Musti GROUP

Annual Report 2020

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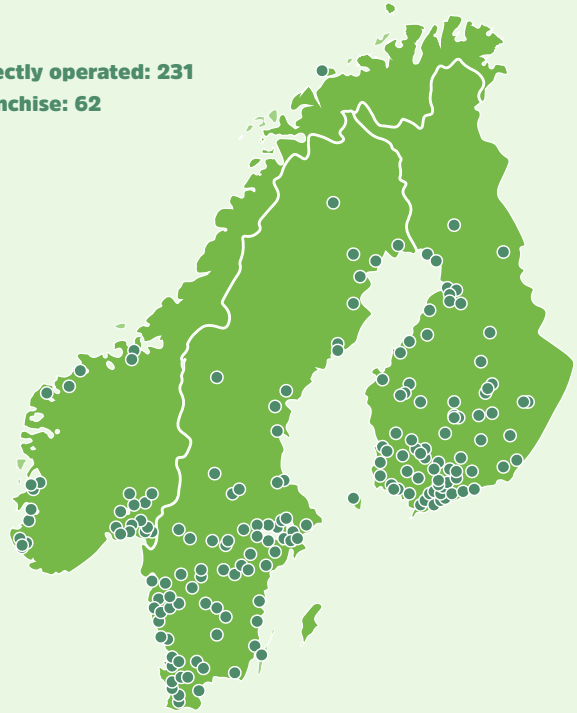
Musti Group's financial year is from 1 October to 30 September.

This is Musti Group

Musti Group is the leading Nordic pet care specialist operating in Finland, Sweden and Norway. Our mission is to make the life of pets and their parents easier, safer and more fun. Our concept is built around trust and expert advice, high-quality assortment, omnichannel business model and growing suite of services.

Musti Group's net sales were EUR 284.4 million in the financial year 2020. At the end of the financial year 2020, the company had 1,162 employees, 1.2 million loyal customers and 293 stores.



Finland 129 stores

Musti ja Mirri
Musti ja Mirri .FI
PetenKoiratarvike.com

Sweden 125 stores

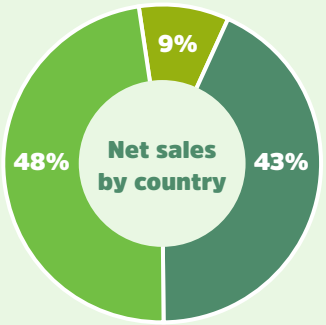
ARKEN ZOO
ARKEN ZOO .SE
VetZoo

Norway 39 stores

Musti
Musti .NO
VetZoo

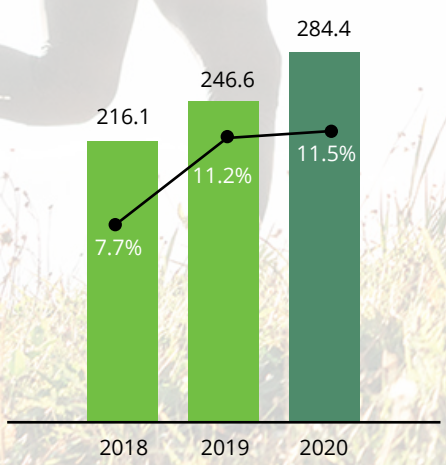
Net sales in financial year 2020

EUR 284.4 million

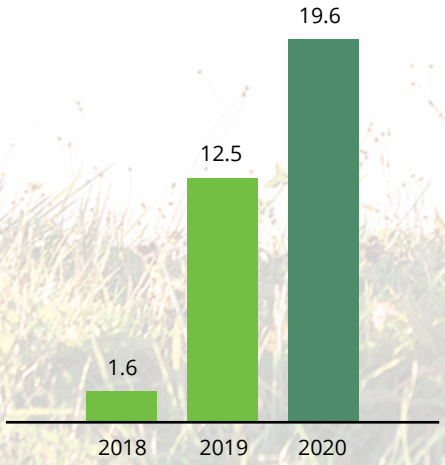


2020 in brief

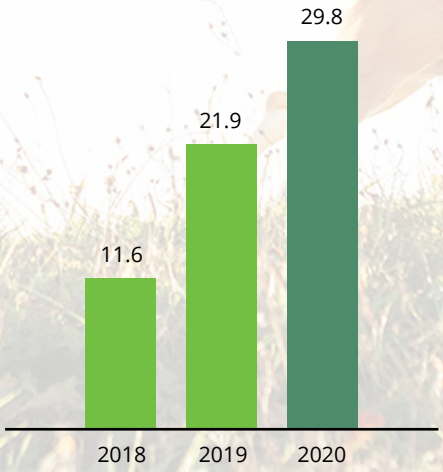
Net sales, EUR million and like-for-like sales growth, %



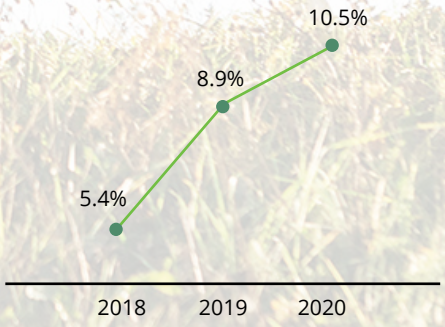
Operating profit, EUR million



Adjusted EBITA, EUR million



Adjusted EBITA margin, %



1,151 thousand
Loyal customers on September 30, 2020 (1,018 thousand)

50.3%
Own & Exclusive share (51.7%)

22.5%
Online share of net sales (20.7%)

1,162
Personnel on September 30, 2020 (1,120)

Highlights from 2020

October 24, 2019
Musti ja Mirri was ranked the 1st in the omni-channel category and 2nd overall in Customer Experience of the Year Awards gala arranged by ASML and Avaus. In the survey, approximately 2,700 consumers assess 55 participating companies.

Read more

February 13, 2020
Trading in Musti Group's shares commenced on the pre-list of Nasdaq Helsinki.

February 14, 2020
Musti ja Mirri came 3rd in the Great Place to Work Awards 2020 in the large organizations' category in Finland. Musti ja Mirri is the only company awarded as one of the best workplaces in Finland in five consecutive years.

February 17, 2020
Trading in Musti Group's shares commenced on the official list of Nasdaq Helsinki.

March 20, 2020
Musti Group announced that pet food availability remained good in our stores despite the restrictions caused by the COVID-19 pandemic.

Read more

June 9, 2020
Musti Group announced plans to open 20–25 new own stores during the reporting year 2020 instead of 15–20 stores as communicated earlier. The increase was due to the increased demand for pet products during spring 2020.

Read more

September 2, 2020
Musti Group announced that it is well placed to welcome an increased number of puppy customers with a wide range of different initiatives, campaigns and activities planned to best serve the important first year of a puppy or kitten.

Read more

Initial Public Offering

Musti Group was listed on the Nasdaq Helsinki on February 13, 2020. The IPO supported the execution of Musti Group's strategy by increasing the visibility of the company among its customers, cooperation partners and employees and enabled the company to access the capital markets to raise new capital, among other things.

Demand in the offering was strong and the listing was completed as planned. The number of shareholders increased to more than 4,000 in connection with the IPO.

Read more

CEO's review

All of us at Musti Group are very proud of what we achieved in our first very eventful year as a listed company.

No one anticipated what was to come soon after our listing in February 2020. The COVID-19 pandemic severely affected all parts of the community during 2020 and we witnessed how individuals, businesses, and societies everywhere in the world adapted to a new way of living. During the pandemic, our top priorities in Musti Group have been to keep our staff and customers safe and to maintain our ability to deliver high-quality customer support under exceptional circumstances.

The pet care market has proven to be resilient to economic downturns in the past, and during the COVID-19 pandemic, the resilience of our business has been apparent. We will continue to take the appropriate operational actions required during these times to serve our customers according to their channel preference, win new customers and keep our staff and customers safe.

Musti Group is focusing on profitable growth, supported by our scalable, cost efficient platform highlighted this year by our strong adjusted EBITA growth of 36.2%.

Musti Group's net sales increased by 15.3% to EUR 284.4 million in 2020. The increase was largely due to like-for-like growth in all three countries, mainly driven by an increasing number of new customers as more and more families added a pet to their household.

Musti Group is focusing on profitable growth, supported by our scalable, cost efficient platform, highlighted this year by our strong adjusted EBITA growth of 36.2% from the previous year to EUR 29.8 million.

Following the strong and ongoing pet parenting trend accelerated by the COVID-19 pandemic, the number of pets in Musti Group's operating markets has seen accelerated growth demonstrated by the increased registration of puppies. The continued increase in puppy customers during the upcoming financial year will continue to underpin Musti Group's growth outlook in each of our markets.

Our strong omnichannel strategy and scalable platform serve us well. We expect the favorable momentum in the market to continue during 2021. We will increase the number of owned stores by 25 to 35, allowing us to reach even more customers through our efficient omnichannel business model, which combines the convenience of store and online purchasing. Stores provide an essential and convenient touch point and allow Pet Parents to explore products, receive trusted advice from Musti Experts and access pet services. This is then complemented by the added convenience of our integrated, user friendly, fast, and efficient online platform.

During 2020, we have been able to deliver high-quality service to our customers and grow our profitability under exceptional circumstances due to the passion and courage of the Musti Group team. The commitment and effort of the entire Musti Group team has been outstanding, and on behalf of the shareholders and board, I want to sincerely thank our entire team for enabling all we have achieved.

Thank you also to our customers and the trust you have shown us. We are grateful for your trust and remain committed to doing our best to meet your needs as we build upon our position as the pre-eminent pet group in the Nordics.

David Rönnberg
CEO

Megatrends

Pet parenting

Pet parenting is a major development in pet care that continues to have a profound impact on the global pet care market. People are increasingly treating their dogs and cats like members of their family, spending more on higher quality and more premium food, as well as on a more diverse range of products and services. Musti Group estimates that Pet Parents occupy close to one third of the total pet owning population but account for one-half of the total market spend.

Pet population growth and increased number of puppies

The number of pets in Musti Group's operating markets has been seen to grow throughout the year as a result of an increased number of puppies. This development is driven by the ongoing strong pet parenting trend accelerated by the COVID-19 period and the increase in remote work. These trends form a solid foundation for market growth also going forward. The number of households and the Nordic pet population are expected to continue growing in the coming years.

Channel shift

The increasing prevalence of pet parents across the Nordic countries has led to a channel shift towards pet specialists. Recently there has been a strong shift towards online boosted by the effects of the COVID-19 pandemic on customer behavior.

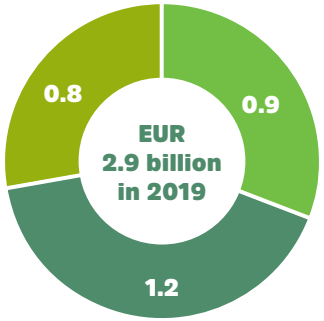
Resilience of the Nordic pet care market

Consumers display a willingness to sustain spend on pet care through economic downturns, preferring to cut expenditure on alternative spend categories. In the Nordic countries this phenomenon has been clearly evidenced during the COVID-19 pandemic in 2020 as well as previously throughout the 2007–2009 economic downturn.

Global consumer megatrends

There are several global consumer megatrends that are highly visible across the pet care market. These include increasing environmental consciousness, desire for convenience in shopping, increasing focus on health and wellness, supply chain transparency and increased demand for services.

The Nordic pet care market, EUR billion



Finland Sweden Norway

The Nordic pet care market, worth EUR 2.9 billion includes food, products, services and veterinary services. Food for pets other than dogs and cats is excluded.

Musti Group's pet food and products market share in 2019

Finland:	Sweden:	Norway:
30%	29%	8%

The Nordic pet food and products market totals EUR 1.7 billion. Musti Group's market share is calculated using consumer sales including franchisees and VAT. Musti Group's market share 2019 is based on FY20 sales.

We make the life of pets and their parents easier, safer and more fun

Thriving experts with a love for pets → Outstanding service → Happy customer → Shareholder value

Our strategy	Winning new customers	Growing the share of wallet within loyal customers	Expanding store network and service points	Growing the share of own and exclusive products	Leveraging broadly invested platform

CASE

Welcoming all puppies and kittens to join the Musti pack!

During 2020, we have been witnessing growth in the number of pets in our operating countries. To get an excellent start to life, puppies and kittens often require specialized food and services, not to mention a variety of accessories as the pet grows. Also, new pet parents usually have many questions about how to take care of the new family member and choose the best products. We are here to help – our new Puppy and Kitten Club focuses exclusively on the very important and fun first year of our furry friends.

The Puppy and Kitten Club, and its special benefits, attracted thousands of members already during its first month in Finland, where it was first launched at the end of August, followed by the launch in Sweden and Norway later in 2020. Working with puppies and kittens is nothing new to us at Musti Group. We have always offered a wide range of products and services to puppies and good advice to their parents, such as our Puppy and Kitten guides, introductory service visits, and popular puppy dates in Finland, now expanding to other countries too in 2021. Besides the exclusive benefits for the Puppy and Kitten Club members, the new club helps us provide targeted offers and advice based on each pet's unique needs, making the customer experience even better.

"Puppies and kittens are extremely important to Musti Group, and we want to be true experts helping pets and their parents during this exciting life stage. Our goal with the club is to build an even more engaging community around puppies and kittens", says Chief Customer Officer Malin Nygren.

After a puppy or a kitten reaches the first-year milestone, the journey with Musti Group continues as part of Musti Group's existing loyalty program. We at Musti Group hope to see this early engagement with puppy and kitten customers lead to a close and valuable relationship with us for years to come. Let us not forget the most important thing: we want to take care of all puppies and kittens as if they were our own and help them get a positive start in life!

CASE

We are broadening the range of our popular pet care services

Ease of shopping and everyday life as well as health and wellbeing are trends that increase the demand for pet care services. We offer services for the comprehensive wellbeing of pets; many of our stores already include a salon, which has gained great popularity among our customers. During the financial year 2020, we opened new service points in more than 15 stores, and at the end of the financial year there were a total of 56 salons across our stores in Finland, Sweden and Norway.

Our service concept stands out from the rest, increasing customer loyalty and improving store success. We offer services to our pet customers in grooming, nail clipping, body maintenance and dietary planning. Our emphasis is on quality, and we are continuously developing and broadening our range of services in order to provide the best possible care to our customers – from pup to grown-up. Our next steps include broadening our territory even further with trainings that pets attend with their owners.

Our work is characterized by expertise, transparency and collaboration, and we place great importance in finding knowledgeable personnel who are committed to these values.

"We want to be as close to the customer as possible. What transparency means to us, among other things, is that the owner can always watch behind a glass wall while their pet is being treated. Often our experts also work as the voice of the pet, interpreting its behaviors; this improves the interaction between the pet and its family members," says Helen Liiv, Service Business Manager at Musti ja Mirri.

First class in customer satisfaction

"I am very satisfied with the skill and expertise of the staff. It feels safe, and I can trust the quality of customer service."

"My dog is glad to come in for treatments – he pads along the parking lot eagerly towards the store."

"It is always nice to come here, and I like getting tips from the staff for my dog's wellbeing."

Strategy and financial targets

Our core strategy is to continue developing our value proposition and to better serve our customers in the Nordic markets, with focus on pet parents.

Winning new customers

Musti Group is well-positioned to continue winning new customers from the large Nordic pet pool of 5.3 million pets and gaining market backed by the pet parenting trend. This is enabled by our concept, leading brand, and customer focus. Our pet loyalty club is the largest in the Nordics.

In the financial year 2020 we continued to focus on market share growth in all markets led by Sweden and Norway. The number of loyal customers, friends of Musti Group, increased by 13.1% to 1,151 thousand during the financial year.

We also launched a new Puppy and Kitten Club that focuses on the puppies' and kittens' first year, giving them the best possible offers, communication and advice.

Grow share of wallet within existing loyal customers

Growing the share of wallet with the existing loyal customers is a clear opportunity for Musti Group. There is significant upside from educating lower spending customers about the health benefits of premium food and encouraging them to conduct most of their pets' purchases at Musti Group.

Rolling 12 months average spend per loyal customer increased to EUR 178.5 in the financial year 2020 (EUR 176.1), driven by an increased average purchase value.

Expand store network and number of service points

We aim to continue rolling out further stores to win new customers through our strong concept attracting customers to switch to the Musti Group platform.

Through the largest footprint in the Nordic countries, Musti Group can quickly gain further market share in the attractively growing pet services market, and we continuously evaluate new service point openings.

The number of directly operated stores increased by 25 during the financial year. This was supported by the increase in the demand for pet products during spring 2020 and thus higher growth expectations for the market.

Focus on driving gross margins through increased O&E share and leveraging scale

Musti Group has strong historical track record in driving gross margin improvement and is well-equipped to continue that going forward. Own and exclusive brands typically have 10–15 percentage points higher gross margins compared to global brands. In addition, we focus on leveraging scale in procurement, pricing and category management.

In the financial year, gross margin decreased due to a higher share of online sales, a lower share of sales of own and exclusive brands as well as non-recurring items relating to the ongoing warehouse consolidation project, offset by more efficient marketing campaigns and supply chain management. Musti Group continues to further strengthen its own brands, such as the successful product brands Feel Active and Little&Bigger. For example, we extended our wide Feel Active assortment by launching a new high-tech raincoat with our own trademarked membrane Feel Tech.

Leverage broadly invested platform to drive operating leverage and scale benefits

Previous significant investments to Musti Group's IT and warehouses are expected to drive increased operating leverage and scale benefits to further increase Musti Group's profitability as topline growth is expected to continue while fixed costs can be spread across larger net sales.

The impact of operating leverage was seen during the financial year as the adjusted EBITA margin reached the financial target level.

Financial targets

	Long-term financial target	Outcome in FY2020
Growth	Sales to reach at least EUR 350 million by the financial year 2023 by continuation of strong customer acquisition momentum.	Net sales EUR 284.4 million, growth 15.3 per cent
Profitability	Mid- to long-term adjusted EBITA margin of 10–12 per cent with steadily improving profile. Margin increase is expected to be realised through steady gross margin and improving operating leverage.	Adjusted EBITA margin 10.5 per cent
Capital structure	Maintain net debt in relation to adjusted EBITDA below 2.5x in the long term.	Net debt / LTM adjusted EBITDA 2.0
Dividend policy	To pay a dividend corresponding to 60–80 per cent of net profit. Any potential dividend shall take into account acquisitions, the company's financial position, cash flow and future growth opportunities.	A capital return corresponding to approximately 80 per cent of the profit for the financial year before non-recurring adjustments of EUR 4.3 million.*

*No dividend will be paid for the financial year ended 30 September 2020. Board of Directors' proposal to the Annual General Meeting.

Operating countries

Finland

Stable development as the most mature country

Key growth drivers include educational marketing to continue winning food customers from grocery, working with breeders to win puppy customers at the beginning of the customer journey and leveraging data to target customers in a more relevant and efficient manner.

Sweden

Further expansion and convergence in efficiency towards Finnish levels

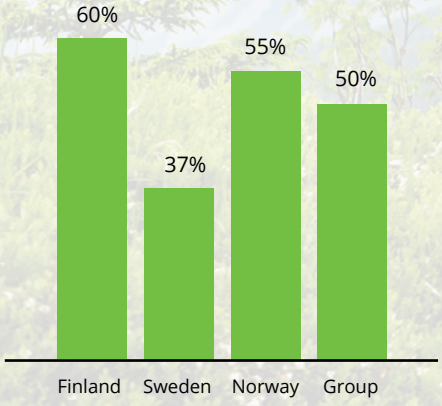
Key growth and margin drivers include increasing O&E share of sales towards Finnish levels through better staff promotion and educational marketing, converging store cost efficiency towards Finnish levels by store personnel efficiency actions and being selective in network expansion while acquiring selected franchised stores.

Norway

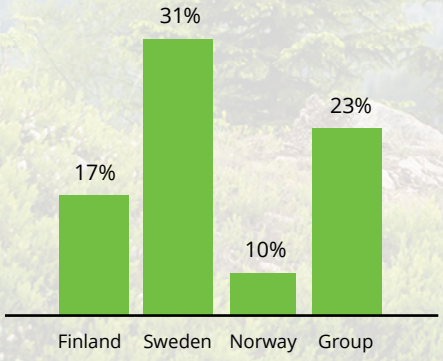
Store rollout with strong ramp-up and increasing country profitability

Key growth drivers include continuing the expansion of the store network and continuing the growth of stores that are in the ramp-up phase.

Own & Exclusive share, %



Online share of net sales, %



Trusty – the Musti Group responsibility approach

We make the life of pets and their parents easier, safer and more fun. As a forerunner in our market, we want to do it responsibly. For us, this means putting the welfare of pets and people first, having high standards for quality, safety and expertise, as well as always looking into more sustainable ways to develop our business.

Trusty

THEMES

Pets and their parents

High quality and safe products and services
+
Satisfied and loyal customers

Employees

Thriving experts
+
Well-being at work

Communities

Working for the common good
+
Openness for new inventions

BASIS

Responsible supply chain

Suppliers committed to Musti Group's requirements on responsible business practices

+

Reducing environmental impact

CO_2 emissions and energy management
+
Recycling and waste management

+

Good governance and high ethics

Compliance with policies and principles

Responsibility for pets and their parents

Musti Group is all about supporting the well-being of pets and their parents. We believe in collaboration and in designing our assortment and services together with customers.

We want to give pets a chance to get their voices heard. Our experts help customers take care of all their pets' needs. Our goal is to offer reliable and topical advice every day. Our customer feedback shows that we are known and trusted especially for our warm and informed service.

Trusted expert advice, a high-quality assortment, omnichannel convenience and a growing suite of services form a responsible concept for modern pet parents. Every product we sell is tested either by our own expert team or by a client panel.

NPS*

79

(76)

Target: Good NPS

*NPS scale from -100 to +100

CASE

High-quality, safe and tasty food for pets

For us, being responsible means having high standards for the quality and safety of our products. Every product we sell is tested either by our own expert category team or by a client panel. We collect feedback from them and act accordingly.

Food has an important role in the well-being of our pets, and we have reliable options available for every taste and nutritional need. Our broad pet food assortment includes global, own and exclusive brands which can be purchased both in our stores and online.

Read more

Employees

Musti Group has over 1,100 experts across the Nordic countries who put their heart into their work. We all care deeply for animals, and for each other, too.

As an employer, Musti Group wants to take good care of the well-being of our own pack. We invest in trainings and education to increase the know-how of the Musti experts. We are the very first workplace for many of our employees and want to see them grow into thriving experts.

Our employee well-being is reflected in high employee satisfaction levels, with Musti ja Mirri also ranking high in the Great Place to Work awards. Although there is always room for improvement, we are proud to have built together a working environment where every human, cat, dog, or rabbit feels they belong.

Employee turnover, trend

14%

Target: Employee turnover below 15%

Employee satisfaction level, trend

76%

(74%)

Target: Great Place To Work satisfaction level ≥ 70%

CASE

The well-being and development of our pack is important to us

"The initiative to become an apprentice came from my manager. It really made me feel like my employer wanted to offer me all the tools and support possible to develop myself and my competences. I would definitely recommend this to anyone, as you immediately get to put everything you've learned into practice," says Janina Schiray, a regional sales manager at Musti ja Mirri.

Read more

Communities

We want to have a positive impact on the communities in which we live and do business. Together with our customers, employees, and partners, we work for the common good. We are open to collaboration opportunities and new innovations.

Taking care of pets and their parents in need is rooted deep in our company culture, and we encourage our employees to keep their eyes and ears open. If we find out that someone needs our help, we are not afraid to act.

We lend our helping paw to big and small animal welfare associations across the Nordic countries that need help in their important work. We look for ways to work together and support them.

Examples of Musti Group's community involvement activities

- Collaboration with educational institutions and promoting education that aims for a diploma or a degree
- Collaboration with The Children and Youth Foundation in Finland
- Donating broken package and best before day products to local cat/dog shelters in Finland, Sweden and Norway
- Charity box campaign at stores in Finland, where customers can donate pet food and accessories to Finnish low-income families
- Supporting Svenska Djurambulansen (Animal ambulance) in Sweden
- Official partner of Red Cross Service in Norway: Besøksvenn med hund (Visit friend with a dog)

CASE

Lending a helping paw

To find out where our help is needed the most, we often turn to our local customers and employees. In our social media channels, animal lovers can let us know where food, supplies or cat litter would be needed most urgently. We also encourage our employees to keep their eyes and ears open. If they see or hear that someone needs help, our people are not afraid to act.

When our employees spotted a message in Facebook saying that a local animal care center was running out of cat litter, they set up a collection in our nearest store the same evening. The next day, tens of kilos of cat litter was delivered to the care center. A pallet of cat litter was also sent to them from our warehouse.

Read more

BASIS

Responsible supply chain

Coverage of amfori BSCI audits in high-risk countries

82%

(59%)

Target: 100% of tier one suppliers in high-risk countries audited by the end of 2021

Reducing environmental impact

Reused or recycled packaging material

100%*

Target: 100% of packaging materials in our operations reused or recycled by 2021

*Covers warehouses

Good governance and high ethics

72%

of employees have completed ethics training

Target: 100% of employees have completed ethics training

Musti Group as an investment

1

Clear market leader in the Nordic pet care market

Musti Group is the market leader in the growing and resilient Nordic pet care market. Musti Group has achieved market leadership through the ability to offer expert advice, a more diverse range of higher quality products and better convenience combined with an enjoyable shopping experience that cater to Pet Parents' needs.

2

Winning concept

Our omnichannel business model combines the convenience of both store and online purchases. The experts' advice offered by our store personnel is at the core of our concept. We differentiate in breadth and quality of our assortment and we have a clear strategy of focusing on own and exclusive brands. As part of our customer proposition we are increasingly rolling out new service locations.

3

Strong customer focus

Musti Group's Loyalty Club is designed to serve as a platform for engaging with customers and providing them with better customer service. Through the Loyalty Club, Musti Group is able to leverage data to truly understand its customers' behavior and provide them with relevant, targeted communication.

4

Passionate personnel led by an experienced management team

The highly engaged, motivated and well-trained Musti Experts are a key element of Musti Group's culture and are fundamental to the success of the company's business model as well as an important competitive advantage. Musti Group's management team has an impressive depth of knowledge with strong retail experience.

5

Integrated and comprehensively invested backbone

During the financial years 2017 and 2018, Musti Group conducted a significant IT renewal and centralization of logistics, eliminating the need to make major IT and warehouse investments in the near future.

Share information

Market
Nasdaq Helsinki

Symbol
MUSTI

Listing date
02/13/2020

ISIN
FI4000410758

List
Mid cap

Reuters symbol
MUSTI.HE

Sector
Consumer Services 5000

Bloomberg symbol
MUSTI

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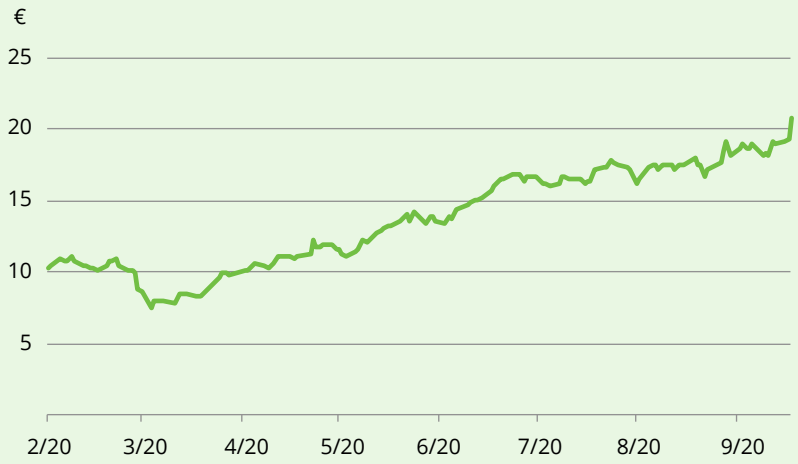
Musti Group's share price development 13 February – 30 September 2020



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Board of Directors

as of September 30, 2020

Jeffrey David
Chairman
b. 1964, Australian citizen

Member of the Board of Directors since 2016 and Chairman of the Board of Directors since 2017. Chairman of the Remuneration Committee since 2019.

Independent of the company and its major shareholders.

Ingrid Jonasson Blank
Vice-Chairman
b. 1962, Swedish citizen
Bachelor's degree in Business and Economics

Member of the Board of Directors since 2014 and Vice-Chairman of the Board of Directors since 2020. Chairman of the Audit Committee since 2019.

Independent of the company and its major shareholders.

Lisa Farrar
Member
b. 1980, Swedish citizen
Bachelor's degree in Business Administration

Member of the Board of Directors since 2018. Member of the Audit Committee since 2019.

Independent of the company and its major shareholders.

Juho Frilander
Member
b. 1985, Finnish citizen
Master's degree in Economics

Member of the Board of Directors since 2018. Member of the Audit Committee since 2019 and member of the Remuneration Committee since 2019.

Independent of the company and its major shareholders.

Vesa Koskinen
Member
b. 1979, Finnish citizen
Master's degree in Economics

Member of the Board of Directors since 2019. Member of the Remuneration Committee since 2019.

Independent of the company and its major shareholders.

Management Team

as of September 30, 2020

David Rönnberg
Chief Executive Officer
b. 1977, Master's degree in Finance

Robert Berglund
Chief Financial Officer
b. 1977, Master's degree in Economics

Sami Tanner
Head of Strategy
b. 1981, Master's degree in Economics, CEMS Master's degree in International Management

Timo Tervo
Country Director, Finland
b. 1982, Bachelor's Degree in Business Management

Daniel Petterson
Country Director, Sweden
b. 1977, Bachelor's degree in Industrial Economics

Erik Ringen Skjærstad
Country Director, Norway
b. 1974, Bachelor's degree in Organisation Psychology

Ellinor Nilsson
Head of Commercial
b. 1979, Master's degree in Economics

Nanna Martin-Löf
Head of Human Resources
b. 1977, Bachelor's degree in Personnel, Work and Organisation as well as a degree in selected Law studies

Malin Nygren
Chief Customer Officer
b. 1974, Master's degree in Business and Economics, Master's degree in Computer Science

Tobias Nilsson
Chief Supply Officer
b. 1970, Master's degree in Mechanical Engineering

Corporate Governance Statement

I. Introduction

Musti Group plc ("Musti Group" or the "Company") is committed to good corporate governance through compliance with laws and regulations in all of its operations and to implementing recommendations for good corporate governance. The governance of the Musti Group complies with the Company's Articles of Association, Finnish and EU laws and regulations, in particular the Finnish Companies Act, the Accounting Act, securities markets regulations and other decrees and regulations relevant to the governance of a public limited liability company. Furthermore, Musti Group's operations are guided by values and internal operating principles ratified by the Company.

In its governance, Musti Group also complies with the Finnish Corporate Governance Code for listed companies (hereinafter the "Code") issued by the Securities Market Association in 2020. Musti Group has not deviated from the recommendations of the Code. If Musti Group deviates from a recommendation of the Code, it will specify the deviation and justify it. The Code is available on the Internet at **www.cgfinland.fi.**

This Corporate Governance Statement of Musti Group has been prepared in accordance with the recommendations of the Code. This Corporate Governance statement has been prepared as a separate report distinct from the Report of the Board of Directors and has been published on the Company's website at **www.mustigroup.com.** The Audit Committee of Musti Group's Board of Directors has considered and reviewed this Corporate Governance Statement. The Company's external auditor has reviewed that this Corporate Governance Statement has been issued and that the description of the main features of the internal control and risk management systems pertaining to the financial reporting process is consistent with the financial statements.

II. Descriptions concerning corporate governance

Musti Group is a company founded in Finland and is registered in the Finnish Trade Register maintained by the Finnish Patent and Registration Office as a public limited liability company. Musti Group operates under Finnish law and is listed on the official list of Nasdaq Helsinki.

Musti Group consists of its parent company Musti Group plc and several group companies in Finland, Sweden and Norway. The parent company is responsible for, e.g., the management of the Musti Group on a Group level, and the Group companies are responsible for operative actions.

The Group's reporting segment structure is based on a geographical division as well as on how the chief operating decision-maker monitors the business. On this basis, Finland, Sweden and Norway have been designated as their own operating segments.

Under the Finnish Companies Act as well as Musti Group's Articles of Association and internal guidelines and policies, the Company's governance and management are distributed between the shareholders, the Board of Directors and the CEO. Shareholders exercise their power to decide on corporate matters at the General Meeting of Shareholders in accordance with the Finnish Companies Act. The Company's Board of Directors see to the administration of the Company and the appropriate organisation of its operations. The Board of Directors also elects the CEO and the members of the Management Team. The CEO is responsible for the supervision and control of the Company's day-to-day operations in accordance with the Finnish Companies Act, the Company's Code of Conduct and authorisations and guidelines issued by the Board of Directors. The Company's Management Team supports and assists the CEO in his/her duties.

