leases recognised on the balance sheet. As a result, interest expenses are presented as separate items, under Interest expenses on leases in the period under review and under Interest expenses on finance leases in the comparison period.

2.8 Income taxes for the financial period and deferred tax balances

Accounting policies

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 provided for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in financial reporting. Typical temporary differences arise related to property, plant and equipment and tax deductible goodwill. 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.

Deferred tax assets on unused tax losses and other temporary differences are recognized to the extent it is probable that taxable profit is available. The positions taken in tax returns are evaluated at the end of each financial period.

Income taxes

1,000 EUR	2019	2018
Income taxes for the financial period	-12 156	-8 415
Income taxes for previous financial periods	41	53
Change in deferred taxes	310	-556
Total	**-11 806**	**-8 918**

Reconciliation between the income tax expense in the income statement and the Group's tax expense at the Finnish tax rate

1,000 EUR	2019	2018
Profit/loss before tax	58 932	44 668
Income taxes at Finnish tax rate 20.0% (20.0%)	-11 786	-8 934
Differing tax rates of foreign subsidiaries	0	0
Tax-exempt income	0	0
Non-deductible expenses	-56	-32
Unrecognised deferred tax assets from losses in taxation	-5	-5
Income taxes for previous financial periods	41	53
Total	**-11 806**	**-8 918**

Tokmanni Group Corporation has a case pending with the tax authorities concerning the right to deduct value added taxes. No decision has been issued on the case yet. The amount of the disputed tax is about EUR 100 thousand.

Deferred tax assets and liabilities

Change in deferred tax balances 2019

1,000 EUR	1 Jan 2019	Recognised in income statement	31 Dec 2019
Deferred tax assets			
Leases		6 074	6 074
Finance leases	3 681	-3 681	
Sale and leaseback transaction	1 459	-99	1 360
Other	42	-17	25
Total	**5 182**	**2 278**	**7 460**
Deferred tax liabilities			
Deductible goodwill amortisation, reversal	3 618	129	3 747
Cumulative depreciation differences	1 064	115	1 179
Other	967	-204	762
Total	**5 649**	**39**	**5 688**
Net deferred tax assets			**1 770**
Net deferred tax liabilities	**467**		

Change in deferred tax balances 2018

1,000 EUR	1 Jan 2018	Recognised in income statement	31 Dec 2018
Deferred tax assets			
Finance leases	3 482	199	3 681
Sale and leaseback transaction	1 558	-99	1 459
Other	103	-61	42
Total	**5 143**	**39**	**5 182**
Deferred tax liabilities			
Deductible goodwill amortisation, reversal	3 598	20	3 618
Cumulative depreciation differences	792	273	1 064
Other	664	302	967
Total	**5 054**	**595**	**5 649**
Net deferred tax assets	**89**		
Net deferred tax liabilities			**467**

Deferred tax assets and liabilities are presented netted, and the change has also been taken into account in the comparison information.

The Group did not have any unused tax-loss carry-forward at end of the financial period.

3. Assets and liabilities

3.1 Property, plant and equipment

Accounting policies

General accounting policies

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	3-15 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.

Accounting policies for lease agreements

Tokmanni leases store premises, the Mäntsälä logistics centre, vehicles and equipment for its use. IFRS 16 leases standard will be applied in the Group as of 1 January 2019. The comparison data has not been restated in connection with the transition. The implementation of the standard means a significant amount of Tokmanni's lease agreements will now be recognised on the balance sheet; before the transition, lease agreements related to property, plant and equipment were either operating lease agreements or finance lease agreements. At the time of the transition, the right-of-use asset and the corresponding lease liability have been recognised for lease agreements that have been classified as operating lease agreements. Of finance lease agreements, material right-of-use assets and financial liability have been recorded on the balance sheet before the transition, and after the transition they will be included in lease agreements according to the IFRS 16 standard.

Tokmanni has a few subleases related to leasing office and store premises to external parties. These agreements are of minor importance and they will not be considered in the Group's leases in accordance with the IFRS 16 standard.

Tokmanni will analyse whether an agreement should be classified as a lease agreement in compliance with the IFRS 16 standard when the agreement is entered into. The same analysis will be carried out when the terms and conditions of an agreement are changed. When identifying a lease agreement, it is essential to determine whether the agreement conveys the right to use an identified asset for a period of time defined in the agreement or during the agreement in exchange for consideration. Lease agreements include numerous terms and conditions that are always negotiated separately for each case or right-of-use asset. A few leased assets have separate rental guarantees and the Group can not use the lease agreement assets as collateral for loans.

The lease period refers to the period during which the lease agreement can not be terminated nor is there intention to do so. The lease period starts on the starting date of the agreement and also includes such periods when the lessor does not collect rent. In addition, feasible extension and termination options will be included in the lease period if the use of an option is reasonably certain. The lease periods of Tokmanni's lease agreements vary between non-fixed-term agreements with a 12-month notice period and 15-year fixed agreements. Regarding non-fixed-term lease agreements, when estimating the likely lease period, the importance of the leased asset to Tokmanni will be taken into account as well as expenses related to the termination and possible replacement of the lease agreement. Non-fixed-term agreements and agreements including option conditions require significant consideration by the Board. When estimating the lease period, the Board will consider e.g. the location of the agreement asset, its importance to Tokmanni's business activities and availability of alternative agreement assets. The length of the agreement is always dependent on the conditions at the time of consideration.

The Group’s interest-bearing liabilities increase when a lease agreement starts and the balance sheet value of the liability is based on the present value of future lease payments. The internal rate of return of the lease agreement will primarily determine the discount rate. It its usual that the internal interest rate is not easy to determine on the lease agreements for Tokmanni’s store properties; in this case the interest of the additional credit is used, which Tokmanni would use if it would loan the funds that would be needed for acquiring right-of-use assets for a corresponding period of time. The components of the interest of the additional credit are the risk-free reference rate and the credit risk spread of the additional credit. Determining the interest rate for the additional credit requires consideration by the Board, which takes into consideration the nature of the right-of-use asset, the duration of the lease agreement and the Group’s risk factors at that time. When possible, external funding will also be considered when determining the interest rate, which will be adjusted if any changes arise after receiving the possible funding. Lease payments as stated in the lease agreement are recognised in equity and finance expenses that will be recognised as profit and loss during the lease period. The remaining percentage of interest is equal during all remaining lease periods.

The value of the lease liability will be determined at the initial time of assessment using the following principles:

- Unpaid fixed payments of the right-of-use assets that will be paid during the lease period will be included and possible received incentives will be deducted. Future payments that are based on the index or the price level are taken into account in accordance with the current index or price level at the starting date of the agreement.
- Sums that the Group is expected to pay based on residual value guarantees are taken into account.
- Future lease payments will be taken into account regarding such extension options that are likely to be used.
- Fines related to possible early termination of agreement will be taken into account as well as possible purchase options if it is likely that related options will be used.

The lease liability that is based on the lease agreement will be assessed after the initial assessment using the effective interest method. The lease liability will be reassessed if the cash flow changes; this may happen when the index determining payment or the variable interest change as agreed upon in the lease agreement. The reassessment due to index change is done using the discount rate of the initial assessment. If the lease period changes at the same time, the reassessment will be done using the current interest rate. The change of lease liability will also be integrated into the adjustment of the right-of-use asset.

