TOKMANNI

Half year financial report
January – June 2017

Tokmanni Group Corporation Half year report January–June 2017

Second quarter revenue grew 1.9%

Numbers in brackets refer to the corresponding period previous year if nothing else is mentioned.

Second quarter highlights

- Revenue grew 1.9% to EUR 196.0 million (192.4)
- Like-for-Like revenue declined -1.9%
- According to Tokmanni's calculations the impact from the exceptionally cold spring and the delayed summer was more than -1%
- 5 net new and 1 relocated store opened, selling space increased by approximately 9,700 square meters in total
- Adjusted gross profit totaled EUR 66.8 million (67.1), an adjusted gross margin of 34.1% (34.9%). The decrease was primarily due to the sales mix and campaigning
- Adjusted EBITDA totaled EUR 11.6 million (15.2), 5.9% of revenue (7.9%)
- Adjusted EBIT totaled EUR 8.1 million (11.4), 4.1% of revenue (5.9%)
- Cash flow from operating activities amounted EUR 18.8 million (23.6)
- Earnings per share at last year's level 0.08 euros (0.08)

Highlights of the review period January–June 2017

- Revenue grew 0.6% to EUR 352.6 million (350.6)
- Like-for-Like revenue declined -2.7%
- 6 net new and 2 relocated stores opened, selling space increased by approximately 12,300 square meters in total
- Adjusted gross profit totaled EUR 116.0 million (119.6), an adjusted gross margin of 32.9% of revenue (34.1%)
- Adjusted EBITDA totaled EUR 10.1 million (17.4), 2.9% of (5.0%)
- Adjusted EBIT totaled EUR 2.9 million (9.8), 0.8% of revenue (2.8%)
- Cash flow from operating activities totaled EUR -19.1 (8.3)
- Earnings per share at last year's level, -0.04 euros (-0.04)

TOKMANNI'S OUTLOOK FOR 2017 REMAINS UNCHANGED

Tokmanni expects revenue growth for 2017 based on the revenue from new stores opened in 2016 and 2017. Revenue of like-for-like stores is expected to remain at the level of the previous year. Group profitability (adjusted EBITDA%) is expected to decrease from last year's level.

As of the third quarter 2017, Tokmanni will adapt its terminology to market practice by replacing the term “adjusted” with “comparable”.

Key figures

	4-6/2017	4-6/2016	Change%	1-6/2017	1-6/2016	Change%	1-12/2016
Revenue, MEUR	196.0	192.4	1.9%	352.6	350.6	0.6%	775.8
Like-for-like revenue development, %	-1.9			-2.7			-0.1
Number of baskets, M	11.7	11.4	3.1%	21.5	20.8	3.4%	44.7
Gross profit, MEUR	65.6	67.8	-3.2%	114.3	119.5	-4.3%	268.4
Gross margin, %	33.5	35.2		32.4	34.1		34.6
Adjusted gross profit, MEUR	66.8	67.1	-0.5%	116.0	119.6	-3.0%	267.9
Adjusted gross margin, %	34.1	34.9		32.9	34.1		34.5
Operating expenses	-55.8	-52.2	6.9%	-108.9	-103.5	5.2%	-207.4
Adjusted operating expenses	-56.0	-52.7	6.3%	-107.6	-103.7	3.7%	-208.5
EBITDA, MEUR	10.7	16.4	-34.9%	7.1	17.5	-59.6%	64.3
EBITDA, %	5.4	8.5		2.0	5.0		8.3
Adjusted EBITDA, MEUR	11.6	15.2	-23.8%	10.1	17.4	-42.0%	62.8
Adjusted EBITDA, %	5.9	7.9		2.9	5.0		8.1
Operating profit (EBIT), MEUR	7.2	12.6	-42.8%	-0.1	9.9	-100.7%	49.2
Operating profit margin EBIT, %	3.7	6.6		0.0	2.8		6.3
Adjusted EBIT, MEUR	8.1	11.4	-28.8%	2.9	9.8	-69.8%	47.7
Adjusted EBIT, %	4.1	5.9		0.8	2.8		6.1
Net financial items, MEUR	-1.4	-7.2	-79.9%	-2.8	-12.3	-77.4%	-15.2
Net capital expenditure, MEUR	0.0	1.6	-99.6%	1.5	3.0	-48.5%	9.8
Net debt / adjusted EBITDA **	3.1	2.6		3.1	2.6		1.8
Net cash from operating activities, MEUR	18.8	23.6		-19.1	8.3		62.5
Return on capital employed, %	2.2	3.8		0.0	3.0		14.5
Return on equity, %	3.4	3.4		-1.7	-1.6		18.1
Number of shares, weighted average during the financial period (thousands)*	58 869	54 095		58 869	49 322		54 095
Earnings per share (EUR/share)*	0.08	0.08		-0.04	-0.04		0.50
Personnel at the end of the period	3 534	3 503		3 534	3 503		3 224
Personnel on average in the period	3 312	3 286		3 184	3 191		3 209