1. General Meeting of Shareholders

The General Meeting of Shareholders is the Company's highest decision-making body, where shareholders exercise their power to decide on corporate matters in accordance with the Finnish Companies Act and the Company's Articles of Association. According to the Company's Articles of Association, the Annual General Meeting of Shareholders shall be held annually within six months from the end of the financial year. The Annual General Meeting shall decide, among others, upon the approval of the financial statements, the distribution of dividend and elections of members of the Board of Directors and the auditor and their remuneration. The General Meeting of Shareholders decides also upon discharge of the Board of Directors and of the CEO from liability.

Extraordinary General Meetings of Shareholders in respect of specific matters must be held when considered necessary by the Board of Directors, or when requested in writing by the auditor of the Company or by shareholders of the Company holding at least 10 percent of all the shares of the Company.

According to the Finnish Companies Act and the Company's Articles of Association, the notice convening a General Meeting of Shareholders shall be delivered to the shareholders no more than three months and no less than three weeks before the meeting, however, at least nine days before the record date of the General Meeting of Shareholders. The notice shall be delivered to the shareholders with a notification published on the Company's website or in at least one national newspaper chosen by the Board of Directors. To be entitled to attend the General Meeting of Shareholders, the shareholder shall notify his/her attendance to the Company at the latest by the date mentioned in the notice convening the meeting, which date may be no more than ten days before the General Meeting of Shareholders.

In order to have the right to attend and vote at a General Meeting of Shareholders, a shareholder must be registered in the shareholders' register kept by Euroclear Finland no later than eight business days prior to the relevant General Meeting of Shareholders (the record date of the General Meeting of Shareholders). A nominee-registered shareholder wishing to attend and vote at the General Meeting of Shareholders should seek a temporary registration in the shareholders' register.

According to the Finnish Companies Act, a shareholder has the right to have a matter falling within the competence of the General Meeting of Shareholders dealt with by the General Meeting of Shareholders, if the shareholder so demands in writing from the Board of Directors well in advance, so that the matter can be mentioned in the notice to the General Meeting.

Each share in the Company entitles its holder to one vote at a General Meeting of Shareholders. Except for certain exceptions stipulated in the Finnish Companies Act, there are no quorum requirements for General Meetings of Shareholders. At the General Meeting of Shareholders, most resolutions are passed by a simple majority of the votes cast. However, certain resolutions, such as amending the Articles of Association, waiving shareholders' pre-emptive right to subscribe for shares in a new issue and resolutions on a merger, a demerger or dissolution of the Company require at least a two-thirds majority of the votes cast and the shares represented at the meeting.

General Meetings of Shareholders during the financial year 1 October 2019–30 September 2020

Musti Group held an Extraordinary General Meeting ("EGM") on 30 October 2019 in Helsinki. The EGM resolved to transfer the Company's shares to the book-entry system maintained by Euroclear Finland Ltd. The EGM also resolved to amend Musti Group's Articles of Association and to notify the amendments for registration immediately after the EGM. In connection with the amendment of Articles of Association, the EGM resolved to amend some of the Company's share classes.

Musti Group's Annual General Meeting ("AGM") was held on 23 January 2020. The AGM resolved to adopt the Company's annual accounts for the financial year 1 October 2018 – 30 September 2019, not to distribute a dividend, and to discharge the members of the Board of Directors from liability. The AGM also resolved that the remuneration

of the Chairman of the Board is EUR 60,000 per year and the remuneration of other members of the Board is EUR 30,000 per year. However, Board members Juho Frilander and Vesa Koskinen shall not be paid any fees for their Board activities.

The AGM resolved that the number of Board members shall be five (5) and resolved to re-elect Jeffrey David, Juho Frilander, Lisa Farrar, Ingrid Johansson Blank and Vesa Koskinen as members of the Board of Directors. Ernst & Young Oy was elected as the company's auditor, with Johanna Winqvist-Ilkka as the auditor with principal responsibility.

Conditional upon the execution of Musti Group's listing, the AGM also resolved to authorise the Board of Directors to amend the Articles of Association, decide on a share issue without consideration to combine all share classes into one share class, decide on the issuance of shares in the IPO as well as other measures in connection with the listing of the Company.

2. The Board of Directors

Duties of the Board of Directors

The duties and operating principles of the Board of Directors are based on the Finnish legislation, in particular the Finnish Companies Act and the Finnish Security Markets Act, as well as on the Company's Articles of Association, the rules of Nasdaq Helsinki and the Code.

Based on the Finnish Companies Act, the Board of Directors sees to the administration of the Company and the appropriate organisation of its operations. The Board of Directors also has a general competence to make decisions on matters, which have not been allocated to other bodies in the Finnish Companies Act or the Articles of Association.

The Board of Directors of Musti Group has prepared and approved a written Charter for the Board of Directors. The Charter of the Board of Directors describes the composition and election as well as duties of the Board of Directors, practices to be adhered to in meetings of the Board of Directors, specific duties of the Chairman of the Board of Directors as well as the establishment of committees of the Board of Directors, appointment of committee members as well as practices concerning reporting by the committees.

In addition to the specific duties defined in legislation and the Company's Articles of Association, Musti Group's Board of Directors shall:

- confirm the Charter of the Board of Directors;
- confirm the Charter of the Audit Committee and the Remuneration Committee;
- annually approve the Company's strategy, budget and business plan and supervise their execution;
- arrange the control, supervision and audit of the Company's accounts and finances;
- review and approve interim reports, financial statements and the annual report;
- define the Company's financial targets and dividend policy;
- appoint and discharge from his/her duties the CEO and the Group Management Team;
- resolve on the remuneration and incentives of the CEO and the Group Management Team in accordance with the Company's remuneration policy;
- steer the operations of the Company and supervise and monitor the CEO;
- confirm the Group's organisational structure and decide on any material organisational changes;
- decide on large and strategically significant investments, acquisitions and divestments and on any other matters that are of material importance to Company;
- annually assess the performance of the Board of Directors, including its activities and working methods, and its individual members;
- summon the General Meetings of Shareholders and prepare proposals on matters to be considered in the meetings; and
- decide on the establishment of the communication strategy and related policy as well as the publication of important information concerning the Musti Group and its activities.

The Board of Directors convenes in accordance with its meeting schedule. The meeting schedule is prepared annually in advance of the calendar year which it relates to. In addition to regular meetings, the Board of Directors can hold extraordinary meetings whenever required. Meetings may be held as physical meetings or as conference calls or electronically.

The matters at the meetings of the Board of Directors are presented by the Chairman of the Board of Directors and the CEO or by persons designated by them. The CEO is responsible for ensuring that the Board of Directors receives adequate information on the Company's business operations, operating environment and financial position to facilitate informed decision-making. Information and data of importance for the Board's understanding of the issues on the Board meeting agenda shall be distributed in writing to the Board sufficiently in advance of the meeting to permit a meaningful review.

Composition of the Board of Directors

According to Musti Group's Articles of Association, the Board of Directors consists of a minimum of 3 and a maximum of 10 ordinary members. The term of office of the Board of Directors expires at the end of the first Annual General Meeting of Shareholders following the election. The Company's Board of Directors prepares the proposal for the composition of the Board of Directors to the General Meeting of Shareholders.

During the financial year 1 October 2019 - 30 September 2020, the Board of Directors held 14 meetings and comprised the following members at the end of the financial year:

Name	Year of birth	Position	Member of the Board of Directors since	Attendance at meetings
Jeffrey David	1964	Chairman of the Board of Directors	2016	92%
Ingrid Jonasson Blank	1962	Vice-Chairman of the Board of Directors	2014	100%
Lisa Farrar	1980	Member of the Board of Directors	2018	100%
Juho Frilander	1985	Member of the Board of Directors	2018	100%
Vesa Koskinen	1979	Member of the Board of Directors	2019	100%

JEFFREY DAVID has been a member of Musti Group plc's Board of Directors since 2016 and Chairman of the Board since 2017. In addition, Mr. David is Chairman of Independent Pet Partners USA and a Board member of Greencross Limited Australia. He is an Australian citizen and is independent of the Company and its major shareholders.

INGRID JONASSON BLANK has been a member of Musti Group plc's Board of Directors since 2014 and Vice-Chairman of the Board of Directors since 2020. Ms. Jonasson Blank is also a Board member of Bilia AB, ZetaDisplay AB, Orkla ASA, Forenom Group Oy, Nordic Morning Group Oyj, Cosmetic Group Holding AS, Astrid Lindgrens AB and Bygghemma First Group AB. In addition, she also acts as a Chairman of the Board of Haypp Group AB and KjellKoncern AB. Previously, during the last five years, she has also been a Board member of Ambea AB, Fiskars Oyj, Stor & Liten AB, Matse Holding AB, Norm AB, Matas AS and Royal Unibrew AS. Ms. Jonasson Blank holds a Bachelor's degree in Business and Economics from University of Gothenburg, and she is a Swedish citizen. Jonasson Blank is independent of the Company and its major shareholders.

LISA FARRAR has been a member of Musti Group plc's Board of Directors since 2018. Ms. Farrar is also the Chief Digital Officer of Nordic Choice Hotels Commercial Services AB. In addition, she has previously during the last five years been the CEO of Groupon AB Sweden. Ms. Farrar holds a Bachelor's degree in Business Administration from the University of Westminster, and she is a Swedish citizen. Farrar is independent of the Company and its major shareholders.

JUHO FRILANDER has been a member of Musti Group plc's Board of Directors since 2018. Mr. Frilander is also a Board member of Suomen VAKA-palvelut I Oy, a deputy Board member of Suomen VAKA-palvelut II Oy and a director at EQT Partners Oy. In addition, he has previously during the last five years been an associate at EQT Partners. Mr. Frilander holds a Master's degree in Economics (major in Finance) from the Aalto University School of Business, and he is a Finnish citizen. Frilander is independent of the Company and its major shareholders.*

* Frilander has earlier been considered to be dependent of the Company's major shareholder EQT. According to the flagging notifications published by the Company through stock exchange releases on 13 August 2020 and 16 November 2020, EQT has divested its holdings in the Company. As a result, Frilander is no longer considered to be dependent of a major shareholder of the Company.

VESA KOSKINEN has been a member of Musti Group plc's Board of Directors since 2019. Mr. Koskinen is a partner at EQT Partners and the Head of EQT Partners Finland as well as a Board member of Igenomix S.L., KfzTeile24 GmbH, Karo Pharma AB, Suomen VAKA-palvelut I Oy, Suomen VAKA-palvelut II Oy and EQT Partners Oy. In addition, he has previously during the last five years been a Board member of Terveystalo Oyj, Swiss Smile AG, Roeser Group GmbH and Vertu Corporation Limited. Mr. Koskinen holds a Master's degree in Economics (major in Finance) from the Helsinki School of Economics, and he is a Finnish citizen. Koskinen is independent of the Company and its major shareholders.*

Principles of diversity for the Board of Directors

During the financial year 1 October 2019–30 September 2020, both genders have been represented on the Company's Board of Directors.

Musti Group's Board of Directors has defined a Diversity Policy to describe the objectives in the achievement of diversity in the operations and composition of Musti Group's Board of Directors. This Diversity Policy is applied when preparing the proposal for the composition of Musti Group's Board of Directors to the Annual General Meeting.

Musti Group recognizes that the diversity of the Board of Directors supports Musti Group's business operations and development and that the diversity of the knowhow, experience, and opinions of the directors promotes the ability to have an open-minded approach to innovative ideas.

The aim is to ensure that the Board of Directors as a whole possesses the requisite knowledge of and experience in the social, business and cultural conditions of the regions in which Musti Group's business is carried out. The Board members shall have the required qualifications and expertise and shall devote such time as is reasonably required to perform the responsibilities set forth in the Corporate Governance Code.

Musti Group is committed to ensure equal opportunities for all to attract and retain the best people. Musti Group aims to achieve a balanced gender distribution in the composition of its Board of Directors.

The achievement of objectives is monitored annually and reported in the corporate governance statement.

Evaluation of the independence of the Board of Directors

It is the duty of the Board of Directors to evaluate the independence of its members. A majority of members of the Board of Directors must be independent of the Company. At least two members independent of the Company must also be independent of significant shareholders of the Company.

According to the independence assessment, all members of Musti Group's Board of Directors are deemed to be independent of the Company and its major shareholders.

Self-evaluation of the Board of Directors

The performance of the Board of Directors as well as its individual members are evaluated annually. The results of the assessment are considered when preparing a proposal for a new composition of a Board of Directors.

The self-evaluation was based on a questionnaire study, which was followed by a discussion by the Board of Directors on the result and follow-up actions.

* Koskinen has earlier been considered to be dependent of the Company's major shareholder EQT. According to the flagging notifications published by the Company through stock exchange releases on 13 August 2020 and 16 November 2020, EQT has divested its holdings in the Company. As a result, Koskinen is no longer considered to be dependent of a major shareholder of the Company.

Shareholdings of the Board of Directors

The following table presents the shareholdings of members of the Board of Directors as at the end of the financial year:

Name	Position	Shares held by the director or corporations in which he/she exercises control	Share-based rights in the Company or its group companies
Jeffrey David	Chairman of the Board of Directors	213,685 *	0
Lisa Farrar	Vice-Chairman of the Board of Directors	16,020	0
Juho Frilander	Member of the Board of Directors	0	0
Ingrid Jonasson Blank	Member of the Board of Directors	59,168	0
Vesa Koskinen	Member of the Board of Directors	0	0

* Indirect ownership through Prebest Pty Limited atf The Jeffrey David Discretionary Trust.

3. Committees of the Board of Directors

The Board of Directors may establish permanent or fixed-term committees to perform tasks assigned to them by the Board of Directors. The committees of the Board of Directors assist the Board by preparing matters for the Board to resolve on.

The members of the Board committees, as well as their Chairmen, will be annually appointed by the Board of Directors amongst its members. Each committee shall have at least three members appointed by the Board of Directors. The members must have the expertise and experience required for the performance of the committee's duties.

The committees shall regularly report on their work to the Board. The Board of Directors shall also confirm Committee Charters for the committees, defining their purposes and tasks.

In its meeting on 13 December 2019, Musti Group's Board of Directors established an Audit Committee and Remuneration Committee, and elected members of the committees from among the members of the Board of Directors. The Board of Directors has not considered it necessary to establish any further committees, as the Board of Directors is able to function effectively without further committees taking into account the scope and nature of the Company's operations and the operating principles of the Board of Directors.

Audit Committee

The Board of Directors has confirmed the Audit Committee's key duties and operating principles in a written Charter.

The responsibilities of the Audit Committee include, among other things to:

- monitor the reporting process of financial statements reporting and review with the external auditor the annual financial statements and interim reports before submission to the Board for final approval;
- review with the external auditors the results of the audit;
- review internal controls and monitor the effectiveness of the Company's procedures for internal control over financial reporting;
- review the Company's key accounting policies and principles;
- monitor the related party transactions and address any possible conflicts of interest;
- consider the report on non-financial matters;
- review purchase price calculations for acquisitions and similar investments and follow-up on them;
- monitor the Company's financial position;
- evaluate the use and presentation of alternative performance measures;
- monitor and review the effectiveness of the Company's risk management system, including the risk profile of Musti Group and make such recommendations as the Committee considers desirable and review the risk management-related statements to be included in the financial reports;
- assess the effectiveness of the internal controls and the internal control system;

- assess principles related to internal controls and risk management of the Company's financial reporting processes;
- receive and review reports from the management on any material litigation or claim against or raised by any Musti Group company;
- for the purposes of each Annual General Meeting and otherwise as necessary, prepare a resolution proposal to the shareholders as to the election and fees of the external auditor(s) and remuneration principles;
- initiate the process regarding rotation of the auditor;
- evaluate the audit plan as well as the scope and quality of the external audit and review audit fees;
- evaluate independence of the auditors;
- approve and follow-up on non-audit services provided by the auditors;
- when needed, meet separately with external auditors to discuss any matters in addition to the duties required by regulations that might be relevant for the internal controls;
- review and confirm the independence of external auditors, also in relation to the non-audit services;
- review and evaluate the process of selecting external auditors and follow any regulatory changes regarding auditor selection as well as auditor and audit firm rotation requirements;
- approve the internal audit guidelines, audit activities and resourcing of internal audit function;
- assess the scope and quality of the internal audit as well as approve the internal audit plan and review its implementation;
- review the summary reports of the internal audit and the management's response;
- review major legal disputes and other legal matters together with the General Counsel of the Company;
- monitor compliance with the Code of Conduct of the Company;
- review the Company's Corporate Governance Statement including the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which are included in the Company's Corporate Governance Statement;
- review the Company's non-financial report;
- establish principles concerning the monitoring and assessment of related party transactions; and
- see to other tasks assigned by the Board.

The Audit Committee consists of three to five members of the Board of Directors. The majority of the members of the Audit Committee must be independent of the Company, and at least one of the members must be independent of the major shareholders of the Company. A person who participates in the day-to-day management of the Company or a company in the same group of companies, for example the CEO, cannot be appointed as a member of the Audit Committee.

Members of the Audit Committee are required to possess the relevant expertise and experience required for the performance of the duties and responsibilities of the Audit Committee and the mandatory tasks relating to auditing. At least one of the members is required to have expertise in accounting or auditing.

The Audit Committee reports of its work regularly to the Board of Directors and the Chairman of the Audit Committee presents the Committee's proposals to the Board of Directors.

During the financial year 1 October 2019–30 September 2020 the Audit Committee held 6 meetings and comprised the following members:

Member	Attendance at meetings	Independence
Ingrid Jonasson Blank (Chairman)	100%	Independent of the Company and its major shareholders
Lisa Farrar	100%	Independent of the Company and its major shareholders
Juho Frilander	100%	Independent of the Company and its major shareholders *

* Frilander has earlier been considered to be dependent of the Company's major shareholder EQT. According to the flagging notifications published by the Company through stock exchange releases on 13 August 2020 and 16 November 2020, EQT has divested its holdings in the Company. As a result, Frilander is no longer considered to be dependent of a major shareholder of the Company.

Remuneration Committee

The Board of Directors has also confirmed the Remuneration Committee's key duties and operating principles in a written Charter. The responsibilities of the Remuneration Committee are to prepare the following decisions for the Board to decide:

Nomination of the members of the Group Management Team and CEO;

- review and prepare for the nominations of the members of Group Management Team and other officers reporting to the CEO; and
- prepare for the nomination of the CEO and his/her deputy.

Compensation of the members of the Group Management Team;

- from time to time review and prepare a proposal on the overall compensation policies applicable to the members of the Group Management Team;
- review and prepare a proposal to the Board on the compensation of the members of the Group Management Team and other officers reporting to the CEO including each of the components thereof; and
- ensure that the members of the Group Management Team are rewarded appropriately for their contributions to the Company's growth and profitability and that such compensation policies are aligned with the Company's business strategy, long-term financial success and shareholder interests.

CEO compensation

- review and prepare a proposal to the Board on the Company's goals and objectives relevant to the compensation of the CEO;
- evaluate the performance of the CEO in light of the above-referenced goals and objectives;
- prepare a proposal to the Board on the compensation of the CEO (including its components thereof) based on the above-referenced evaluation; and
- in determining the long-term incentive component of the CEO's compensation, the Committee should consider the Company's development and relative shareholder return, the value of similar incentive awards to CEOs at other companies comparable to the Company and awards given to the CEOs in past years.

Incentive and other benefit plans

- review and prepare a recommendation to the Board on at least an annual basis evaluating the Company's compensation and other benefit plans, including incentive compensation and equity-based plans and programs;
- review and prepare a recommendation to the Board on the granting of options, restricted stock, stock appreciation rights and other equity-based grants to the members of the Group Management Team consistent with the Company's incentive compensation plans and programs and compensation strategy; and
- ensure that the Company's compensation structure is competitive and make recommendations as necessary.

Remuneration policy

- prepare the Company's policy concerning the remuneration of the Company's Board of Directors, CEO, and possible deputy CEO (the "Remuneration Policy") for the Board at least every four years;
- present the Remuneration Policy at the General Meeting and answer any question related thereto;
- prepare an amended Remuneration Policy for the Board whenever the General Meeting has opposed a Remuneration Policy or whenever substantial changes are made to an approved Remuneration Policy, which are not merely of a technical nature and which are not covered by the possibility of a temporary deviation defined in the Remuneration Policy; and
- present the amended Remuneration Policy at the General Meeting and answer any question related thereto.

Remuneration report

- prepare the Company's report concerning the remuneration of the Company's Board of Directors, CEO, and possible deputy CEO (the "Remuneration Report"); and
- present the Remuneration Report at the Annual General Meeting and answer any question related thereto.

The Remuneration Committee consists of the Chairman and at least two members of the Board of Directors. The majority of members of the Remuneration Committee must be independent of the Company. Neither the Company's CEO nor the members of the Group Management Team may be members of the Remuneration Committee.

The Remuneration Committee reports regularly to the Board of Directors and the Chairman of the Remuneration Committee presents the Committee's proposals to the Board of Directors.

During the financial year 1 October 2019–30 September 2020 the Remuneration Committee held 5 meetings and comprised the following members:

Member	Attendance at meetings	Independence
Jeffrey David (Chairman)	100%	Independent of the Company and its major shareholders
Vesa Koskinen	100%	Independent of the Company and its major shareholders *
Juho Frilander	100%	Independent of the Company and its major shareholders **

* Koskinen has earlier been considered to be dependent of the Company's major shareholder EQT. According to the flagging notifications published by the Company through stock exchange releases on 13 August 2020 and 16 November 2020, EQT has divested its holdings in the Company. As a result, Koskinen is no longer considered to be dependent of a major shareholder of the Company.
** Frilander has earlier been considered to be dependent of the Company's major shareholder EQT. According to the flagging notifications published by the Company through stock exchange releases on 13 August 2020 and 16 November 2020, EQT has divested its holdings in the Company. As a result, Frilander is no longer considered to be dependent of a major shareholder of the Company.

4. The CEO and Management Team

The CEO

The Company's Board of Directors appoints the CEO and decides on the terms of the CEO's service. The Board of Directors also decides on the remuneration and its terms for the CEO and the members of the Management Team. The CEO is responsible for the supervision and control of the Company's day-to-day operations in accordance with the Finnish Companies Act, the Company's Code of Conduct and authorisations and guidelines issued by the Board of Directors.

David Rönnberg (born in 1977) has acted as Company's Chief Executive Officer since 2017.

Management Team

The Management Team is not a legally mandated body of the Company, unlike the Board of Directors and the CEO. However, the Management Team, which also includes the CEO, acts as the chief operative decision-maker of the Group. The Management Team, considering its composition and its active participation in making essential strategic and operative decisions, is responsible for allocating resources and evaluating results.

The country directors of the geographical areas are responsible for their business areas and are part of Musti Group's Management Team. Offerings and pricing as well as marketing actions are decided at country level.

Composition of the Management Team

As stated in a stock exchange release published by Musti Group on 13 May 2020, Anton Jacobsson, Head of eCommerce and Omnichannel left the Group 30 September 2020. His last employment day at Musti Group was on 30 September 2020. As a result of the change, the responsibility for the Omnichannel development has been divided to each country director in Finland, Sweden and Norway.

On 12 August 2020, Musti Group published a stock exchange release, according to which Juhana Lamberg, Country Director, Finland left the Group and his last operational working day in Musti Group was on 31 October 2020. As of 1 September 2020, the new Country Director, Finland has been Timo Tervo.

At the end of the financial year 1 October 2019–30 September 2020, the Management Team of Musti Group comprised the following members:

Name	Year of birth	Position	Member of the Management Team since
David Rönnberg	1977	Chief Executive Officer	2017
Robert Berglund	1977	Chief Financial Officer	2017
Sami Tanner	1981	Head of Strategy	2016
Timo Tervo	1982	Country Director, Finland	2020
Daniel Pettersson	1977	Country Director, Sweden	2018
Erik Ringen Skjærstad	1974	Country Director, Norway	2016
Ellinor Nilsson	1979	Chief Commercial Officer	2018
Nanna Martin-Löf	1977	Head of Human Resources	2018
Malin Nygren	1974	Chief Customer Officer	2019
Tobias Nilsson	1970	Chief Supply Officer	2019

DAVID RÖNNBERG has acted as Company's Chief Executive Officer since 2017. Mr. Rönnberg is also the Chairman of the Board of Stapp Holding AB, CaMa Gruppen AB and CaMa Intressenter. Mr. Rönnberg also acts as a Board member of Rönnberg Consulting AB and as a Deputy Director of Plackers Scandinavia AB and Caroline Rönnberg Design AB. Previously Mr. Rönnberg has acted as a CEO of INDISKA and Internetstores Nordic as well as a Board member of Norrländska vapenaffären AB, Sellton AB, Stapp AB and Caroline Rönnberg Design AB. Mr. Rönnberg holds a Master's degree in Finance from Stockholm University.

ROBERT BERGLUND has acted as Company's Chief Financial Officer since 2017. Mr. Berglund is also the Chairman of the Board of Premium Pet Food Suomi Oy. Previously Mr. Berglund has acted as the Chief Financial Officer for Orthex Group. Mr. Berglund holds a Master's degree in Economics (major in Accounting) from Hanken School of Economics and he has passed the authorised public accountant exam.

SAMI TANNER has acted on the Management Team as the Company's Program Director from 2016–2018, and as Head of Strategy since 2018. Mr. Tanner is also the CEO and owner of Tanner Advisory. Previously Mr. Tanner has acted as a management consultant at Bain & Company. Mr. Tanner holds a Master's degree in Economics (major in finance) from Helsinki School of Economics and a CEMS Master's degree in International Management from HEC Paris/Helsinki School of Economics.

TIMO TERVO has worked as the Country Director Finland for the Musti Group since 2020. Prior to joining the Musti Group he worked for the Lidl Group in four different countries in various leadership positions covering Supply Chain, Logistics and Sales. His latest position was the Regional Director for Lidl Italy. Tervo is the owner and board member of Northeast Global Sourcing Limited (Hong Kong) and Ltd. (Finland). Tervo holds a Bachelor's Degree in Business Management.

DANIEL PETTERSSON has acted as Company's Country Director, Sweden since 2018. Previously Mr. Pettersson has acted as Regional Manager for Coop CBS AB, Apoteket AB and Preem AB. Mr. Pettersson holds a Bachelor's degree in Industrial Economics from Universtiy of Gävle.

ERIK RINGEN SKJÆRSTAD has acted as Company's Country Director, Norway since 2016. Previously Mr. Ringen Skjærstad has acted as a partner in RetailX AS and as Managing Partner of RetailWorks AS. Mr. Ringen Skjærstad holds a Bachelor's degree in Organisation Psychology from University of Oslo.

ELLINOR NILSSON has acted as Company's Chief Commercial Officer since 2018. Previously Ms. Nilsson has held several different positions at ICA Group, the latest being Business Area Manager. Nilsson also acts as a member of the Board of Nordic Food Group AB. Ms. Nilsson holds a Master's degree in Economics from University of Växjö.

NANNA MARTIN-LÖF has acted as Company's Head of Human Resources since 2018. Previously Ms. Martin-Löf has acted as the HR Manager at Arken Zoo and in two different positions at Tieto Corporation, the latest being Head of HR Operations and Manager Compensation & Benefits Scandinavia. Before this, Ms. Martin-Löf held several different positions at Elekta AB, the latest being Director, Global Human Resources & Compensation. Ms. Martin-Löf holds a Bachelor's degree in Personnel, Work and Organisation as well as a degree in selected Law studies from University of Stockholm.

MALIN NYGREN has acted as Company's Chief Customer Officer since 2019. Previously Ms. Nygren has, inter alia, held two different positions at SAS Scandinavian Airlines, the latest being the Head of Global Customer Development and Analytics. Ms. Nygren also acts as a Board member of Tree of Brands AB and Beauty Factory AB. Ms. Nygren holds a Master's degree in Business and Economics from Stockholm University, as well as in Computer Science from Stockholm University. *

TOBIAS NILSSON has acted as Company's Chief Supply Officer since 2019. Previously Mr. Nilsson has acted as the Supply Chain Director & CIO, as interim COO and as Head of Ecommerce for Indiska Magasinet AB and as a Senior Manager for Accenture AB. Mr. Nilsson holds a Master's degree in Mechanical Engineering from Linköping University.

Shareholding of the Management Team

The following table sets forth the shareholdings of the Management Team at the end of the financial year:

Name	Position	Shares held by the director or corporations in which he/she exercises control	Share-based rights in the Company or its group companies
David Rönnberg	Chief Executive Officer	1,026,774 **	0
Robert Berglund	Chief Financial Officer	218,450	0
Sami Tanner	Head of Strategy	12,468 ***	0
Timo Tervo	Country Director, Finland	0	0
Daniel Pettersson	Country Director, Sweden	37,491	0
Erik Ringen Skjærstad	Country Director, Norway	24,558	0
Ellinor Nilsson	Chief Commercial Officer	25,589	0
Nanna Martin-Löf	Head of Human Resources	8,144	0
Malin Nygren	Chief Customer Officer	0	0
Tobias Nilsson	Chief Supply Officer	4,000	0

* Joint education between Stockholm University and the KTH Royal Institute of Technology, with Stockholm University as the responsible institution.

** Including indirect ownership through Rönnberg Consulting AB 266,230 shares and direct ownership 760,544 shares.
*** Indirect ownership through Tanner Advisory Oy.

III. Descriptions of internal control procedures and the main features of risk management systems

Musti Group prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards, as adopted by the EU, the Finnish Securities Markets Act as well as the appropriate Finnish Financial Supervisory Authority Standards and Nasdaq Helsinki's rules. The Report of the Board of Directors of Musti Group and parent company financial statements are prepared in accordance with the Finnish Accounting Act and the recommendations and guidelines of the Finnish Accounting Board.

Musti Group's financial reporting process is mainly managed internally, and the process is supported by external service providers. The internal control and risk management systems and practices described in more detail below are designed to ensure that financial reporting concerning the Company as well as its Group companies is reliable.

The Management Team evaluates results of the segments based on net sales, adjusted EBITDA and adjusted EBITA. Events outside the ordinary course of business are treated as items affecting comparability and have been allocated to the segments. In all other respects monitoring of results by management corresponds with IFRS reporting.

It is the duty of the Company's audit committee to monitor the reporting process of financial statements reporting and to review with the external auditor the annual financial statements and interim reports before submission to the Board for final approval, as well as to review internal controls and monitor the effectiveness of the Company's procedures for internal control over financial reporting. In addition, the Audit Committee assesses principles related to internal controls and risk management of the Company's financial reporting processes, monitors and reviews the effectiveness of the Company's risk management system, including the risk profile of Musti Group, and makes such recommendations as the Committee considers desirable. The Company's Board of Directors reviews and approves the Company's interim reports, financial statements and annual reports.

1. Internal control and internal audit

Musti Group's Board of Directors has approved an Internal Audit Charter, which defines the purpose, authority, responsibilities and status of the Internal Audit in the entire Company. In addition to the Charter, Musti Group complies with the Code as well as the Finnish Companies Act in in arranging and implementing its Internal Audit functions.

The Internal Audit carries out independently and objectively review, assurance and consulting activities aiming to create added value to the Company and develop its operations further.

The Internal Audit's duty is to review the appropriateness and adequacy of Musti Group's internal control and risk management by carrying out audits in the Group and its business operations and processes. The Internal Audit coordinates its activities with the external audit and the internal and external providers of review, assurance and consulting services to ensure adequate coverage of the audit activities in the Group and to minimise overlapping work in various functions.

The Internal Audit operates under the Company's CEO and reports to the Audit Committee of the Board of Directors. The Internal Audit may address all businesses, country operations and franchising activities of Musti Group. The Internal Audit does not have any decision-making power or operational responsibility as regards to the audited activities, and the responsibility is always carried by the operations and the Group's management.

The Internal Audit is entitled to receive all information and documents necessary for its auditing duties irrespective of confidentiality rules and regulations. In addition, the Internal Audit is entitled to receive support and assistance needed in carrying out its activities from the Group, as well as from all businesses, units, country operations and franchisees.

The Internal Audit is implemented in the Company as a service provided by an external service provider with an appropriate scope with reference to the Group's size and its operations. The service provider of the Internal Audit is selected by a decision of the Group's top management.

For each audit, a written audit report shall be prepared according to the professional standards of internal auditors (the International Standards for the Professional Practice of Internal Auditing), including observations, conclusions and development recommendations based on the audit. The final audit report is submitted to the management of the audited area and the Group's CEO. The review reports are presented to the Group's Management Team and the Audit Committee of the Board of Directors. At the end of each financial year, the external service provider reports to the Audit Committee of the Board of Directors on the completion of the annual plan for the Internal Audit.