The Group’s funds will increase when the lease agreement enters effect based on the assessed right-of-use asset, and the right-of-use asset will be depreciated during the lease period. Depreciations will be mainly done as straight line depreciations during the useful life of the right-of-use asset or during the lease period if shorter. The value of the right-of-use asset will be determined at the initial assessment using the following principles:

- The amount determined at the initial assessment of the lease liability will be included.
- Lease payments that have been made by the start of the lease agreement, from which incentives and possible initial direct costs have been deducted, will be considered.
- Possible restoration costs will be taken into account. These refer to costs incurred in the demolition, removal or restoration of the rental property. The obligation to pay restoration costs starts when the agreement enters into force or when the right-of-use asset has been used for a specific period of time.

Short-term and low-value assets are subject to an exemption, and these items remain off the balance sheet. Items will be recognised on the profit and loss statement as lease costs on an over-time basis.

Extension and termination options

For Tokmanni to continue successful business activities, it is favourable to remain in prime store location for a long time. Due to this, the aim is to include options in lease agreements to enable the extension and termination of the lease agreement after the end of the original lease period if requested. In addition to the Group’s internal KPIs, many external factors influence the likelihood of using the options, such as competition, changes in the city and urban structure and the general financial situation.

When entering an agreement, the Board will evaluate the likelihood of using the extension option of the lease period that may be recorded in the agreement. If it is reasonably certain that Tokmanni will use this option, it will be considered as a part of the lease period. Thus, the lease period included in the option will include the value of the lease liability and the right-of-use asset when the agreement comes into effect. The lease period will be reassessed if a significant event or a change in situation occurs that influences the previous value; in this case the financial impact caused by the changed lease period will be recorded on the balance sheet as an adjustment to right-of-use assets and lease liabilities.

Among others, the following points under the evaluation of the board create an incentive to use extension options:

- The profitability, location and position in relation to competitors of the leased asset are on a reasonable level. The Board continuously monitors the situation in case conditions change.
- Renovation costs already during the validity of the lease agreement that can be expected to provide financial benefits also during an extension option period.
- The required resources incurred by not using the extension option related to finding a new agreement asset, agreement negotiations and remodelling of the potential new agreement asset.
- The price level of the leased asset during the extension option period compared to the market price.

- The completed lease period of the leased asset that indicates the likelihood of extending the lease agreement.

Variable lease payments

Some of the lease agreements concerning the Group's store premises contain lease payment terms that are party or fully based on the revenue of the store that is the subject of the lease. If the lease agreement determines a minimum lease payment level that is not linked to the revenue, this instalment of the lease payment will be considered as a part of the balance sheet value of the right-of-use asset. In turn, the possible instalment that exceeds the minimum lease payment level and is based on revenue is recognised in profit or loss during the financial year. Terms concerning variable lease payment are usual for shopping centre properties.

Sale and leaseback transaction

The sale and leaseback transaction on Tokmanni's balance sheet is included in the right-of-use asset and lease liability. In the application of IAS 17, the transaction has been considered as a sale and a finance lease agreement. In connection with transitioning to the IFRS 16 standard, Tokmanni will continue to allocate sales profit over the lease term and treat the right-of-use asset as a lease agreement.

Residual value guarantees

Expected amounts payable under residual value guarantees will be estimated and recognised as a part of the lease liability at initial recognition. Residual value guarantees are included in some lease agreements that are recognised as part of the Buildings and constructions right-of-use asset. The effect of residual value guarantees on the operations and finances of the Group is not significant.

Property, plant and equipment

Property, plant and equipment as a whole are presented as a single item on the balance sheet and, following the adoption of IFRS 16, the items in this note are divided into Property, plant and equipment and Right-of-use assets related to leases. The impact of the transition to the IFRS on right-of-use assets at 1 January 2019 is EUR 233,941 thousand. The impacts of the transition are described in more detail in the accounting policies for the consolidated financial statements, under 1.5 Application of new and revised IFRS standards – IFRS 16 Leases.

Property, plant and equipment 2019

1,000 EUR	Land and waters	Buildings	Machinery and equipment	Prepayments	Total
Property, plant and equipment		4 431	26 629	254	31 314
Right-of-use assets		288 363	818		289 181
Carrying amount as at 1 Jan		**292 795**	**27 447**	**254**	**320 496**
Property, plant and equipment	208	5 975	28 839	758	35 781
Right-of-use assets		278 493	762		279 255
Carrying amount as at 31 Dec	**208**	**284 469**	**29 601**	**758**	**315 036**

Property, plant and equipment 2018

1,000 EUR	Land and waters	Buildings	Machinery and equipment	Prepayments	Total
Property, plant and equipment		4 459	23 965	81	28 506
Finance leases		60 037	84		60 121
Carrying amount as at 1 Jan		64 497	24 049	81	88 627
Property, plant and equipment		4 431	26 629	254	31 314
Finance leases		55 240	0		55 240
Carrying amount as at 31 Dec		59 672	26 629	254	86 555

Buildings and constructions also include related refurbishing costs of store properties. The Group has leased the logistics and store properties, cars and IT equipment from external parties.

Property, plant and equipment (excluding right-of-use assets) 2019

1,000 EUR	Land and waters	Buildings	Machinery and equipment	Prepayments	Total
Acquisition cost					
Acquisition cost as at 1 Jan		12 801	67 135	254	80 190
Additions	208	3 163	8 574	2 034	13 979
Disposals			-276		-276
Transfers between items		524	1 006	-1 530	
Acquisition cost as at 31 Dec	**208**	**16 489**	**76 439**	**758**	**93 893**
Accumulated depreciation					
Accumulated depreciation as at 1 Jan		-8 370	-40 506		-48 875
Depreciation charge for the financial period		-2 143	-7 270		-9 413
Accumulated depreciation of disposals			176		176
Accumulated depreciation as at 31 Dec		**-10 513**	**-47 600**		**-58 113**
Carrying amount as at 1 Jan		**4 431**	**26 629**	**254**	**31 314**
Carrying amount as at 31 Dec	**208**	**5 975**	**28 839**	**758**	**35 781**

Property, plant and equipment (excluding finance leases) 2018

1,000 EUR	Land and waters	Buildings	Machinery and equipment	Prepayments	Total
Acquisition cost					
Acquisition cost as at 1 Jan		10 896	58 117	81	69 094
Additions		1 905	9 041	5 319	16 266
Disposals			-24	-5 147	-5 171
Acquisition cost as at 31 Dec		**12 801**	**67 135**	**254**	**80 190**
Accumulated depreciation					
Accumulated depreciation as at 1 Jan		-6 436	-34 152		-40 588
Depreciation charge for the financial period		-1 933	-6 373		-8 306
Accumulated depreciation of disposals			19		19
Accumulated depreciation as at 31 Dec		**-8 370**	**-40 506**		**-48 875**
Carrying amount as at 1 Jan		**4 459**	**23 965**	**81**	**28 506**
Carrying amount as at 31 Dec		**4 431**	**26 629**	**254**	**31 314**

Leased assets – until 31 December 2018

At 31 December 2018, property, plant and equipment included assets acquired through finance leases in accordance with IAS 17 Leases.