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

** Rolling 12 months adjusted EBITDA

Adjustments affecting comparability

Tokmanni has used the non-IFRS measure EBITDA and made adjustments to improve comparability and give a better view of Tokmanni's operational performance. EBITDA represents operating profit before depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted to exclude items that Tokmanni's management considers to be exceptional and non-trading items, including the 2017 loss on real estate and changes in the fair value of electricity and currency derivatives, which are adjusted for by Tokmanni as they are unrealized gains or losses related to Tokmanni's open cash flow hedge positions, and hence not related to Tokmanni's operational performance during the periods under review. Tokmanni's management uses adjusted EBITDA and other measures mentioned below as a key performance indicators to assess Tokmanni's underlying operational performance. As of the third quarter 2017, Tokmanni will adapt its terminology to market practice by replacing the term "adjusted" with "comparable".

Adjustments affecting comparability

MEUR	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
Gross profit	**65.6**	**67.8**	**114.3**	**119.5**	**268.4**
Changes in fair value of currency derivatives	1.1	-0.6	1.7	0.1	-0.5
Adjusted Gross Profit	**66.8**	**67.1**	**116.0**	**119.6**	**267.9**
Operating expenses	**-55.8**	**-52.2**	**-108.9**	**-103.5**	**-207.4**
Changes in fair value of electricity derivatives	-0.2	-0.6	0.1	-0.2	-1.1
Loss on real estate sales	-	-	1.2	-	-
Adjusted operating expenses	**-56.0**	**-52.7**	**-107.6**	**-103.7**	**-208.5**
EBITDA	**10.7**	**16.4**	**7.1**	**17.5**	**64.3**
Operating profit (EBIT)	**7.2**	**12.6**	**-0.1**	**9.9**	**49.2**
Changes in fair value of currency derivatives	1.1	-0.6	1.7	0.1	-0.5
Changes in fair value of electricity derivatives	-0.2	-0.6	0.1	-0.2	-1.1
Loss on real estate sales	-	-	1.2	-	-
Adjusted EBITDA	**11.6**	**15.2**	**10.1**	**17.4**	**62.8**
Adjusted operating profit (adj. EBIT)	**8.1**	**11.4**	**2.9**	**9.8**	**47.7**

TOKMANNI'S INTERIM CEO HARRI SIVULA:

SECOND QUARTER REVENUE GREW 1.9%

" As communicated in June, the exceptionally cold spring and the delayed summer negatively affected our sales. Even in May we had several days with snow all over Finland, but in June the weather improved. As a result, trading picked up and our second-quarter revenue grew by 1.9% on the previous year. As we predicted, our Like-for-Like sales and profitability, however, deteriorated from the previous year's high level. The weakening of profitability was partly affected also by the exceptionally high number of stores opened this year.

It is important to remember that due to the seasonal nature of our business, the sales and profitability of the second half of the year are generally stronger than the beginning of the year and that seasons are generally less weather dependent at the end of the year than at the beginning of the year. Nevertheless, we can't be satisfied with the 2017 progress so far and we further intensified our actions already in the spring to improve our Like-for-Like sales and profitability, with even more emphasis on our pricing strategy, campaigning and by developing our assortment. This work continues. The seasons are very important to us and we will continue to invest heavily in them. However, we are investing more and more in the sales of less weather dependent private labels. We continue to develop our assortment to continuously provide customers with interesting products and stock lots between seasons. At the same time our strict cost control continues. The shelf availability issues, which we experienced in the spring following the implementation of the new assortment management tool, have now been solved and the tool will in the future support among others our campaigning work.

"

Trading picked up in June.

The recovery of the Finnish economy has been faster than expected in 2017 but economic growth is not yet fully reflected in the non-grocery market. In 2017, the purchasing power of consumers is not predicted to be strengthened, but the growth in private consumption will be supported by, among others increased employment and high consumer confidence, and due to that, we forecast a slight recovery in the non-grocery market as well in 2017.

I am very pleased with Mika Rautiainen's appointment as our new CEO. Mika's competence and capabilities will bring us significant added value in the implementation of our strategy and in further developing our strong market position. Tokmanni has a strong market position, a clear strategy and strategic goals. We will continue our determined work towards becoming Finland's leading, modern, omni-channel discount retailer."