All Musti Group employees must act according to the ethical principles determined in the Company's Code of Conduct. The principles are based on the ten principles of the UN Global Compact. The Company has committed to include these principles in all of its operations as well as in its company culture and strategy. In addition, Musti Group has committed to communicating the principles to its employees, owners, suppliers and other partners.

The Group utilises a whistleblowing reporting channel aiming to support compliance with laws and Musti Group's internal guidelines, policies and values. Employees and other stakeholders may report suspected misconduct or non-compliance with corporate policies according to the whistleblowing procedure.

2. Risk management

The Board of Directors of Musti Group has approved a Risk Management Policy for the Company. The target of the Company's risk management is to collect information on as well as to review and manage opportunities, threats and risks arising in the Company's operations in order that the Company can reach its targets and carry out its operations without disruptions. As such, the risk management aims to promote for its own part implementation of the strategy, reaching of financial targets, satisfying customer proposition, capability to distribute dividends, utilisation of responsible practices and business continuity.

Risk management is a part of the internal control. Internal control refers to measures and procedures aiming to ensure that the Company meets is goals and targets, the Group's resources are utilised economically and efficiently, risks relating to operations are managed appropriately and financial and other information is reliable and correct. In addition, internal control aims to ensure continuity of business operations and compliance with the Company's internal policies and processes, as well as with the requirements, legislation and regulations applied in the operating environment. Efficient internal control and risk management promote the Company's performance and reaching of targets, and they are a material part of the Group's Corporate Governance.

The Company's risk management comprises risk management targets, the risk management process and its implementation, monitoring and reporting. Risk management is a systematic activity aiming to ensure appropriate identification, review, management and monitoring of risks. It is a part of the Company's planning and governance process, decision-making, management and operations, as well as control and reporting procedures. Risk management is implemented systematically, proactively and comprehensively, and it covers all operations in the entire Group.

Risks are assessed and managed with a comprehensive approach based on the business. Implementation of review and management shall be implemented in a way that ensures that material risks are identified, assessed, managed, monitored and reported as a part of the reporting based on the governance system and the business. In addition, risk management is developed continuously as a part the Company's operations.

Risk management is implemented according to the principles below:

- The management carries out a comprehensive risk review and generally updates the risk charts during the third quarter.
- The risk review comprises identification of risks, assessment of their relevance and planning of risk management activities. The Management Team continuously monitors the execution of the activities.

- Results of the risk review are reported to the Audit Committee during the fourth quarter. The Audit Committee addresses the most significant risks and measures to control them, as well as reviews the efficiency and operation of the risk management. The Audit Committee reports to the Board of Directors in accordance with its Charter.
- The CEO reports annually in the Audit Committee the risks and measures to manage them, as well as any changes in long-term risks as well as short-term risks and uncertainties in connection with interim reports.
- The Board of Directors confirms the annual clock for the risk management and the priorities of risk management for the next year in its meeting during the fourth quarter based on the proposal of the Audit Committee. At the same time, the Board of Directors decides on the Internal Control.
- The Company discloses risks, uncertainties and risk management to its stakeholders in accordance with the principles presented in the Finnish Corporate Governance Code.

The Company's CEO with the assistance of the Management Team is responsible for the preparation of the Risk Management Policy and the systematic and appropriate implementation of the risk management. The CEO shall ensure appropriate coverage of the Company's risk management and assess the implementation of the risk management. The CEO reports on the risk management to the Company's Board of Directors.

The members of the Management Team are responsible for the planning, implementation and follow-up of the risk management measures in their own area. The units and franchisees are responsible for the operational risk management in their own area by identifying and assessing risks in their own area and defining risk control measures, and their implementation shall be monitored systematically.

The Company implements risk management continuously and systematically according to a scheduled process. The risk management process ensures that risks related to the Group are identified, estimated and controlled in a proactive way and the management of risks is monitored. The execution of the Risk Management Policy is monitored by the Company's top executive management and the Board of Directors.

IV. Other information

1. Related party transactions

The Board of Directors of the Company has defined a policy for reporting, monitoring and control of related party transaction. The Company maintains records of its related parties.

Transactions with related parties are carried out on a market basis and are equivalent to transactions with independent parties. The Company's financial administration is responsible for monitoring related party transactions and reporting them to the Audit Committee of the Board of Directors. Identified related party transactions are reported annually to the Audit Committee and the Board of Directors. Further actions to be carried out on the basis of the identified transactions may be internal and/or external to Musti Group, if the decision-making process shall be disclosed externally. Related party transactions not included in the scope of the Company's ordinary business operations or deviating from ordinary commercial terms and conditions require approval of the Board of Directors. Information on related party transactions are included annually in Musti Group's financial statements.

The duty of a listed company to publish a material related party transaction is set out in the Finnish Securities Markets Act. The Company publishes related party transactions separately, when so required by laws and regulations or the rules of Nasdaq Helsinki.

2. Insider administration

Musti Group complies with national and EU laws and regulations on prohibited use of inside information, the Company's insider lists, disclosure and delayed disclosure of inside information and notifying transactions of the Company's management and their closely associated persons. The most important regulations concerning insider-related matters are the EU's Regulation 596/2014/EU on market abuse (the "MAR"), the Level 2 delegated regulations adopted under the MAR , standards relating to MAR issued by ESMA, the Finnish Securities Markets Act (746/2012, as amended, the "SMA"), recommendations and guidelines of the Finnish Financial Supervisory Authority as well

as the rules of Nasdaq Helsinki. These have been complemented with the Company's own Insider Guidelines.

The Company organises training on insider-related matters to its management and employees. The Company's Chief Financial Officer is responsible for the Company's Insider Guidelines and general management of insider matters in the Company.

The Company maintains an insider list of all persons employed by, at the service of or in a position of trust, including the Board of Directors, with the Company and its group companies as well as parties who by virtue of some other agreement or otherwise are performing tasks through which they have access to inside information relating to the Company. The Company's insider list comprises of one or more project-based insider lists. The Company also regularly reviews the information in its insider list.

A project-specific insider list is maintained when the Company has an ongoing project or an event, which contains inside information and the disclosure of which has been delayed in accordance with MAR and the Company's Insider Guidelines. Each project-specific insider list contains solely the information on such persons who have access to such certain inside information. Musti Group has no permanent insiders.

The Company has established a so-called whistleblowing system for the purpose of reporting potential breaches of financial markets and market abuse legislation. The said system enables the persons employed by or at the service of the Company to report of suspected breaches through a secure communication channel on a no-names basis.

Notifications by persons discharging managerial responsibilities

In accordance with the Company's Insider Guidelines, Persons discharging managerial responsibilities in the Company ("PDMRs") as well as persons closely associated with them have an obligation to notify the Company and the Finnish Financial Supervisory Authority of transactions conducted on their own account relating to the shares or debt instruments of the Company or other financial instruments or derivatives linked thereto.

Persons subject to the notification obligation are the members of the Board of Directors, the CEO and the members of the Management Team as well as their closely associated persons.

Trading restrictions

Trading in the shares or other financial instruments of the Company is always prohibited when holding inside information relating to the Company its financial instruments, regardless of whether the person has been entered into the Company's insider list. An insider may neither trade in the shares or other financial instruments of the Company nor disclose inside information to an outside party.

PDMRs may not conduct any transactions on their own account or for the account of a third party, directly or indirectly, relating to the Company's shares or other financial instruments during a closed period of 30 days before the announcement of an interim financial report or a year-end report, including the day of publication of said report.

The Company has also expanded the trading restrictions during the closed period to cover also such employees and other persons, who are not PDMRs, and who have a possibility to acquire information on the interim financial report or the year-end report of the Company due to their position or duties before the publication thereof ("Closed Period Employees").

The Company monitors the trading of its insiders, PDMRS and their closely-related persons as well as Closed Period Employees.

3. External auditor

The General Meeting of Shareholders resolves on the election of the auditor and the auditor's remuneration. According to the Articles of Association, the Company must have one (1) auditor, that shall be an Authorised Public Accountant Firm approved by the Finnish Patent and Registration Office. The auditor's term of office ends at the close of the next Annual General Meeting following the election.

External auditor during the financial year 1 October 2019 – 30 September 2020

During the financial year 1 October 2019 – 30 September 2020 Ernst & Young Oy, Authorised Public Accountant Firm, has acted as the statutory auditor of Musti Group. Johanna Winqvist-Ilkka, Authorised Public Accountant and a member of the Finnish Auditors ry, has acted as the auditor with principal responsibility. Johanna Winqvist-Ilkka has acted as the Company's auditor with principal responsibility since 2018.

(EUR thousand)	1 Oct 2019–30 Sep 2020	1 Oct 2018–30 Sep 2019	1 Oct 2017–30 Sep 2018
Auditing fees	468	326	160
Fees for non-audit services *	1,724	495	0

* Including costs associated with the Company's IPO.

Remuneration Statement

Financial year 1 October 2019–30 September 2020

Musti Group plc's ("Musti Group" or "the Company") corporate governance complies with the Finnish Companies Act and the Finnish Corporate Governance Code 2020 issued by the Securities Market Association.

The Company's General Meeting has not prior to this Remuneration Statement yet been presented with a Remuneration Policy in accordance with the Finnish Corporate Governance Code 2020. The first Remuneration Policy will be presented to the Company's Annual General Meeting to be held on 21 January 2021. For this reason, this Remuneration Statement has been prepared in accordance with the Finnish Corporate Governance Code 2015. The Company's first Remuneration Report in accordance with the Finnish Corporate Governance Code 2020 will be presented to the Annual General meeting to be held after the end of the financial period 1 October 2020–30 September 2021.

This Remuneration Statement covers Musti Group's financial year 1 October 2019–30 September 2020 (the "Financial Year 2020"). The Company shall publish the Remuneration Statement on its website.

Decision-making procedure concerning the remuneration

According to the Limited Liability Companies Act, the Annual General Meeting of Shareholders decides on the remuneration payable to the members of the Board of Directors (the "Board"). The Board prepares the presentation for the remuneration of Board members to the General Meeting.

The Board of Directors decides on the remuneration of the CEO and members of the Management Team. With respect to the members of the Management Team, the Remuneration Committee is responsible for, among other things, preparing proposals concerning remuneration as well as incentive and other benefit plans to the Board for approval.

With respect to the CEO, the Remuneration Committee reviews and prepares proposals to the Board on corporate goals and objectives relevant to the compensation of the CEO. The Remuneration Committee also evaluates the performance of the CEO in light of these goals and objectives and prepares a proposal to the Board on the compensation of the CEO (including each of the components thereof) based on its evaluation.

The Remuneration Committee of the Board of Directors is responsible for reviewing and preparing proposals to the Board of Directors on overall compensation policies. The Remuneration Committee is also responsible for ensuring that the CEO and the members of the Management Team are rewarded appropriately for their contributions to the Company's growth and profitability and that compensation policies are aligned with the Company's business strategy, long-term financial success and shareholder interests. The Remuneration Committee also reviews and evaluates on at least an annual basis the Company's compensation and other benefit plans, including incentive compensation and equity-based plans and programs.

Main principles of remuneration

The objective of Musti Group's remuneration program is to promote the Company's competitiveness and to support the execution of the Company's strategy. Furthermore, the remuneration programs aim to retain key persons and the whole staff and create long-term commitment in order to achieve shared goals and to create shareholder value.

Remuneration of the Board of Directors

The remuneration for the Board of Directors is monetary. Board members are not compensated separately for Board meetings. Travel expenses resulting from Board meetings are compensated in accordance with the Company's travelling compensation regulations. Remuneration for the Company's Board members does not include pension payments.

Members of the Board of Directors are not included in Musti Group's short- or long-term incentive programs.

Remuneration of the CEO and Management Team

The remuneration of the CEO and other members of the Management Team consists of fixed monthly salary and annually set bonus potential. The terms of the bonus are decided annually by Musti Group's Board of Directors.

The CEO and the Management Team members are eligible to participate in the bonus scheme in accordance with the Company's bonus policy. The bonuses of the CEO and the Management Team are based on personal targets and certain profitability targets set for the financial year. For the Financial Year 2020, the maximum performance bonus was equivalent to a six months' full salary for the CEO, four months' full salary for the CFO and a three months' full salary for rest of the management team.

Terms of service of the CEO and Management Team

The CEO's period of notice is twelve months. The CEO has a right to the notice period salary and for the performance bonuses until the date of the notice. In addition, when terminated by the Company, the CEO is entitled, under certain conditions, to an amount equivalent to a twelve months' full salary.

The period of notice for other Management Team members varies between 3-6 months. Members of the Management Team are entitled to their monthly salary during their period of notice.

The CEO and the members of the Management Team are entitled to a statutory pension and the retirement age is determined by the statutory earnings-related pension scheme. The retirement age of the CEO is 63 years under current legislation. The CEO is entitled to a life insurance and supplementary pension payments on behalf of Musti Group in accordance with a contribution-based pension agreement concluded with the Company. The CEO receives the supplementary pension at the age of 63.

Share-based incentive plans

The Boards of Directors of Musti Group plc decided on 7 May 2020 on two new share-based long-term incentive plans for the management team and key employees. The primary share-based compensation plan is the Performance Share Plan (PSP) and the second is a Restricted Share Plan (RSR) for special situations.

The aim of a share-based compensation plan is to align the objectives of the shareholders and key employees for increasing the value of the Company in the long-term. The plan is also to commit the key employees to the Company and to offer them competitive incentive schemes that are based on earning and accumulating shares.

Performance Share Plan 2020–2024

The Performance Share Plan consists of three performance periods, covering the financial years of 2020–2022, 2021–2023 and 2022–2024. The Board of Directors will decide separately for each performance period the plan participants, performance criteria, and the related targets, as well as the minimum, target, and maximum reward potentially payable based on target attainment at the beginning of a performance period. The potential reward based on the plan will be paid partly in the Company's shares and partly in cash after the end of each performance period. The cash proportion is intended to cover taxes and tax-related expenses arising from the reward to a participant. No reward is paid, if the participant's employment or service terminates for reasons related to the participant before the reward payment.

The Company's Management Team member is obliged to hold at least 50 per cent of the net number of shares paid to the member on the basis of the plan, until the value of his or her total shareholding in the Company equals to 50 per cent (100 per cent for the CEO) of his or her annual base salary. Such number of shares must be held as long as the membership in the Management Team continues.

In the first performance period, the plan has 11 participants at most, including the Group's Management Team members. The targets for the long-term PSP incentive plan relate to the Group's total shareholder return (TSR) and adjusted EBITA. The maximum number of shares to be paid based on the first performance period is approximately 250,000 Musti Group plc's shares, which corresponds to approximately EUR 3.0 million calculated with the volume weighted average share price on the trading day preceding the Board's decision. The number of shares represents gross earning, from which the withholding tax and possible other applicable contributions are deducted, and the remaining net amount is paid in shares. However, the Company has the right to pay the reward fully in cash under certain circumstances. Potential rewards from the first performance period will be paid out during the autumn of 2022.

Restricted Share Plan 2020–2022

The reward from the Restricted Share Plan 2020–2022 is based on a valid employment or service and the continuity of the employment or service during a vesting period. The reward is paid partly in the Company's shares and partly in cash after the end of a 12–36-month vesting period. The Restricted Share Plan is intended for selected key employees, including the Management Team members. The rewards to be allocated based on the Restricted Share Plan during the years 2020–2022 correspond the value of a maximum total of 30,000 Musti Group plc shares, including also the proportion to be paid in cash.

As of 30 September 2020 there were no participants added to the RSP plan.

Remuneration Report, 1 October 2019–30 September 2020

Remuneration of the Board of Directors

The Annual General Meeting of Shareholders held on 23 January 2020 resolved that the annual remuneration of the Chairman of the Board is EUR 60,000 and the annual remuneration of other members of the Board EUR 30,000. However, Board members Juho Frilander and Vesa Koskinen shall not be paid any fees from the Board activities.

During the Financial Year 2020 the members of the Board of Directors were paid the following remuneration:

	Payment due December 2020	Paid during FY20	
	1 Oct 2019–30 Sep 2020, EUR	1 Oct 2018–30 Sep 2019, EUR	1 Oct 2017–30 Sep 2018, EUR
Remuneration of the Board of Directors			
Board members 1 Oct 2019–30 Sep 2020			
Jeffrey David	60,000	60,000	50,000
Ingrid Jonasson Blank	30,000	30,000	15,000
Lisa Farrar	30,000	26,250	0
Juho Frilander	0	0	0
Board member 13 Dec 2019–30 Sep 2020			
Vesa Koskinen	0	0	0
Board members 30 Sep 2019–13 Dec 2019			
Jarkko Murtoaro	0	0	0
Alex Lindbom	0	0	0
Board members 30 Sep 2019–10 Dec 2019			
Geir Stormorken	0	0	0
Erik Lindgren	0	30,000	15,000
Total	**120,000**	**146,250**	**80,000**

Remuneration of the CEO and other Management Team members

During the Financial Year 2020 the CEO and other members of the Management Team were paid the following remuneration and other benefits:

EUR	CEO	Other Management Team members total	Total
Salary, including benefits	419,469	1,487,711	1,907,180
Pension costs (defined contribution plans)	63,753	304,334	368,088
Bonuses	170,532	235,434	405,966
Shares	0	0	0
Total	**653,754**	**2,027,479**	**2,681,233**

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Board of Directors' Report

for the Financial Year October 2019 – September 2020

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Market outlook

Musti Group operates in the Nordic pet care market, broadly defined as the sale of pet food, treats, products, services and veterinary care across Finland, Sweden and Norway. The market was estimated to be worth approximately EUR 2.9 billion (in 2019), with Sweden as the largest market, accounting for approximately EUR 1.2 billion, and Finland and Norway estimated to be similar in size, at approximately EUR 0.9 billion and approximately EUR 0.8 billion, respectively.

"Pet Parenting" refers to the tendency of people to treat their pets like family members. As a result of this trend, people are spending more on higher quality and more premium food, as well as a more diverse range of products and services. This underlying trend that drives the long-term structural growth of the pet care market remains robust, shifting spend towards higher quality nutrition, a more diverse range of accessories and wider adoption of services. The COVID-19 pandemic has affected market dynamics since spring 2020 mainly through an increased number of puppies and kittens, in line with historical evidence of developments during economic downturns and increased temporarily demand in online channels.

The pet care market is resilient, underpinned by non-discretionary purchasing behaviour. Non-discretionary categories such as food, cat litter and veterinary services make up approximately 75% of total market spend and are characterised by repeat purchasing behaviour that is consistent through the cycle. Consumers display willingness to sustain spending on non-discretionary pet care purchases even while expenditure on alternative categories has been affected.

Group performance

Group Key Figures

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	Change%
Net sales	284.4	246.6	15.3
Net sales growth, %	15.3%	14.1%	
LFL sales growth, %	11.5%	11.2%	
LFL store sales growth, %	7.3%	7.8%	
Online share, %	22.5%	20.7%	
Gross margin, %	43.8%	44.3%	
EBITA	25.5	18.1	41.3
Adjusted EBITA	29.8	21.9	36.2
Adjusted EBITA margin, %	10.5%	8.9%	
Operating profit	19.6	12.5	56.5
Operating profit margin, %	6.9%	5.1%	
Profit/loss for the period	11.8	3.0	289.7
Earnings per share, basic, EUR	0.37	0.10	
Net cash flow from operating activities	42.3	39.5	7.1
Investments in tangible and intangible assets	8.9	6.4	40.0
Gearing, %	61.8%	135.4%	
Net debt / LTM adjusted EBITDA	2.0	3.5	-43.7
Number of loyal customers, thousands	1,151	1,018	13.1
Number of stores at the end of the period	293	277	5.8
of which directly operated	231	206	12.1

Group net sales

EUR million	10/2019–9/2020	10/2018–9/2019	Change %
Net sales			
Group	284.4	246.6	15.3
Finland	135.8	122.8	10.6
Sweden	123.2	107.5	14.7
Norway	25.4	16.4	54.6

The Group's net sales increased by 15.3% to EUR 284.4 million (EUR 246.6 million). The increase was largely due to like-for-like growth in all countries, mainly driven by the increasing number of new customers. Like-for-like growth amounted to 11.5% (11.2%).

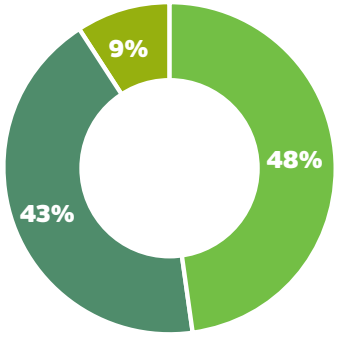
Store sales increased by 13.2% to EUR 206.6 million (EUR 182.4 million), driven by like-for-like store sales growth in all countries. Like-for-like store sales growth amounted to 7.3% (7.8%). Online sales increased by 25.3% to EUR 64.1 million (EUR 51.1 million). Online sales growth recovered during Q2 after the platform change in Peten Koiratarvike in Q1. In addition, the COVID-19 pandemic had a positive impact on the share of online sales in Q3. In Q4, the impact from COVID-19 was lower compared to Q3. Online sales accounted for 22.5% (20.7%) of total net sales.

Net sales in Finland increased by 10.6% driven by like-for-like growth of 7.4% and growth from new stores opened during the latest twelve months. During the reporting period, two new directly operated stores and one new franchise store were opened, and two franchise stores were acquired. Net sales in Sweden increased by 14.7% driven by strong like-for-like growth of 13.4%. During the reporting period, ten directly operated stores were opened in Sweden, six franchise stores were closed, and two

franchise stores were acquired. Net sales in Norway increased by 54.6% driven by strong like-for-like growth of 33.3% and the ramp-up of stores opened during the latest twelve months. The weakened NOK rate in FY20 compared to FY19 and closing of one store during FY20 had a negative impact on growth. Ten directly operated stores were opened and one store was closed in Norway during the reporting period.

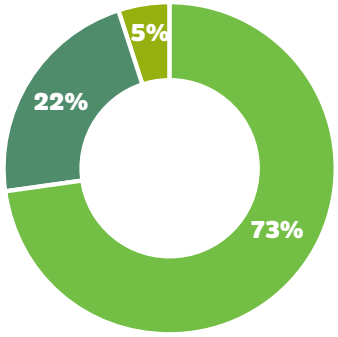
The number of loyal customers increased to 1,151 thousand during the reporting period (1,018 thousand on 30 September 2019). Rolling 12 months average spend per loyal customer increased to EUR 178.5 on 30 September 2020 (EUR 176.1 on 30 September 2019), driven by an increased average purchase value.

Net sales by segment FY 2020



- Finland
- Sweden
- Norway

Net sales by channel FY 2020



- Store sales
- Online sales
- Other sales*

*Other sales include franchise fees and wholesale.

Group result

The Group's adjusted EBITA increased by 36.2% to EUR 29.8 million (EUR 21.9 million). Adjusted EBITA margin was 10.5% (8.9%). The improvement was mainly due to an increase in sales combined with operating leverage. Gross margin decreased to 43.8% (44.3%) due to a higher share of online sales, a lower share of sales of own and exclusive brands as well as non-recurring items relating to the ongoing warehouse consolidation project, offset by more efficient marketing campaigns and supply chain management. The share of employee benefit and other operating expenses as percentage of sales decreased to 28.9% (30.9%) driven by operating leverage as well as lower working hours in our stores and lower operating costs from adapting to the lower store volumes due to the COVID-19. During the third quarter of 2020 Musti Group received some COVID-19 related financial assistance under governmental scheme in Sweden and Norway. However, the amount of the assistance was not material from a Group perspective.

Depreciation amounted to EUR 18.2 million (EUR 16.2 million) and amortisation amounted to EUR 6.0 million (EUR 5.6 million).

Adjustments to EBITA were EUR 4.3 million (EUR 3.8 million). The adjustments mainly related to the IPO process and non-recurring items relating to the ongoing warehouse consolidation project.

Operating profit increased by 56.5% to EUR 19.6 million (EUR 12.5 million).

Profit before taxes increased to EUR 13.7 million (EUR 4.0 million). The impact of financial income and expenses (net) on profit before taxes decreased from EUR -8.5 million to EUR -5.9 million, mainly due to lower interest expenses due to the refinancing in connection with the IPO, partly offset by foreign exchange losses related to a weaker SEK exchange rate.

Musti Group is currently subject to a tax audit of Musti Group Oyj, Musti Group Finland Oy and Musti Group Nordic Oy regarding financial years 2018-2020.

Profit for the period was EUR 11.8 million (EUR 3.0 million) and earnings per share, basic was 0.37 (0.10). Income taxes increased due to higher taxable income, however, income taxes were reduced by the utilisation of tax losses carried forward in Sweden and Norway. The effective tax rate was 14%.

Financial position and cashflow

In October 2019–September 2020, net cash flow from operating activities totalled EUR 42.3 million (EUR 39.5 million). Cash and cash equivalents at the end of the period amounted to EUR 21.6 million (30 September 2019: EUR 8.6 million). Total consolidated assets amounted to EUR 312.3 million (30 September 2019: EUR 279.5 million). The increase was driven by right-of-use assets from a higher number of rental contracts, increase in cash and cash equivalents as well as higher inventory levels.

Equity attributable to owners of the parent company totalled EUR 153.1 million (30 September 2019: EUR 98.3 million). The increase was due to the profit for the period and the share issue in connection with the IPO. The net impact of the share issue was EUR 42.9 million.

Gearing at the end of the reporting period was 61.8% (30 September 2019: 135.4%) and net debt amounted to EUR 94.7 million (30 September 2019: EUR 133.3 million). The decrease was mainly due to the refinancing in connection with the IPO, partly offset by increased lease liabilities due to adjusted rental periods and an increased number of rental contracts. At the end of the period, the lease liabilities included in net debt amounted to EUR 66.5 million (30 September 2019: EUR 52.0 million).

In connection with the IPO, Musti Group refinanced its existing loans with the share issue of EUR 45 million and a new loan agreement of EUR 60 million, consisting of a EUR 50 million term loan and a EUR 10 million revolving credit facility. The bullet repayment date of the facilities is in January 2023. The loan agreement contains two financial covenants: leverage and gearing. The EUR 50 million term loan was drawn to refinance the existing loans. The revolving credit facility has not yet been drawn.

Musti Group focuses on maintaining sufficient liquidity in the group. In addition to the cash and cash equivalients of EUR 21.6 million at the end of the period, Musti Group has an unutilized EUR 4.0 million credit limit and an undrawn EUR 10.0 million revolving credit facility.

Investments

In October 2019–September 2020 investments in tangible and intangible assets amounted to EUR 8.9 million (EUR 6.4 million). The investments were mainly related to new and relocated stores, especially in Sweden and Norway, as well as IT and digital platform development projects. In addition, EUR 1.4 million relates to acquisitions of franchise stores. EUR 0.6 million relates to investments in joint ventures Premium Petfood Suomi Oy to partly finance a new production site.

Strategy and financial targets

Musti Group's core strategy is to continue developing its value proposition and to better serve its customers in the Nordic markets. Successful execution of Musti Group's strategy can be expected to lead to strengthening its market leadership in the Nordic countries and improving profitability.

Winning new customers from a prospective clientele representing the Nordic pool of 5.3 million pets

Musti Group is well-positioned to continue winning new customers from the large Nordic pet pool and gaining market share from competitors with the Musti concept, leading brand and customer focus. Musti Group's market share gain is expected to continue, driven by its leading customer service, high convenience, high-quality and exclusive offering, as well as adjacent services in selected locations. It is important to put emphasis on engaging the pet parents as customers already in the puppy phase.

In the financial year 2020 we continued to focus on market share growth in all markets led by Sweden and Norway. The number of loyal customers, friends of Musti Group, increased by 13.1% to 1,151 thousand during the financial year.

We also launched a new Puppy and kitten club that focuses on the puppies' and kittens' first year, given them the best offers, communication and advises there is.

Grow share of wallet within existing loyal customers

Musti Group has identified a clear opportunity to grow the share of wallet with its existing loyal customers. Those customers who spend above average form a large proportion of Musti Group's customer base, but a small proportion of sales. There is significant upside from educating infrequent customers about the health benefits of premium food and encouraging them to conduct the majority of their food purchases at Musti Group, giving the company a possibility to capture a greater share of wallet. Furthermore, Musti Group focuses on cross-selling through targeted offerings aimed to promote additional product categories, as well as enhancing customer service.

Rolling 12 months average spend per loyal customer increased to EUR 178.5 in the financial year 2020 (EUR 176.1), driven by an increased average purchase value.

Expand store network and number of service points

Musti Group aims to continue rolling out further stores to win new customers through its strong concept attracting customers to switch to the Musti Group platform. Regardless of strong market presence in Finland, the company's management continues to see opportunity to expand store network in selected locations, such as new hypermarkets and malls. In Sweden, focus has been on integration, efficiency and building brand awareness, and Musti Group sees lots of possibilities for new store openings in Stockholm area and other big cities, where the company is currently under-represented. In Norway, the company aims to continue its solid track of building presence, where it has since entry in the financial year 2017 grown to a network of 39 stores (9/2020).

Through the largest footprint in the Nordic countries, Musti Group can quickly gain further market share in the attractively growing pet services market. In addition, Musti Group continuously evaluates opening new service points in existing and new stores.

The number of directly operated stores increased by 25 during the financial year. This was supported by the increase in the demand for pet products during spring 2020 and thus higher growth expectations for the market.

Focus on driving gross margins through increased O&E share and leveraging scale

Musti Group has strong historical track record in driving gross margin improvement and is well-equipped to continue that going forward. Own and exclusive brands ("O&E") typically have 10-15 percentage points higher gross margins compared to global brands. Musti Group sees potential to grow the O&E share of sales both in Sweden and Norway to Finland's levels. In addition to scale benefits in procurement, the company has identified potential to further develop its pricing and procurement processes, rationalize its supplier base and develop category management.

In the financial year, gross margin decreased due a higher share of online sales, a lower share of sales of own and exclusive brands as well as nonrecurring items relating to the ongoing warehouse consolidation project, offset by more efficient marketing campaigns and supply chain management. Musti Group continues to further strengthen its own brands, such as the successful product brands Feel Active and Little&Bigger. For example, we extended our wide Feel Active assortment by launching a new high-tech raincoat with our own trademarked membrane Feel Tech.

Leverage broadly invested platform to drive operating leverage and scale benefits

Previous significant investments to Musti Group's IT and warehouses are expected to drive increased operating leverage and scale benefits to further increase Musti Group's profitability as topline growth is expected to continue while fixed costs can be spread across larger net sales.

The impact of operating leverage was seen during the financial year as the adjusted EBITA margin reached the financial target level.

Financial Targets

Musti Group does not publish its short-term outlook. However, Musti Group's Board of Directors has set the following long-term financial targets:

Growth	Sales to reach at least EUR 350 million by the financial year 2023 by continuation of strong customer acquisition momentum.
Profitability	Mid- to long-term adjusted EBITA margin of 10–12% with steadily improving profile. EBITA margin increase is expected to be realized through steady gross margin and improving operating leverage.
Capital structure	Maintain net debt in relation to adjusted EBITDA below 2.5x in the long term.
Dividend policy	To pay a dividend corresponding to 60–80% of net profit. Any potential dividend shall take into account acquisitions, the company's financial position, cash flow and future growth opportunities.

The financial targets are forward-looking statements and are not guarantees of future financial performance.

Business segment performance

Musti Group's reporting segments are based on geographical regions, and they are Finland, Sweden and Norway. The segment structure is based on geographical division where Finland, Sweden and Norway are separated to individual operating segments based on how the chief operating decision-maker monitors the business operations. In other items, Musti Group reports the Group functions, including the operations of the headquarters and the central warehouse.

Finland

Finland is Musti Group's most mature country. Musti Group held 30% of the total pet food and products market share in 2019. Regardless of the strong market presence in Finland, the company's management continues to see opportunities to expand the store network in selected locations, such as high traffic hypermarkets. Musti Group's brands in Finland include Musti ja Mirri (store and omnichannel) and Peten Koiratarvike (online). In Finland, Musti Group will continue to focus on serving existing customers better in order to increase share of wallet and winning new customers, both of which will support positive like-for-like development.

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	Change %
Net sales	135.8	122.8	10.6
Net sales growth, %	10.6%	10.8%	
LFL segment sales growth, %	7.4%	8.8%	
EBITA	32.8	29.8	10.2
EBITA margin, %	24.2%	24.2%	
Adjusted EBITA	33.0	29.7	10.8
Adjusted EBITA margin, %	24.3%	24.2%	
Number of stores	129	126	2.4
of which directly operated	112	108	3.7

Net sales in Finland increased by 10.6% to EUR 135.8 million (EUR 122.8 million) driven by like-for-like growth of 7.4% and growth from the stores opened or acquired during the latest twelve months.