Assets acquired through finance leases 2018

1,000 EUR	Buildings
Acquisition cost	81 139
Accumulated depreciation	-25 899
Carrying amount	55 240

Contingent rents paid on the basis of finance leases amounted to EUR 147 thousand. Contingent rents are recognised under other operating expenses.

Leases as of 1 January 2019

A right-of-use asset and a liability are recognised on leases as of 1 January 2019.

With the adoption of IFRS 16 on 1 January 2019, Tokmanni recognised the adjustment arising from the transition, which is described in more detail in Note 1.5 Adoption of new or amended standards – IFRS 16 Leases.

Leases recognised in the balance sheet 2019

1,000 EUR	Buildings	Machinery and equipment	Total
Right-of-use assets			
Carrying amount as at 1 Jan	288 363	818	289 181
Carrying amount as at 31 Dec	278 493	762	279 255
Additions to the right-of-use assets	12 530	331	12 861
Lease liabilities			
Non-current	269 571	559	270 130
Current	46 821	272	47 093
Lease liabilities 1 Jan	**316 392**	**831**	**317 223**
Non-current	258 974	442	259 416
Current	49 872	332	50 204
Lease liabilities 31 Dec	**308 846**	**774**	**309 620**

The additions to right-of-use assets during the 2019 financial year are related to the leases for new stores (Buildings and constructions) and the renewal of agreements for company cars (Machinery and equipment).

An adjustment was made to lease periods due to a reassessment of the exercising of extension options. The effect of the adjustment on the value of the right-of-use assets and lease liabilities recognised on the balance sheet was EUR 1,978 thousand during the financial period.

At the close of the 2019 financial year, it was estimated that the undiscounted residual values payable in the future will amount to EUR 140 thousand. These residual values are included in the lease liabilities recognised on the balance sheet.

Leases recognised in the statement of profit or loss

1,000 EUR	2019
Depreciation of right-of-use assets	
Buildings	-49 748
Machinery and equipment	-339
Total	**-50 087**
Other amounts relating to leases	
Interest expense	-8 793
Expense relating to variable lease payments (not included in lease liabilities)	-432
Expense relating to short-term leases (less than 1 year)	-1 485
Expense relating to leases of low-value assets	-1 932
Income from subleasing right-of-use assets	219
Total cash outflow for leases	-56 522

3.2 Intangible assets

Accounting policies

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 acquire and any previous interest held, over the fair value of the acquired net assets. Goodwill is not subject to amortisation, but is tested for impairment on an annual basis and also whenever there is an indication of impairment.

Accounting policies requiring management judgement

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. Chapter Allocation of goodwill and testing practice includes additional information on the sensitivity of the recoverable amount to the changes in the assumptions made.

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.

Intangible assets 2019

1,000 EUR	Goodwill	IT software and licences	Other intangible assets	Prepayments	Total
Acquisition cost					
Acquisition cost as at 1 Jan	134 566	15 741	140	549	150 996
Additions	450	1 201		317	1 968
Disposals		-17		-44	-61
Transfers between items		172		-172	
Acquisition cost as at 31 Dec	**135 016**	**17 097**	**140**	**649**	**152 903**
Accumulated depreciation					
Accumulated depreciation as at 1 Jan		-10 513	-92		-10 604
Depreciation charge for the financial period		-1 650	-20		-1 670
Accumulated depreciation of disposals		5			5
Accumulated depreciation as at 31 Dec		**-12 158**	**-112**		**-12 270**
Carrying amount as at 1 Jan	**134 566**	**5 228**	**48**	**549**	**140 392**
Carrying amount as at 31 Dec	**135 016**	**4 939**	**28**	**649**	**140 633**

Intangible assets 2018

1,000 EUR	Goodwill	IT software and licences	Other intangible assets	Prepayments	Total
Acquisition cost					
Acquisition cost as at 1 Jan	128 566	12 467	140	1 159	142 333
Additions	6 000	3 273		2 121	11 394
Disposals				-2 731	-2 731
Acquisition cost as at 31 Dec	**134 566**	**15 741**	**140**	**549**	**150 996**
Accumulated depreciation					
Accumulated depreciation as at 1 Jan		-8 848	-72		-8 920
Depreciation charge for the financial period		-1 664	-20		-1 684
Accumulated depreciation as at 31 Dec		**-10 513**	**-92**		**-10 604**
Carrying amount as at 1 Jan	**128 566**	**3 619**	**68**	**1 159**	**133 413**
Carrying amount as at 31 Dec	**134 566**	**5 228**	**48**	**549**	**140 392**

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

The Group acquired four stores in northern Finland: Centtilä in Keminmaa, Säästökuoppa in Sodankylä and the TEX stores in Rovaniemi and Kemijärvi. Tokmanni took control of the business operations of these stores on 1 January 2019. The transaction price was paid in cash in 2018. The acquisition generated goodwill of EUR 450 thousand, which is tax deductible. The transaction for acquiring these business locations, involved inventories of EUR 2,549 thousand, which are included in the value of the Group's inventories. The business acquisition enables the Tokmanni Group to extend its geographical coverage thanks to the suitable store locations of the acquired business.

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 2019 and 2018.

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 0.5% 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. Following the adoption of IFRS 16, the right-of-use assets recognised on leases are also subjected to impairment testing.

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 7.0% (8.8%). The various components of the discount rate used in impairment testing are based on information derived from peers in which the effects of IFRS 16 are accounted for.

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.

2019	Value used	Change
1. Discount rate (before tax)	7.0%	12.1 percentage point increase
2. Average operating profit margin (operating profit/revenue)	8.0%	4.2 percentage point decrease each year

2018	Value used	Change
1. Discount rate (before tax)	8.8%	15.5 percentage point increase
2. Average operating profit margin (operating profit/revenue)	8.3%	3.7 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 the values presented in the tables above, the leeway exceeding their carrying amounts on the balance sheet, as indicated by impairment testing, is significant. 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.

3.3 Inventories

Accounting policies

Inventories are valued at the lower of cost or net realisable value. Cost is defined using the weighted average method. The cost of 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.

Accounting policies requiring management judgement

The Group's inventories are classified into different groups based on their turnaround times and, the slowest moving are, if appropriate, impairment recognized. 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.

1,000 EUR	2019	2018
Goods	215 533	186 926
Write-down in inventories	-3 683	-4 173
Goods, in transport	10 947	7 729
Prepayments	2	
Total	**222 798**	**190 482**

The financial statements include a write-down in inventories for obsolescent and slowly moving products.

3.4 Other receivables and income tax receivables

Other receivables and income tax receivables

1,000 EUR	2019	2018
Loans and other receivables		
Trade receivables	1 424	1 267
Financial assets at fair value through profit or loss		
Derivatives, non-hedge accounting	65	1 029
Other receivables		
Prepayments and accrued income	4 262	3 881
Income tax receivables	786	1 521
Other receivables	12 195	14 466
Total	**17 243**	**19 868**
Total	**18 732**	**22 164**

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 expected risk of credit losses are not material due to minor level of invoiced sales. The other receivables item includes EUR 8,878 thousand (EUR 7,659 thousand) of invoiced annual bonus receivables.