Market development

According to the Finnish Grocery Trade Association's FTGA (www.pty.fi) the non-grocery market, the market closest comparable to Tokmanni, decreased by -7.4% in the second quarter 2017 and -8.2% in January-June 2017. The total sales of department stores and hypermarket chains grew according to the FTGA statistics by 0.4% in the second quarter 2017 but decreased -1.5% in the January-June period. FTGA member department stores and hypermarket chains are K-Citymarket, Prisma, Sokos, Stockmann, Tokmanni and Minimani. In addition, Anttila is included in the comparable numbers.

According to Tokmanni's estimate, the non-grocery market grew approximately 0.3% in the second quarter and decreased -0.5% in the January-June 2017 period when Anttila's estimated sales is adjusted from the 2016 comparable numbers. According to Tokmanni's own estimate, it has grown faster than the market. The total sales of department stores and hypermarket chains grew 3.4% in the second quarter and 1.3% in January-June 2017 when Anttila's estimated sales is adjusted from the 2016 comparable numbers.

Tokmanni estimates that the redistribution of Anttila's customers has not yet fully started or has favored specialty and online retailers that are not included in FTGA statistics. Anttila's assortment focused on clothing, home and leisure. The bying interval for these product categories is longer than for daily goods.

Operational development

Store network development

Based on efficient roll-out and short ramp up of new stores, extending the store network is one of the drivers for Tokmanni's revenue and earnings growth. Tokmanni's target is to open approximately 5 net new or relocated stores, in total approximately 12,000 square meters net per year.

In the second quarter 2017 Tokmanni opened 5 net new stores, out of which 3 were opened in store space released by Anttila, and 1 relocated store. The company's selling space increased by approximately 9,700 square meters during the quarter and the company had 168 stores at the end of June. Tokmanni opened 6 net new and 2 relocated stores during the review period January-June 2017. In 2017, Tokmanni will open at least 13 net new stores and 2 relocated stores, and consequently exceptionally increases its selling space by at least 27,000 square meters.

Definition of new store and stores opened in 2016

According to Tokmanni's definition a store is considered a new or relocated store in its opening year and in the following calendar year. On average a new store is profitable in approximately 12 months and reaches full capacity in approximately 24 months.

New and relocated stores include: (i) new stores opened; (ii) store relocations where the store size changes by 30 percent or more and the assortment increases or is reduced substantially; (iii) store expansions where the store size changes by 30 percent or more. Tokmanni deducts the closed stores from the new and relocated stores on a net basis.

In 2016, Tokmanni opened 6 new stores and 1 relocated store. The selling space of one store was reduced substantially and as a consequence Tokmanni’s selling space increased by 7,800 net square meters.

Financial development

Seasonality

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

Revenue grew despite challenging weather conditions

Tokmanni's revenue for the second quarter of 2017 increased by 1.9% to EUR 196.0 million (192.4). The growth was based on revenue from new stores opened in 2016 and 2017. Like-for-Like sales declined by -1.9% year-on-year, due primarily to the exceptionally cold spring and the delayed summer. Challenging weather conditions affected our sales mix, and seasonal product sales were weaker than anticipated. At the same time, the proportion of campaigning grew in relation to the corresponding quarter last year. In the second quarter of 2016, demand for more valuable seasonal products, such as garden furniture, was strong and there were fewer discounts and campaigns. Weather conditions in Finland have fluctuated considerably over the last few years, and Tokmanni continues to develop its assortment to be less weather dependent.

The number of baskets grew from 11.4 million to 11.7 million in the second quarter of the year, an increase of 3.1% over the same period last year. This tells us that Tokmanni's brand awareness is constantly improving and new customers find their way to our stores.

> ” The number of baskets grew 3.1% in the second quarter.

Tokmanni's revenue for January-June 2017 totaled EUR 352.6 million (350.6), an increase of 0.6%. The growth was based on the growth from new and relocated stores opened in 2016 and 2017. Like-for-Like sales decreased by -2.7%, due to the weak first quarter, one additional selling day in 2016 and the challenging weather conditions that continued in the second quarter.

Adjusted gross margin was at last year's level, EBITDA weakened

The second quarter gross profit amounted to EUR 65.6 million (67.8), representing 33.5% of revenue (35.2%). Adjusted gross profit was EUR 66.8 million (67.1), representing a 34.1% gross margin (34.9%). The quarter was by nature more campaign and discount focused compared to last year's strong corresponding quarter.

The gross profit for January-June 2017 was EUR 114.3 million (119.5), 32.4% of revenue (34.1%). Adjusted gross profit was EUR 116.0 million (119.6), corresponding to a 32.9% gross margin (34.1). The challenging weather conditions increased campaigning and affected the sales mix which had a negative impact on the gross profit for the review period.