EBITA increased by 10.2% to EUR 32.8 million (EUR 29.8 million). Adjusted EBITA increased by 10.8% to EUR 33.0 million (EUR 29.7 million). This was due to operating leverage, more efficient marketing campaigns and supply chain management, offset by the increased share of online sales. In addition, store efficiency in Q3 and Q4 was positively impacted by lower working hours in our stores adapting to the lower store volumes due to the COVID-19. Adjusted EBITA margin was 24.3% (24.2%).

During the reporting period, two new directly operated stores and one new franchise store were opened, and two franchise stores were acquired.

Sweden

In Sweden, Musti Group's focus is on further expansion and convergence in efficiency towards Finnish levels. Musti, through its multiple brands, is the overall market leader with a combined 29% market share (2019). Through VetZoo and Animail, Musti Group has a strong online presence in Sweden with approximately 50% market share in online sales. Musti Group's store and omnichannel brands in Sweden are Arken Zoo and Djurmagazinet.

Musti's goal in Sweden is to continue strong like-for-like growth across all channels, store network expansion and strong margin improvement momentum. Regarding the store network expansion, focus will be turned towards store roll-out especially in big cities, where Musti is currently under-represented. Key growth and margin drivers in Sweden include increasing own and exclusive brands' share of sales towards Finnish levels through staff promotion and educational marketing, converging store cost-efficiency towards Finnish levels through store personnel efficiency measures and being selective in network expansion while acquiring selected franchised stores.

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	Change %
Net sales	123.2	107.5	14.7%
Net sales growth, %	14.7%	10.9%	
LFL segment sales growth, %	13.4%	12.4%	
EBITA	14.5	9.0	61.1%
EBITA margin, %	11.7%	8.4%	
Adjusted EBITA	14.9	9.9	51.1%
Adjusted EBITA margin, %	12.1%	9.2%	
Number of stores	125	121	3.3%
of which directly operated	80	68	17.6%

Net sales in Sweden increased by 14.7% to EUR 123.2 million (EUR 107.5 million) driven by like-for-like growth of 13.4%. The average SEK rate strengthened slightly in FY20 compared to FY19. This had a small positive impact on the sales growth. The sales growth was strong in both stores and online, driven by the increased number of customers.

EBITA increased by 61.1% to EUR 14.5 million (EUR 9.0 million). Adjusted EBITA increased by 51.1% to EUR 14.9 million (EUR 9.9 million). This was due to operating leverage and more efficient marketing campaigns, partly offset by the increased share of online sales. In addition, store efficiency in Q3 and Q4 was positively impacted by lower working hours in our stores from adapting to the lower store volumes due to the COVID-19. Adjusted EBITA margin was 12.1% (9.2%).

During the reporting period, ten directly operated stores were opened in Sweden, six franchise stores were closed, and two franchise stores were acquired.

Norway

In Norway, Musti Group's focus is on store roll-out and on increasing country profitability. Unlike in Finland and Sweden, there are no clear dominant players within the pet specialty segment, with Musti covering for roughly 8% of the total pet food and products market in 2019. Musti Group's brands in Norway are Musti (store and omnichannel) and VetZoo (online).

In Norway, the focus is on continuing the expansion of the store network and store ramp-up in line with their historical development, as well as on the strong margin improvement momentum as most of the stores are still in ramp-up phase. Ramp-up of the Norwegian stores has progressed according to Musti Group's plans and the profitability development of new stores has followed similar patterns as observed e.g. in Finland.

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	Change %
Net sales	25.4	16.4	54.6%
Net sales growth, %	54.6%	97.0%	
LFL segment sales growth, %	33.3%	30.7%	
EBITA	2.9	0.4	575.1%
EBITA margin, %	11.4%	2.6%	
Adjusted EBITA	2.9	0.6	374.5%
Adjusted EBITA margin, %	11.5%	3.8%	
Number of stores	39	30	30.0%
of which directly operated	39	30	30.0%

Net sales in Norway increased by 54.6% to EUR 25.4 million (EUR 16.4 million), driven by strong like-for-like growth of 33.3% and ramp-up of the stores opened during the latest twelve months. The weakened NOK exchange rate in FY20 compared to FY19 and the closing-down of one store during FY20 had a negative impact on growth. Ten new stores were opened, and one store was closed in Norway during the reporting period.

EBITA amounted to EUR 2.9 million (EUR 0.4 million). Adjusted EBITA amounted to EUR 2.9 million (EUR 0.6 million). This was driven by operating leverage and increased store efficiency, as stores are starting to reach the mature phase or the end of the ramp-up curve. In addition, store efficiency in Q3 was positively impacted by lower working hours in our stores adapting to the lower store volumes due to the COVID-19. In Q4, the impact from COVID-19 was lower compared to Q3. Adjusted EBITA margin was 11.5% (3.8%).

Group functions

The EBITA impact of Group functions was EUR -24.6 million (EUR -21.1 million). Adjusted EBITA was EUR -21.0 million (EUR -18.3 million). The decrease was due to higher personnel and other costs in the head office and, driven by higher volumes, in the central warehouse. Adjusted EBITA margin was 7.4% (7.4%).

Personnel

In October 2019 – September 2020, the average number of personnel was 1,145 (1,084). At the end of the reporting period, the number of personnel was 1,162 (1,120), of whom 566 (583) were employed in Finland and 597 (538) outside Finland. Wages and salaries were in total EUR 38.0 million for the financial year 2020 (EUR 35.8 million).

Personnel by average

	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019	1 Oct 2017 - 30 Sep 2018
Personnel by average	1,145	1,084	1,004

Personnel by area

	30 Sep 2020	30 Sep 2019	30 Sep 2018
Finland	566	583	537
Sweden	439	425	415
Norway	158	112	94
Total	**1,162**	**1,120**	**1,046**

Wages and salaries

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019	1 Oct 2017 - 30 Sep 2018
Wages and salaries total	38,042	35,756	33,128

More information on the remunerations of the personnel is available for reading at the **Remuneration Statement** published in accordance with the Financial Statements and the Board of Directors' Report.

Information contained in the notes to the financial statements

Related party transactions are disclosed in Note 6.1.

Governance

Musti Group is committed to good corporate governance through compliance with laws and regulations in all its operations and to implementing recommendations for good corporate governance. The governance of the Musti Group complies with the company's Articles of Association, Finnish and EU laws and regulations, the Finnish Companies Act, the Accounting Act, securities markets regulations and other decrees and regulations relevant to the governance of a public limited liability company. Furthermore, Musti Group's operations are guided by values and internal operating principles ratified by the company. In its governance, Musti Group also complies with the Finnish Corporate Governance Code for listed companies issued by the Securities Market Association in 2020.

The governance of Musti Group is described in more detail in the **Corporate Governance Statement** published in accordance with the Financial Statements and the Board of Directors' Report. If Musti Group deviates from a recommendation of the Code, it will specify the deviation and justify it. The Code is available on the Internet at **www.cgfinland.fi**.

AGM decisions

Musti Group held an Extraordinary General Meeting (EGM) on 30 October 2019 in Helsinki. The EGM resolved to transfer the company's shares to the book-entry system maintained by Euroclear Finland Ltd. The EGM also resolved to amend Musti Group's Articles of Association and to notify the amendments for registration immediately after the EGM. In connection with the amendment of the Articles of Association, the EGM resolved to amend some of the company's share classes.

In December 2019, Jarkko Murtoaro and Alex Lindbom resigned as members of the Board of Directors. On 13 December 2019, by a unanimous resolution of all shareholders, Jeffrey David, Lisa Farrar, Ingrid Jonasson Blank and Vesa Koskinen were elected as new members of the Board.

In its meeting on 13 December 2019, Musti Group's Board of Directors appointed an Audit Committee from among its members, with Ingrid Jonasson Blank as its Chairman and Lisa Farrar and Juho Frilander as the other members of the Audit Committee, as well as a Remuneration Committee with Jeffrey David as its Chairman and Vesa Koskinen and Juho Frilander as the other members of the Remuneration Committee. The Board of Directors also approved certain corporate governance documentation, conditional upon the IPO, including the Charters of the Board of Directors, the Remuneration Committee and Internal Audit Policy, as well as the company's insider guidelines and disclosure policy. The Board of Directors also resolved to establish a long-term incentive plan, and to define and confirm the detailed content and terms at a later stage.

On 16 January 2020, the Board of Directors approved certain corporate governance documents, including the company's risk management policy, principles of internal audit, whistleblowing policy and conduct for reporting on related party transactions.

Musti Group's Annual General Meeting (AGM) was held on 23 January 2020. The AGM resolved to adopt the company's annual accounts for the financial period 1 October 2018 – 30 September 2019, not to distribute a dividend, and to discharge the members of the Board of Directors from liability. The AGM also resolved that the remuneration of the Chairman of the Board is EUR 60,000 per year and the remuneration of other members of the Board is EUR 30,000 per year. However, Board members Juho Frilander and Vesa Koskinen shall not be paid any fees for their Board activities. If the listing was not carried out, the remuneration would have remained as it was. The AGM resolved that the number of Board members shall be five (5) and resolved to re-elect Jeffrey David, Juho Frilander, Lisa Farrar, Ingrid Johansson Blank and Vesa Koskinen as members of the Board of Directors. Ernst & Young Oy was elected as the company's auditor, with Johanna Winqvist-Ilkka as the auditor with principal responsibility. The AGM resolved to authorise the Board of Directors to amend the company's Articles of Association, decide on a share issue without consideration to combine all share classes into a share class, decide on the issuance of shares in the IPO as well as other measures in connection with the listing of the company.

Musti Group's Annual General meeting 2021 will be held on 21 January 2021.

Changes in Group Management

During the last quarter, two members of Musti Group's Management Team changed.

Anton Jacobsson, Head of eCommerce and Omnichannel left the Group 30 September 2020. As a result of the change, the responsibility for the omnichannel development was divided to each country director in Finland, Sweden and Norway.

Juhana Lamberg, Country Director, Finland left the Group after the year end 31 October 2020. Timo Tervo, appointed Mr. Lamberg's successor, took up his duties 1 September 2020. Tervo joined Musti Group from Lidl Group where he has held various leadership positions covering Supply Chain, Logistics and Sales in four different countries. His latest position was the Regional Director for Lidl Italy.

Shares and shareholders

Initial Public Offering

On 20 January 2020 Musti Group Holding Oy (which was renamed Musti Group Oyj), announced that it is planning an initial public offering (IPO) and a listing of its shares on the official list of Nasdaq Helsinki.

The IPO of Musti Group was oversubscribed, and the listing was completed as planned. The listing consisted of a share issue and a share sale. Musti Group raised approximately EUR 45 million in gross proceeds by issuing a total of 5,159,672 new shares in the share issue. In addition, Millan Holding S.à.r.l (EQT Mid-Market Fund) and certain other shareholders of the company sold a total of 12,949,476 company shares (excluding the over-allotment option of 2,716,372 shares granted by Millan Holding S.à.r.l (EQT Mid-Market Fund)). The final subscription price per share was EUR 8.75 per share in the institutional offering and the public offering, and 10% lower in the personnel offering at EUR 7.88 per share, which in total corresponds to a market capitalisation of the company of approximately EUR 293 million immediately following the offering. Demand in the offering was strong from both Finnish and international investors and the offering was oversubscribed multiple times. Trading of the company's share commenced on the Prelist of Nasdaq Helsinki Ltd on 13 February 2020 and on the Official List on 17 February 2020. The trading code of the shares in Musti Group is MUSTI. Musti Group has been classified as a mid-cap company in the retail sector.

19,656,401 shares were allocated to institutional investors in Finland and internationally in the institutional offering, with the over-allotment option exercised in full, and 1,000,000 shares were allocated to private individuals and entities in Finland in the public offering. In addition, 169,119 shares were allocated in the personnel offering to employees who were in full- or part-time permanent employment with Musti Oyj or its subsidiaries as well as employees with a fixed-term employment relationship with Musti Oyj or its subsidiaries at the start of the subscription period on 3 February 2020 in Finland, Sweden and Norway, as well as to the management team and CEO of the company. The total number of shareholders rose to more than 4,000 shareholders.

Issued shares and share capital

In connection with Musti Group's IPO and listing of its shares on the official list of Nasdaq Helsinki Ltd, the company's share classes were combined and the total number of outstanding shares in the company increased to 33,535,453.

At the end of the reporting period on 30 September 2020, Musti Group's share capital was EUR 11,001,853.68 and total number of shares outstanding was 33,535,453. The company has one share class. Each share carries one vote and entitles to the same dividend.

Trading of shares

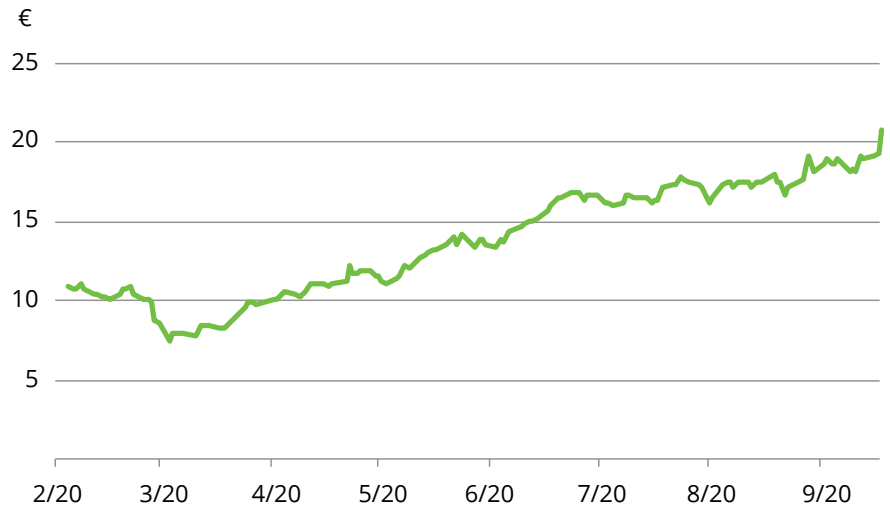
Trading of Musti Group's share commenced on the Prelist of Nasdaq Helsinki Ltd on 13 February 2020 and on the Official List on 17 February 2020.

The closing price of the share was EUR 10.90 on 17 February 2020. The closing price of the share on the last trading day of the reporting period on 30 September 2020 was

EUR 20.80. The highest price of the share during the period was EUR 20.94, the lowest EUR 7.00. The average closing price during the period was EUR 13.84 and the average volume per day was 121,422 shares.

Musti Group's market capitalization was EUR 698 million on 30 September 2020.

The share price development of Musti Group share, 17 February 2020 – 30 September 2020



Treasury shares and authorisations of the Board of Directors

The company did not hold any treasury shares on 30 September 2020.

Conditional upon the execution of Musti Group's listing, Musti Group's Annual General Meeting (AGM) held on 23 January 2020 resolved to authorise the Board of Directors to amend the company's Articles of Association, decide on a share issue without consideration to combine all share classes into a share class, decide on the issuance of shares in the IPO as well as other measures in connection with the listing of the company.

As part of the execution of Musti Group's initial public offering (IPO) and listing of its shares on the official list of Nasdaq Helsinki Ltd, the Board of Directors of Musti Group resolved on 6 February 2020 on a directed share issue without consideration of 10,511,039 new shares based on the authorisation granted by Musti Group's AGM held on 23 January 2020. In connection with the completion of the IPO, the Board of Directors of the company decided on 12 February 2020 on the execution of the combination of the company's share classes. In addition, the Board of Directors resolved on a share issue without consideration of 16,564,005 new A3 share class shares to the shareholders owning P share class shares prior to the combination of the shares in deviation from the shareholders' pre-emptive right to new shares.

The AGM also resolved to authorise the Board of Directors to decide on a share issue as well as the issuance of special rights entitling to shares. The Board of Directors may, based on the authorisation, decide on the issuance of shares and the issuance of special rights entitling to shares referred to in Chapter 10 Section 1 of the Finnish Companies Act. The authorisation concerns both the issuance of new shares as well as the transfer of treasury shares. The total number of shares to be issued shall not exceed 1,500,000 shares. The authorisation will be effective until the end of the next Annual General Meeting, however no longer than until 23 July 2021.

The AGM resolved to authorise the Board of Directors to decide on the acquisition of the company's own shares. Based on the authorisation, the total number of shares to be acquired may not exceed 1,500,000 shares. The authorisation will be effective until the end of the next Annual General Meeting, however no longer than until 23 July 2021.

Shareholders

At the end of the financial year, the number of registered shareholders was 6,199. The proportion of nominee-registered and foreign shareholders was 68.6% of the company's shares. The 20 largest shareholders registered in the book-entry register maintained by Euroclear Finland Oy held a total of 21.73% of Musti Group's shares and votes at the end of the review period.

Shareholders, Musti Group, 30 September 2020

	Number of shares	% of shares
1. Millan Holding S.A.R.L	1,878,862	5.60
2. Mandatum Life Insurance Company Limited	1,044,888	3.12
3. Varma Mutual Pension Insurance Company	620,000	1.85
4. Evli Finnish Small Cap Fund	563,661	1.68
5. Kaleva Mutual Insurance Company	344,285	1.03
6. Evli Finland Select Fund	270,000	0.81
7. SEB Finland Small Cap Investment Fund	242,000	0.72
8. Sijoitusrahasto Aktia Nordic Micro Cap	220,000	0.66
9. Berglund Robert Erik Ragnar	218,450	0.65
10. Veritas Pension Insurance Company Ltd.	215,000	0.64
10 shareholders total	5,617,146	16.75
100 largest registered shareholders total	9,139,118	27.25
Nominee registered total	22,995,465	68.57
Number of shares total	**33,535,453**	100.00

Major shareholders by sectors, 30 September 2020

Shareholders by sector	Number of shares	% of shares
Public sector	860,000	2.56
Financial and insurance corporations	4,475,835	13.35
Households	1,461,972	4.36
Non-financial corporations	1,263,963	3.77
Non-profit institutions	301,148	0.90
Rest of the world	1,963,385	5.85
On common accounts	213,685	0.64
Nominee registered	22,995,465	68.57
Total	**33,535,453**	**100.00**

Shareholders by number of shares held, Musti Group, 30 September 2020

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1-100	3,586	57.85	163,579	0.49
101-500	2,102	33.91	459,247	1.37
501-1,000	236	3.81	184,894	0.55
1,001-5,000	182	2.94	413,970	1.23
5,001-10,000	30	0.48	228,983	0.68
10,001-50,000	24	0.39	462,508	1.38
50,001-100,000	8	0.13	616,495	1.84
100,001-500,000	25	0.40	4,628,544	13.80
500,001-& above	6	0.10	26,163,548	78.02
On common accounts	0	0.00	213,685	0.64
Total	**6,199**	**100.00**	**33,535,453**	**100.00**

In January 2020, Millan Holding S.à.r.l notified the company about converting 387,977 of its shares in accordance with the Articles of Association. The conversion was registered on 20 January 2020.

During October 2019-September 2020, Musti Group received the following announcements under Chapter 9, Section 5 of the Securities Markets Act:

- EQT's indirect holding of the shares and votes of Musti Group decreased to 24.10% and EQT's holding through financial instruments increased above the threshold of 5% on 17 February 2020.
- SMALLCAP World Fund, Inc's holding of the shares and votes of Musti Group increased above the threshold of 5% on 13 February 2020.
- The Capital Group Companies, Inc's indirect holding of the shares and votes of the Musti Group increased above the threshold of 5% on 13 February 2020.
- EQT's indirect holding of the shares and votes of Musti Group totalled 24.10% and EQT's holding through financial instruments decreased below the threshold of 5% on 21 February 2020.
- EQT's indirect holding of the shares and votes of Musti Group decreased below 10% on 13 August 2020.
- Investment AB Öresund's holding of the shares and votes of Musti Group increasedabove 5% on 13 August 2020.
- FMR LLC's holding of the shares and votes of Musti Group increased above 5% on 13 August 2020.

Musti Group's managers' transactions as of the listing have been published as stock exchange releases, and they are available on the company's website at **www.mustigroup.com**

Remuneration

The objective of Musti Group's remuneration program is to promote the company's competitiveness and to support the execution of the company's strategy. Furthermore, the remuneration programs aim to retain key persons and the whole staff and create long-term commitment in order to achieve shared goals and to create shareholder value.

The remuneration in Musti Group is described in more detail in the **Remuneration Statement** published in accordance with the Financial Statements and the Board of Directors' Report.

Corporate responsibility

Musti Group is committed to developing its responsibility policies and best practices on a long-term basis, and it is committed to be a responsible forerunner in its industry. Musti Group is the only pet specialty company to have committed to the United Nations Global Compact. The company is in the process of building a robust responsibility foundation and setting targets and key performance indicators to measure the results.

Conducting operations in a sustainable, responsible and environmentally friendly way requires focused and purposeful actions at all levels of the organization. The basis of all Musti Group's social responsibility is a responsible supply chain, diminishing environmental impact as well as good governance and high ethics. In addition, the company has identified three particular focus areas in order to communicate with its stakeholders: pets and their parents, employees and communities. The most important themes under pets and their parents are high-quality and safe products and services as well as satisfied and loyal customers. Under employees, the most important themes are thriving experts and well-being at work, and under communities, working for the common good and openness for new inventions.

Musti Group sets high standards for quality, safety and expertise, putting the welfare of pets, people and the environment first. The company has already taken concrete actions to this end, having been a member of amfori Business Social Compliance Initiative (amfori BSCI) since 2017. The company also expects its suppliers to commit to Musti's requirements on responsible business practices. Following the Musti Group Supplier Code of Conduct and all national laws and regulations is imperative. The company's dedicated employee team visits the supplier sites in Europe, and also the BSCI also visits the company's supplier sites. Furthermore, the company has a third-party partner in China who visits and audits the sites in Asia. The company has initiated more systematic processes for supply chain sustainability especially in high-risk countries and set the target

of having all tier one suppliers in high-risk countries audited.

Musti Group's first **Non-Financial Information Report** has been published in accordance with the Financial Statements and Board of Directors' Report.

Risks and uncertainties

Musti Group's risk profile follows the general risk level of the retail and grocery trade. The industry is not particularly cyclical and not subject to rapid changes. The company regularly monitors changes in the risks and their impact on the business. The company implements risk management continuously and systematically according to a scheduled process. The risk management process ensures that risks related to the Group are identified, estimated and controlled in a proactive way and the management of risks is monitored. The company's risk management includes, among others: identification and review of risks, risk assessment, determining and implementing control measures for the identified risks, and monitoring and reporting of risks.

The following describes the risks and uncertainties that are considered significant for Musti Group.

Risks relating to the macroeconomic environment

Musti Group's net sales and operating profit are impacted by general economic conditions, which are influenced by many factors beyond Musti Group's control. As Musti Group's net sales and operating profits are generated in Finland, Sweden and Norway, the company is vulnerable to negative economic developments, including recession and depression, in these core markets. Although the pet care market has proven to be resilient to economic downturns in the past, and so far during the COVID-19 pandemic, there can be no assurance that this would be the case in the future. Adverse changes in the Nordic markets could result from e.g. deterioration in business or consumer confidence leading to low customer spending, fluctuations in currency rates, changing customer preferences or employment levels, lower availability of credit, rising interest rates or inflation or changes in taxation or in the local political landscape.

The COVID -19 has exposed Musti Group's risk management to a new challenge. Musti Group is actively working on minimising disruptions on a longer term and implementing precautionary measures to be able to manage diverse future scenarios. To date, the pandemic has not had any significant negative impacts on Musti Group, as the company has successfully managed the risks related to e.g. disruptions in the logistics chain, suppliers and employees. However, the pandemic can result in long-term effects with risks related to higher unemployment and recession in the society.

Risks relating to changes in the competitive environment

Pet products and services retail industry is increasingly competitive due to the presence of online merchandisers and specialty retailers' in the pet food and products market. Also, the expansion of pet-related product offerings by certain grocery stores and other general retail merchandisers has increased competition. Musti Group competes with a number of other participants in the Nordic pet care market, which includes pet food, pet products and pet services. Musti Group's competitors are large grocery retailers, smaller pet specialist stores, online competitors (including general online stockists and internet pure plays), home and garden stores, pet service providers, as well as veterinary clinics.

Risks relating to quality of products and services

Musti Group's brand is an important asset to the company. Maintaining the reputation of, and value associated with, Musti Group's brand, is central to the success of its business, and Musti Group could be adversely affected if customers lose confidence in the safety and quality of the food, accessories and services sold or provided by the company. The real or perceived sale of contaminated pet food or defective accessory products by Musti Group could result in product recalls, product liability claims against Musti Group or its suppliers, investigations by authorities and loss of customer confidence. In addition, Musti Group may also be subjected to complaints from its customers, employees, competitors or other third parties in social media channels, alleging injury, health, environmental, safety or operational concerns, negligence or failure to comply with applicable laws and regulations. Any such complaints and claims,

even if successfully resolved without direct adverse financial effect, could have a material adverse effect on Musti Group's brand and reputation.

Risks relating to changes in customer preferences

Musti Group has identified a mega-trend refered to as Pet Parenting where customers increasingly treat their pets as family members. The increasing development of the Pet Parenting trend and growth in spend per pet has opened markets for Musti Group's high-quality food products with high nutritional value, broader range of products and services with a rising emphasis on wellness. Musti Group's success depends in part on its ability to identify and respond to evolving customer preference trends in all of its product areas, and on ability to translate customer preferences into appropriate, sellable merchandise offerings with appropriate levels of inventory.

Risks relating to sourcing of products

As Musti Group does not operate through own factories, it relies on domestic and foreign external suppliers to source its own products. For third-party products, Musti Group is dependent on its relationships with suppliers of third-party brand products to maintain a broad product offering and sufficient inventories. Musti Group focuses on the authenticity of its sources of supply and the quality of its products and seeks to maintain high standards of sustainable sourcing of products in its supply chain. Any loss of significant suppliers or the inability to source products from such suppliers that meet Musti Group's standards and requirements, or a supply reduction or cost increases demanded by suppliers could have a material adverse effect on the customer relationships and competitive position.

Risks relating warehouse operations

A disruption or malfunction in Musti Group's warehouses or sourcing, difficulties in successful managing of Musti Group's inventory, or difficulties in predicting the product demand may raise the costs related to warehouses and require the selling of products with discounts reducing the profitability. Such discuptions or malfunctions may have an adverse effect on the inventory of Musti Group's and franchisees' stores, and Musti Group's business could be substantially interrupted. Interruptions may in turn limit Musti Group's ability to perform its obligations towards its customers, which may result in claims for financial compensation based on non-delivery of orders and damage Musti Group's reputation as a reliable trading partner.

Risks relating IT systems

The timely development, implementation and uninterrupted performance of Musti Group's hardware, network, websites, ordering platforms and other IT systems, including those which may be provided by third parties or which may be hosted online or in the "cloud", are critical factors for the smooth functioning of Musti Group's operations and are, thus, critical to Musti Group's success. Musti Group uses various software to assist in efficiently managing supply flows, orders, customer handling, warehousing, distribution, replenishment, operational data, customer- and employee-related data as well as other management and financial information. Even though Musti Group has recently completed its IT system renewal and is not expecting any larger upgrades in the near future, any future upgrades of existing IT systems or the implementation of new IT systems, may cause organizational disruptions within Musti Group.

Musti Group depends on the continuous availability and reliability of its IT platforms, which, in turn, depend on the functioning of its IT hardware. This includes operational risks, such as the occurrence of equipment and software failures, power interruptions and unlawful conduct by third parties or human error. Musti Group's IT systems are also exposed to cyber security risks relating to, for example, viruses, malware, hacking phishing attacks, penetrating or bypassing security measures in order to gain unauthorized access to Musti Group's networks and systems.

Musti Group strives to comply with all applicable laws and regulations relating to privacy and data protection. However, it is possible that such requirements may be interpreted and applied by the company in a manner that is unforeseeable or may conflict with the current interpretations or practices of the EU or the Finnish authorities. In addition, non-compliance or data breaches through cyber-attacks or otherwise may result in fines,

damages, orders to stop processing personal data as well as damage to the company's reputation, and otherwise have a negative impact on the company's business.

Risks relating management and employees

Musti Group's success is largely dependent upon the continued service, skills and experience of its existing management team and Board members, having valuable knowledge of the pet products and services industry. Furthermore, Musti Group relies on its trained and passionate sales personnel in the stores striving to provide tailored, knowledgeable service and guidance to Musti Group's customers. Losses of key management or a significant number of employees could adversely affect the daily operations of Musti Group as well as its ability to develop its business successfully.

Musti Group's ability to support its overall strategy may be limited by Musti Group's ability to recruit, train, motivate and retain qualified staff. As Musti Group relies on skilled personnel, its success depends partly on its ability to continue to attract, motivate and retain qualified personnel who understand and appreciate Musti Group's corporate culture, customers and merchandise, and are able to adequately and effectively represent this culture.

Risks relating to regulation and compliance

Inadequate compliance with the regulations regarding Musti Group's operations and products or with the corporate social responsibility requirements could result in sanctions or harm Musti Group's public image among its key customer groups.

Musti Group processes customer and employee data and collecting its customer data has a significant role in Musti Group's business and strategy. Therefore, Musti Group's operations are subject to laws relating to data protection and privacy, including the EU General Data Protection Regulation ((EU) 2016/679, the "GDPR"), which replaced the EU Data Protection Directive (95/46/EC) in May 2018, as well as other national data protection laws.

Risks relating to taxation

Changing tax legislation, unexpected changes in interpretations of current tax regulations, and administrative processes related to taxation may cause significant costs to Musti Group. Musti Group is currently subject to a tax audit of Musti Group Oyj, Musti Group Finland Oy and Musti Group Nordic Oy regarding financial years 2018-2020.

Musti Group's central warehouse located in Eskiltuna, Sweden, supplies a significant number of products to all of Musti Group's operating countries. This centralized operation generates a significant number of intra-group and cross-border transactions. Therefore, interpretations concerning transfer pricing may have a significant impact on the group level business results.

Risks relating to currency fluctuations

Musti Group's results can be affected by fluctuations in currency exchange rates as Musti Group is exposed to foreign exchange rate risks in the form of translation risks and transaction risks arising from fluctuations in currency exchange rates. Musti Group's purchases are primarily conducted in Euros, with currency exposure to Swedish Krona, Norwegian Krone, Brittish Pound and US Dollar. Transactions risks relating to Brittish Pound and US Dollar are partly hedged. Financial items are subject to translation risks of internal loans and receivables in Swedish Krona and Norwegian Krone.

Risks relating to interest rate fluctuations

Musti Group's current loans are subject to variable interest rates and, therefore, exposed to movements in interest rates. An increase in the interest rate level may have a material adverse effect on the cost of financing and Musti Group's financial costs. In addition, the interest rate level is dependent on the covenenants of the financing agreement.

Risks relating to liquidity

Musti Group's business requires and will require the availability of a sufficient funding. Sufficient funding is a condition for the development and expansion of the business through opening of new stores and possible acquisitions. To mitigate potential liquidity

risks Musti Group has an unutilized EUR 4.0 million credit limit and an undrawn EUR 10.0 million revolving credit facility.

Musti Group's risk management and risks related to the company's operations are described in more detail in the company listing prospectus available at www.mustigroup.com.

Seasonality

Musti Group's business is characterised by a generally limited seasonality effect, with the high share of recurring food and stable products of net sales translating into low seasonality within years. However, there are certain intra-year fluctuations that affect cash flows, sales and profitability, which are made evident by Musti Group's financial year being from 1 October to 30 September. Usually, the period between July to December has higher sales compared to January to June, driven by higher sales of accessories and other seasonal products. There are no significant quarterly differences in profitability margins.

The volumes and timing of Musti Group's sales may somewhat vary somewhat due to weather conditions, with sales of pet clothing being primarily impacted. Cold winters and rainy weather generally result in higher sales of coats and shoes for pets.

Significant events after the financial year

There were no significant events after the financial year.

Outlook for the financial year 2021

In the company's view the underlying trend of Pet Parenting that drives the long-term structural growth of the pet care market remains robust. Musti Group believes it is able to continue its performance aligned with strategy and financial targets focusing on the high-quality products and services the Pet Parents seek.

Board of Directors' proposal for profit distribution and capital return

The Board of Directors of Musti Group plc proposes to the Annual General Meeting on 21 January 2021 that shareholders will be paid a capital return of EUR 0.38 per share to be distributed from the invested unrestricted equity reserve totalling approximately EUR 12.7 million and that no dividend will be paid for the financial year ended 30 September 2020.

The parent company's distributable funds total EUR 167,909,159.28, of which loss for the financial year is EUR -128,875.23.