Ageing analysis of trade receivables (external parties)

1,000 EUR	2019	2018
Not overdue	1 267	1 081
Overdue less than 7 days	96	112
Overdue between 8-21 days	37	19
Overdue more than 21 days	24	55
Total	**1 424**	**1 267**

Prepayments and accrued income

1,000 EUR	2019	2018
Annual discounts	502	318
Consumables expenses	851	684
Prepayments	494	432
Receivable from occupational health care payments	704	611
Receivables from Veikkaus	252	257
VAT-receivable	0	29
Other prepayments and accrued income	1 460	1 550
Total	**4 262**	**3 881**

Other prepayments and accrued income include receivables of EUR 811 thousand (EUR 433 thousand) related to returned service products.

3.5 Non-current receivables and other non-current financial assets

1,000 EUR	2019	2018
Loans and other receivables		
Loan receivables	140	140
Other receivables	8	8
Financial assets at fair value through profit or loss		
Derivatives, non-hedge accounting	475	645
Other receivables		
Non-current loan receivables from related parties	2 144	1 976
Total	**2 767**	**2 767**

The information on related party loans and their terms and conditions is presented in Note 5.1 Related party transactions.

3.6 Other liabilities and income tax liabilities

Accounting policies

Trade payables and other non-interest-bearing current liabilities arose from goods and services that have been delivered to the Group before the close of the financial period and that have not been paid for. The liabilities are unsecured, and the general payment period is net 30 days. Trade payables and other liabilities are classified as current liabilities if they are due for payment within 12 months of the close of the reporting period. They are initially recognised at fair value and later recognised using the effective interest method at amortised cost.

Other liabilities and income tax liabilities

1,000 EUR	2019	2018
Financial liabilities at amortised cost		
Trade payables	73 856	72 359
Financial liabilities at fair value through profit or loss		
Derivatives, non-hedge accounting	124	211
Other liabilities		
Other non-interest-bearing liabilities	24 114	22 523
Accrued liabilities	28 824	27 584
Income tax liabilities	3 739	2 755
Total	**56 677**	**52 862**
Total	**130 658**	**125 432**

Current accrued liabilities

1,000 EUR	2019	2018
Holiday pay	15 328	14 690
Wages and salaries including social expenses	8 507	7 441
Compulsory insurances	2 264	3 901
Current interest liabilities	106	150
Other accrued liabilities	2 620	1 402
Total	**28 824**	**27 584**

Other accruals and deferred income consist of deferred expenses related to excise duties, electric power, credit card commissions and IT expenses, among other things.

3.7 Non-current non-interest-bearing liabilities

1,000 EUR	2019	2018
Non-current financial assets at fair value through profit or loss		
Derivatives, non-hedge accounting	1	
Other liabilities		
Sale and leaseback transaction	6 306	6 800
Non-current non-interest-bearing liabilities, total	**6 307**	**6 800**

3.8 Cash and cash equivalents

1,000 EUR	2019	2018
Cash and cash equivalents	29 129	37 868

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. The cash and cash equivalents also include amounts relating to cash floats in stores and amounts being transferred to the respective companies.

3.9 Investments in joint ventures

Accounting policies

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.

1,000 EUR	2019	2018
Acquisition cost as at 1 Jan	16	13
Share of result for the financial period	5	3
Translation differences	0	0
Acquisition cost as at 31 Dec	21	16

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 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.

4. Capital structure, financing and risk management

4.1 Equity

	Number of shares	Share capital (thousand euro)	Reserve for invested non-restricted equity (thousand euro)	Total (thousand euro)
31 Dec 2017	58 868 752	80	109 902	109 982
31 Dec 2018	58 868 752	80	109 902	109 982
31 Dec 2019	58 868 752	80	109 902	109 982

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.

Treasury shares

The general meeting at 19 March 2019 authorised the Board of Directors to decide on repurchase or accepting as pledge, using the company's non-restricted equity, a maximum of 2,943,000 own shares, which corresponds to approximately 5% of the company's shares. The authorisation is effective until the annual general meeting held in 2020, but not later than 30 June 2020. The authorisation was not exercised during the financial period.

The general meeting authorised the Board of Directors to decide on the issuance of at most 2,943,000 new shares or shares held by the company in one or more tranches through a share issue and/or by issuing options or other special rights entitling to shares as referred to in Chapter 10 Section 1 of the Limited Liability Companies Act.The authorisation is effective until 23 March 2022. The authorisation was not exercised during the financial period.

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

The parent company’s distributable funds total 169,516,025.00 euros, which includes 47,571,901.46 euro in profit for the year. After the balance sheet date, the Board has proposed for the financial year ended on 31 December 2019 to distribute a dividend of EUR 0.62 per share. This dividend amounts to a total of EUR 36,498,626.24. The remaining part of the retained earnings be retained in unrestricted shareholders' equity.

Share-based payments

At the end of the review period on December 31, 2019, the Group had a long-term share-based incentive program with an earnings period of year 2019 and as earnings criteria the Group's earnings per share (EPS) and the company's market value during the period January 1 - December 31, 2019. The target group of the system is the CEO, the members of the Group Executive Team and other key personnel of the Group. The potential rewards to be paid correspond to a maximum of 120,000 Tokmanni Group Corporation’s shares based on the market value at the moment of granting and will be paid in Tokmanni Group shares and possibly partly in cash. The recipient of the shares is free to use the shares in 1 January 2022. The cash proportion covers taxes and tax-related costs arising from the reward to a key employee.

According to IFRS 2, the share-based incentive program should be valued at fair value at the grant date and recognized as an expense during the vesting period. If the share premium is paid in combination of shares and cash, the fair value of the reward is divided into two parts according to IFRS 2; in shares settled and cash settled. The portion to be settled in the shares is recognized in equity and the part paid in cash to liabilities. The fair value of the share-based payment at the time the reward was granted was the share price of the company's share. Correspondingly, the fair value of the portion to be settled in cash is revised every reporting date until the end of the earnings period and the fair value of the debt thus changes according to the price of the company's share.

Based on realised earnings per share ratio and the market value of the company for the financial year 2019, the program will generate a total of EUR 145 (71) thousand to be paid to employees. For the year 2019, EUR 23 (29) thousand has been recognised as cost based on IFRS 2 standard.

Changes in share-based payments:
- Number outstanding at the beginning of the period, 5,915
- 120,000 awarded in the period
- 91,053 expired in the period
- Outstanding and executable at the end of the period, 34,862

4.2 Financial assets and liabilities

Accounting policies

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 financial receivables measured at amortised cost. 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

The Group applies the simplified method when recognising expected credit losses on sales trade receivables, according to which it recognises the expected credit losses on all trade receivables and contract assets over their lifetime. For the purpose of determining the expected credit losses, trade receivables are grouped on the basis of common credit risk characteristics and delays in payment.

The Group has found that the amount of impairment on trade receivables is not material.

The Group's management has stated that other receivables and cash and cash equivalents are exposed to a low credit risk and that the amount of impairment recognised on them is not material.

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.

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.