Operating expenses for the second quarter of 2017 grew slightly and amounted to EUR 55.8 million (52.2). Adjusted operating expenses totaled EUR 56.0 million (52.7). The increase was primarily due to the high number of new stores. New stores have a positive impact on the revenue development but have a slight negative impact on profitability in the ramp-up period of the stores. In addition, the increase in operating expenses was influenced by marketing expenses which were at a higher level than the previous year. In the second quarter of 2016, marketing expenses were exceptionally low. There was a slight increase in freight costs when unsold seasonal products were transported from stores to storage. Operating expenses for January-June totaled EUR 108.9 million (103.5). Adjusted operating expenses totaled EUR 107.6 million (103.7).

" The increase in operating expenses was primarily due to the high number of new stores.

EBITDA for the second quarter 2017 was EUR 10.7 million (16.4) and the EBIT margin was 5.4% (8.5%). Second quarter adjusted EBITDA totaled EUR 11.6 million (15.2), 5.9% of revenue (7.9%). The January-June 2017 EBITDA was EUR 7.1 million (17.5), 2.0% of revenue (5.0%). Adjusted EBITDA was EUR 10.1 million (17.4), 2.9% of revenue (5.0%). The weakening of Tokmanni's profitability was due to the sales mix, campaigning and increased operating expenses. Tokmanni is investing more heavily in measures to improve profitability and continues its strict cost control to achieve its profitability goal. Due to the seasonal nature of the business, Tokmanni's profitability is generally significantly higher in the second half than in the first half of the year.

Second quarter operating profit (EBIT) was EUR 7.2 million (12.6), 3.7% of revenue (6.6%). Adjusted operating profit was EUR 8.1 million (11.4), 4.1% of revenue (5.9%). Operating profit for January-June 2017 was EUR -0.1 million (9.9), 0.0% of revenue (2.8%). Adjusted operating profit was EUR 2.9 million (9.8), 0.8% of revenue (2.8%).

Net financial items amounted to EUR -1.4 million (-7.2) for the second quarter and for January-June 2017 -2.8 million (-12.3). Following the listing in April 2016, the company restructured its financial institution loan and the interest rate on the new loan arrangement is significantly lower than that of the previous loan. The comparable numbers 2016 also includes a one-off financial cost of EUR 4.4 million, which relates to accrued, capitalized emission fees from previous loans, which were released in conjunction with the refinancing.

The second quarter result before taxes was EUR 5.8 million (5.4) and the net result for the quarter was EUR 4.6 million (4.2). Earnings per share for the second quarter were 0.08 euros (0.08). The January-June 2017 result before taxes was EUR -2.9 million (-2.5). The net result for the review period was EUR -2.3 million (-2.0). Earnings per share were -0.04 euros (-0.04).

Balance sheet, financing and cash flow

At the end of June 2017, Tokmanni had interest-bearing debt totaling EUR 189.8 million (196.8). Net debt / adjusted EBITDA (rolling 12 months) was 3.1 at the end of the period. Tokmanni's goal is to reach a level where the net debt / adjusted EBITDA is less than 2.0.

Increased inventories, due to lower sales volumes and new stores negatively affected the company's working capital and the cash flow from operating activities was EUR -19.1 million in January-June 2017 (8.3). However, the second-quarter cash flow from operations was positive at EUR 18.8 million (23.6). In April 2017, the company paid

EUR 30.0 million (0.0) in dividends to its shareholders. The Company's cash and cash equivalents totaled EUR 19.8 million (38.4) at the end of the review period.

Capital expenditure

Net capital expenditure for January-June 2017 totaled EUR 1.5 million (3.0). The 2017 capital expenditure includes a repayment of EUR 2.9 million temporary financing related to the construction of the Närpiö store, which was returned when the store was completed. Gross capital expenditure for 2017 is expected to be higher than previous years, due to the high selling space increase. Tokmanni will increase its selling space by at least approximately 27,000 square meters. Opening a middle sized new store requires approximately EUR 0.5 million in capital expenditure.

Strategy

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

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

- leveraging its unified brand image and, demand-driven category management, continuous store concept and assortment development and through further investments in digital and omni-channel services to drive like-for-like revenue growth;
- continuing to increase the amount of net new selling space by approximately by approximately 12,000 square meters annually, translating into approximately five new or relocated stores, and
- improving profitability and working capital management through improved processes and tools in sourcing, supply chain management and category management as well as improving its store efficiency.

Strategic measures during the review period

During January-June 2017, Tokmanni continued to implement its strategy and to develop the company according to its targets.

During the review period, the reinforcement of Tokmanni's store concept continued. The company regularly analyzes the functionality of the concept, modifies solutions when needed and designs new elements to be embedded in the concept. The new elements of the store concept are tested in pilot stores and thereafter partially or completely implemented in stores. During the review period, the company continued to improve its store efficiency. The aim of the project is to improve the store presentation work and releases sales staff time to better customer service.