The capital return shall be paid to the shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the capital return record date of 25 January 2021. The Board proposes that the capital return pay date will be 2 February 2021.

Helsinki, 18 December 2020

Board of Directors

Financial ratios and alternative performance measures

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	10/2017–9/2018
Net sales	284.4	246.6	216.1
Net sales growth, %	15.3%	14.1%	27.5%
LFL sales growth, %	11.5%	11.2%	7.7%
LFL store sales growth, %	7.3%	7.8%	4.1%
Online share of net sales, %	22.5%	20.7%	17.5%
Gross margin, %	43.8%	44.3%	44.0%
EBITDA	43.8	34.3	22.0
EBITDA margin, %	15.4%	13.9%	10.2%
Adjusted EBITDA	48.1	38.1	27.7
Adjusted EBITDA margin, %	16.9%	15.4%	12.8%
EBITA	25.5	18.1	5.6
EBITA margin, %	9.0%	7.3%	2.6%
Adjusted EBITA	29.8	21.9	11.6
Adjusted EBITA margin, %	10.5%	8.9%	5.4%
Operating Profit	19.6	12.5	1.6
Operating Profit margin, %	6.9%	5.1%	0.7%
Profit/loss for the period	11.8	3.0	-6.4
Cash flow from operating activities	42.3	39.5	23.3
Investments in tangible and intangible assets	8.9	6.4	-11.4
Net debt	94.7	133.3	142.7
Gearing, %	61.8%	135.4%	149.9%
Net debt / LTM Adjusted EBITDA	2.0	3.5	5.1
Equity ratio %	49.1%	35.2%	33.6%
Nr of loyal customers, thousands	1,151	1,018	872
Number of stores at end of period	293	277	266
of which directly operated	231	206	192
Own & Exclusive share, %	50.3%	51.7%	52.1%

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	10/2017–9/2018
Share performance indicators			
Earnings per share, basic, EUR	0.37	0.10	n.a.
Earnings per share, diluted, EUR	0.37	0.10	n.a.
Equity per share, EUR	4.57	3.46	
Dividend payout per share and capital return total	0.38	n.a.	n.a.
Dividend payout and return of capital, total of result, %	108.4%	n.a.	n.a.
Effective dividend yield, %	1.8%	n.a.	n.a.
Price/earnings ratio (P/E)	56.21	n.a.	n.a.
Highest share price, EUR	20.94	n.a.	n.a.
Lowest share price, EUR	7.00	n.a.	n.a.
Share price as at 30.9.2020	20.80	n.a.	n.a.
Market capitalisation	697.5	n.a.	n.a.
Share turnover during the financial year, %	n.a.	n.a.	n.a.
Shares outstanding at the end of the period	33,535,453	28,375,781	28,375,781
Shares outstanding at the end of the period, diluted	33,722,953	28,375,781	28,375,781
Weighted average adjusted number of shares during the financial period, basic	31,652,469	28,375,781	28,375,781
Weighted average adjusted number of shares during the financial period, diluted	31,730,594	28,375,781	28,375,781

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	10/2017–9/2018
Finland			
Net sales	135.8	122.8	110.9
Net sales growth, %	10.6%	10.8%	13.2%
LFL sales growth, %	7.4%	8.8%	7.7%
EBITDA	40.5	36.6	31.1
EBITDA margin, %	29.8%	29.8%	28.1%
Adjusted EBITDA	40.6	36.6	31.5
Adjusted EBITDA margin, %	29.9%	29.8%	28.5%
EBITA	32.8	29.8	24.4
EBITA margin, %	24.2%	24.2%	22.0%
Adjusted EBITA	33.0	29.7	24.8
Adjusted EBITA margin, %	24.3%	24.2%	22.4%
Number of stores at end of period	129	126	123
of which directly operated	112	108	104
Sweden			
Net sales	123.2	107.5	96.9
Net sales growth, %	14.7%	10.9%	40.3%
LFL sales growth, %	13.4%	12.4%	6.5%
EBITDA	21.2	15.1	11.9
EBITDA margin, %	17.2%	14.1%	12.3%
Adjusted EBITDA	21.6	16.0	14.0
Adjusted EBITDA margin, %	17.5%	14.8%	14.4%
EBITA	14.5	9.0	4.8
EBITA margin, %	11.7%	8.4%	5.0%
Adjusted EBITA	14.9	9.9	7.1
Adjusted EBITA margin, %	12.1%	9.2%	7.4%
Number of stores at end of period	125	121	124
of which directly operated	80	68	69

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	10/2017–9/2018
Norway			
Net sales	25.4	16.4	8.3
Net sales growth, %	54.6%	97.0%	230.9%
LFL sales growth, %	33.3%	30.7%	34.3%
EBITDA	5.3	2.2	0.5
EBITDA margin, %	20.9%	13.7%	5.9%
Adjusted EBITDA	5.3	2.4	0.6
Adjusted EBITDA margin, %	21.0%	14.8%	6.6%
EBITA	2.9	0.4	-0.6
EBITA margin, %	11.4%	2.6%	-7.1%
Adjusted EBITA	2.9	0.6	-0.5
Adjusted EBITA margin, %	11.5%	3.8%	-6.4%
Number of stores at end of period	39	30	19
of which directly operated	39	30	19

Calculation of financial ratios and alternative performance measures

Measure	Calculation
Gross profit	Net sales - Materials and services
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	Operating profit + Depreciation, amortisation and impairment
Adjusted earnings before interest, taxes, depreciation and amortisation (Adjusted EBITDA)	Operating profit + Depreciation, amortisation and impairment + Adjustments
Earnings before interest, taxes and amortisation (EBITA)	Operating profit + Amortisation and impairment of intangible assets
Adjusted earnings before interest, taxes and amortisation (Adjusted EBITA)	Operating profit + Amortisation and impairment of intangible assets + Adjustments
Net Debt	Interest bearing liabilities - Loan receivables - Derivative financial instruments - Cash and cash equivalents
Gearing , %	Net debt
	Equity
Net debt/LTM (last twelve months) Adjusted EBITDA	Net debt
	LTM adjusted EBITDA
Equity ratio, %	Total equity
	Total assets - Advances received
LFL (Like-for-like) sales growth, %	Sales of online channels and stores that have been open more than 13 months
	Sales from corresponding online channels and stores in the same time period
Own & Exclusive share, %	Sales of own and exclusive product sales
	Product sales in own channels
Online share, %	Online sales
	Net sales
Earnings per share, basic	Profit/loss for the period - Non-controlling interests
	Average number of shares
Earnings per share, diluted	Profit/loss for the period - Non-controlling interests
	Average diluted number of shares

Measure	Calculation
Equity per share, EUR	Equity attributable to equity holders of the parent
	Adjusted number of shares at the balance sheet date
Dividend payout and return of capital, total of result, %	(Dividend/share + return of capital/share) x 100
	(Earnings/share)
Effective dividend yield, %	(Dividend/share) x 100
	Share price at balance sheet date
Market capitalization, EUR million	Share price at balance sheet date x Number of shares
Price/earnings ratio (P/E)	Share price at balance sheet date
	Earnings per share, basic

Reconciliation of key performance indicators

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	10/2017–9/2018
Gross profit			
Net sales	284.4	246.6	216.1
Material and services	-159.7	-137.3	-120.9
Gross profit	**124.7**	**109.4**	**95.2**
Gross margin, %	**43.8%**	**44.3%**	**44.0%**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)			
Operating profit	19.6	12.5	1.6
Depreciation, amortisation and impairment	24.2	21.8	20.4
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**43.8**	**34.3**	**22.0**
EBITDA margin, %	**15.4%**	**13.9%**	**10.2%**
Adjusted earnings before interest, taxes, depreciation and amortisation (Adjusted EBITDA)			
Operating profit	19.6	12.5	1.6
Depreciation, amortisation and impairment	24.2	21.8	20.4
Adjustments	4.3	3.8	5.7
Adjusted earnings before interest, taxes, depreciation and amortisation (Adjusted EBITDA)	**48.1**	**38.1**	**27.7**
Adjusted EBITDA margin, %	**16.9%**	**15.4%**	**12.8%**
Adjustments (EBITDA)			
Restructuring related expenses	0.0	0.3	1.5
Acquisition/IPO related expenses	3.4	2.2	2.4
Other items affecting comparability	0.9	1.3	1.8
Adjustments (EBITDA)	**4.3**	**3.8**	**5.7**

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	10/2017–9/2018
Earnings before interest, taxes and amortisation (EBITA)			
Operating profit	19.6	12.5	1.6
Amortisation and impairment of intangible assets	6.0	5.6	4.1
Earnings before interest, taxes and amortisation (EBITA)	**25.5**	**18.1**	**5.6**
EBITA margin, %	**9.0%**	**7.3%**	**2.6%**
Adjusted earnings before interest, taxes and amortisation (Adjusted EBITA)			
Operating profit	19.6	12.5	1.6
Amortisation and impairment of intangible assets	6.0	5.6	4.1
Adjustments	4.3	3.8	6.0
Adjusted earnings before interest, taxes and amortisation (Adjusted EBITA)	**29.8**	**21.9**	**11.6**
Adjusted EBITA margin, %	**10.5%**	**8.9%**	**5.4%**
Adjustments (Operating profit)			
Restructuring related expenses	0.0	0.4	1.5
Acquisition/IPO related expenses	3.4	2.2	2.6
Other items affecting comparability	0.9	1.3	1.8
Adjustments (Operating profit)	**4.3**	**3.8**	**6.0**
Earnings per share, basic			
Profit/loss for the period	11.8	3.0	n.a.
Non-controlling interest	0.0	0.0	n.a.
Average number of shares *)	31.7	28.4	n.a.
Earnings per share, basic	**0.37**	**0.10**	**n.a.**

*) Number of shares before share issue of February 2020 was 28,375,781 and after share issue 33,535,453

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	10/2017–9/2018
Earnings per share, diluted			
Profit/loss for the period	11.8	3.0	n.a.
Non-controlling interests	0.0	0.0	n.a.
Average diluted number of shares *)	31.8	28.4	n.a.
Earnings per share, diluted	**0.37**	**0.10**	**n.a.**
*) Includes shares from Restricted Share Plan (PSP)			
Net debt			
Interest bearing liabilities	116.3	142.1	144.7
Loan receivables	0.0	0.0	0.0
Derivative financial instruments	0.0	0.2	0.1
Cash and cash equivalents	21.6	8.6	2.0
Net debt	**94.7**	**133.3**	**142.7**
Gearing, %			
Net Debt	94.7	133.3	142.7
Equity	153.3	98.4	95.2
Gearing, %	**61.8%**	**135.4%**	**149.9%**
Net debt/LTM Adjusted EBITDA			
Net debt	94.7	133.3	142.7
LTM adjusted EBITDA	48.1	38.1	27.7
Net debt/LTM adjusted EBITDA	**2.0**	**3.5**	**5.1**
Equity ratio, %			
Total equity	153.3	98.4	95.2
Total assets	312.3	279.5	283.2
Advances received	0.2	0.1	0.1
Equity ratio, %	**49.1%**	**35.2%**	**33.6%**

EUR million or as indicated	10/2019–9/2020	10/2018–9/2019	10/2017–9/2018
LFL sales growth, %			
Net sales	284.4	246.6	216.1
Net sales growth %	15.3%	14.1%	27.5%
Other growth %	3.8%	2.9%	19.8%
LFL sales growth, %	**11.5%**	**11.2%**	**7.7%**
LFL store sales growth, %			
Store sales	206.6	182.4	165.9
Store sales total growth %	13.2%	10.0%	15.6%
Other growth %	5.9%	2.2%	11.5%
LFL store sales growth, %	**7.3%**	**7.8%**	**4.1%**
Net sales			
Store sales	206.6	182.4	165.9
Online sales	64.1	51.1	37.8
Other sales	13.8	13.1	12.5
Net sales	**284.4**	**246.6**	**216.1**
Online share, %			
Net sales	284.4	246.6	216.1
Online sales	64.1	51.1	37.8
Online share, %	**22.5%**	**20.7%**	**17.5%**

Musti Group Oyj

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Group financial statements, IFRS

Consolidated statement of income, IFRS

EUR thousand	Note	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Net sales	2.1	**284,397**	**246,648**
Other operating income	2.2	1,283	1,126
Share of profit of a joint venture	3.4	117	118
Materials and services	4.1	-159,717	-137,266
Employee benefit expenses	2.3	-48,364	-45,573
Other operating expenses	2.3	-33,924	-30,726
Depreciation, amortisation and impairment	3.2, 3.3, 3.5, 3.6	-24,238	-21,830
Operating profit		**19,554**	**12,496**
Financial income	5.4	14,420	2,922
Financial expenses	5.4	-20,314	-11,414
Financial income and expenses, net		-5,894	-8,492
Profit before taxes		**13,661**	**4,004**
Income tax expense	6.2	-1,907	-988
Profit/loss for the period		**11,754**	**3,016**
Attributable to:			
Owners of the parent		11,712	2,971
Non-controlling interest		42	45
Earnings per share (EUR) for profit attributable to owners of the parent			
Basic EPS (EUR)		0.37	0.10
Diluted EPS (EUR)		0.37	0.10

Consolidated statement of comprehensive income, IFRS

EUR thousand	Note	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Profit/loss for the period		11,754	3,016
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Translation differences		-76	76
Other comprehensive income, net of tax		-76	76
Total comprehensive income		**11,678**	**3,092**
Attributable to:			
Owners of the parent		11,635	3,048
Non-controlling interest		42	45

Consolidated statement of financial position, IFRS

EUR thousand	Note	30 Sep 2020	30 Sep 2019
ASSETS			
Non-current assets			
Goodwill	3.1, 3.2, 3.3	145,434	143,995
Other intangible assets	3.2	20,480	22,668
Right-of-use assets	3.6	62,014	47,296
Property, plant and equipment	3.5	11,304	9,608
Investments in joint ventures	1.4, 3.4	960	320
Deferred tax assets	6.2	5,914	7,271
Other non-current receivables		345	218
Total non-current assets		**246,452**	**231,377**
Current assets			
Inventories	4.1	36,376	32,533
Trade and other receivables	4.2, 5.1	6,466	5,733
Loan receivables	5.2	15	4
Derivative financial instruments	5.2	0	179
Income tax receivables	6.3	1,378	1,057
Cash and cash equivalents	5.2	21,606	8,629
Total current assets		**65,840**	**48,134**
TOTAL ASSETS		**312,292**	**279,511**

EUR thousand	Note	30 Sep 2020	30 Sep 2019
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	5.6	11,002	11,002
Other reserves	5.6	167,412	122,412
Translation differences	5.6	-159	-83
Retained earnings		-25,132	-35,012
Total equity attributable to owners of the parent		**153,122**	**98,319**
Equity attributable to non-controlling interest		157	101
Total equity		**153,279**	**98,420**
LIABILITIES			
Non-current liabilities			
Loans from credit institutions	5.2	49,781	74,800
Lease liability	3.6	50,538	37,969
Deferred tax liabilities	6.2	2,168	2,179
Other non-current interest-bearing liabilities	5.2	0	10,574
Total non-current liabilities		**102,486**	**125,522**
Current liabilities			
Loans from credit institutions	5.2	0	4,697
Lease liability	3.6	15,957	14,013
Trade and other payables	4.3	40,264	36,364
Derivative financial instruments	5.2	53	61
Income tax liabilities	6.2	233	305
Provisions	3.7	20	129
Total current liabilities		**56,527**	**55,569**
Total liabilities		**159,013**	**181,091**
TOTAL EQUITY AND LIABILITIES		**312,292**	**279,511**

Consolidated statement of changes in equity

EUR thousand	Attributable to owners of the parent					Non-controlling interest	Total equity
	Share capital	Other reserves	Translation differences	Retained earnings	Total		
Equity at 1 Oct 2019	**11,002**	**122,412**	**-83**	**-35,012**	**98,319**	**101**	**98,420**
Profit/loss for the period				11,712	11,712	42	11,754
Translation differences			-76		-76	1	-76
Total comprehensive income	**0**	**0**	**-76**	**11,712**	**11,635**	**42**	**11,678**
Other changes				20	20	13	32
Share issue		45,000			45,000		45,000
Expenses related to the share issue				-2,275	-2,275		-2,275
Discount related to the personnel share issue				147	147		147
Share-based incentive plan				276	276		276
Equity at 30 Sep 2020	**11,002**	**167,412**	**-159**	**-25,132**	**153,122**	**157**	**153,279**

EUR thousand	Attributable to owners of the parent					Non-controlling interest	Total equity
	Share capital	Other reserves	Translation differences	Retained earnings	Total		
Equity at 1 Oct 2018	**11,002**	**122,412**	**-159**	**-38,163**	**95,091**	**74**	**95,165**
Profit/loss for the period				2,971	2,971	45	3,016
Translation differences			76		76	-1	75
Total comprehensive income	**0**	**0**	**76**	**2,971**	**3,048**	**45**	**3,092**
Other changes				179	179	-16	164
Equity at 30 Sep 2019	**11,002**	**122,412**	**-83**	**-35,012**	**98,319**	**101**	**98,420**

Consolidated statement of cash flows, IFRS

EUR thousand	Note	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Cash flows from operating activities			
Profit before taxes		13,661	4,004
Adjustments			
Depreciation, amortisation and impairment		24,238	21,830
Financial income and expenses, net		5,894	8,492
Other adjustments		-300	1,574
Cash flows before changes in working capital		43,493	35,900
Change in working capital			
Increase (-) / decrease (+) in trade and other receivables	4.2	-693	3,362
Increase (-) / decrease (+) in inventories	4.1	-3,659	4,885
Increase (+) / decrease (-) in trade and other payables	4.3	3,486	-3,815
Cash flows from operating activities before financial items and taxes		42,627	40,332
Interest and other financial income received		445	441
Received dividend		0	67
Income taxes paid		-762	-1,345
Net cash from operating activities		**42,310**	**39,495**

EUR thousand	Note	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Cash flows from investing activities			
Investments in tangible and intangible assets	3.2, 3.5	-8,914	-6,369
Acquisition of subsidiaries and business acqusitions, net of cash acquired	3.1	-1,361	-183
Investments in joint ventures	3.4	-600	0
Increase in non-current receivables		-97	0
Net cash from investing activities		**-10,972**	**-6,552**
Cash flows from financing activities			
Proceeds from share issues	5.6	45,000	0
Costs from share issue recognized in equity	5.6	-2,844	0
Proceeds from non-current loans	5.2	50,000	0
Repayments of non-current loans	5.2	-84,879	0
Repayments of current loans	5.2	-5,031	-5,270
Repayments of lease liabilities	3.6	-14,819	-13,468
Interest and other financial expenses paid		-5,788	-7,540
Net cash from financing activities		**-18,360**	**-26,278**
Net change in cash and cash equivalents		**12,977**	**6,666**
Cash and cash equivalents at start of period	5.1, 5.2	8,629	1,963
Cash and cash equivalents at end of period		**21,606**	**8,629**

Notes to Musti Group plc's financial statements

1. Basis of preparation

This section presents the accounting principles applied by the Group for the part that they are not presented in other notes. These principles have been applied consistently for all the periods under review, unless otherwise stated. The notes contain the relevant financial information as well as a description of the accounting policies and key estimates and judgements applied for the topics of the individual note.

How should I read the accounting principles of the Musti Group?

The accounting principles used for the financial statements of Musti Group are described at the beginning of each note to help understand each area of the financial statements. The following table summarizes the notes to each accounting policy and the relevant IFRS standard related to the note.

Accounting principle	Note	IFRS standard
Segment information and net sales	2.1 Segment information and net sales	IFRS 8, IFRS 15
Employee benefits and share-based payments	2.3 Operating expenses 2.4 Share-based payments	IAS 19, IFRS 2
Business combinations	3.1 Business combinations	IFRS 3
Intangible assets	3.2 Intangible assets, 3.3 Group goodwill and impairment testing	IAS 36, IAS 38
Joint ventures	3.4 Investments in joint ventures	IFRS 11
Property, plant and equipment	3.5 Property, plant and equipment	IAS 16, IAS 36
Leases	3.6 Leases	IFRS 16
Inventories	4.1 Inventories	IAS 2
Financial assets and liabilities	5.2 Financial assets and liabilities	IAS 32, IFRS 7, IFRS 9, IFRS 13
Financial risk management	5.1 Financial risk management	IAS 32, IFRS 7, IFRS 9, IFRS 13
Operating leases	5.3 Commitments and contingent liabilities	IAS 37
Equity	5.6 Shareholders' equity	IAS 1
Related party transactions	6.1 Related party transactions	IAS 2
Taxes	6.2 Taxes	IAS 12

1.1 General information

Musti Group's line of business is retail sales of pet products in Finland, Sweden and Norway. Furthermore, the Group provides pet grooming services in some of its stores, as well as veterinary services in Sweden. The Group's parent company is Musti Group plc, domiciled in Helsinki, Finland, and its registered address is Mäkitorpantie 3 B, FI-00620 Helsinki, Finland. The parent company's shares are listed on Nasdaq OMX Helsinki Stock Exchange. A copy of the consolidated financial statements is available at the Group's website **www.mustigroup.com** or at the company's headquarters Mäkitorpantie 3 B, FI-00620 Helsinki, Finland.

During the financial year the Group's parent company changed its name from Musti Group Holding Ltd to Musti Group plc.

The Board of Directors of Musti Group plc has approved the financial statements for publication on 18 December 2020. Under the Finnish Limited Liability Companies Act, the shareholders may accept or reject the financial statement in the Annual General meeting of the shareholders held after the publication. The Annual General Meeting is also entitled to amend the consolidated financial statements.

1.2 Accounting principles

Musti Group's consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) adopted in the European Union, including IAS and IFRS standards and their SIC and IFRIC interpretations in effect on 30 September 2020. In the Finnish Accounting Act and ordinances based on its provisions, IFRS refer to the standards and their interpretations adopted for application in the EU in accordance with the procedures as set in regulation (EC) No 1606/2002. The notes to the consolidated financial statements also satisfy the requirements of the Finnish accounting and corporate legislation that complements the IFRS standards.

Consolidated financial statements are presented in thousand euros and figures have been rounded to the nearest thousand, and due to this, the total sum of the presented individual figures may differ from the presented total sum. The consolidated financial statements have been prepared based on initial acquisition costs, except for financial instruments described later that are measured at fair value through profit and loss.

The company's operating currency is euro, which is also the company's and the Group's reporting currency.

Translation of items in foreign currencies

The items in the financial statements of the Group companies are valued in the currency of each company's main economical operating environment (operating currency). The figures presented in the consolidated financial statements are in thousand euros, unless stated otherwise.

Transactions conducted in foreign currencies are converted to the operating currency using exchange rates prevailing on the transaction date. Exchange rate gains and losses arising from payments related to these transactions and conversion of monetary assets and liabilities nominated in foreign currencies using the exchange rates prevailing at the end of the period are recognized through profit and loss.

In the consolidated financial statements, the profit and loss statements of the foreign subsidiaries have been converted into euros using the average rate of the financial year, and the balance sheet items have been translated using the exchange rates prevailing on the balance sheet date. The translation differences arising from this and the translation of the equity of the subsidiaries are presented in the equity as a separate item.

1.3 Material accounting estimates and determinations based on the management's judgement

The Group's material accounting principles are mainly described in the note that relates to the matter in question. Preparation of Musti Group's consolidated financial statements requires estimates, judgement and assumptions that may impact the application of the accounting principles and the amounts presented in the balance sheet as at its date. In addition, they impact on the amount of income and costs recognized for the financial year. The actual amounts may differ from previous estimates and determinations based on the management's judgement.

The estimates and determinations based on judgement are reviewed regularly. Changes in accounting estimates are recognized for the period when the estimate was adjusted, as well as for all subsequent periods.

Sources of uncertainty and determinations based on the management's judgement, which have been identified in the Group and are deemed to satisfy these criteria, are presented in connection with the items that are deemed to be affected by them. The table below sets forth the most significant situations where estimates or the management's judgement have been applied, as well as references to their descriptions.

Accounting estimates and management judgement	Note
Net sales	2.1
Business combinations	3.1
Goodwill impairment testing	3.3
Inventory valuation	4.1
Leases	3.6
Contractual liabilities	4.3

1.4 Group information

The following note summarizes the general accounting principles, as well as the principles and accompanying notes relating to the consolidation of a group. The consolidation package includes notes to help you understand the overall structure of the group and its computing environment. The notes provide information on the classification of holdings and the principles of consolidation.

The table below sets forth details of the parent company and the Group's subsidiaries and associated companies as at 30 September 2020. Unless stated otherwise, their entire share capital consists of shares held directly by the Group, and the ownership share corresponds to the voting rights of the Group. The registration country of the companies is also their main operating area.

Subsidiaries

Companies controlled by the Group are subsidiaries. Control exists when the Group has more than half of the voting rights of a subsidiary or otherwise exerts control over the subsidiary. The Group controls a company when it is exposed, or has rights, to variable returns from its involvement with the company and can affect those returns through its power over the company. Subsidiaries are consolidated from the date on which the Group gains control.

Mutual shareholding is eliminated by using the acquisition cost method. The cost of assets acquired is determined based on the fair value of the acquired assets as at the acquisition date, the issued equity instruments and liabilities resulting from or assumed on the date of the exchange transaction. The identifiable assets, liabilities and contingent liabilities acquired are measured at the fair value at the acquisition date, gross of non-controlling interest.

Intragroup transactions, receivables and payables, unrealized profits and internal distributions of profits are eliminated. The financial statements of the subsidiaries are adjusted to comply with the accounting principles applied by the company, if necessary.

Subsidiaries

	Country of origin	Group ownership, %
Musti Group Finland Oy	Finland	100.0
Musti Group Nordic Oy	Finland	100.0
Musti ja Mirri Oy	Finland	100.0
Peten Koiratarvike Oy	Finland	100.0
Arken Zoo Syd AB	Sweden	100.0
Arken Zoo Nord AB	Sweden	100.0
Zoo Support Scandinavia AB	Sweden	100.0
VetZoo AB	Sweden	100.0
Djurfriskvård Borlänge AB	Sweden	100.0
Djurfriskvård Falun AB	Sweden	70.0
Grizzly Zoo AB	Sweden	100.0
Aeris Hund & Häst AB	Sweden	100.0
Djurintressenterna i Sverige AB	Sweden	100.0
Tasso i Malmö AB	Sweden	100.0
Arken Zoo Holding AB	Sweden	100.0
Animail AB	Sweden	100.0
Anivet AB	Sweden	100.0
Carnia AB	Sweden	100.0
ZooZoocom AB	Sweden	100.0
Musti Norge AS	Norway	100.0

During the financial year Musti Group has sold one subsidiary, Djurfriskvård Västerås AB in Sweden. The sale was not material to the Group.

Investments in joint ventures

Joint arrangements are arrangements in which the sharing of joint control has been contractually agreed between two or more parties. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in joint ventures are accounted for using the equity method, and on initial recognition, they are recognized at cost. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The Group's share of profits or losses of the joint venture is recognized as a separate item.

Investments in joint ventures

	Country of origin	Group ownership, %
Premium Pet Food Suomi Oy	Finland	49.20

1.5 New and amended IFRS standards and IFRIC interpretations

Amendments and annual improvements to IFRS standards

Musti Group has applied amendments and annual improvements to IFRS standards effective from the beginning of October 2019. The amended standards are: IFRS 9 Financial Instruments, IAS 28 Investments in Associates and Joint Ventures, IAS 19 Employee Benefits, IFRS 16 Leases and IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. Annual improvements effective from the beginning of October 2019 include following standards: IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs. Amendments and annual improvements have not had a major impact on the financial statements.

New and amended standards to be applied

At the date of authorisation of these financial statements, Musti Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective for the financial year beginning 1 Oct 2020.

- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7
- Definition of Material – Amendments to IAS 1 and IAS 8
- IFRS 17 Insurance Contracts
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The adoption of the standards listed above is not expected to have a significant impact on Musti Group's financial statements in future periods.

2. Operating results

This section focuses on financial results of Musti Group. In the notes on the following pages, the operating profit of the group is explained by component.

Musti Group provides pet food products and accessories to its customers, as well as various welfare and veterinary services in its specialised stores and pet clinics. Pet food products and accessories are available in stores and online. Musti Group's chain included 293 stores on 30 September 2020 (30 September 2019: 277), of which own stores amounted to 231 (30 September 2019: 206).

2.1 Segment reporting and net sales

Reporting segment

Musti Group's reporting segments are based on geographical regions, and they are Finland, Sweden and Norway. Segments are not combined to reporting segments.

The segment structure is based on geographical division where Finland, Sweden and Norway are separated to individual operating segments based on how the chief operating decision-maker monitors the business operations. In other items, Musti Group reports the Group functions, including the operations of the headquarters and the central warehouse.

Segment information is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the Group's Management Team, including the CEO. The Management Team is responsible for allocation of resources and reviewing performance, considering its composition and active involvement in material strategic and operative decision-making. The net sales of the reporting segments are derived from retail sales, as well as franchising sales and wholesales in Finland, Sweden and Norway. In addition, the segments include ecommerce sales, which are targeted to the sales of the country where the ecommerce products are ordered. The Finnish franchise customers part of the external net sales and attributable direct costs are allocated from Sweden to the Finnish segment.

Country directors of the geographical regions are responsible for their business area, and they are members of the Group's Management Team. Decisions on the offering, product pricing and marketing measures are determined at the country level. The business needs vary among the countries, as their maturity is very different. Finland is a very stable and mature market; Sweden is growing, and Norway is still in a strong ramp-up phase, and as such, their investment needs and profitability differ significantly from each other.

The Group's Management Team reviews the results of the segments based on net sales, adjusted EBITDA and operating profit before amortisation of intangible assets (EBITA). Transactions outside the scope of the ordinary course of business is treated as items impacting comparability, and they are allocated to the segments. For other parts, the management monitors performance in accordance with IFRS. Financial income and expenses are not allocated to the segments, as the Group Treasury manages the Group's cash and cash equivalents and financial liabilities. Similarly, share of profits in associates and income taxes are not allocated to the segments.

In its reporting, the Group's Management Team does not allocate balance sheet items to the segments, and as such, they are not allocated to segments this Note.

Segments 2020

EUR thousand	Finland	Sweden	Norway	Group functions	Group
Net sales *	135,795	123,244	25,358	0	284,397
% split of net sales between segment	48%	43%	9%	0%	100%
EBITDA	**40,472**	**21,181**	**5,301**	**-23,161**	**43,792**
Adjustments	162	419	29	3,656	4,266
Adjusted EBITDA	**40,633**	**21,600**	**5,329**	**-19,505**	**48,058**
Depreciation and impairment of right-of use assets and tangible assets	-7,677	-6,716	-2,403	-1,448	-18,244
EBITA	**32,795**	**14,465**	**2,898**	**-24,610**	**25,548**
Adjustments	162	419	29	3,656	4,266
Adjusted EBITA	**32,957**	**14,884**	**2,927**	**-20,953**	**29,814**
Amortisation and impairment of intangible assets					-5,994
Operating profit					**19,554**
Financial income					14,420
Financial expenses					-20,314
Profit before taxes					13,661
Income tax expense					-1,907
Profit/loss for the period					**11,754**

* Net sales include sales of products and services to external customers. There are no internal net sales between the segments.

Segments 2019

EUR thousand	Finland	Sweden	Norway	Group functions	Group
Net sales *	122,780	107,463	16,406	0	246,648
% split of net sales between segment	50%	44%	7%	0%	100%
EBITDA	**36,631**	**15,124**	**2,241**	**-19,670**	**34,326**
Adjustments	-30	833	188	2,790	3,779
Adjusted EBITDA	**36,600**	**15,956**	**2,429**	**-16,880**	**38,106**
Depreciation and impairment of right-of use assets and tangible assets	-6,859	-6,143	-1,812	-1,434	-16,249
EBITA	**29,771**	**8,980**	**429**	**-21,104**	**18,077**
Adjustments	-30	873	188	2,790	3,819
Adjusted EBITA	**29,741**	**9,853**	**617**	**-18,314**	**21,897**
Amortisation and impairment of intangible assets					-5,581
Operating profit					**12,496**
Financial income					2,922
Financial expenses					-11,414
Profit before taxes					**4,004**
Income tax expense					-988
Profit/loss for the period					**3,016**

* Net sales include sales of products and services to external customers. There are no internal net sales between the segments.

Revenue recognition

Accounting principles

IFRS 15 establishes a five-step model that is applied to the amount and timing of recognition of sales revenue. Under the standard, revenue is recognized when the entity satisfies its performance obligation, meaning that the customer obtains control of the goods or services. Control is transferred either over time or at a certain moment, and the revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. IFRS 15 principles are applied using the following five-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue

The standard requires the entity to exercise judgement when applying the five-step model to contracts with its customers. When exercising judgement, material facts and circumstances used for determining if the performance obligation has been satisfied and the revenue is to be recognized are taken into consideration.