Financial assets and liabilities 31 Dec 2019

1,000 EUR	Financial assets and liabilities at fair value through income statement	Financial assets and liabilities measured at amortised cost	Carrying amounts of assets as per balance sheet
Financial assets			
Non-current financial assets			
Derivatives, non-hedge accounting	475		475
Loan receivables		140	140
Total	**475**	**140**	**615**
Current financial assets			
Derivatives, non-hedge accounting	65		65
Trade receivables		1 424	1 424
Cash and cash equivalents		29 129	29 129
Total	**65**	**30 552**	**30 617**
Financial assets, total	**540**	**30 692**	**31 232**
Financial liabilities			
Non-current financial liabilities			
Loans from financial institutions *		99 909	99 909
Lease liabilities		259 416	259 416
Derivatives, non-hedge accounting	1		1
Total	**1**	**359 325**	**359 327**
Current financial liabilities			
Loans from financial institutions *		-272	-272
Lease liabilities		50 204	50 204
Derivatives, non-hedge accounting	124		124
Trade payables		73 856	73 856
Total	**124**	**123 788**	**123 912**
Financial liabilities, total	**125**	**483 113**	**483 239**
Financial assets and liabilities, total	**415**	**-452 421**	**-452 007**

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

Financial assets and liabilities 31 Dec 2018

1,000 EUR	Financial assets and liabilities at fair value through income statement	Financial assets and liabilities measured at amortised cost	Carrying amounts of assets as per balance sheet
Financial assets			
Non-current financial assets			
Derivatives, non-hedge accounting	645		645
Loan receivables		140	140
Total	**645**	**140**	**784**
Current financial assets			
Derivatives, non-hedge accounting	1 029		1 029
Trade receivables		1 267	1 267
Cash and cash equivalents		37 868	37 868
Total	**1 029**	**39 135**	**40 164**
Financial assets, total	1 674	39 274	40 948
Financial liabilities			
Non-current financial liabilities			
Loans from financial institutions *		99 637	99 637
Finance lease liabilities		69 705	69 705
Derivatives, non-hedge accounting			
Total		**169 342**	**169 342**
Current financial liabilities			
Loans from financial institutions *		-271	-271
Finance lease liabilities		3 940	3 940
Derivatives, non-hedge accounting	211		211
Trade payables		72 359	72 359
Total	**211**	**76 028**	**76 239**
Financial liabilities, total	**211**	**245 370**	**245 581**
Financial assets and liabilities, total	**1 464**	**-206 096**	**-204 633**
** 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.

Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities 2019

1,000 EUR	Impact of the IFRS 16 implementation	Financial liabilities 1 Jan 2019	Cash flows	Non-cash changes: Leases	Non-cash changes: Other changes	Financial liabilities 31 Dec 2019
Loans from financial institutions		99 366			271	99 637
Lease liabilities	243 577	317 223	-47 730	43 068	-2 941	309 620
Total	**243 577**	**416 588**	**-47 730**	**43 068**	**-2 670**	**409 257**

Reconciliation of liabilities arising from financing activities 2018

1,000 EUR	Financial liabilities 1 Jan 2018	Cash flows	Non-cash changes: Finance leases	Non-cash changes: Other changes	Financial liabilities 31 Dec 2018
Loans from financial institutions	99 095			271	99 366
Finance lease liabilities	77 533	-3 679		-209	73 645
Total	**176 628**	**-3 679**		**62**	**173 011**

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.

Lease liabilities (Finance lease liabilities until 31 December 2018)

The fair value of lease liabilities (financial lease liabilities until 31 December 2018) is estimated by discounting future cash flows with an internal 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 4.3 Management of financial risks.

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) 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 2019 was EUR 415 thousand (EUR 1,464 thousand).

Derivative contracts

Derivative contracts 2019

	Fair value (thousand euro)	Underlying value (thousand euro)	Secured energy (MWh)
Foreign exchange forward contracts and options	-59	22 254	
Electricity derivatives			
System price	482	2 708	78 936
Area price	121	247	35 112

Derivative contracts 2018

	Fair value (thousand euro)	Underlying value (thousand euro)	Secured energy (MWh)
Foreign exchange forward contracts and options	21	20 961	
Electricity derivatives			
System price	1 400	4 455	109 956
Area price	42	342	70 476

4.3 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 IFRS 9.

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.

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

1,000 EUR	2019	2018
Trade payables	6 074	3 508
Forecasted purchases in the next 6 months	36 503	30 783
Cash and cash equivalents	-7	-386
Total	**42 570**	**33 905**
Currency options	-22 254	-20 961
Position, total	**20 316**	**12 944**

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 table below shows the impacts on the Group's profit after 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 after taxes would be affected by EUR 1,625 thousand (EUR 1,036 thousand) positively or negatively. The sensitivity analysis is based on the currency position at the end of the reporting period.

1,000 EUR	2019	2018
Change	+/-10%	+/-10%
Effect on profit after tax	1 625	1 036
Effect on equity	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 excluding IFRS 16 finance liabilities was about 1.1% (1.3%).

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

1,000 EUR	2019	2018
Fixed interest rate		
Financial liabilities	309 620	73 645
Floating interest rate		
Financial liabilities	100 000	100 000

The table below shows the impacts on the Group’s profit after 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 after taxes would be affected by EUR 400 thousand (EUR 400 thousand) negatively or positively. The sensitivity analysis is based on the risk position at the end of the reporting period.

1,000 EUR	2019	2018
Change	+/-0,5%	+/-0,5%
Effect on profit after tax	400	400
Effect on equity	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 3.4 Other receivables and income tax receivables 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 4.2 Financial assets and liabilities).

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. The Group has a procurement company in Shanghai, China together with the Norwegian discount store chain, Europris AS. 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. The Shanghai company has 25 employees.

Liquidity risk

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, 2019 the Group had EUR 59,000 thousand (EUR 59,000 thousand) in credit limit reserves and their maturity profile is linked to the maturity of underlying finance agreements.

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 2019, Tokmanni has met the required covenants.

Maturity of contractual cash flows of non-derivative financial liabilities

The table below includes all the instruments in force at the closing of the accounts, as well as their contractual loan principals and interests. 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 2019

1,000 EUR	Carrying amount 31 Dec 2019	Cash flows based on agreements	Less than 1 year	1-5 years	Over 5 years
Loans from financial institutions *	99 637	101 220	915	100 305	
Lease liabilities	309 620	350 946	58 258	188 591	104 097
Trade payables	73 856	73 856	73 856		
Total	**483 113**	**526 022**	**133 029**	**288 896**	**104 097**

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

Maturity of contractual cash flows of non-derivative financial liabilities 2018

1,000 EUR	Carrying amount 31 Dec 2018	Cash flows based on agreements	Less than 1 year	1-5 years	Over 5 years
Loans from financial institutions *	99 366	102 798	1 200	101 598	
Finance lease liabilities	73 645	104 040	7 524	31 690	64 826
Trade payables	72 359	72 359	72 359		
Total	**245 370**	**279 197**	**81 083**	**133 288**	**64 826**

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

Maturity of contractual cash flows of derivative financial liabilities

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. Potential cash flows related to interest derivatives are disclosed in net.

Maturity of contractual cash flows of derivative financial liabilities 2019

1,000 EUR	Carrying amount 31 Dec 2019	Cash flows based on agreements	Less than 1 year	1-5 years
Commodity derivatives	1	1		1
Interest rate swaps				
Foreign exchange forward contracts and options	124	124	124	
Total	**125**	**125**	**124**	**1**

Maturity of contractual cash flows of derivative financial liabilities 2018

1,000 EUR	Carrying amount 31 Dec 2018	Cash flows based on agreements	Less than 1 year	1-5 years
Commodity derivatives	11	11	11	
Interest rate swaps				
Foreign exchange forward contracts and options	200	200	200	
Total	**211**	**211**	**211**	

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 70% of the consumption for one year ahead, gradually decreasing over a period of about 3-4 years.