Tokmanni continued to sharpen the destination categories of its assortments as a part of its product category strategy.

Tokmanni's omni-channel project proceeded as planned. In the first phase of the project, the company focuses on building a system platform to enable an omni-channel approach. The goal is to create new tools for reaching and serving customers as well as to develop sales digitally and building a new online store.

In addition to increasing Like-for-Like sales, Tokmanni is seeking growth by opening new stores. During the January-June period, the company opened 6 new and 2 relocated stores net. The company continues to develop its store network and negotiations on new selling space continue. So far, the company has signed three contracts for the new stores that will open in the spring of 2018.

Tokmanni's profitability drivers include the increase in direct imports and the company's private labels as well as the maintenance of operational expenses at the current level in relation to revenue.

Financial targets

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

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

Personnel

Tokmanni Group is a significant employer in Finland and the Group had 3,534 (3,503) employees at the end of June 2017. Out of the total number of employees 86% worked in the stores, 6% in the warehouse and 8% in support functions.

Responsibility

Responsibility is part of the daily work of every member of Tokmanni's personnel. Our key corporate responsibility focus areas are business integrity, responsible sourcing and products, fair treatment and efficient use of resources.

During the period January-June 2017, Tokmanni set up a Sustainability Advisory Board to support its responsibility work. The Advisory Board consists of external experts and aims to support Tokmanni by providing the company with an outside view of the company's responsibility work and sparring the company in, among others, sustainability trends, risks and best practices.

In May, the company held its annual Responsibility Day at Tokmanni's Mäntsälä office. The goal of the day is to increase staff understanding of responsibility issues, engage and educate staff, and obtain more in-depth information on corporate responsibility from Tokmanni's key stakeholders.

During the review period, the company continued to implement its Deep Green project at the Mäntsälä office. The project aims to reduce the environmental impact of the office. The company's objective is to roll out suitable parts of the Deep Green project also to the stores in 2017.
More information about Tokmanni's responsibility themes and work can be found in the Corporate Responsibility report published on the company website in February 2017.

Shares and shareholders

During January-June 2017, 35.1 million Tokmanni's shares were traded on Nasdaq and the value of the shares traded was EUR 311.5 million. At the end of the period, the company had approximately 11,000 shareholders.

Shares on Nasdaq Helsinki stock exchange

1.1.–30.6.2017			Nr. of shares and votes	Share turnover, millions
TOKMAN			58,868,752	311.5
	High	Low	Average*	Close
Share price	11.13	6.91	8.82	7.29
Market cap			30.6.2017	30.6.2016
MEUR			429.2	385,6

*Trade weighted average

Governance

Decisions taken by the Annual General Meeting

Tokmanni Group Corporation's annual general meeting, which was held on 24 March 2017, approved the 2016 financial statements, and discharged the members of the Board of Directors and the company's CEO from liability.

The general meeting approved the proposal to pay a dividend in accordance with the company dividend policy EUR 0.41 per share and an extra dividend of EUR 0.10 per share, in total a dividend of EUR 0.51 per share, for the accounting period that ended on 31 December 2016.

The general meeting decided the number of Board members to be six. The meeting elected Harri Sivula, Therese Cedercreutz, Christian Gylling, Kati Hagros, Sven-Olof Kulldorff and Seppo Saastamoinen as members of the Board of Directors. Harri Sivula was re-elected as Chairman of the Board of Directors.

The general meeting decided that the auditor is paid remuneration in accordance with a reasonable invoice. The authorized public accountants KPMG Oy Ab were reappointed as the company's auditor until the Annual general meeting 2018.

The general meeting resolved to establish a Shareholders' Nomination Board to prepare future proposals concerning the election and remuneration of the members of the Board of Directors to the general meetings. The Shareholders' Nomination Board replaces the Nomination Committee nominated by the Board of Directors.

The general meeting authorized the Board of Directors to decide on the repurchase of the company's own shares and on the issuance of shares as well as the issuance of options and other special rights entitling to shares.

Constitutive meeting of the Board of Directors

The Board elected Christian Gylling, Kati Hagros and Harri Sivula as members of the Finance and Audit Committee.

Organizational Changes

M.Sc. (Econ.) Markku Pirskanen (52) was appointed Tokmanni's CFO and member of the Executive Group as of June 2017. Pirskanen is the successor to Tokmanni's former CFO Sixten Hjort (61). Hjort retired from the company at the end of June.

Tokmanni's Board of Directors appointed Chairman of the Board Harri Sivula interim CEO as of 15 June 2017 when Heikki Väänänen, CEO, left the company. At the same time, the Board of Directors appointed CFO Markku Pirskanen deputy to the CEO.

Risks and business uncertainties

Tokmanni's risks and uncertainties have been discussed in detail in the 2016 financial statements bulletin and in the 2016 Report by the Board of Directors. No major changes to these risks have occurred during 2017.