Significant determinations based on the management's judgement

Musti Group's management has utilized significant judgement in connection with the right to return products and the Loyalty club bonuses. The amount of the consideration to which Musti Group expects to be entitled may vary based on the above-mentioned sub-areas. These sub-areas based on the management's judgement are addressed more in detail in the section for recognition below.

Sales of goods and revenue recognition (stores, online and franchising stores)
Majority of the Group's sales revenue originates from retail sales of goods in its stores. The goods sold in the stores comprise pet food and accessories. The sales are mainly carried out in cash or using credits cards, and the revenue from the sales of goods is recognized at the time of transfer when the customer gains control on the goods.

Customers may also purchase gift cards and use them for paying goods in the stores. At the time of selling a gift card, Musti Group recognizes a corresponding liability in its balance sheet. Sales revenue is recognized when the customer uses the gift card.

Revenue from orders made online and sales to franchising partners is recognized when all products related to the order have been delivered to the customer or the franchising partner, and control on the goods is transferred to the buyer at a specific moment of time. A liability is recorded on the goods in transit delivered from online stores. The provision on goods in transit is included in the contractual liabilities.

Net sales are measured at the fair value of the consideration received or to be received. Net sales include proceeds from the sales of goods and franchising fees at the price which the company expects to receive adjusted with the indirect taxes, actual and estimated product returns, campaign discounts, Loyalty club bonuses and indirect taxes, as well as translation differences from sales in foreign currencies.

Contingent considerations: right to return products
Goods sold directly to consumers in stores and online include a right to return products within a period of 14 days in Finland and 30 days in Sweden and Norway. Net sales are adjusted by the expected amount of returns. For more information of the return policy, see Note 4.3 Trade and other liabilities. In addition, a customer may receive a discount, for example, in the form of campaign discounts.

For the right to return products, Musti Group estimates the amount of the consideration that it is entitled to receive against the transfer of promised goods to the customer. Musti Group includes in the transaction price the estimated amount of the contingent consideration only to the extent that it is very likely that the recognized sales revenue is not required to be reversed significantly when the uncertainty related to the contingent consideration ceases to exist at a later moment of time. Musti Group estimates the contingent consideration based on the most likely amount of money.

Franchising fees
Musti Group carries out franchising operations in Finland and Sweden, the franchising fees are based on an upfront fee and a fee based on the franchising stores net sales. Fees related to franchising agreements are recognized over time.

Sales of services and revenue recognition
Musti Group provides welfare, veterinary and trimming services. A customer benefits from these services when it is provided, and as such, the revenue is recognized over time when Musti Group satisfies its performance obligation.

Net sales by channel

EUR thousand	1 Oct 2019 - 30 Sep 2020	%	1 Oct 2018 - 30 Sep 2019	%
Store sales	206,552	72.6	182,444	74.0
Online sales	64,059	22.5	51,120	20.7
Other sales	13,786	4.8	13,084	5.3
Total	**284,397**	100.0	**246,648**	100.0

Sales of services are included in the retail store sales. The share of services in the net sales is not significant, and as such, it is not presented separately. Other sales items include franchising fees and wholesales. Franchising fees are recognized over time. Musti Group does not have any individual customer with a share of over 10 per cent of Musti Group's total net sales.

Customer loyalty programs

Companies in the Musti ja Mirri chain in Finland and companies in the Arken Zoo chain in Sweden operate a loyalty program where the members accrue bonuses from their purchases made in the stores. The net sales of these companies are adjusted with the customer refunds in the loyalty program as a part of the sales transaction. Corresponding sales in recognized when the customer refunds are used, or they expire. The expected refunds of the loyalty program bonuses are based on historical information. Musti updates the estimate quarterly.

Similar loyalty programs are not available in other group companies in Finland and Sweden, or in Norway.

Contractual amounts recorded in balance sheet

The Groups recognizes in trade receivables the expected considerations to which it is entitled when goods are transferred, or services provided to a customer before the customer pays the consideration (see Note 4.2 Trade and other receivables).

Correspondingly, a liability is presented in Note 4.3 Trade and other liabilities when a customer pays the consideration before the goods are transferred or services provided to the customer. In addition, the contractual liabilities include liabilities related to gift cards, Loyalty club bonuses, right to return products and goods in transit.

2.2 Other operating income

Accounting principles

Other operating income includes income that does not relate to the income from regular sales operations. Other operating income includes, among others, received marketing contributions and subsidies, insurance compensations, capital gains on fixed assets and rental income.

During the third quarter of 2020 Musti Group received some COVID-19 related financial assistance under governmental scheme in Sweden and Norway. However, the amount of the assistance was not material from a Group perspective.

Other operating income

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Rental income	216	170
Marketing contribution	660	532
Other items	407	423
Total	**1,283**	**1,126**

2.3 Other operating expenses

Accounting principles

Other operating expenses include other expenses than cost of goods sold. The main items included in the other operating expenses relate to personnel costs, sales, marketing and premises.

All Musti Group's pension plans are defined contribution plans. In defined contribution plans, the Group pays fixed contributions to the pension insurances. The Group does not have legal or factual obligations to pay any additional amounts, if the insurance does not include sufficient assets for paying to all employees all benefits based on their service during the present and previous financial periods. The Group's pension plans in Finland, Sweden and Norway are defined contribution plans.

Number of personnel

Personnel	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Personnel on average	1,145	1,084
Personnel at the end of period	1,162	1,120

Employee benefit expenses

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Wages and salaries	38,042	35,756
Pension costs - defined contribution plans	4,098	3,862
Other employee benefit expenses	6,224	5,955
Total	**48,364**	**45,573**

Other operating expenses

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Rental expenses	5,498	5,238
Maintenance, IT and Equipment expense	4,628	4,650
Sales and marketing	12,071	10,176
Travel costs	904	1,166
Voluntary staff expenses	1,150	934
Other business expense *	9,673	8,563
Total	**33,924**	**30,726**

* Other expenses include, among other, maintenance costs related to the administration of the company and the premises.

Auditor´s fees

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Ernst &Young		
Audit fees	468	326
Tax advisory	240	0
Other services	1,484	495
Other companies		
Audit fees	0	0
Other services	0	55
Total	**2,192**	**876**

2.4 Share-based payments

The Note below provides description and information on effects of the Group's share-based incentive plans. More information on share-based personnel bonus plans can be found in the separate Remuneration statement.

Accounting principles

The fair value of share-based payments is measured on the day which the share-based payment plan is agreed upon between the counterparties and will be recognized as an expense over the vesting period. The settlement, if the set targets are met, is a combination of shares and cash. The component settled in shares is recognized in shareholders' equity and the payment settled in cash in liabilities. However, for awards with net settlement features, the cash-settled component for withholding tax payment is treated as equity-settled and recognized in shareholders' equity. At each statement of financial position date, the Group revises its estimates of the number of shares that are expected to be distributed. The impact of the revision of the original estimates, are recognized in the statement of income.

Significant determinations based on management's judgement

At each balance sheet date, the management revises its estimates for the number of shares that are expected to vest. As part of its evaluation, Musti Group considers the expected turnover of the personnel benefiting from the incentive plan and other pertinent information impacting the number of shares to be vested. In addition, the measurement of the fair value for the arrangement and the parameters used in the measurement of the fair value requires judgement from the management.

Share-based commitment and incentive scheme

The Boards of Directors of Musti Group plc decided on 7 May 2020 on two new share-based long-term incentive plans for the management team and key employees. The primary share-based compensation plan is the Performance Share Plan (PSP) and the second is a Restricted Share Plan (RSR) for special situations.

The aim of a share-based compensation plan is to align the objectives of the shareholders and key employees for increasing the value of the company in the long-term. The plan is also to commit the key employees to the company and to offer them competitive incentive schemes that are based on earning and accumulating shares.

The Performance Share Plan consists of three performance periods, covering the financial years of 2020–2022, 2021–2023 and 2022–2024. The Board of Directors will decide separately for each performance period the plan participants, performance criteria, and the related targets, as well as the minimum, target, and maximum reward potentially payable based on target attainment at the beginning of a performance period.

The Restrictive Share Plan (RSP) consists of plans on which the vesting period is 12-36 months based on decisions made by the Board of Musti Group Plc. The possible rewards are paid partly in Musti Group plc's shares and partly in cash. As of September 30, 2020, there were no participants added to the RSP plan.

In the first performance period, the plan has 11 participants at most and the targets for the Performance Share Plan (PSP) relates to the Group's total shareholder return (TSR) and adjusted EBITA. The maximum number of shares to be paid based on the first performance period is approximately 250.000 Musti Group Plc's shares, which corresponds to approximately EUR 3.0 million calculated with the volume weighted average share price on the trading day preceding the Board's decision. The number of shares represents gross earning, from which the withholding tax and possible other applicable contributions are deducted, and the remaining net amount is paid in shares. However, the company has the right to pay the reward fully in cash under certain circumstances. Potential rewards from the first performance period will be paid out during the autumn of 2022.

The total expense for the share-based payments is recognized over the vesting period, which is 29 months in the plan commencing 2020–2022. For the plan commencing 2020–2022, the compensation is measured during performance period in cash, and only after performance period at grant date translated into shares. The expense recognized

for 2020 amounted to 276 thousand euros. The cost related to share-based payments is recognized in staff costs. The share price at the grant date of the PSP was EUR 11.78. The fair value of the share plan at the grant date was in total EUR 1.6 million. The fair value of the share plan was determined from Musti Group's share price at the grant date less the present value of dividends expected to be paid during the performance period. Performance conditions and service conditions were accounted for by adjusting the number of instruments.

Assumptions applied in determining the fair value of share award

	Performance period FY2020 PSP
Number of share awards granted, maximum, pcs	250,000
Number of plan participants at end of financial year	11
Share price at balance sheet date, EUR	20,8
Assumed fulfilment of performance criteria, %	50.0%
Estimated number of share awards returned prior to the end of commitment period, %	10.0%

* Gross number of shares from which the applicable withholding tax is deducted, and the remaining net amount is paid in shares.

3. Capital expenditures

This section describes assets that are needed in business operations, as well as business acquisition carried out by Musti Group. Information on net working capital is presented in section 4.

The Group's management has assessed COVID-19 impacts by reviewing the carrying values of the balance sheet items, the review did not indicate need for asset impairments.

3.1 Business combinations

Musti Group utilizes business acquisitions to accelerate the implementation of its strategy. In the financial year 2020 and 2019 Musti Group carried out asset deals where it acquired stores from franchisees.

Accounting principles

Acquired subsidiaries and businesses are consolidated in the consolidated financial statements from the date when Musti Group gained control over the acquired entity. Acquisition cost method is applied to the business combinations. The consideration transferred in the acquisition of a subsidiary includes the fair value of the transferred assets, incurred liabilities towards the previous owners of the acquired entity and the shares issued by the Group. Transferred consideration also includes the fair value of the asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and identifiable liabilities assumed in business combinations are initially valued at the fair value on the acquisition date. The identifiable assets include both tangible and intangible assets, such as customer relations, brands and technology.

Expenses related to the acquisitions are recognized when they incur, and they are presented in the profit and loss statement in the other operating expenses.

Accounting estimates and the management's judgement

Net assets acquired in business combinations are measured at fair value. The fair value of acquired net assets is determined based on the market value of similar assets (tangible fixed assets) or an estimate of the expected cash flows (intangible assets). The valuation is based on the current repurchase values, expected cash flows or estimated selling prices, and it requires management's judgement and assumptions. The management believes that the estimates and assumptions used are sufficiently reliable for determination of the fair value.

Acquisitions 1 Oct 2019-30 Sep 2020

During the financial year Musti Group acquired pet stores, two in Finland and three in Sweden. The total purchase price of the stores was approximately EUR 1.4 million and the resulting goodwill EUR 1.2 million. Goodwill is based on synergies from the acquisitions. The resulting goodwill is deductible in taxation. The store acquisitions increased the Group's net sales by EUR 2.4 million and increased operating profit by EUR 0.4 million for the period 1 October 2019 – 30 September 2020. The effect on the Group's net sales would have been approximately EUR 3.8 million and on the operating profit EUR 0.6 million for the period ended September 30, 2020 if the acquisitions had been consolidated from the beginning of the financial year.

Musti Group also increased its ownership in the joint venture Premium Pet Food Suomi Oy during the reporting period from 40.0 % to 49.2 % by converting a capital loan of 0.6 million to new shares.

Acquisitions 1 Oct 2018-30 Sep 2019

During the financial year, Musti Group also acquired one pet food store in Loviisa, Finland. The purchase price of the store was approximately EUR 183 thousand and the resulting goodwill was EUR 160 thousand. Goodwill is based on synergies from the acquisitions. The impact of the acquisitions on net sales and operating profit for the financial year was minor.

Sales 1 Oct 2019-30 Sep 2020

During the financial year the Group has sold one subsidiary, Djurfriskvård Västerås AB in Sweden. The sale was not material to the Group.

3.2 Intangible assets

The tables below set forth the changes in intangible assets during the financial years covered by the financial statements.

Accounting principles

Goodwill

Goodwill arises from the acquisition of subsidiaries, and it corresponds to the amount that the acquisition consideration exceeds the fair value of identifiable net assets.

Goodwill acquired in business combinations is allocated for impairment testing to the cash generating units that are expected to gain benefit from the synergies created by the combination. Goodwill is allocated to the unit at the company's lowest level where the goodwill is monitored internally for the management purposes.

Goodwill is reviewed for impairment annually or whenever events or changes in circumstances indicate to a possible impairment. The carrying amount of the cash-generating unit including goodwill is compared to the recoverable amount that is higher of the value in use or the fair value net of selling expenses. Possible impairment is recognized as an expense with immediate effect, and it will not be reversed later.

Other intangible assets

Other intangible assets include developments costs related to webstores, software and information technology, as well as licenses and customer relations. Intangible assets are recorded in the balance sheet when the accounting requirements of IAS 38 standard are satisfied. Intangible assets with a limited useful life are valued in the original acquisition cost and they are amortised with the straight-line method over their estimated useful life. Intangible assets are amortised over 5-10 years. Intangible assets with indefinite useful life are not amortised but tested annually for impairment. Except for goodwill, Musti Group does not have intangible assets with indefinite useful life.

EUR thousand	Goodwill	Other intangible assets	Advance payments	Total
2020				
Cost 1 Oct 2019	**144,315**	**35,530**	**478**	**180,323**
Business combinations				0
Additions	1,244	2,938	1,006	5,188
Disposals and closing of stores	-58		0	-58
Reclassifications		-220		-220
Exchange differences	295	107	1	402
Cost 30 Sep 2020	**145,796**	**38,354**	**1,485**	**185,635**
Accumulated amortisation and impairment at 1 Oct 2019	**-320**	**-13,340**	**0**	**-13,660**
Amortisation		-5,994		-5,994
Impairment and closing of stores	-19			-19
Reclassifications		22		22
Exchange differences	-23	-47		-70
Accumulated amortisation and impairment at 30 Sep 2020	**-362**	**-19,358**	**0**	**-19,720**
Net book value at 1 Oct 2019	**143,995**	**22,190**	**478**	**166,664**
Net book value at 30 Sep 2020	**145,434**	**18,995**	**1,485**	**165,914**

EUR thousand	Goodwill	Other intangible assets	Advance payments	Total
2019				
Cost 1 Oct 2018	**145,500**	**32,205**	**1,157**	**178,862**
Business combinations				0
Additions	136	3,053		3,189
Disposals and closing of stores			0	0
Reclassifications		679	-679	0
Exchange differences	-1,320	-408	0	-1,728
Cost 30 Sep 2019	**144,315**	**35,530**	**478**	**180,323**
Accumulated amortisation and impairment at 1 Oct 2018	**-320**	**-7,876**	**0**	**-8,195**
Amortisation		-5,581		-5,581
Impairment and closing of stores				0
Reclassifications				0
Exchange differences		117		117
Accumulated amortisation and impairment at 30 Sep 2019	**-320**	**-13,340**	**0**	**-13,660**
Net book value at 1 Oct 2018	**145,180**	**24,330**	**1,157**	**170,666**
Net book value at 30 Sep 2019	**143,995**	**22,190**	**478**	**166,664**

3.3 Goodwill and impairment testing

Accounting estimates and determinations based on the management's judgement

The management uses significant estimates and determinations based on judgement for deciding the level where goodwill is allocated, as well as for determining whether there are indications of impairment of goodwill.

The recoverable amount of a cash generating unit is determined on the basis of value-in-use calculations requiring estimates. The calculations use cash flow projections based on budgets and financial estimates approved by management covering a four-year period. Cash flow forecasts are based on the Group's actual results and the management's best estimates on future sales, cost development, general market conditions and applicable tax rates. Cash flows estimates include budgets and rolling estimates for a period of four years, and cash flows beyond the four-year period are extrapolated using the estimated growth rates stated above. The growth rates are based on the management's estimates on future growth in the business. Management tests the impacts of changes in significant estimates used in forecasts by sensitivity analyses as described above in this Note.

To carry out impairment testing, the management monitors goodwill at the level of Finland, Sweden and Norway as the cash generating units (CGU). The CGU level is based on how the management follow the operative business. The recoverable amount of cash generating units has been determined based on value in-use calculations using the projected discounted cash flows. These calculations use cash flow projections based on the budgets and forecasts approved by management covering a four-year period.

The table below sets forth the allocation of consolidated goodwill to the Group's cash generating units:

Goodwill from business combinations

EUR thousand	30 Sep 2020	30 Sep 2019
Finland	93,840	93,727
Sweden	50,437	49,082
Norway	1,158	1,186
Total	**145,434**	**143,995**

Key assumptions in the projections are the development of net sales and key cost items, the discount rate used in the calculation as well as the cash flow growth rate after the four-year forecast period. The projections have been prepared to reflect the past performance and expectations for the future considering the Group's market position and the general economic environment. Cash flows beyond the four-year period are extrapolated using the estimated growth rates of 1% (2%). The discount rate used in the impairment testing is weighted average cost of capital (WACC). The discount rate reflects the total cost of equity and debt and the market risks related to the Group. Discount rate applied in Finland was 8.1% (2019: 8.4%), in Sweden 7.5% (2019: 8.0%) and in Norway 7.6% (2019: 8.7%).

As result of the impairment tests performed no impairment loss has been recognized for any period presented. In 2020 the recoverable amount calculated on the basis on value-in-use exceeded the carrying value by EUR 113.9 million in Finland, EUR 69.5 in Sweden and EUR 43.3 million in Norway (2019: EUR 86.3 million in Finland, EUR 28.4 million in Sweden and 3.0 in Norway).

Sensitivity analysis

The management of Musti Group has estimated that it is unlikely that a somewhat possible change in key assumptions will cause the carrying amount of the cash-generating unit to exceed its recoverable amount. The key assumptions are based on past experience and reflects the management's perception of developments of cost and revenue. The average revenue growth used for the forecast period has been 10%. The long-term EBITDA margin assumption used for the impairment testing of goodwill is based on past experience about EBITDA margins and reflects the management's perception of developments in sales prices and sales volumes during the forecast period.

3.4 Investments in joint ventures

Companies controlled by the Group together another party and where significant decisions require the consent of the both parties, are treated as joint ventures due to their nature. The Group has one joint venture, Premium Pet Food Suomi Oy, which produces pet foods. Musti Group increased its ownership in the joint venture Premium Pet Food Suomi Oy during the reporting period from 40% to 49.2% by converting a capital loan of 0.6 million to new shares. The book value of the investments is EUR 960 thousand at 30 September 2020 (30 September 2019: EUR 320 thousand). The financial statements of the joint venture are prepared according to Finnish Accounting Standards and the joint venture is consolidated in the consolidated financial statements with the equity method. If the financial statements of the joint venture were prepared in accordance with IFRS, the consolidation would not result in a material difference compared to the consolidation with FAS. Musti Group is entitled to Premium Pet Food Suomi Oy's net assets based on the shareholder agreements and the legal form of the company.

The investment in Premium Pet Food Suomi Oy involves a risk relating to the raw material supply. However, Musti Group estimates that this risk is not material, and the risk has not changed significantly.

Premium Pet Food Suomi Oy's financial year ends at 30 June, which differs from Musti Group's financial year that ends at 30 September. Consolidation with the Group's financial statements has been carried out using the figures in Premium Pet Food Suomi Oy's financial statements for the financial period ended on 30 June, as the Group's estimates that the difference is not significant as compared to carrying out the consolidation on the basis of actual figures on 30 September. The tables below summarize Premium Pet Food Suomi Oy's balance sheet and profit and loss statement as at 30 June.

Summarised balance sheet

EUR thousand	30 Sep 2020	30 Sep 2019
Total non-current assets	**4,222**	**526**
Current assets		
Cash	1,512	191
Other current assets	749	468
Total current assets	**2,261**	**659**
Total assets	**6,483**	**1,185**
Non-current liabilities		
Financial liabilities	4,200	63
Other non-current liabilities	600	38
Total non-current liabilities	**4,800**	**101**
Current liabilities		
Financial liabilities	58	150
Other liabilities	803	253
Total current liabilities	**861**	**403**
Total liabilities	**5,661**	**505**
Equity	**688**	**681**
Group's share of equity	**337**	**272**

Summarised statement of profit or loss

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Net sales	3,455	3,275
Depreciation and amortisation	-100	-95
Financial income and expenses	-44	-9
Profit before tax	**389**	**407**
Appropriations	-17	-39
Income tax expense	-81	-74
Profit (loss) for the year	**291**	**294**
Group's share of profit for the year	**143**	**118**
Dividends received	**76**	**67**

Changes in the carrying amount of the joint venture:

EUR thousand	30 Sep 2020	30 Sep 2019
Book value at the beginning of the financial year	**320**	**269**
Additions	600	0
Share of profit	117	118
Dividends received	-76	-67
Book value at the end of the financial year	**960**	**320**

3.5 Property, plant and equipment

The tables below set forth changes in property, plant and equipment during the financial years covered by the financial statements.

Musti Group's machinery and equipment mainly comprise store and office equipment. Other tangible assets mainly include refurbishment costs of leased premises. The right-of-use items based on lease agreements and recognized under IFRS 16 are included in the tangible assets in the balance sheet. The right-of-use items and accounting principles applied to them are presented in the Note 3.6 Leases.

Accounting principles

Property, plant and equipment are presented at acquisition cost less depreciation and potential impairment losses. Subsequent costs are included in the carrying amount when they can be measured reliably, and there is an economic benefit to the company.

Significant leasehold improvements are included in the asset's carrying amount or are separated as a separate asset when it is probable that they will be economically useful in the future and the costs incurred can be distinguished from normal repair and maintenance costs.

Machinery and equipment as well as other tangible assets are depreciated over their useful lives. Useful lives are based on estimates of the period over which the assets will generate revenue. Depreciation is recognized on a straight-line basis based on the cost of the assets and estimated useful lives. Impairment tests for depreciable non-current assets are performed if there are indications of impairment at the balance sheet date.

Useful lives of the asset's categories are:

- Machinery and equipment 3-7 years
- Right-of-use assets (IFRS 16 Leases) 3-15 years
- Renewal and refurbishment investments in lease premises 5-10 years

The Group estimates on each balance sheet date, if there is any indication that an asset may be impaired. If such indication exists, the relevant asset is tested for impairment. The impairment test estimates the asset's recoverable amount.

The recoverable amount is higher of the asset's fair value after selling costs or the use value based on cash flow. If the recoverable amount cannot be determined on the asset level, the need for impairment is estimated at the level of the smallest cash generating unit that is for its main parts independent from other units and has cash flows that can be separated from the cash flows of other similar units.

EUR thousand	Machinery and equipment	Other tangible assets	Advance payments	Total
2020				
Cost 1 Oct 2019	**12,451**	**7,286**	**24**	**19,761**
Business combinations				0
Additions	1,507	3,628	25	5,160
Disposals		-118		-118
Reclassifications	-172	393		221
Exchange differences	-56	-255	0	-312
Cost 30 September 2020	**13,730**	**10,934**	**49**	**24,713**
Accumulated depreciation at 1 Oct 2019	**-7,406**	**-2,747**	**0**	**-10,153**
Depreciation	-1,748	-1,581		-3,329
Impairment				0
Disposals				0
Reclassifications	27	-38		-11
Exchange differences	32	52		84
Accumulated depreciation at 30 Sep 2020	**-9,095**	**-4,314**	**0**	**-13,409**
Net book value at 1 Oct 2019	**5,045**	**4,539**	**24**	**9,608**
Net book value at 30 Sep 2020	**4,635**	**6,620**	**49**	**11,304**

EUR thousand	Machinery and equipment	Other tangible assets	Advance payments	Total
2019				
Cost 1 Oct 2018	**11,573**	**4,979**	**0**	**16,552**
Business combinations				0
Additions	1,135	2,628	24	3,787
Disposals	-26	-182		-209
Reclassifications				0
Exchange differences	-231	-139	0	-370
Cost 30 September 2019	**12,451**	**7,286**	**24**	**19,761**
Accumulated depreciation at 1 Oct 2018	**-5,962**	**-1,771**	**0**	**-7,733**
Depreciation	-1,504	-1,002		-2,506
Impairment				0
Disposals	-22			-22
Reclassifications	0	0		0
Exchange differences	82	25		108
Accumulated depreciation at 30 Sep 2019	**-7,406**	**-2,747**	**0**	**-10,153**
Net book value at 1 Oct 2018	**5,611**	**3,209**	**0**	**8,819**
Net book value at 30 Sep 2019	**5,045**	**4,539**	**24**	**9,608**

3.6 Leases

The Group has leased store premises and office and warehouse spaces with lease agreements that are included in the scope of IFRS 16 Leases. In addition, the Group has leased parking spaces, vehicles, IT and other equipment and advertising spaces. The lease agreements have a fixed term, or they can be terminated with a notice. The Group does not have service agreements containing commodities that should be recognized as right-of-use assets under IFRS 16.

Accounting principles

Right-of-use assets

Musti Group recognizes a right-of-use asset and a lease liability on the date when the agreement comes into effect, excluding short-term lease agreements and leases of low value assets (see below).

The right-of-use asset is initially measured at cost, and it includes the initial valuation of the lease liability, the lease amounts paid by the date when the agreement comes into effect net of any incentives received in connection with the lease agreement, any initial direct costs incurred to Musti Group and an estimate on costs that will incur to Musti Group from reversal and removal of the asset or the remediation of the premises to the condition defined in the lease agreement.

Lease liability

Musti Group recognizes a lease liability at present value of the rent that has not been paid on the date when the lease agreement comes into effect. The value of the lease liability on the date when the lease agreement comes into effect includes payments that have not been paid on the date when the lease agreement comes into effect, including fixed payments, variable rents linked to an index or a price level, execution price of an call option, it is reasonably certain that Musti Group will exercise the option, and payment of sanctions resulting from termination of the lease, if the term of the lease takes into account that Musti Group will exercise the option to terminate the lease.

Musti Group uses the minimum rents specified in the lease agreement for estimating the fixed payments. The non-lease components are separated from the lease payments when they can be determined reliably. Musti Group also has lease agreements that include variable payments determined based on net sales. Only minimum payments have been included in the lease liability for such agreements, and variable payments based on the net sales are measured as a cost in the profit and loss statement for the period when they incur.

Lease liability is remeasured when the lease term or lease payments are amended. Musti Group uses the interest rate for additional loans for determining the interest rate of the lease liability, as no internal interest rates for the lease agreements are available.

Short-term agreements and leases of low value assets

Musti Group recognizes in its profit and loss statement any lease payments on short-term leases with a term of 12 months or less, as well as on lease agreements where leased asset is of low value. Leases for low value assets are agreements where the leased asset would cost less than EUR 5,000 if it were purchased as new. The expenses from such agreements are presented in this Note below.

Sublease agreements

Musti Group has subleased intra-group commodities relating to store premises and fixtures. They have no impact on the consolidated figures.

Accounting estimates and management judgment

The management uses judgement for estimating the term of lease agreements with an option for extension, termination or acquisition. When Musti Group is reasonably certain that the option for extension, termination or acquisition will be exercised, the option is considered in the determination of the lease period. If the exercise of the option is uncertain, the option is not included in the determination of the lease term, right-of-use asset and lease liability.

The management uses judgement for estimating the term of lease agreements in effect until further notice. The management's estimates are based on the company's strategic situation and market conditions, as well the costs that would incur if the leased commodity would be replaced by another commodity.

Determination of the interest rate for additional credit also requires management's judgement. The interest rate for additional credit is determined based on the Group's financing agreements taking into account the fluctuation of interest rates for riskless assets in each country. The company applies single discounting rate for the portfolio comprising lease agreements with similar characteristics.

The group also negotiated some rent reductions during the second and third quarter of 2020 for which the group has not applied the IFRS 16 COVID-19 amendment.

The tables set forth the amounts of right-of-use assets in the balance sheet and their impact on the profit and loss statement.

Right-of-use assets

EUR thousand	Buildings and structures	Machinery and equipment	Total
2020			
Net book value at 1 Oct 2019	**46,816**	**481**	**47,296**
New contracts	13,329	194	13,522
Contracts terminated prematurely	-1,601	-25	-1,625
Revaluations and modifications	18,245	16	18,260
Exchange rate differences	-529	5	-524
Depreciation	-14,743	-173	-14,915
Net book value at 30 Sep 2020	**61,516**	**498**	**62,014**

EUR thousand	Buildings and structures	Machinery and equipment	Total
2019			
Net book value at 1 Oct 2018	**44,525**	**783**	**45,309**
New contracts	6,692	8	6,700
Contracts terminated prematurely	-464	-58	-522
Revaluations and modifications	10,590	51	10,642
Exchange rate differences	-1,068	-21	-1,089
Depreciation	-13,461	-282	-13,743
Net book value at 30 Sep 2019	**46,816**	**481**	**47,296**

Lease liability

EUR thousand	30 Sep 2020	30 Sep 2019
Lease liability at 1 Oct	**51,982**	**50,188**
Net increases	29,354	15,510
Rent expenses	-17,237	-16,262
Interest expense	2,395	2,546
Lease liability at 30 Sep	**66,494**	**51,982**

EUR thousand	30 Sep 2020	30 Sep 2019
Non-current lease liability	50,538	37,969
Current lease liability	15,957	14,013
Total	**66,494**	**51,982**

The maturity distribution of lease liabilities is presented in Note 5.1 Financial risk management.

Lease contracts in the income statement

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Expenses from short-term and rental agreements with minor value	-1,697	-1,869
Depreciation of right of use assets	-14,915	-13,743
Interest expenses from lease liability *	-2,395	-2,546
Total	**-19,008**	**-18,158**

* Included in the Note for financial expenses, see Note 5.4 Financial income and expenses.

Repayments of lease liabilities amounted to EUR 14,819 thousand for the year 2020 and EUR 13,468 thousand for the year 2019.

The weighted average interest used in the calculation of interest expenses was 3.6% (4.8%).

3.7 Provisions

Accounting principles

A provision is recognized when the Group has a legal or factual obligation based on a previous event, the realisation of a payment obligation is probable, and the amount of the obligation can be reliably estimated. The amount of the provisions is measured on each closing date and modified according to the best estimate at the time of assessment. Changes in provisions are recognized in the income statement at the same amount as the initial recognition of the provision. The Group's provisions are mainly related to the warranties granted to the products sold by the Group and restructuring provisions, as well as unprofitable leases.

A restructuring provision is recognized when the Group has compiled a detailed restructuring plan and launched its implementation or has disclosed the plan. A warranty provision is recognized when a product covered by warranty provisions is sold.

EUR thousand	Restructuring provisions	Other provisions	Total
2020			
1 Oct 2019	**129**	**0**	**129**
New provisions	0	20	20
Used provisions	-129		-129
Exchange differences			
30 Sep 2020	**0**	**20**	**20**
Short-term	0	20	20
EUR thousand	**Restructuring provisions**	**Other provisions**	**Total**
2019			
1 Oct 2018	**0**	**0**	**0**
New provisions	165		165
Used provisions	-37		-37
Exchange differences			
30 Sep 2019	**129**	**0**	**129**
Short-term	129	0	129

4. Net working capital

This section describes the items included in the net working capital. Net working capital comprises inventory, trade and other receivables, as well as trade and other payables.

EUR thousand	30 Sep 2020	30 Sep 2019
Net working capital		
Inventories	36,376	32,533
Trade and other receivables	6,466	5,733
Excluding financial items in other receivables	0	0
Trade and other payables	-40,264	-36,364
Excluding financial items in other liabilities	249	181
Total	**2,826**	**2,083**
Change of net working capital in the balance sheet	-744	4,409
Items that are not included in the change of net working capital as presented in the cash flow statement, with their impact included elsewhere in the cash flow statement *	-122	23
Change of net working capital in the cash flow statement **	-866	4,432

* The major items are related to business combinations.
** An increase in the net working capital decreases the cash flow, and a decrease in the net working capital increases the cash flow.