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

1,000 EUR	2019	2018
Electricity derivative contracts	474	1 442

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 table below shows the impacts on the Group's profit after 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 after taxes would be affected by EUR 237 thousand (EUR 384 thousand) positively or negatively. The sensitivity analysis is based on the risk position at the end of the reporting period.

1,000 EUR	2019	2018
Change	+/-10%	+/-10%
Effect on profit after tax	237	384
Effect on equity	0	0

4.4 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.

1,000 EUR	2019	2018
Interest-bearing liabilities	409 257	173 011
Cash and cash equivalents	29 129	37 868
Interest-bearing net debt	380 128	135 143
Total equity according to IFRS	**184 663**	**174 535**
Equity ratio	**25.3%**	**36.4%**

Tokmanni's Board of Directors updated in February 2019 the Group's long-term financial targets for comparable EBITDA margin and the ratio of net debt to comparable EBITDA due to IFRS 16, effective from 1 January 2019. Tokmanni intends to maintain an efficient long-term capital structure by keeping the ratio of net debt to comparable EBITDA below 3.2.

Net debt / adjusted EBITDA	Target level	2019	2018
From 1 January 2019 (Lease liabilities, IFRS 16)	below 3.2	2.9	
Until 31 December 2018	below 2.0		2.1

4.5 Contingent liabilities, assets and commitments

Contingent liabilities, assets and commitments

Property has not been provided as collateral for loans from financial institutions, but a covenant term is related to such loans. The covenant term determines the required net debt to EBITDA ratio.

Non-cancellable lease liabilities

Group as lessee

Tokmanni's lease liabilities for 2019 consist of minimum lease liabilities related to low-value leases and short-term leases. The Group has decided to apply the exemptions permitted by IFRS 16 to these lease liabilities. Its lease liabilities for 2018 consist of minimum lease liabilities classified as other leases in accordance with IAS 17.

Minimum lease payments payable based on other non-terminable leases

1,000 EUR	2019	2018
No later than 1 year	8 676	56 595
Later than 1 year and no later than 5 years	23 661	176 723
Later than 5 years	6 641	69 793
Total	**38 978**	**303 112**

The effect of IFRS 16, which entered into force on 1 January 2019, on leases and other leases covered by the standard are described in Note 3.1 Tangible assets, in the table "Lease amounts presented in the income statement".

In 2018, rental expenses paid based on operating leases amounted to EUR 48,177 thousand recognised in profit or loss, with contingent rents accounting for EUR 46,284 thousand 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.

5. Other

5.1 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 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 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%
Retail Leasing Oy	Finland	100%	100%
Nordic Disco AB	Sweden	100%	100%
Tokmanni Oy	Finland	100%	100%
Taitomanni Oy	Finland	100%	100%

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

Specification of transactions carried out with related parties

Transactions during the financial period 2019 including receivables, payables and liabilities per 31 Dec 2019 carried out with related parties

1,000 EUR	Majority owner and related parties to majority owner	Board of Directors and management	Joint ventures
Income statement			
Revenue and other operating income		1	
Other operating expenses		1 110	1 166
Financial income		16	
Balance sheet			
Assets			
Receivables from joint ventures			140
Non-current loan receivables from related parties		2 144	
Interest receivables from related parties		19	
Total		**2 163**	**140**

Transactions during the financial period 2018 including receivables, payables and liabilities per 31 Dec 2018 carried out with related parties

1,000 EUR	Majority owner and related parties to majority owner	Board of Directors and management	Joint ventures
Income statement			
Revenue and other operating income		1	
Other operating expenses		1 211	1 242
Financial income		3	
Balance sheet			
Assets			
Receivables from joint ventures			140
Non-current loan receivables from related parties		1 976	
Interest receivables from related parties		3	
Total		**1 978**	**140**

Non-current loan receivables from related parties

The Board of Directors of Tokmanni Group Corporation has decided to encourage the members of its Executive Group to increase their shareholdings. The purpose of this arrangement is to more closely unite the targets of the owners and management of the company in order to raise the value of the company over the long term and to commit the management to an even better implementation of the company's strategy. In the arrangement, Tokmanni's Board of Directors decided to offer the Group's key personnel financing for their share purchases. A stock exchange release concerning this matter was published on 15 November 2018.

Long-term loans have been granted on market terms to related parties as follows:

- A total of EUR 254 thousand (EUR 1,976 thousand) in loans was granted during the financial period. During the financial year, loans were repaid by an amount of EUR 85 thousand (EUR 0 thousand).
- The loan period is five years and the loan must be repaid in full by 31 December 2023 at the latest. The borrowers may repay their loans earlier if desired.
- The purchased shares serve as collateral for these loans.
- The borrowers will pay an annual interest rate consisting of the 12-month Euribor plus one percentage point. The interest will be paid on the outstanding loan amount and calculated for an interest period of one (1) calendar year. The first interest period, however, begins on the drawdown date of the loan and ends on 31 December 2019. The loan interest is paid annually in arrears.

Management employee benefits

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

The table below shows the salaries and other short-term employee benefits of key executives. No other benefits have been paid to persons.

EUR		2019	2018
Mika Rautiainen	CEO (from 1 June 2018) *	444 966	782 408
Seppo Saastamoinen	Chairman of the Board (from 14 March 2018)	102 000	83 500
Harri Sivula	Member of the Board (Chairman of the Board until 13 March 2018 and Interim CEO until 31 May 2018)	45 000	251 069
Thérèse Cedercreutz	Member of the Board	41 000	43 000
Kati Hagros	Member of the Board	45 000	50 000
Juha Blomster	Member of the Board (from 14 March 2018)	45 000	40 000
Erkki Järvinen	Member of the Board (from 14 March 2018)	44 000	35 000
Christian Gylling	Member of the Board (until14 March 2018)		8 500
Sven-Olof Kulldorff	Member of the Board (until14 March 2018)		15 500
CEO of the Group companies and members of the Board of Directors		**766 966**	**1 308 977**
Executive Group		**1 492 409**	**1 538 059**
Monetary salaries, fees and fringe benefits, total		**2 259 375**	**2 847 036**

* includes a one-off compensation of EUR 492,800 in financial period 2018

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 EUR 75,421.74 in 2019 (EUR 166,933.12).

Termination benefits

If the Group gives notice to the CEO, he will have the right to receive compensation corresponding to the maximum of 12 months' overall pay. Under corresponding circumstances, the other Executive Group members will have the right to compensation corresponding to the maximum of 9 months' overall pay.

5.2 Provisions and contingencies

Accounting policies

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 4.2 Financial assets and liabilities and 4.5 Contingent liabilities, assets and commitments.