Market outlook

The Finnish economy has improved during 2017. Growth at the beginning of 2017 has been much faster than anticipated and the Ministry of Finance has raised its GDP growth forecast for 2017 to 2.4%.

The rapid increase in economic activity brought an upswing in employment during the spring of 2017 and as a consequence the unemployment rate is estimated to fall from approximately 8.8% at the end of 2016 to approximately 8.5% in 2017. The growth in the Index of wage and salary earnings is projected to remain low at around 0.2% due to the zero increase and cut in holiday pay included in the Competitiveness Pact (KiKy). Average earnings are projected to remain at the level of the previous year owing to the increase in working hours due to the Competitiveness Pact. At the same time the forecast for the current year's inflation is 1.0 per cent, calculated based on the consumer price index. Hence, the purchasing power of consumers is not predicted to increase in 2017. The private consumption is however expected to continue increasing in 2017 year boosted by rising employment and high consumer confidence.

Tokmanni expects that the Finnish non-grocery retail market will grow slightly in 2017 and that specialty stores and online stores will continue to strengthen their positions.

Events after the review period

The Board of Directors of Tokmanni Group Corporation has appointed M.Sc. (Econ) Mika Rautiainen (54) as CEO of Tokmanni Group Corporation. He will start in this position in January 2018, at the latest. Mika Rautiainen joins Tokmanni from Kesko Group where he has held several managerial positions since 1988. In his current position, which he has held since 2013, he is Vice President Store operations for Kesko Grocery Trade. In this position Mika Rautiainen has been responsible for, among others, managing digital services in the grocery trade, managing concepts, store management and training, as well as new business areas.

Tokmanni's outlook for 2017 remains unchanged

Tokmanni expects revenue growth for 2017 based on the revenue from new stores opened in 2016 and 2017. Revenue of like-for-like stores is expected to remain at the level of the previous year. Group profitability (adjusted EBITDA%) is expected to decrease from last year's level.

Tokmanni continues to develop its business to improve competitiveness and profitability. In 2017 Tokmanni will increase its selling space by at least 27,000 square meters. Capital expenditure for 2017 is expected to be at a higher level than previous years due to the high selling space increase.

IR calendar

- Tokmanni's January-June 2017 Business review will be published 25 October 2017

Helsinki 8 August 2017

Tokmanni Group Corporation

Board of Directors

Tokmanni Group Corporation Interim report January-June 2017

The interim financial report is prepared in accordance with IAS 34 (Interim Financial Reporting) using the same accounting policies and methods of computation as in the annual financial statement for 2016. All figures in the accounts have been rounded and as a consequence the sum of individual figures can deviate from the presented sum figure.

Use of estimates

The preparation of the half year financial reports in accordance with IFRS requires management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and other information, such as contingent liabilities and the recognition of income and expenses in the statement of income. Although the estimates are based on the management's best knowledge of current events and actions, actual results may differ from the estimates.

This interim report is unaudited.

Consolidated income statement (MEUR)

	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
Revenue	**196.0**	**192.4**	**352.6**	**350.6**	**775.8**
Other operating income	0.8	0.8	1.7	1.6	3.4
Materials and services	-130.4	-124.6	-238.3	-231.1	-507.4
Employee benefits expenses	-25.7	-25.2	-49.4	-49.5	-96.4
Depreciation and amortization	-3.5	-3.8	-7.2	-7.7	-15.1
Other operating expenses	-30.1	-27.0	-59.5	-54.1	-111.1
Share of profit (loss) in joint ventures	0.0	0.0	0.0	0.0	0.0
Operating profit	**7.2**	**12.6**	**-0.1**	**9.9**	**49.2**
Financial income	0.0	0.0	0.0	0.0	0.1
Financial expenses	-1.4	-7.2	-2.8	-12.4	-15.3
Profit/loss before tax	**5.8**	**5.4**	**-2.9**	**-2.5**	**34.0**
Income taxes	-1.1	-1.2	0.6	0.5	-6.8
Net result for the financial period	**4.6**	**4.2**	**-2.3**	**-2.0**	**27.2**
Profit for the year attributable to					
Equity holders of the parent company	4.6	4.2	-2.3	-2.0	27.2

Consolidated statement of comprehensive income (MEUR)

	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
Net result for the financial period	**4.6**	**4.2**	**-2.3**	**-2.0**	**27.2**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	0.0	0.0	0.0	0.0	0.0
Comprehensive income for the financial period, net of tax	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Comprehensive income for the financial period	**4.6**	**4.2**	**-2.3**	**-2.0**	**27.2**
Comprehensive income for the financial period attributable to					
Equity holders of the parent company	4.6	4.2	-2.3	-2.0	27.2

Earnings per share

Equity holders of the parent company	4.6	4.2	-2.3	-2.0	27.2
Number of shares, weighted avarage during the financial period (thousands)*	58 869	54 095	58 869	49 322	54 095
Earnings per share (EUR/share)*	0.08	0.08	-0.04	-0.04	0.50

* The amount of shares 2016 has been adjusted with effects of the bonus issue.