4.1 Inventories

The Group's inventory mainly consists of purchased pet food and other products. The Group does not carry out production activities.

Accounting principles

Musti Group's inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less direct costs necessary to make the sale.

The acquisition cost of inventory is determined using the FIFO method. The acquisition cost comprises all costs incurred from delivering the inventory to the location and condition at time of the review.

Inventory is recognized as a cost for the same period when the corresponding sales is recognized. Impairment and obsolescence of inventory are recorded as costs at the time they incur. In addition, Musti Group records continuously a provision for losses on the inventory.

A possible reversal of a write-down is recognized in the period in which the change in value is recognized.

Accounting estimates

The Group regularly reviews inventories for obsolescence and turnover, and for possible reduction of net realizable value below cost and records an impairment as necessary.

Inventories

EUR thousand	30 Sep 2020	30 Sep 2019
Finished goods	34,720	30,607
Advance payments	1,656	1,926
Total	**36,376**	**32,533**
Inventories recognized as expenses, for which the carrying amount of inventories was reduced to the net realizable value	4,068	3,668

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
The amount of inventories recognized as an expense during the period	137,488	119,437

4.2 Trade and other receivables

Trade and other receivables comprise trade receivables, other receivables (mainly Value Added Tax receivables) and deferred receivables. Income tax receivables are presented as a separate item in the balance sheet.

Payment terms of trade receivables vary according to the customer type and credit rating. In the online stores, the customers pay their purchases in advance. Impairment of trade and other receivables, as well as the Group's exposure to credit risk are described in the Note 5.1.

Accounting principles

Trade receivables are receivables resulting from selling products or providing services to customers in the course of ordinary business. Receivables that are expected to be paid within one year from the end of the financial year are classified as current assets. Otherwise, they are presented as non-current assets. Trade receivables usually fall due within 14 or 30 days, and as such, all of them are classified as current assets. Note 5.1 describes principles applied to impairment of trade and other receivables, as well as other accounting principles applied to them.

Other receivables mainly comprise prepayments and accrued income generated in the course of the Group's ordinary business.

The Group's receivables are financial assets not included in the derivatives with fixed or determined payments that are not quoted on active markets. They are included in the current assets, except for items maturing over 12 months after the end of the reporting period. Group's receivables consist of 'Trade receivables and other receivables' and 'cash at hand'.

The table below set forth the items included in the trade and other receivables:

Trade and other receivables

EUR thousand	30 Sep 2020	30 Sep 2019
Trade receivables *	3,483	3,258
Prepayments and accrued income	1,663	1,843
Other receivables	1,319	632
Total	**6,466**	**5,733**

* Credit card receivables are included in the trade receivables.

Of the trade receivables, a total of EUR 102 thousand has been recognized as a credit loss in the statement of profit and loss in 2019. There has been a positive effect of EUR 75 thousand during 2020 as a result of the decrease in the credit loss reservation.

The credit loss risk is described in more detail in the Note 5.1 Financial risk management.

4.3 Trade and other payables

Accounting principles

Trade payables are payment obligations towards suppliers and service providers arising from products and services acquired in the ordinary course of business. Trade payables are classified as current liabilities if they fall due for payment within one year from the balance sheet date. Trade payables are initially measured at fair value, and subsequently at amortised cost using the effective interest rate method. Trade and other payables are classified as other financial liabilities and measured at amortised cost.

Customers are entitled to return their purchases within 14 days in Finland and within 30 days in Sweden and Norway. For products sold, that have a repayment period at the end of the financial year, an obligation is recorded as a corresponding contractual liability. Contractual liability includes all costs incurred in settling an existing obligation. The management estimates the amount of this liability based on previous claims and any recent developments indicating that the number of claims may differ from the previous claims in the future. For online sales, products in transit result in a contractual liability.

Accounting estimates

Determination of the liability resulting from the right to return products involves uncertainty, as the actual amount of returned goods may differ from the estimates. Estimates and assumptions are reviewed quarterly. Differences between estimated and actual product returns may impact the amount of future contractual liabilities recorded, in accrued expenses.

The tables below set forth items included in trade and other payables:

Trade and other payables

EUR thousand	30 Sep 2020	30 Sep 2019
Trade payables	20,730	19,378
Advances received	232	123
Other liabilities	9,456	7,582
Accrued expenses	9,846	9,281
Total	**40,264**	**36,364**

Material items included in accrued expenses

EUR thousand	30 Sep 2020	30 Sep 2019
Personnel related costs	7,129	6,512
Accrued interests	249	181
Other items	2,468	2,588
Total	**9,846**	**9,281**

Material items included in other liabilities

EUR thousand	30 Sep 2020	30 Sep 2019
VAT liabilities	6,283	4,280
Payroll taxes	1,526	1,349
Loyalty program	1,641	1,738
Other items	6	215
Total	**9,456**	**7,582**

Trade and other payables comprise trade payables, other payables, advance payments and accrued expenses incurring in the ordinary course of business of the Group.

Contractual liabilities comprise rights to return products, as well as products in transit.

The valuation and revenue recognition of the loyalty program requires management's judgment, particularly in determining the fair value of bonuses and the expiration of bonuses. The bonus liability consists of quarterly bonuses accrued to the loyal customer account (see Note 2.1 Segment reporting and net sales) less the estimated expiration date of the bonuses based on historical information.

5. Capital structure and financial instruments

5.1 Financial risk management

This Note describes Musti Group's exposure to financial risks and how these risks may in the future impact Musti Group's financial results. Information on the result for the period is presented in relevant parts as background for the matter in hand.

The focus of the Group's general risk management program is on the poor visibility of the financial markets, with the aim to minimise the unfavourable impact on the Group's financial results. Certain risks are hedged using derivatives.

Financial risk management aims to protect the company from unfavourable changes in financial markets, thereby contributing to safeguarding the company's profit performance and shareholders' equity and to ensure sufficient sources of finance. The financial administration is responsible for the Group's risk management according the instructions issued by the Board of Directors. The financial administration identifies, estimates and hedges financial risks in cooperation with the Group's business units.

Exchange rate risk

Foreign exchange risk means the uncertainty in cash flows and financial performance arising from exchange rate fluctuations. The Group's most significant transaction currency risks arise from the Swedish Krona (SEK), the Norwegian Krone (NOK), the US dollar (USD) and the British Pound (GBP).

International purchasing and foreign currency financing of subsidiaries expose the Group to transaction risks in different currencies. The exchange rate risk related to the subsidiaries outside the Euro zone arises mainly from the trade receivables and liabilities against these subsidiaries in connection with the business operations of the Group companies. The risk is managed commercially, for example by transferring exchange rate changes to sales prices. Subsidiaries report their own currency positions to Group Finance on a monthly basis.

As regards to exchange rate risk, the Group has hedged some of its purchases in US Dollar and British Pound in Sweden using exchange rate derivatives against the Swedish Krona. Significant appreciation of the US Dollar and British Pound will have a negative impact on the company's purchases, meaning that the euro value of the purchases will increase. Exchange rate hedges are classified as derivatives that are measured at fair value through profit and loss.

The Group's foreign currency positions (in euros) at the end of the reporting period

EUR thousand	30 Sep 2020	30 Sep 2019
Trade payables	2,338	1,675
Forecated purchases in the neext 6 months	19,591	17,810
Cash and cash equivalents	0	80
Total	**21,929**	**19,565**
Currency derivatives *	-889	-9,385
Position, total	**21,041**	**10,180**

* The Group has 1 October 2020 renewed the currency derivative agreements. The Group hedges Swedish Krona and Norwegian Krone and British Pound and US Dollars. The currency derivatives amounted to EUR 27.5 million 31 October 2020.

This Group level currency exposure is the basis for the sensitivity analysis of foreign exchange risk. Assuming euro to appreciate or depreciate 10 percent against all other currencies, the impact on cash flows, net of taxes, would be:

	30 Sep 2020			
EUR thousand	SEK	NOK	USD	GBP
EUR +/- 10 %	+/- 3,840	+/- 1,058	+/- 26	+/-144

	30 Sep 2019			
EUR thousand	SEK	NOK	USD	GBP
EUR +/- 10 %	+/- 2,995	+/- 728	+/- 16	+/- 168

The sensitivity analysis as required by IFRS 7, includes financial instruments, such as trade and other receivables, trade and other payables, interest-bearing liabilities, deposits, non-current receivables, cash and cash equivalents and derivative financial instruments.

The following items related to exchange rates were recognized for the period through profit and loss:

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Items recognized through profit and loss		
Net exchange rate gains/losses included in the financial income/expenses	-865	-1,089
Exchange rate gains/losses recognized in the result for the period, total (net)	**-865**	**-1,089**

Translation risk

Translation risk arises when the currency denominated income and balance sheet items of group companies located outside the euro area are consolidated into euro. The most significant translation risk currencies are the Swedish krona (SEK) and the Norwegian krone (NOK). As at September 30, 2020 the total non-EUR denominated equity, goodwill and fair value step up of the subsidiaries were EUR 56.4 million (EUR 49.4 million).

The translation risk is not material in relation to the volume of the Group's operations and the size of the balance sheet. A change of +/- 10 percent in EUR against other currencies would have an impact of +/- EUR 5.64 million. Musti Group is currently not hedging any equity exposure.

Interest rate risk

Interest rate risk means the cash flow, financial performance and balance sheet uncertainty arising from interest rate fluctuations.

In connection with the IPO Musti Group refinanced its existing loans with the share issue of EUR 45 million and a new loan agreement of EUR 60 million, which consists of an EUR 50 million term loan and an EUR 10 million revolving credit facility. The repayment date of the facilities is 14 February 2023. The refinanced liabilities include a variable interest rate linked to EURIBOR and a fixed interest rate. At the negative EURIBOR interest rate as of 30 September 2020, the loans include only the fixed interest component.

From the financial year ending 30 September 2019 until the refinancing, Musti Group's main impact of interest rate risk came from floating-rate long-term loans. The interest rate risk on these loans was managed by exchanging the variable interest rates on the loans for fixed interest rates using an interest rate swap. Interest rate hedges were classified as derivatives measured at fair value through profit or loss. As at 30 September 2020 the Group has no open interest rate derivatives.

During the financial year ended 30 September 2020, interest rate risk items in the balance sheet included interest-bearing assets EUR 15 thousand (EUR 4 thousand) and interest-bearing liabilities EUR 116 million (EUR 142 million). Of the interest-bearing liabilities 65% (77%) is denominated in euros.

Sensitivity of interest expenses on changes in market rates has been calculated by assuming permanent one percentage unit change in market rates and assuming no change in the net debt during the year. The calculated impact on the company's interest expenses is +/- EUR 0.5 million (+/- EUR 0.9 million).

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fail to meet its contractual obligations. The Group's credit risks arise principally from trade and factoring receivables. The Group's customer base is very diversified, and the Group does not have significant credit risk concentrations related to trade receivables. Credit risk arising from liquid assets is limited as the counterparties are banks with high international credit ratings.

The Group companies analyse solvency of new invoicing customers locally. Payment methods mitigating credit risk, such as advance payments, are applied to customers with high risk. The maximum exposure to credit risk corresponds to the book values of the financial assets presented below.

The procedure under IFRS 9 is applied for credit loss provisions where the amount of the provision corresponds to the expected credit losses over the whole lifetime of the receivable. Credit loss provision on the expected credit losses are recognized based on the customers' payment history and expectations on the credit losses. The Group's trade receivables have short maturities and the time value of the money does not have significant impact when estimating the amount expected of credit losses.

EUR thousand	Expected credit loss rate	Trade receivables (gross)		Deduction related to losses		Trade receivables (net)	
The table below sets forth the maturity distribution of receivables and provisions for impairment based on credit risk estimates.	%	30 Sep 2020	30 Sep 2019	30 Sep 2020	30 Sep 2019	30 Sep 2020	30 Sep 2019
Unmatured	0.5%	2,323	2,084	12	10	2,311	2,074
<30 days	1%	41	116	0	1	40	115
30-60 days	5%	69	38	3	2	65	36
61-180 days	10%	3	5	0	1	2	5
180-360 days	50%	101	141	50	70	50	70
over 360 days	100%	27	84	27	84	0	0
Total		2,563	2,469	93	168	2,469	2,301
Credit card receivables	0.5%	1,019	963	5	5	1,014	958
Total		**3,582**	**3,431**	**98**	**173**	**3,483**	**3,258**

The groups other receivables do not contain impaired or delayed items. Based on the credit history of other groups, the receivables will be paid when they fall due. The Group has no guarantee for these receivables.

Liquidity risk

Liquidity risk refers to the risk of the Group not being able to fulfil its payment obligations. Musti Group monitors the Group's liquidity needs monthly to ensure that sufficient funds are available for the business needs.

The objective of the liquidity risk management is to at all times maintain sufficient liquid assets and credit limits to ensure the adequacy of the Group's business financing. In order to manage liquidity risk, the Group has an undrawn revolving credit facility of EUR 10 million and an undrawn credit limit of EUR 4 million to ensure financial flexibility. At the year end 30 September 2020, the cash and cash equivalent totalling EUR 21.6 million (EUR 8.6 million).

The Group can secure external financing within the limits of its present financing agreements or use the bank overdraft, see Section Interest-bearing loans, if the cash flows from operating activities are not sufficient. The covenants included in the external financing need to be considered in the planning of the financing structure. Liquidity risk management aims to ensure that the Group can fulfil its payment obligations and its financial position and reputation are not harmed. The Group aims to assess and monitor the level of financing required by its business operations in order to ensure that the Group has sufficient amounts of liquid funds for financing business operations and investments, as well as for repayment of loans when they mature.

The Group's financing agreements contains for the financial year 2020 covenants relating to gearing and the ratio of net debt to EBITDA (leverage). Violation of covenant terms may increase financial costs or lead to loan termination. The covenants are reviewed and reported to the bank's quarterly. During the financial year 2020, all quarterly covenant conditions were either met or waived.

The Group's financing agreements contained for the financial year 2019 covenants relating to interest rate, gearing and cash flow ratios and investments. Violation of covenant terms may increase financial costs or lead to loan termination. The capex covenant is reviewed annually

at the end of the financial year and all the other covenants are reviewed and reported to the bank's quarterly. The company's management regularly monitors the covenants and reports the banks on a quarterly basis. During the financial year 2019, all quarterly covenant conditions were either met or waived. For the annually reviewed capex covenant a waiver was granted before the end of the financial year.

The table below sets forth the Group's financial labilities under the relevant maturity groups based on the time remaining until the contractual maturity as at the balance sheet date. The figures presented in the table are contractual undiscounted amounts.

The Groups non-current loans from credit institutions at 30 September 2019 amounted to EUR 74.8 million and current loans amounted to EUR 4.7 million. The loans from credit institutions were repaid in February 2020. The Group's non-current loans of credit institutions amounted to EUR 49.8 million at 30 September 2020. The loans mature on 14 February 2023.

Contractual maturities of financial liabilities

	30 Sep 2020						
EUR thousand	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026-	Total
Non-current liabilities							
Loans from credit institutions			49,781				**49,781**
Lease liability		16,855	14,541	9,893	5,468	3,781	**50,538**
Other non-current interest-bearing liabilities							**0**
Current liabilities							
Loans from credit institutions							**0**
Lease liability	15,957						**15,957**
Trade and other payables *	20,730						**20,730**
Total	**36,687**	**16,855**	**64,322**	**9,893**	**5,468**	**3,781**	**137,005**
Interest payments	3,044	2,469	1,460	689	333	136	**8,131**

	30 Sep 2019						
EUR thousand	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025-	Total
Non-current liabilities							
Loans from credit institutions		45,800	29,000				**74,800**
Lease liability		13,731	11,333	6,098	3,489	3,318	**37,969**
Other non-current interest-bearing liabilities						10,574	**10,574**
Current liabilities							
Loans from credit institutions	4,697						**4,697**
Lease liability	14,013						**14,013**
Trade and other payables *	19,378						**19,378**
Total	**38,088**	**59,531**	**40,333**	**6,098**	**3,489**	**13,892**	**161,431**
Interest payments	6,213	4,131	2,377	1,650	1,443	736	**16,550**

* Other receivables and other payables include only items classified as financial assets or liabilities.

Fair value hierarchy

Level 1

Quoted unadjusted prices at the balance sheet date in active markets. The market prices are readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. The quoted market price used for financial assets is the current bid price. Level 1 financial instruments include investments in funds classified as financial instruments at fair value through profit and loss. Musti Group does not have Level 1 financial instruments.

Level 2

The fair value of financial instruments in Level 2 is determined using valuation techniques. These techniques utilize observable market data readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. Musti Group has classified derivatives at fair value according to the Level 2.

Level 3

A financial instrument is categorized into Level 3, if the calculation of the fair value cannot be based on observable market data. Musti Group had no such financial instruments in 2020 or 2019.

Fair value hierarchy

	30 Sep 2020		
EUR thousand	Level 1	Level 2	Level 3
Assets			
Financial assets at amortised cost			
Other non-curret assets		345	
Trade and other receivables *		3,483	
Loan receivables		15	
Cash and cash equivalents		21,606	
Financial assets at fair value through profit and loss			
Derivative financial instruments		0	
Total		**25,449**	

	30 Sep 2019		
EUR thousand	Level 1	Level 2	Level 3
Assets			
Financial assets at amortised cost			
Other non-curret assets		218	
Trade and other receivables *		3,258	
Loan receivables		4	
Cash and cash equivalents		8,629	
Financial assets at fair value through profit and loss			
Derivative financial instruments		179	
Total		**12,287**	

Fair value hierarchy

EUR thousand	30 Sep 2020 Level 1	Level 2	Level 3
Liabilities			
Financial liabilities at amortised cost			
Other non-current liablities		0	
Loans from credit institutions		49,781	
Lease liability		66,494	
Trade and other payables *		20,730	
Financial assets at fair value through profit and loss			
Derivative financial instruments		53	
Total		**137,058**	

EUR thousand	30 Sep 2019 Level 1	Level 2	Level 3
Liabilities			
Financial liabilities at amortised cost			
Other non-current liablities		10,574	
Loans from credit institutions		79,497	
Lease liability		51,982	
Trade and other payables *		19,378	
Financial assets at fair value through profit and loss			
Derivative financial instruments		61	
Total		**161,492**	

* Other receivables and other payables includes only items classified as financial assets and liabilities.

5.2 Financial assets and liabilities

Accounting principles

Musti Group classifies financial assets and liabilities according to IFRS 9 based on the cash flow properties of the contracts related to them and their original purpose of use in line with the business model at the time of the acquisition. The classification is changed only if the business model applied in the investment activities is amended. Financial assets or liabilities are presented as a non-current item, if the remaining maturity is over 12 months from the end of the period, and as a current item if the remaining maturity is under 12 months from the end of period. Financial assets and liabilities are classified as follows:

Under IFRS 9, financial assets are classified into the following categories:
I. financial assets at amortised cost
II. financial assets at fair value through profit and loss
III. financial assets at fair value through other comprehensive income

Financial assets

Financial assets and amortised cost

Financial assets are classified as financial assets at amortised cost, if the following criteria are met:
I. the financial asset is held to generate cash flows based on the business mode; and
II. the cash flows are contractual capital returns and interest accrued on the capital.

Financial assets at amortised cost are valued using the effective interest rate method. Impairment is considered in the valuation. Gains and losses are recognized though profit and loss when the financial asset is reclassified or changed or its value decreases. Interest income is recognized in finance income.

Financial assets at amortised cost include term deposits, interest-bearing loans and other receivables, trade receivables and non-interest-bearing receivables.

Expected credit loss under IFRS 9 impacts the valuation of financial assets at amortised cost. Musti Group applies to the valuation of trade receivables the simplified model under IFRS 9 where a provision for credit losses is recognized in the trade receivables based on the expected credit losses. See Note 5.1 Financial risk management.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets acquired for trading purposes.

Financial assets at fair value through profit and loss are derivatives not eligible for hedge accounting. Changes in fair value, as well as profit and loss in connection derecognition, are presented in the profit and loss statement.

Financial assets at fair value through other comprehensive income

Financial assets are classified as financial assets at fair value through other comprehensive income, if the following criteria are met:

I.according to the business model, the financial asset is held to generate cash flows based on a contract or it is available for sale; and

II. the cash flows are contractual capital returns and interest accrued on the capital.

Financial liabilities

Under IFRS 9, financial liabilities are classified into the following categories:

I. financial liabilities at amortised cost

II. financial liabilities at fair value through profit and loss

Financial liabilities at amortised cost

Musti Group's loans from financial institutions and trade and other payables are recognized at the time on acquisition at fair value net of transaction costs. Loans are subsequently measured using the effective interest rate method. The interest expenses of the loans are recorded in the profit and loss statement. Trade and other payables are non-interest-bearing current unpaid payables.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss are financial liabilities acquired for trading purposes.

Financial liabilities measured at fair value through profit and loss are derivatives not eligible for hedge accounting. Changes in fair value, as well as profit and loss in connection derecognition, are presented in the profit and loss statement.

Financial assets and liabilities

The table below sets forth the classification of financial assets and liabilities and their book values:

Financial assets

EUR thousand	Financial assets at fair value through profit and loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Book value	Fair value
30 Sep 2020					
Non-current assets					
Other non-current assets			345	345	345
Total			**345**	**345**	**345**
Current assets					
Trade and other receivables			3,483	3,483	3,483
Loan receivables			15	15	15
Derivative financial instruments	0			0	0
Cash and cash equivalents			21,606	21,606	21,606
Total	**0**		**25,103**	**25,103**	**25,103**
Financial assets, total	**0**		**25,449**	**25,449**	**25,449**

EUR thousand	Financial assets at fair value through profit and loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Book value	Fair value
30 Sep 2019					
Non-current assets					
Other non-current assets			218	218	218
Total			**218**	**218**	**218**
Current assets					
Trade and other receivables			3,258	3,258	3,258
Loan receivables			4	4	4
Derivative financial instruments	179			179	179
Cash and cash equivalents			8,629	8,629	8,629
Total	**179**		**11,890**	**12,069**	**12,069**
Financial assets, total	**179**		**12,109**	**12,287**	**12,287**

Financial liabilities

EUR thousand	Financial liabilities at fair value through profit and loss	Financial liabilities at fair value through other comprehensive income	Financial liabilities at amortised cost	Book value	Fair value
30 Sep 2020					
Non-current liabilities					
Loans from credit institutions			49,781	49,781	49,781
Lease liability			50,538	50,538	50,538
Other non-current liabilities			0	0	0
Total			**100,318**	**100,318**	**100,318**
Current liabilities					
Loans from credit institutions			0	0	0
Lease liability			15,957	15,957	15,957
Trade and other payables			20,730	20,730	20,730
Derivative financial instruments	53			53	53
Total	**53**		**36,687**	**36,740**	**36,740**
Financial liabilities, total	**53**		**137,005**	**137,058**	**137,058**

EUR thousand	Financial liabilities at fair value through profit and loss	Financial liabilities at fair value through other comprehensive income	Financial liabilities at amortised cost	Book value	Fair value
30 Sep 2019					
Non-current liabilities					
Loans from credit institutions			74,800	74,800	74,800
Lease liability			37,969	37,969	37,969
Other non-current liabilities			10,574	10,574	10,574
Total			**123,343**	**123,343**	**123,343**
Current liabilities					
Loans from credit institutions			4,697	4,697	4,697
Lease liability			14,013	14,013	14,013
Trade and other payables			19,378	19,378	19,378
Derivative financial instruments	61			61	61
Total	**61**		**38,088**	**38,149**	**38,149**
Financial liabilities, total	**61**		**161,431**	**161,492**	**161,492**

Changes in financial liabilities

EUR thousand	1 Oct 2019	Cash flows	New leases	Foreign exchange movement	Change in fair values	Other non-cash movements	30 Sep 2020
Current interest-bearing loans and borrowings (excluding items listed below)	**4,697**	-5,031		23		311	**0**
Current lease liability	**14,013**	-14,819	2,381	-67		14,449	**15,957**
Non-current interest-bearing loans and borrowings (excluding items listed below)	**85,374**	-34,879		-744		29	**49,781**
Non-current lease liability	**37,969**		11,141	-457		1,885	**50,538**
Derivative financial instruments	**61**				-8		**53**
Total liabilities from financing activities	**142,114**	**-54,729**	**13,522**	**-1,245**	**-8**	**16,674**	**116,328**

EUR thousand	1 Oct 2018	Cash flows	New leases	Foreign exchange movement	Change in fair values	Other non-cash movements	30 Sep 2019
Current interest-bearing loans and borrowings (excluding items listed below)	**4,980**	-5,270				4,987	**4,697**
Current lease liability	**13,559**	-13,468	1,315	-271		12,877	**14,013**
Non-current interest-bearing loans and borrowings (excluding items listed below)	**89,350**			1,011		-4,987	**85,374**
Non-current lease liability	**36,629**		5,385	-818		-3,227	**37,969**
Derivative financial instruments	**223**				-162		**61**
Total liabilities from financing activities	**144,741**	**-18,738**	**6,700**	**-78**	**-162**	**9,650**	**142,114**

Liquid funds

Deposits with a maturity of up to 3 months from the year end are classified as liquid funds and are measured at amortised cost. Cash and cash equivalents include readily available cash and bank deposits, as well as fixed-term deposits.

Liquid funds are regularly assessed for impairment, but the risk is limited due to their high credit rating and short maturity.

Liquid funds

EUR thousand	30 Sep 2020	30 Sep 2019
Cash and cash equivalents	21,606	8,629
Total	**21,606**	**8,629**

Derivative financial instruments

Accounting principles

Derivatives are initially recorded at their fair value on the date of the contract, and they are subsequently valued at their fair value. Derivatives a classified as instruments held for trading and recorded at fair value through profit and loss.

The Group utilizes derivatives for hedging operative exchange risks. In 2019 and in the beginning of 2020 the Group utilized derivatives for hedging interest rate risk.
The company does not apply hedge accounting.

The nominal and fair values of the derivatives at the end of the financial period:

EUR thousand	Nominal value	Receivables at fair value	Payables at fair value	Net fair value
30 Sep 2020				
Forward exchange contracts	889	0	-53	-53
Interest rate swaps	0	0	0	0
Total	**889**	**0**	**-53**	**-53**

EUR thousand	Nominal value	Receivables at fair value	Payables at fair value	Net fair value
30 Sep 2019				
Forward exchange contracts	9,385	389	-210	179
Interest rate swaps	43,982	0	-61	-61
Total	**53,368**	**389**	**-271**	**118**

Maturity distribution of derivates (at nominal value)

Maturity distribution of derivatives at 30 September 2020

EUR thousand	FY2021	FY2022	FY2023	FY2024	FY2025
Forward exchange contracts	889	0	0	0	0
Interest rate swaps	0	0	0	0	0
Total	**889**	**0**	0	0	0

Maturity distribution of derivatives at 30 September 2019

EUR thousand	FY2020	FY2021	FY2022	FY2023	FY2024
Forward exchange contracts	1,657	7,728	0	0	0
Interest rate swaps	0	43,982	0	0	0
Total	**1,657**	**51,711**	0	0	0

Interest-bearing liabilities

Other non-current liabilities include an interest-bearing loan of EUR 7.5 million (as at 30 September 2019) granted to the sellers in connection with the acquisition of Arken Zoo Syd. The interest of the loan was present 8%, and it was capitalized. The loan was repaid in February 2020 in connection with the IPO.

Net debt is the total amount of loans from credit institutions and shareholder loans included in the current and non-current liabilities less cash and bank deposits. The targeted net debt and the ratio of net debt to EBITDA are linked to the covenants included in the financing agreements.

Net debt

EUR thousand	30 Sep 2020	30 Sep 2019
Non-current interest-bearing liabilities	100,318	123,343
Current interest-bearing liabilities	16,010	18,771
Loan receivables	-15	-4
Derivative financial instruments	0	-179
Cash and cash equivalents	-21,606	-8,629
Net debt	**94,708**	**133,303**

Interest-bearing liabilities

	Balance sheet values		Fair values	
EUR thousand	30 Sep 2020	30 Sep 2019	30 Sep 2020	30 Sep 2019
Loans from credit institutions	49,781	74,800	49,781	74,800
Lease liability	50,538	37,969	50,538	37,969
Other non-current liabilities	0	10,574	0	10,574
Total interest-bearing non-current liabilities	**100,318**	**123,343**	**100,318**	**123,343**
Loans from credit institutions	0	4,697	0	4,697
Lease liability	15,957	14,013	15,957	14,013
Derivative financial instruments	53	61	53	61
Total interest-bearing current liabilities	**16,010**	**18,771**	**16,010**	**18,771**
Total interest-bearing liabilities	**116,328**	**142,114**	**116,328**	**142,114**

In addition, Musti has entered into a revolving credit facility and bank overdraft agreement. As at the balance sheet dates, the revolving credit facility amounted to EUR 10 million (EUR 0 million) and the total amount of the agreed overdraft limit was EUR 4 million (EUR 4 million). At the financial year ends the revolving credit facility and bank overdraft were undrawn.

5.3 Commitments and contingencies

This Note presents information on items not included in calculations when preparing the financial statements, as they do not satisfy accounting requirements yet. These items include guarantees, pledges and contingent liabilities.

In connection with the IPO in February 2020, Musti refinanced its existing loans with the share issue and a new loan agreement of EUR 60 million, which consists of an EUR 50 million term loan and an EUR 10 million revolving credit facility. The repayment date of the facilities is in 2023. The loan agreement contains two financial covenants: leverage and gearing. In connection with the repayments of the loans enterprise mortgages and pledges were released. The EUR 50 million term loan was drawn to refinance the existing loans. The revolving credit facility has not yet been drawn.

Commitments and contingent liabilities

EUR thousand	30 Sep 2020	30 Sep 2019
Guarantees and mortgages given on own behalf:		
Enterprise mortgages	0	152,859
Total	**0**	**152,859**

EUR thousand	30 Sep 2020	30 Sep 2019
Pledges given on own behalf:		
Shares in subsidiaries	0	336,025
Total	**0**	**336,025**

The enterprise mortgages and pledges as at 30 September 2019 were given as collaterals for the Group's loans from credit institutions 30 Sep 2019 amounting to EUR 79,497 thousand.

Credit Facilities

The Group has a revolving credit facility of EUR 10 million and a bank overdraft of 4 EUR million. At the balance sheet dates, the facilities have not been utilized.

Compliance with covenant conditions

The Group's financing agreements contains for the financial year 2020 covenants relating to gearing and the ratio of net debt to EBITDA (leverage). Violation of covenant terms may increase financial costs or lead to loan termination. The covenants are reviewed and reported to the bank's quarterly. During the financial year 2020, all quarterly covenant conditions were either met or waived.

The Group's financing agreements contained for the financial year 2019 covenants relating to interest rate, gearing and cash flow ratios and investments. Violation of covenant terms may increase financial costs or lead to loan termination. The capex covenant is reviewed annually at the end of the financial year and all the other covenants are reviewed and reported to the bank's quarterly. The company's management regularly monitors the covenants and reports the banks on a quarterly basis. During the financial year 2019, all quarterly covenant conditions were either met or waived. For the annually reviewed capex covenant a waiver was granted before the end of the financial year.

Other commitments

During the periods presented in the financial statements, Musti Group has not been involved in legal proceedings, arbitration or administrative proceedings that could have a significant impact on the Group's financial position or profitability.

EUR thousand	30 Sep 2020	30 Sep 2019
Other guarantees given on own behalf		
Collateral relating to rental payments	0	140
Guarantees relating to rental payments	3,759	4,456
Other commitments	388	315
Total	**4,147**	**4,911**

EUR thousand	30 Sep 2020	30 Sep 2019
Other commitments		
Other guarantees	2,000	
Lease liabilities for leases not recognized in the balance sheet	2,009	3,125
Total	**4,009**	**3,125**

Lease liabilities not recognized in the balance sheet includes the nominal amount of low-value and short-term lease liabilities and the liability for agreements that will enter into force in the future.

In connection with the acquisition of Arken Zoo Holding AB, the company has agreed on a potential earn-out amounting to EUR 4 million at maximum, the payment of which is based on the valuation of the company. At the balance sheet date, it is unlikely that the terms of the earn-out would be fulfilled. After the financial year end on 13 November 2020 it was confirmed that the terms of the purchase price were not met.

5.4 Financial income and expenses

This Note presents the Group's financial income and expenses. The Group has entered into interest rate swap agreements to protect itself from the changes of interest of bank loans with variable interest rates, as well as exchange rate hedges for its purchases in US Dollar and British Pound in Sweden. In 2019, the Group had interest rate swaps to hedge against interest rate fluctuations on floating rate bank loans.