5.3 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

EUR	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
REVENUE	**1 030 200.00**	**1 724 800.00**
Wages, salaries and employee benefits	-1 048 825.19	-1 611 441.26
Other operating expenses	-683 620.05	-841 359.49
OPERATING PROFIT	**-702 245.24**	**-728 000.75**
Financial income and expenses	-1 329 143.87	-1 505 576.03
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	**-2 031 389.11**	**-2 233 576.78**
Appropriations		
Group contribution received	61 500 000.00	43 000 000.00
Profit (loss) before taxes	**59 468 610.89**	**40 766 423.22**
Income taxes	-11 896 709.43	-8 153 259.05
NET RESULT FOR THE FINANCIAL PERIOD	**47 571 901.46**	**32 613 164.17**

Parent company's balance sheet

EUR	31 Dec 2019	31 Dec 2018
ASSETS		
NON-CURRENT ASSETS		
Investments		
Holdings in group companies	235 233 761.80	235 233 761.80
NON-CURRENT ASSETS, TOTAL	**235 233 761.80**	**235 233 761.80**
CURRENT ASSETS		
Non-current receivables		
Non-current loan receivables, related parties	2 144 049.20	1 975 543.20
Current receivables		
Amounts owed by group companies	63 199 898.42	45 229 199.37
Other receivables	3 673.73	
Prepayments and accrued income	36 131.63	9 322.88
Current receivables	63 239 703.78	45 238 522.25
Cash in hand and at banks	24 141 581.07	31 405 270.77
CURRENT ASSETS, TOTAL	**89 525 334.05**	**78 619 336.22**
ASSETS TOTAL	**324 759 095.85**	**313 853 098.02**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	80 000.00	80 000.00
Reserve for invested unrestricted equity	114 629 589.41	114 629 589.41
Retained earnings	7 314 534.13	4 135 745.96
Net result for the financial period	47 571 901.46	32 613 164.17
EQUITY, TOTAL	**169 596 025.00**	**151 458 499.54**
LIABILITIES		
Non-current liabilities		
Loans from financial institutions	100 000 000.00	100 000 000.00
Current liabilities		
Trade payables	28 631.24	196 173.90
Amounts owed to group companies	50 936 274.81	58 943 467.57
Other payables	30 295.45	78 801.18
Accruals and deferred income	4 167 869.35	3 176 155.83
Current liabilities	55 163 070.85	62 394 598.48
LIABILITIES, TOTAL	**155 163 070.85**	**162 394 598.48**
EQUITY AND LIABILITIES, TOTAL	**324 759 095.85**	**313 853 098.02**

Parent company's cash flow statement

1,000 EUR	31 Dec 2019	31 Dec 2018
Cash flows from operating activities		
PROFIT (LOSS) FOR THE PERIOD	47 572	32 613
Adjustments:		
Financial income and expenses	1 329	1 506
Appropriations	-61 500	-43 000
Tax on income from operations	11 897	8 153
Change in working capital		
Increase (-) / decrease (+) of current receivables	189	228
Increase (+) / decrease (-) of current non-interest bearing liabilities	-192	-33
Interest paid	-1 291	-1 493
Other financing items	-98	-52
Direct income taxes paid	-10 910	-8 715
Cash from operating activities	**-13 005**	**-10 792**
Cash flows from investing activities		
Granted loans (+)	-254	-1 976
Proceeds from repayments of loans	85	
Cash from investing activities	**-169**	**-1 976**
Cash flows from financing activities		
Change in internal bank account receivables	326	1 066
Change in internal bank account liabilities	-7 982	2 081
Dividends paid	-29 434	-24 136
Group contributions	43 000	28 800
Cash from financing activities	**5 910**	**7 811**
Change in cash in hand and at bank	**-7 264**	**-4 957**
Cash in hand and at bank at the beginning of the period	31 405	36 362
Cash in hand and at bank at the end of the period	24 142	31 405

Notes to the parent company's financial statements

1. Accounting policies

Tokmanni Group Corporation is a Finnish limited liability company and its shares are listed on the Nasdaq Helsinki exchange.

The domicile of the company is Helsinki.

The principal line of business of Tokmanni Group Corporation is to sell administrative services to the other companies in the Group.

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 agreements in Nordea and Swedbank, which includes all Group companies' Nordea and Swedbank 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.

Board of director's dividend proposal is indicated in Note 4.1 Equity.

2. Breakdown of revenue by market area

1,000 EUR	2019	2018
Finland	1 030	1 725

3. Personnel and members of administrative bodies

	2019	2018
Salaries of CEO and members of the Board of Directors 1,000 EUR	-882	-1 402

Average number of employees	1	1

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 5.1 Related party transactions.

4. Other operating expenses

1,000 EUR	2019	2018
Office and administration	-403	-403
Purchased services	-220	-297
Other expenses	-60	-141
Total	**-684**	**-841**

5. Group contribution

1,000 EUR	2019	2018
Group contribution received	61 500	43 000

6. Income taxes

1,000 EUR	2019	2018
Income taxes for the financial period	-11 894	-8 153
Income taxes for previous financial periods	-3	
Total	**-11 897**	**-8 153**

7. Auditor's fees

1,000 EUR	2019	2018
Audit	-59	-47
Other fees and services	-12	-7
Tax counselling	-6	-5
Total	**-78**	**-59**

8. Related party transactions

All transactions with related parties are on market-based terms.

9. Investments

1,000 EUR	2019	2018
Holdings in group companies		
Acquisition cost as at 1 Jan	235 234	235 234
Acquisition cost as at 31 Dec	235 234	235 234
Carrying amount		
Retail Property Investment Oy, Mäntsälä	1 000	1 000
Retail Leasing Oy, Helsinki	234 234	234 234
Total	235 234	235 234
Shareholding, %		
Retail Property Investment Oy, Mäntsälä	100	100
Retail Leasing Oy, Helsinki	100	100

10. Receivables

Non-current receivables

1,000 EUR	2019	2018
Non-current loan receivables from related parties	2 144	1 976

Current receivables

1,000 EUR	2019	2018
Amounts owed by group companies		
Trade receivables	3	3
Other receivables, group contribution receivables	61 500	43 000
Other receivables, group account receivables	1 490	1 816
Accruals, interest receivables	207	410
Total	**63 200**	**45 229**
Other receivables		
Other receivables	4	
Prepayments and accrued income	36	9
Total	**40**	**9**
Total	**63 240**	**45 239**

Prepayments and accrued income

1,000 EUR	2019	2018
Interest receivables	19	3
Advance payments	10	6
Other prepayments and accrued income	7	0
Total	**36**	**9**

11. Equity

1,000 EUR	2019	2018
Restricted equity		
Share capital as at 1 Jan	80	80
Share capital as at 31 Dec	80	80
Restricted equity	**80**	**80**
Unrestricted equity		
Reserve for invested unrestricted equity as at 1 Jan	114 630	114 630
Reserve for invested unrestricted equity as at 31 Dec	114 630	114 630
Retained earnings as at 1 Jan	36 749	28 272
Dividends	-29 434	-24 136
Retained earnings as at 31 Dec	7 315	4 136
Net result for the financial period	47 572	32 613
Unrestricted equity	**169 516**	**151 378**
Equity	**169 596**	**151 458**

Calculation of distributable equity

1,000 EUR	2019	2018
Retained earnings	7 315	4 136
Net result for the financial period	47 572	32 613
Reserve for invested unrestricted equity	114 630	114 630
Total	**169 516**	**151 378**

12. Non-current liabilities

1,000 EUR	2019	2018
Loans from financial institutions	100 000	100 000

The company has no liabilities falling due later than within 5 years.