Consolidated statement of financial position (MEUR)

	30.6.2017	30.6.2016	31.12.2016
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	87.1	88.0	90.7
Goodwill	128.6	128.6	128.6
Other intangible assets	3.5	3.6	3.6
Non-current receivables	0.1	0.1	0.1
Investments in joint ventures and other financial assets	0.2	0.2	0.2
Deferred tax asset	5.3	5.2	5.0
NON-CURRENT ASSETS, TOTAL	**224.7**	**225.7**	**228.1**
CURRENT ASSETS			
Inventories	179.9	161.9	155.2
Trade and other receivables	14.6	14.1	17.0
Income tax receivables	2.1	3.4	0.7
Cash and cash equivalents	19.8	38.4	57.6
CURRENT ASSETS, TOTAL	**216.4**	**217.8**	**230.5**
ASSETS, TOTAL	**441.1**	**443.5**	**458.6**
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent company			
Share capital	0.1	0.1	0.1
Reserve for invested unrestricted equity	109.9	110.3	110.0
Translation differences	0.0	0.0	0.0
Retained earnings	24.2	27.3	56.5
EQUITY, TOTAL	**134.2**	**137.7**	**166.6**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5.0	5.3	5.3
Non-current interest-bearing liabilities	171.5	193.6	170.3
Non-current non-interest-bearing liabilities	7.9	9.1	8.1
NON-CURRENT LIABILITIES, TOTAL	**184.3**	**208.0**	**183.6**
CURRENT LIABILITIES			
Current interest-bearing liabilities	18.3	3.2	3.2
Trade payables and other current liabilities	104.0	93.9	103.5
Income tax liabilities	0.2	0.7	1.7
CURRENT LIABILITIES, TOTAL	**122.6**	**97.8**	**108.4**
EQUITY AND LIABILITIES, TOTAL	**441.1**	**443.5**	**458.6**

Consolidated statement of cash flows (MEUR)

	1-6/2017	1-6/2016	1-12/2016
Cash flows from operating activities			
Net result for the financial period	-2.3	-2.0	27.2
Adjustments:			
Non-cash items	9.8	7.3	13.1
Financial income	0.0	0.0	-0.1
Financial expenses	2.8	12.4	15.3
Income taxes	-0.6	-0.5	6.8
Change in working capital:			
Change in current non-interest-bearing receivables	1.3	0.0	-2.4
Change in inventories	-24.6	-1.9	4.7
Change in current non-interest-bearing liabilities	-0.1	3.2	13.1
Interest paid and other financial expenses	-2.5	-8.6	-11.5
Interest received	-0.1	0.0	0.1
Income taxes paid	-2.8	-1.7	-4.0
Net cash from operating activities	**-19.1**	**8.3**	**62.5**
Cash flows from investing activities			
Purchases of tangible and intangible assets	-5.0	-3.1	-10.0
Proceeds from disposal of tangible and intangible assets	0.7	0.1	0.2
Disposal of subsidiaries	0.1	0.0	0.0
Loans granted	-0.3	0.0	0.0
Proceeds from repayments of loans	2.9	0.0	0.0
Net cash from investing activities	**-1.5**	**-3.0**	**-9.8**
Cash flows from financing activities			
Proceeds from share issue	-0.1	91.6	90.1
Dividends paid	-30.0	0.0	0.0
Repayments of finance lease liabilities	-1.7	-1.7	-3.4
Proceeds from loans	0.0	125.0	125.0
Repayment of loans	0.0	-230.8	-255.8
Change in current loans	15.0	0.0	0.0
Net cash from financing activities	**-16.9**	**-15.8**	**-44.1**
Net change in cash and cash equivalents	**-37.5**	**-10.5**	**8.7**
Cash and cash equivalents at beginning of the financial period	57.6	48.9	48.9
Cash and cash equivalents at end of the financial period	19.8	38.4	57.6
Cash and cash equivalents, other arrangements	0.3	0.0	0.0

Consolidated statement of changes in equity (MEUR)

	Share capital	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Equity attributable to owners of the parent	Total equity
Equity 1 Jan 2017	**0.1**	**110.0**	**0.0**	**56.5**	**166.6**	**166.6**
Comprehensive income						
Net result for the financial period				-2.3	-2.3	-2.3
Translation differences			0.0		0.0	0.0
Total comprehensive income for the financial period			**0.0**	**-2.3**	**-2.3**	**-2.3**
Dividends				-30.0	-30.0	-30.0
Transaction costs for equity		-0.1			-0.1	-0.1
Equity 30 Jun 2017	**0.1**	**109.9**	**0.0**	**24.2**	**134.2**	**134.2**