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Financial income		
Interest income	8	7
Exchange gains	14,412	2,584
Gain from changes in the fair value of derivatives	0	284
Other financial income	1	47
Total	**14,420**	**2,922**
Financial expenses		
Interest expenses on loans valued to amortised cost	-2,531	-5,007
Interest expenses from lease liability	-2,395	-2,546
Exchange losses	-15,277	-3,673
Loss from changes in the fair value of derivatives	0	0
Other financial expenses	-111	-188
Total	**-20,314**	**-11,414**
Financial income and expenses, net	**-5,894**	**-8,492**

The Group's interest income and other financial income mainly relate to exchange rate gains and interest income and changes in the fair value of derivatives. Financial expenses mainly relate to loans from credit institutions and other loans, as to valuation losses from derivatives and exchange rate losses.

5.5 Capital Management

The company's Board of Directors is responsible for the capital management strategy. The aim of capital management is to maintain sufficient equity ratio and to comply with requirements set for equity and gearing rates in financing agreements. Capital sources include operating cash flows, equity financing from shareholders and external loans. Covenants included in financing agreements place requirements relating to gearing and the ratio of net debt to EBITDA (leverage). Other terms and conditions on external capital are not applied to the Group. In capital management, the Group's equity consists of equity and loans shown in the balance sheet.

With capital management, the Group aims to safeguard its continuous operations in order to provide yield to the shareholders and increase the value of the capital that they have invested. The Group monitors the adjusted EBITA margin, % and margin and the net debt ratio to last twelve months adjusted EBITDA.

	Target level	1 Oct 2019 – 30 Sep 2020	1 Oct 2018 – 30 Sep 2019
Adjusted EBITA margin, %	10-12%	10.5%	8.9%
Net debt / LTM Adjusted EBITDA	<2.5x	2.0	3.5

5.6 Equity

This Note describes items included in the equity of Musti Group.

Accounting principles

The Group's equity includes instruments that evidences a residual interest in the assets of an entity after deducting all its liabilities and contains no contractual obligation for the issuer to deliver cash or other financial asset to another entity. Costs that relate to the issue or repurchase of own equity instruments are recognized as a deduction in equity.

All company shares are reported as share capital. Any repurchase of its own shares by the company is deducted from equity.

The total equity consists of the share capital, the invested unrestricted equity reserve, translation differences and accumulated profits.

Share capital

On 30 September 2020 the share capital of Musti Group amounted to EUR 11,001,853.68 and the number of shares was 33,535,453. The company has one share class. Each share entitles its holder to one vote at the general meeting and an equal dividend.
The company does not own its own shares.

The shareholders of the company decided by unanimous decision to transform the company form on 23 January 2020 into a public limited company.

Conditional upon the execution of Musti Group's listing, Musti Group's Annual General Meeting (AGM) held on 23 January 2020 resolved to authorise the Board of Directors to amend the company's Articles of Association, decide on a share issue without consideration to combine all share classes into a share class, decide on the issuance of shares in the IPO as well as other measures in connection with the listing of the company.

As part of the execution of Musti Group's initial public offering (IPO) and listing of its shares on the official list of Nasdaq Helsinki Ltd, the Board of Directors of Musti Group resolved on 6 February 2020 on a directed share issue without consideration of 10,511,039 new shares based on the authorisation granted by Musti Group's AGM held on 23 January 2020.

In connection with the completion of the IPO, the Board of Directors of the company decided on 12 February 2020 on the execution of the combination of the company's share classes. In addition, the Board of Directors resolved on a share issue without consideration of 16,564,005 new A3 share class shares to the shareholders owning P share class shares prior to the combination of the shares in deviation from the shareholders' pre-emptive right to new shares.

The AGM also resolved to authorise the Board of Directors to decide on a share issue as well as the issuance of special rights entitling to shares. The Board of Directors may, based on the authorisation, decide on the issuance of shares and the issuance of special rights entitling to shares referred to in Chapter 10 Section 1 of the Finnish Companies Act. The authorisation concerns both the issuance of new shares as well as the transfer of treasury shares. The total number of shares to be issued shall not exceed 1,500,000 shares. The authorisation will be effective until the end of the next Annual General Meeting, however no longer than until 23 July 2021.

The AGM resolved to authorise the Board of Directors to decide on the acquisition of the company's own shares. Based on the authorisation, the total number of shares to be acquired may not exceed 1,500,000 shares. The authorisation will be effective until the end of the next Annual General Meeting, however no longer than until 23 July 2021.

As a result of the company's IPO and personnel issue, the number of shares increased with 32,234,716 in February 2020. All shares have been paid in full.

Before the IPO the company had 1,300,737 shares with no nominal value divided to fifteen different share classes. In each share class, the number of votes and right to the distributions of the company's assets were based on the shareholders' agreement. The shares were subject to consent and redemption clauses. Shares in class P included a preferential right to receive from the company's annually distributable funds a preferential payment that corresponded to 8 per cent of the share's subscription price. Class A shares did not include preferential rights. In connection with the IPO, the company's share classes were merged.

Changes in share capital and invested unrestricted equity reserve

	Number of shares	Share capital	Invested unrestricted equity
		EUR thousand	EUR thousand
1 Oct 2019	**1,300,737**	**11,002**	**122,412**
Share issue	32,065,597	0	43,667
Personnel issue	169,119	0	1,333
30 Sep 2020	**33,535,453**	**11,002**	**167,412**
1 Oct 2018	**1,300,737**	**11,002**	**122,412**
30 Sep 2019	**1,300,737**	**11,002**	**122,412**

The share capital was divided in different share classes and votes in the General Meetings 12 February 2020 as follows:

Share class	Number of issued shares	Votes
A1 share	123,187	100
A2 share	58,739	11
A3 share	32,585	10
P1 share	489,116	100
P1B share	94,127	100
P2 share	169,938	11
P2A share	6,530	11
P2C share	83,181	11
P2D share	457	11
P3 share	66,689	10
P3A share	630	10
P3C share	900	10
P3D share	2,163	10
P1E share	114,684	100
P2F share	57,811	11

Each share in classes P1, P2 and P3 carried a preferential right over shares in classes A1, A2 and A3 to receive from the company's annually distributable funds as a preferential payment an amount that corresponded eight (8) per cent of the subscription price of the share in class P1, P2 and P3 (Preferential Payment). Before the amount of the annually distributed Preferential Payment was calculated, all unpaid Preferential Payments were added to the subscription price. If the funds of the company hadn't been sufficient for paying the Preferential Payment referred above over one or several years, the holders of shares in classes P1, P2 and P3 were entitled to receive a sum corresponding to accumulated unpaid Preferential Payments from the distributable funds in the subsequent years prior to payments to the holders of shares in classes A1, A2 and A3. Shares in classes P1, P2 and P3 did not entitle to any other payments when the company's funds were distributed.

Earnings per share

The basic earnings per share figure is calculated by dividing the result for the financial year attributable to the parent company's shareholders by the weighted average number of shares outstanding during the financial year. When calculating the earnings per share adjusted by dilution, the weighted average of the number of shares takes into account the diluting effect resulting from changing into shares all potentially diluting shares.

Earnings per share

	30 Sep 2020	30 Sep 2019
Earnings per share, basic		
Net profit attributable to equity owners of the parent company, EUR thousand	11,712	2,971
Weighted average number of shares	31,652,469	28,375,781
Basic earnings per share, EUR	**0.37**	**0.10**
Earnings per share, diluted		
Net profit attributable to equity owners of the parent company, EUR thousand	11,712	2,971
Weighted average number of shares	31,652,469	28,375,781
Adjustments:		
Average number of treasury shares it is possible to be issued on the basis of the share-based payments	187,500	0
Weighted average number of shares for diluted earnings per share	31,839,969	28,375,781
Diluted earnings per share, EUR	**0.37**	**0.10**

Dividend and profit distribution

The Board of Directors of Musti Group plc proposes to the Annual General Meeting on 21 January 2021 that shareholders will be paid a capital return of EUR 0.38 per share to be distributed from the invested unrestricted equity reserve totalling approximately EUR 12.7 million and that no dividend will be paid for the financial year ended 30 September 2020. No dividend has been distributed from the 2019 results.

Musti Group plc's distributable funds

EUR thousand	30 Sep 2020
Retained earnings at the end of financial year	626
Unrestricted equity	167,412
Result for the financial year	-129
Distributable equity total	**167,909**

Invested unrestricted equity reserve

Under the Finnish Companies Act, the subscription price of new shares is credited to the share capital, unless it is provided in the share issue resolution that it is to be credited in full or in part to the invested unrestricted equity reserve. Contributions to the reserve for invested unrestricted equity can also be made without share issues.

In connection with the listing, the company carried out an offering which consisted of a public offering in Finland, an institutional offering to institutional investors in Finland and in accordance with applicable laws, internationally; and personnel offering to employees of the group. With the share issue, the company raised gross proceeds of approximately EUR 45,000 thousand that was recognized to the invested unrestricted equity reserve.

During financial year 2020, the company has recognized as expenses in connection with the offering against the received assets of the invested unrestricted equity reserve in total EUR 2,844 thousand, net of EUR 569 thousand deferred taxes.

Translation differences

Translation differences arising on the translation of subsidiaries' financial statements into euros are recognized in other comprehensive income and accumulated in equity.

6. Other notes

6.1 Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence on the other party, or if the parties exercise joint control in making financial and operating decisions. Musti Group's related parties include its subsidiaries, joint venture, Board of Directors and the members of the management team, including the CEO, as well as their family members. Until the IPO in February the related parties also included its owners EQT Mid Market Fund, Vaaka Partners, Braganza AB and Ludv. G Braathens Rederi AS as well as Musti Group Finland Oy's (previously named Musti Group Oy's) (operating) Board of Directors. After the IPO EQT Mid Market Fund's indirect holding was 24.1 % and on 13 August 2020 the indirect holding decreased to 5.6 %. EQT Mid Market Fund relinquished its ownership after the end of the financial year end 2020 on 16 September 2020.

Loans from the owners

EUR thousand	30 Sep 2020	30 Sep 2019
Other non-current interest-bearing liabilities	0	10,225

The following transactions were carried out with joint ventures:

EUR thousand	30 Sep 2020	30 Sep 2019
Purchases of goods and services	2,737	3,133
Receivables	76	0
Payables	145	174
Guarantees given	2,000	0

Related party transactions are executed with the arm's length principle, and their terms and conditions correspond to transactions carried out with independent parties. The management's remuneration is presented in the table below. No loans have been granted to the management, and no other transactions have been conducted with the management.

Management compensation

The CEO and management team remuneration

EUR thousand	CEO	Management team	Total 2020	CEO	Management team	Total 2019
Salaries and other short-term employee benefits	419	1,488	**1,907**	255	1,535	**1,790**
Short-term incentives	171	235	**406**	71	163	**234**
Pension costs - defined contribution plans	64	304	**368**	86	411	**498**
Total	**654**	**2,027**	**2,681**	**412**	**2,109**	**2,522**

The remuneration of the CEO and the members of the Management Team is presented according to accrual basis. The Group management remuneration is described more in detail in the separate Remuneration Statement and Note 2.4 Share-based payments.

Renumeration paid to Board of Directors

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Jeffrey David	60	60
Ingrid Jonasson Blank	30	30
Lisa Farrar (as of December 1, 2018)	30	26
Juho Frilander (as of September 1, 2018)	0	0
Vesa Koskinen (as of December 13, 2019)	0	0
Jarkko Murtoaro (until December 31, 2019)	0	0
Erik Lindgren (until December 10, 2019)	0	30
Geir Stormorken (until December 10, 2019)	0	0
Ilari Haataja (September 1, 2018 - June 30, 2019)	0	0
Alex Lindbom (July 1, 2019- December 31, 2019)	0	0
Total	**120**	**146**

The remuneration of the Board of the Directors is presented according to accrual basis. According to the decision of the 2020 Annual General Meeting, the annual fees paid to the Board members were: Chairman of the Board EUR 60,000 and other Board members EUR 30,000. However, Board members Juho Frilander and Vesa Koskinen shall not be paid any remuneration for their Board activities. The remunerations for the financial year 2020 are due to be paid in December 2020. During the financial year 2020 a total Board fee of EUR 146 thousand, decided by the Annual General Meeting 2019, and a total Board fee of EUR 80 thousand, decided by the Annual General Meeting, 2018, have been paid.

6.2 Taxes

Income taxes

Accounting principles

The taxes recognized in the consolidated income statement include the Group companies' taxes on current net profits on an accrual basis, prior period tax adjustments and changes in deferred taxes. The Group companies' taxes have been calculated from the taxable income of each company determined by local jurisdiction. The country of registration of each group company is presented in Note 1.4 Group information.

Income tax expenses

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Current tax:		
Current tax on profits for the year	-900	-371
Taxes for prior years	135	-91
Total current tax expense	-765	-462
Deferred tax:		
Change in deferred taxes	-1,142	-526
Income taxes	**-1,907**	**-988**

Reconciliation of income tax expense and taxes calculated at the Finnish tax rate rate 20%

EUR tuhatta	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Profit before tax	13,661	4,004
Tax calculated at Finnish tax rate 20%	-2,732	-801
Effect of other tax rates for foreign subsidiaries	-53	-25
Expenses not deductible for tax purposes	-401	-67
Income not subject to tax	39	37
Utilisation of previously unrecognized tax losses	1,108	0
Taxes for prior years	135	-91
Other items	-2	-41
Taxes in income statement	**-1,907**	**-988**

Deferred tax assets and liabilities

Accounting policy

Deferred tax assets and liabilities are recognized on all temporary differences arising between the tax bases and carrying amounts of assets and liabilities. The most significant temporary differences arise from taxable losses. Deferred tax liability has not been calculated on goodwill insofar as goodwill is not tax deductible. Deferred tax on subsidiaries' undistributed earnings is not recognized unless a distribution of earnings is probable, causing tax implications. A deferred income tax asset is recognized to the extent that it is probable that it can be utilized against future taxable income.

Deferred tax has been determined using the tax rates enacted at the balance sheet date, and as the rates changed, at the known new rate. A deferred income tax asset is recognized to the extent that it is probable that it can be utilized against future taxable income. The Group's deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority. Deferred taxes relating to IFRS 16 right-of-use assets and lease liabilities have been netted on the consolidated balance sheet but in the specification of the changes below, the gross amounts to the deferred taxes have been presented.

Determinations based on the management's judgement

Determining to which extent deferred tax assets can be recognized requires management's judgement. The management of Musti Group has used judgement when determining if deferred tax asset is recognized for an unused tax loss carry forward or unused tax credits. Recognition is done only to the extent that it is probable that future taxable profits will be available against which the loss or credit carry forward can be utilized. The Group estimates positions taken in tax return with respect to situations in which applicable tax regulation is subject to interpretation. If necessary, the booked amounts are adjusted to correspond to amounts expected to be paid to the tax authorities.

Changes in deferred taxes during financial year 2020

EUR thousand	1 Oct 2019	Recognized in profit or loss	Recognized in equity	Business acqusitions	Exchange rate differences	30 Sep 2020
Deferred tax assets						
Tax losses	4,156	-1,071	-124		-69	2,892
Intangible and tangible assets	1,319	-160			15	1,175
Inventories	785	113			0	898
Lease liability	10,891	2,089			-118	12,862
Other items	34	-22			-1	11
Total	**17,185**	**949**	**-124**	**0**	**-173**	**17,838**

EUR thousand	1 Oct 2019	Recognized in profit or loss	Recognized in equity	Business acqusitions	Exchange rate differences	30 Sep 2020
Deferred tax liabilities						
Intangible and tangible assets	1,669	25			19	1,713
Right-of-use assets	9,914	2,124			-115	11,923
Other items	510	-58			3	455
Total	**12,093**	**2,091**	**0**	**0**	**-92**	**14,091**
Net deferred taxes 30 Sept 2020	**-5,092**	**1,142**	**124**	**0**	**80**	**-3,747**

Changes in deferred taxes during financial year 2019

EUR thousand	1 Oct 2018	Recognized in profit or loss	Recognized in equity	Business acqusitions	Exchange rate differences	30 Sep 2019
Deferred tax assets						
Tax losses	4,569	-254			-160	4,156
Intangible and tangible assets	1,530	-158			-53	1,319
Inventories	924	-139			0	785
Lease liability	10,714	438			-261	10,891
Other items	64	-28			-2	34
Total	**17,803**	**-141**	**0**	**0**	**-476**	**17,185**

EUR thousand	1 Oct 2018	Recognized in profit or loss	Recognized in equity	Business acqusitions	Exchange rate differences	30 Sep 2019
Deferred tax liabilities						
Intangible and tangible assets	1,990	-252			-69	1,669
Right-of-use assets	9,684	469			-239	9,914
Other items	349	167			-6	510
Total	**12,022**	**384**	**0**	**0**	**-314**	**12,093**
Net deferred taxes 30 Sept 2019	**-5,780**	**526**	**0**	**0**	**162**	**-5,092**

On 30 September 2020, the Group had temporary differences on which no deferred tax assets were booked totalling EUR 83 thousand (30 September 2019: EUR 1 485 thousand), as it is uncertain if they will be realized. Most of the unrecognized deferred tax assets are related to cumulative tax losses. Of these, EUR 73 thousand (30 September 2019: EUR 65 thousand)) will expire within the next nine years and the rest will expire later or never. Most of the cumulative tax losses on which deferred tax assets have been booked will never expire.

Accrued losses can be used only if the Group generates future taxable income covering the losses. The Group's ability to produce taxable income is dependent on the general economic, competitive, financial, legislative and other factors that are beyond the Group's control. The management estimates that most of the tax losses can be utilized within 1-5 years.

6.3 Subsequent events

No significant events after the financial year.

7. Parent company financial statement, FAS

Musti Group plc income statement

EUR thousand	Note	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Other operating income	7.2	20,609	0
Employee benefit expenses	7.3	-913	0
Depreciation, amortisation and impairment		0	0
Other operating expenses	7.4	-23,217	-243
Operating profit/loss		**-3,521**	**-243**
Financial income	7.5	1,578	1,435
Financial expenses	7.5	-843	-688
Profit/loss before appropriations and taxes		**-2,786**	**503**
Appropriations	7.6	2,660	0
Income tax expense	7.7	-3	-77
Profit/loss for the period		**-129**	**426**

Musti Group plc balance sheet

EUR thousand	Note	30 Sep 2020	30 Sep 2019
ASSETS			
Non-current assets			
Intangible assets	7.8	16	0
Investments	7.9	109,049	109,049
Total non-current assets		**109,065**	**109,049**
Current assets			
Long-term receivables	7.10	24,552	24,417
Short-term receivables	7.10	113,720	664
Cash and cash equivalents		1	0
Total current assets		**138,272**	**25,081**
TOTAL ASSETS		**247,337**	**134,130**

EUR thousand	Note	30 Sep 2020	30 Sep 2019
EQUITY AND LIABILITIES			
Equity			
Share capital	7.11	11,002	11,002
Other reserves	7.11	167,412	122,412
Retained earnings	7.11	626	200
Profit/loss for the fiscal period		-129	426
Total equity		**178,911**	**134,040**
Liabilities			
Non-current liabilities	7.12	49,781	0
Current liabilities	7.13	18,645	90
Total current liabilities		**68,425**	**90**
TOTAL EQUITY AND LIABILITIES		**247,337**	**134,130**

Musti Group plc cash flow statement

	1.10.2019-30.9.2020	1.10.2018-30.9.2019
Cash flows from operating activities		
Profit before appropriations and taxes	-2,786	503
Depreciations	0	0
Finance income and expenses	-735	-747
Other adjustments	-49	0
Operating profit before change in working capital	-3,570	-243
Change in working capital		
Increase (-) / decrease (+) of current receivables	-22,099	0
Increase (+) / decrease (-) of current non-interest bearing liabilities	18,396	-1
Cash flows from operating activities before financial items and taxes	**-7,273**	**-244**
Interests paid and other finance costs	-515	-507
Interests received	1,532	1,072
Direct income taxes paid	-171	-47
Net cash from operating activities	**-6,427**	**274**
Cash flows from investing activities		
Purchases of property, plant, equipment and intangible assets	-16	0
Long-term receivables, increase (-)/decrease (+)	-96	0
Net cash fom investing activities	**-112**	**0**

	1.10.2019-30.9.2020	1.10.2018-30.9.2019
Cash flows from financing activities		
Proceeds from non-current liabilities	45,000	0
Proceeds from equity issues	50,000	0
Repayments of non-current loans	0	-10,000
Change in internal bank account receivables	-88,461	9,726
Net cash fom financing activities	**6,539**	**-274**
Change in cash and cash equivalents	**1**	**0**
Cash and cash equivalents at the beginning of the period	0	0
Cash and cash equivalents at the end of the period	1	0

Notes to Musti Group plc financial statements

7.1 Accounting principles

Basis of preparation

Musti Group plc is the parent company of Musti Group, domiciled in Helsinki, Finland. The financial statements of Musti Group plc have been prepared in euros in accordance with the relevant acts and regulations in force in Finland (Finnish Accounting Standards, FAS).

When preparing the financial statements, the management of the company needs to make estimates and assumptions that affects the financial statements valuations. Actual figures may differ from the estimates made.

Valuation and accruing principles and methods

Non-current assets

Intangible assets are recognized at the acquisition cost less the depreciation according to plan. Acquisition costs consists of direct costs of the acquisition. The depreciation has been calculated straight-line basis over the financial use of the asset. The depreciation period of intangible assets is 5 years.

Investments in subsidiaries are recognized either at acquisition cost or at net realizable value, if the investments value has declined permanently.

Receivables

Receivables are recognized either at the acquisition cost or at current market value if the current market value is lower than the acquisition cost.

Pension plans

The statutory pension liability of the Finnish personnel and any additional pensions have been arranged through a pension insurance company.

Income tax expense

Income tax includes tax calculated on the profit for the current financial year as well as tax adjustments for previous financial years. No deferred taxes have been booked in the parent company.

Foreign currency items

Foreign currency business transactions are booked using the exchange rate of the transaction date. At the end of the fiscal year all open foreign currency transactions are valued using the exchange rate of the transaction date.

7.2 Other operating income

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Service fee's from group companies	20,490	0
Other income from group companies	119	0
Total	**20,609**	**0**

7.3 Employee benefit expenses

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Salaries and fees	751	0
Social security costs	102	0
Pension costs	57	0
Other social security costs	2	0
Total	**913**	**0**
Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors		
Chief Excetuive Officer	590	0
Board of Directors	110	0
Personnel on average	2	0

7.4 Other operating expenses

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Expenses related to the share issue	4,593	0
Administration	16,815	141
Other expenses	1,809	102
Total	**23,217**	**243**
Auditors' fees		
EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Authorised Public Accountants E&Y		
Audit	67	38
Tax consultation	91	0
Other services	0	0
Total	**158**	**38**

7.5 Financial income and expenses

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Other interest and financial income		
From Group companies		
Interest income	1,240	1,376
From others		
Other financial income	339	59
Total	**1,578**	**1,435**
Interest and other financial expenses		
To Group companies		
Interest expenses	0	-507
To others		
Interest expenses	-411	0
Other financial expenses	-432	-181
Total	**-843**	**-688**
Financial income and expenses total	**735**	**747**

7.6 Approriations

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Group contributions received	2,660	0
Total	**2,660**	**0**

7.7 Income taxes

EUR thousand	1 Oct 2019 - 30 Sep 2020	1 Oct 2018 - 30 Sep 2019
Income tax for the financial year	0	-101
Income tax for prior financial years	-3	24
Total	**-3**	**-77**

7.8 Intangible assets

EUR thousand	30 Sep 2020	30 Sep 2019
Intangible rights		
Acquisition cost 1.10.	0	0
Additions	16	0
Acquisition cost 30.9.	16	0
Accumulated amortisation 1.10.	0	0
Amortisations for the financial year	0	0
Accumulated amortisation 30.9.	0	0
Book value 30.9.	**16**	**0**

7.9 Investments

EUR thousand	30 Sep 2020	30 Sep 2019
Investments in Group companies		
Acquisition cost 1.10.	109,049	109,049
Increases	0	0
Acquisition cost 30.9.	**109,049**	**109,049**

Group companies	**Share of parent company %**
Musti Group Finland Oy	100

The Group's subsidiaries and investments in associates are presented in Note 5.2 in the Consolidated Financial Statements.

7.10 Current receivables

Long-term receivables

Receivables from Group companies

EUR thousand	30 Sep 2020	30 Sep 2019
Loan receivables	24,456	24,417
Total	**24,456**	**24,417**

Receivables from others

EUR thousand	30 Sep 2020	30 Sep 2019
Other receivables	96	0
Total	**96**	**0**
Long-term receivables total	**24,552**	**24,417**

Short-term receivables

Receivables from Group companies

EUR thousand	30 Sep 2020	30 Sep 2019
Trade receivables	10,965	0
Group contribution receivables	2,660	0
Group bank account receivables	88,821	360
Prepayments and accrued income	10,451	304
Total	**112,897**	**664**

Receivables from others

EUR thousand	30 Sep 2020	30 Sep 2019
Prepayments and accrued income		
Income taxes	126	0
Value added tax receivables	568	0
Other	129	0
Total	**823**	**0**
Short-term receivables total	**113,720**	**664**

7.11 Equity

EUR thousand	Share capital	Unrestricted equity reserve	Retained earnings	Equity total
Equity 1 Oct 2019	**11,002**	**122,412**	**626**	**134,040**
Share issue		45,000		45,000
Result for the financial year			-129	-129
Equity 30 Sep 2020	**11,002**	**167,412**	**498**	**178,911**
Equity 1 Oct 2018	**11,002**	**122,412**	**200**	**133,613**
Result for the financial year			426	426
Equity 30 Sep 2019	**11,002**	**122,412**	**626**	**134,040**

Distibutable equity

EUR thousand	30 Sep 2020	30 Sep 2019
Reserve for invested unrestricted equity	167,412	122,412
Retained earnings	626	200
Net result for the financial period	-129	426
Total	**167,909**	**123,038**

7.12 Non-current liabilities

Liabilities to others

EUR thousand	30 Sep 2020	30 Sep 2019
Loans from financial institutions	49,781	0
Total	**49,781**	**0**
Non-current liabilities total	**49,781**	**0**

7.13 Current liabilities

Liabilities to Group companies

EUR thousand	30 Sep 2020	30 Sep 2019
Trade payables	11,838	0
Other liabilities	5,940	0
Total	**17,778**	**0**

Liabilities to others

EUR thousand	30 Sep 2020	30 Sep 2019
Trade payables	190	0
Other liabilities	161	0
Accruals and deferred income		
Employee benefit expenses	265	0
Interest liabilities	249	0
Other accruals and deferred income	3	90
Accruals and deferred income total	516	90
Total	**867**	**90**
Current liabilitites total	**18,645**	**90**

7.14 Commitments and contingent liabilities

EUR thousand	30 Sep 2020	30 Sep 2019
Pledges given on behalf of group companies		
Pledged subsidiary shares	0	109,049
Total	**0**	**109,049**

Musti Group plc has given letter of guarantees for the following group companies:
Zoo Support Scandinavia AB, Arken Zoo Nord AB, Arken Zoo Holding AB and Grizzly Zoo Ab.

Musti Group plc's Board of Directors' proposal to the Annual General Meeting for the distribution of distributable funds and signing of the financial statements and Board of Directors' review

Musti Group plc's distributable funds on 30 September 2020 amounts to EUR 167,909,159.28, of which loss for the financial year 2020 is EUR -128,875.23.

The Board of Directors of Musti Group plc proposes to the Annual General Meeting on 21 January 2021 that a capital return of EUR 0.38 per share will be distributed from the invested unrestricted equity reserve totalling approximately EUR 12.7 million and that no dividend will be paid for the financial year ended 30 September 2020.

There have been no material changes in the company's financial position since 30 September 2020. The liquidity of the company remains good, and the proposed capital return does not risk the solvency of the company.

Signing of the Board of Director's Report and Financial Statements

Helsinki, 18 December 2020

Jeffrey David

Ingrid Jonasson Blank

Lisa Farrar

Juho Frilander

Vesa Koskinen

David Rönnberg
CEO

THE AUDITOR'S NOTE

Our auditor's report has been issued today

Helsinki, 18 December 2020

Ernst & Young Oy
Authorized Public Accountant Firm

Johanna Winqvist-Ilkka
Authorized Public Accountant

Auditor's Report (Translation of the Finnish original)

To the Annual General Meeting of Musti Group Oyj

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Musti Group Oyj (business identity code 2659161-1) (formerly Musti Group Holding Oy) for the year ended 30 September, 2020. 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, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

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

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 Financial Statements* section of our report.

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 2.3 to the consolidated financial statements.

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of Goodwill *We refer to the notes 3.2 and 3.3.* The value of goodwill at the date of the financial statements amounted to 145.4 million euros, representing 47% of total assets and 95% of equity. Valuation of goodwill is based on management's estimates about the value-in-use calculations of cash generating units. There are a number of underlying assumptions used to determine the value-in-use of cash generating units, including the development of revenue and profitability as well as the discount rate applied on cash flows. The estimated value-in-use of cash generating units may vary significantly when the underlying assumptions change. Changes in the above-mentioned individual assumptions may result in an impairment of goodwill. The valuation of goodwill was a key audit matter because the assessment process includes judgment and it is based on assumptions relating to market or economic conditions extending to the future and because the amount of goodwill is significant to the financial statements. Valuation of goodwill was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	To address the risk of material misstatement regarding the valuation of goodwill our audit procedures included among others: • involving EY valuation specialists to assist us in evaluating the methodologies, impairment calculations and underlying assumptions applied by management in impairment testing; • comparing the principles applied by management in the impairment tests to the requirements set in the standard IAS 36 Impairment of assets; • ensuring the mathematical accuracy of the impairment calculations; and • comparing the key assumptions applied by management in the impairment tests to approved budgets and long-term forecasts, information available in external sources, as well as our independently calculated industry averages for example in the case of the weighted average cost of capital used in discounting cashflows. In addition, we compared the outcome of management's impairment test to Musti Group Plc's market capitalization. We also assessed the Group's disclosures in respect of impairment testing.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue Recognition *We refer to the Group's accounting policies and the note 2.1.* Musti Group's revenue is generated from sales of products and services in retail stores and in online platforms as well as from sales to franchise stores. The Group's net sales amounted to 284.4 million euros. Revenue recognition was a key audit matter due to the high volume of transactions, the management judgement involved in accounting for right of return and loyalty club bonus, and the extensive network of stores. In addition, the group focuses on revenue as a key performance measure which could create an incentive for revenue to be recognized before the control of goods or services has transferred to the customer. Revenue recognition was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	To address the risk of material misstatement regarding revenue recognition our audit procedures included among others: • assessing the Group's accounting policies over revenue recognition, including principles relating to right of return accounting and loyalty club bonuses in relation to applicable accounting standards; • testing revenue, product returns, loyalty club bonuses and margins with data analytics; • testing selected samples of sales transactions by comparing them to payments received; • reviewing the sales processes and reconciliation routines for cash and payment card transactions in selected retail stores; • analyzing the timing of revenue recognition of online sales based on delivery lead times; and • comparing selected accounts receivable balances to confirmations received from counterparties. We also assessed the Group's disclosures in respect of revenues.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of inventories *We refer to the Group's accounting policies and the note 4.1.* The total value of inventories at the date of the financial statements amounted to 36,4 million euros. Musti Group's inventories are valued at the lower of cost or net realizable value. Inventories are presented net of an impairment loss recognized for obsolete and slow-moving inventories. Valuation of inventories was a key audit matter because the carrying value of inventories is material to the financial statements and because valuation of inventories and the level of allowance for obsolete and slow-moving inventories requires management judgment relating to the future sales of the goods. Valuation of inventories was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	To address the risk of material misstatement regarding valuation of inventories our audit procedures included among others: • assessing the Group's accounting policies regarding inventories, including compliance with applicable accounting standards; • attending physical stock takings in selected stores and central warehouses in order to, among other things, observe the potential obsolescence of goods; • comparing unit prices of selected inventory items to latest purchase invoices and to sales prices; and • testing slow-moving inventory items as well as exceptional values in inventory accounting with data analytics. We also assessed the Group's disclosures in respect of inventory.

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 going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

Musti Group Oyj has been a public interest entity (PIE) since initial public offering on February 13, 2020. We have been the company's auditor since it became a public interest entity.

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 and the information included in the Annual Report, 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 and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, 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 18.12.2020

Ernst & Young Oy
Authorized Public Accountant Firm

Johanna Winqvist-Ilkka
Authorized Public Accountant

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