13. Current liabilities

1,000 EUR	2019	2018
Amounts owed to group companies		
Trade payables		25
Other liabilities, internal account payable	50 936	58 918
Total	**50 936**	**58 943**

Accruals and deferred income

1,000 EUR	2019	2018
Amortised personnel costs	324	263
Interest payable	106	150
Income tax payable	3 737	2 750
Other accruals and deferred income	1	13
Total	**4 168**	**3 176**

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

Mäntsälä, 14 February 2020

Seppo Saastamoinen
Chairman of the Board

Thérèse Cedercreutz
Member of the Board

Juha Blomster
Member of the Board

Kati Hagros
Member of the Board

Erkki Järvinen
Member of the Board

Harri Sivula
Member of the Board

Mika Rautiainen
CEO

AUDITOR'S NOTE
Our auditor’s report has been issued today.

Helsinki, 14 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Maria Grönroos
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Tokmanni Group Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with 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 the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Tokmanni Group Oyj (business identity code 2483212-7) for the year ended 31 December 2019. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies

- the parent company's balance sheet, income statement, statement of cash flows and notes.

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

Independence

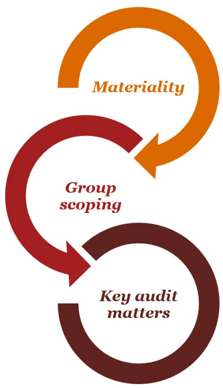
We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 2.4 to the Financial Statements.

PricewaterhouseCoopers Oy, Authorised Public Accountants, P.O. Box 1015 (Itämerentori 2), FI-00101 HELSINKI
Phone +358 20 787 7000, Fax +358 20 787 8000, www.pwc.fi
Reg. Domicile Helsinki, Business ID 0486406-8

Our Audit Approach

Overview



- Overall group materiality: € 4,3 million, which represents 0,5 % of group revenue

- Audit scope: We performed audit procedures at the parent company Tokmanni Group Oyj and at its Finnish subsidiaries

- Valuation of goodwill
- Inventories
- Implementation of IFRS 16 Leases -standard

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 4,3 million
How we determined it	0,5 % of group revenue
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users and is a generally accepted benchmark. We chose 0,5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

We have determined the nature of audit work needed and it was performed by the group engagement team. Tokmanni Group Oyj operates mainly in Finland, where it has one subsidiary that is significant to the group. Group revenue accumulates from sales in this subsidiary. We have audited this subsidiary as part of our group audit procedures.

In addition, we have performed audit procedures at other subsidiaries for balance sheet line items that are significant to the group. Our audit procedures have covered most of the consolidated assets and liabilities. For remaining parts we have performed analytical procedures.

By performing the procedures above, combined with additional procedures at the group level, we have obtained sufficient and appropriate evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated 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.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Valuation of goodwill	
Refer to Note 1 Accounting policies used in the financial statements and Note 3.2 Intangible assets Goodwill amounts to 135,0 (134,6) million euro in the consolidated balance sheet. The company's management is responsible for performing impairment testing. As presented in Note 1 Accounting policies used the financial statements and note 3.2 Intangible assets goodwill is tested for possible impairment on an annual basis and whenever there is an indication of impairment. Estimates of future cash flows include management judgement. The most significant assumptions used in impairment testing are the future average EBIT margin and the discount rate	We have inspected the goodwill impairment testing calculations prepared by group management. As part of our audit we have: • Compared the future cash flows as presented in the calculations to financial plans approved by Tokmanni Group Oy's Board of Directors. • Assessed the calculation model, discussed significant assumptions used in the cash flow estimates as well as assessed and compared them to existing internal and external information. • Assessed the discount rate (WACC) applied and tested mathematical accuracy. • Tested the mathematical accuracy of the impairment calculations.

(WACC).

We have identified and assessed the risk that assumptions used in impairment testing are not appropriate and that goodwill is overstated.

Valuation of goodwill is a key audit matter as it is a significant balance sheet item and due to the judgement included in impairment testing.

- Assessed the adequacy and appropriateness of the notes to the consolidated financial statements.

Inventories

Refer to Note 1 Accounting policies used in the financial statements and Note 3.3 Inventories

Inventories amount to 222,8 (190,5) million euro in the consolidated balance sheet.

As presented in note 3.3 inventories are valued at the lower of cost or net realisable value. The cost of goods include all costs of purchase, including direct transportation and handling costs and other costs.

Valuation of inventories and obsolescence provisions include management judgement.

Inventories are a key audit matter due to the size of this balance sheet item, the large network of stores and the judgement included in inventory valuation.

As part of our audit we have:

- Participated in physical stock taking in selected shops and at the central warehouse as well as tested the company's physical stock taking control.
- Audited the inventory reconciliation performed by the company.
- Tested the correctness of inventory pricing using data-analytics.
- Assessed the company's inventory obsolescence calculations and tested the correctness of input data on a sample basis as well as reperformed calculations to ensure mathematical accuracy.
- Assessed the adequacy and appropriateness of the notes to the consolidated financial statements.

Implementation of IFRS 16 Leases -standard

Refer to Note 1 Accounting policies used in the financial statements and Note 3.1 Property, plant and equipment

As described in Note 1 to the consolidated financial statements the company has adapted the IFRS 16 Leases -standard as of 1 January 2019 by applying the simplified approach, meaning that comparison figures are not adjusted and the cumulative effect arising from the adoption of the standard is recognised at the time of adoption, 1 January 2019. The implementation of IFRS 16 impacted the 1 January 2019 assets by 235,9 million euro, liabilities by 243,6 million euro and equity by -7,7 million euro and the impact has been described more in

As part of our audit we have:

- Assessed the implementation method and the relating accounting principles and whether they are in accordance with IFRS 16.
- On a sample basis tested contracts and relating accounting treatment as well as completeness and accuracy of the register.
- Tested mathematical accuracy of the IFRS 16 accounting on rental contact level on sample basis.
- Assessed the principles used in determining the discount rate. In addition we have recalculated the discount rate and reconciled it to the discount rate used in IFRS 16

Note 1 to the consolidated financial statements.

The implementation had a significant impact on the consolidated balance sheet, income statement and on the key figures, due to the large network of stores that has lease contracts accounted for as operating leases under IAS 17 before the implementation of IFRS 16.

The implementation has been subject to management judgement especially regarding the probability of exercising extension options in the lease contract. As described in the Note 1 to the consolidated financial statements, lease agreements on store facilities often include significant option conditions.

Implementation of IFRS 16 is a key audit matter due to its significant impact in relation to the consolidated balance sheet and considering its one off nature and management judgement applied.

accounting.

- Assessed management estimates regarding extension options and tested, on a sample basis, that options to extend have been appropriately considered in accordance with the company's policy.
- Assessed the adequacy and appropriateness of the notes to the consolidated financial statements.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

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 to 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 about 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 to 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

Appointment

We were first appointed as auditors by the annual general meeting on 19 March 2019.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors, but does not include the financial statements and our auditor's report thereon.

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 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
- 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, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 14 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Maria Grönroos
Authorised Public Accountant (KHT)