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

	Share capital	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Equity attributable to owners of the parent	Total equity
Equity 1 Jan 2016	**0.0**	**18.8**	**0.0**	**29.3**	**48.1**	**48.1**
Comprehensive income						
Net result for the financial period				-2.0	-2.0	-2.0
Translation differences			0.0		0.0	0.0
Total comprehensive income for the financial period			**0.0**	**-2.0**	**-2.0**	**-2.0**
Share issue		95.9			95.9	95.9
Bonus issue	0.1	-0.1			0.0	0.0
Transaction costs for equity		-4.3			-4.3	-4.3
Equity 30 Jun 2016	**0.1**	**110.3**	**0.0**	**27.3**	**137.7**	**137.7**

Operating leases

Group as lessee

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

Minimum lease payments payable based on other no-terminable leases:

MEUR	30.6.2017	30.6.2016	31.12.2016
No later than 1 year	50.9	46.8	47.6
Later than 1 year and no later than 5 years	137.9	122.4	133.3
Later than 5 years	67.2	56.8	57.9
Total	256.0	226.0	238.7

Contingent liabilities, assets and commitments

MEUR	30.6.2017	30.6.2016	31.12.2016
Loans for which property has been given as collateral			
Loans from financial institutions	100.0	125.0	100.0

Fair value

MEUR	Carrying amounts of assets as per balance sheet 30.6.2017	Fair value 30.6.2017	Carrying amounts of assets as per balance sheet 30.6.2016	Fair value 30.6.2016	Carrying amounts of assets as per balance sheet 31.12.2016	Fair value 31.12.2016
Financial assets						
Derivatives (level 2)	0.2	0.2	0.5	0.5	1.0	1.0
Financial liabilities						
Derivatives (level 2)	1.5	1.5	1.5	1.5	0.6	0.6
Loans from financial institutions (level 2)	99.0	99.0	123.7	123.7	98.8	98.8
Finance lease liabilities (level 2)	75.8	75.8	73.2	73.2	74.7	74.7
Total	176.4	176.4	198.3	198.3	174.1	174.1

CALCULATION OF KEY RATIOS

Like-for-like revenue	=	Like-for like revenue growth: Like-for-like revenue growth is calculated by taking into account the revenue growth of stores that are not considered to be net new and relocated stores, as defined by Tokmanni to include: (i) new stores opened; (ii) store relocations where the store size changes by 30 percent or more and the assortment increases or is reduced substantially; (iii) store expansions where the store size changes by 30 percent or more; and (iv) closed stores. If the store falls in one of these categories, it is regarded as a net new or relocated store in its opening year and in the following calendar year.
Number of baskets	=	Number of customer transactions during the relevant period
Gross profit	=	Revenue - Materials and services
Adjusted gross profit	=	Gross profit - Changes in fair value of currency derivatives
Operating expenses	=	Employee benefits expenses + Other operating expenses
Adjusted operating expenses	=	Operating expenses - (Changes in fair value of electricity derivatives + Loss on real estate sales in 2017)
EBITDA	=	Operating profit + Depreciation and Amortisation
Adjusted EBITDA	=	EBITDA - (Changes in fair value of currency derivatives + Changes in fair value of electricity derivatives + Loss on real estate sales in 2017)
Adjusted EBIT	=	EBIT - (Changes in fair value of currency derivatives + Changes in fair value of electricity derivatives + Loss on real estate sales in 2017)
Net financial items	=	Financial income - Financial expenses
Net debt	=	Interest bearing debt - Cash and cash equivalents
Net debt / adjusted EBITDA	=	$\frac{\text{Net debt}}{\text{Adjusted EBITDA}}$
Change in net working capital	=	Sum of changes in current non-interest bearing operating receivables, changes in inventories and changes in current non-interest bearing operating liabilities
Capital employed	=	Balance sheet total - Deferred tax liability and other non-interest-bearing liabilities
Return on capital employed, %	=	$\frac{\text{Profit before taxes + Interest and other financial expenses}}{\text{Average capital employed}}$
Return on equity, %	=	$\frac{\text{Net result for the financial period}}{\text{Average equity including shareholder's loan}}$
Number of personnel	=	Number of personnel at the end of the period
Number of personnel on average	=	Number of personnel on average in the financial period
Earnings Per Share	=	$\frac{\text{Net profit}}{\text{Number of shares weighted average during the period}}$
Number of shares	=	Number of shares at the end of the period