

REVENUE INCREASED AND PROFITABILITY IMPROVED IN THE THIRD QUARTER

Unless otherwise stated, the figures in brackets refer to the corresponding period in the previous year.

THIRD-QUARTER HIGHLIGHTS:

- Revenue grew by 7.8% to EUR 210.7 million (195.4)
- Like-for-like revenue grew by 4.0%
- Comparable gross profit totalled EUR 72.1 million (66.0), representing 34.2% of revenue (33.8%)
- Comparable EBITDA amounted to EUR 18.2 million (16.2), representing 8.6% of revenue (8.3%)
- Comparable EBIT amounted to EUR 14.6 million (12.7), representing 6.9% of revenue (6.5%)
- Cash flow from operating activities amounted to EUR 0.9 million (-6.4)
- Earnings per share were EUR 0.17 (0.16)

HIGHLIGHTS OF THE REVIEW PERIOD JANUARY–SEPTEMBER 2018:

- Revenue grew by 9.9% to EUR 602.0 million (547.9)
- Like-for-like revenue grew by 5.9%
- Comparable gross profit totalled EUR 202.7 million (182.0), and comparable gross margin was 33.7% (33.2%)
- Comparable EBITDA amounted to EUR 35.0 million (26.3), representing 5.8% of revenue (4.8%)
- Comparable EBIT amounted to EUR 24.2 million (15.6), representing 4.0% of revenue (2.8%)
- Cash flow from operating activities amounted to EUR -1.8 million (-25.6)
- Earnings per share were EUR 0.29 (0.12)

TOKMANNI'S OUTLOOK FOR 2018 HAS BEEN UPDATED WITH REGARD TO REVENUE:

New outlook:

Tokmanni expects strong revenue growth for 2018 based on the revenue from new stores opened in 2017 and stores to be opened in 2018 and good like-for-like revenue growth. Group profitability (comparable EBITDA, %) is expected to improve from the previous year.

Previous outlook:

Tokmanni expects good revenue growth for 2018 based on the revenue from new stores opened in 2017 and stores to be opened in 2018 and low single-digit like-for-like revenue growth. Group profitability (comparable EBITDA, %) is expected to improve from the previous year.

CEO MIKA RAUTIAINEN: TOKMANNI'S SALES WERE GOOD AND ITS CUSTOMER NUMBERS GREW

"Tokmanni's third quarter progressed as planned. Our total revenue grew by 7.8%, with our comparable revenue increasing by 4.0%. We were also able to improve our overall profitability from the previous year.

We continued to strengthen customer trust by diversifying our offerings and investing in low prices. Our commercial measures in the third quarter were successful, with the Nettopäivät event at the beginning and end of the period being particularly popular among our customers. The sales of clothing and food products developed favourably in the third quarter. The sales of gardening products were accelerated by the beautiful spring weather in the second quarter. However, their sales developed more moderately in the third quarter. It is my great pleasure to announce that Tokmanni's customer numbers grew by 7.3% in January–September 2018.

Offering low prices to customers will continue to be very important for Tokmanni. In addition to prices, we will continue to focus on other key aspects affecting the customer experience, such as the store concept, assortment, service and the online store. Our goal is for Tokmanni's stores and online store to be even more interesting and pleasant shopping places for our customers. At the same time, however, we will continue to further improve our internal efficiency. Through effective operations, we ensure that our customers are able to enjoy low prices.

Seasons are important for Tokmanni, with Christmas being the most important season in terms of revenue and profit. We have been preparing for the forthcoming Christmas season for a long time and are looking forward to the opportunity to provide our customers with a very interesting assortment at a low price.”

Key figures

	7–9/2018	7–9/2017	Change, %	1–9/2018	1–9/2017	Change, %	1–12/2017
Revenue, MEUR	210.7	195.4	7.8%	602.0	547.9	9.9%	796.5
Like-for-like revenue development, %	4.0	0.8		5.9	-1.5		-1.3
Customer visit development, %	6.7	4.1		7.3	3.7		3.6
Gross profit, MEUR	71.6	66.2	8.2%	203.1	180.5	12.6%	267.1
Gross margin, %	34.0	33.9		33.7	32.9		33.5
Comparable gross profit, MEUR	72.1	66.0	9.3%	202.7	182.0	11.4%	268.1
Comparable gross margin, %	34.2	33.8		33.7	33.2		33.7
Operating expenses	-55.0	-50.4	9.1%	-169.6	-159.3	6.5%	-217.8
Comparable operating expenses	-54.9	-50.7	8.3%	-170.5	-158.3	7.7%	-217.0
EBITDA, MEUR	17.6	16.7	5.5%	36.3	23.8	52.6%	53.1
EBITDA, %	8.4	8.6		6.0	4.3		6.7
Comparable EBITDA, MEUR	18.2	16.2	12.2%	35.0	26.3	33.0%	55.0
Comparable EBITDA, %	8.6	8.3		5.8	4.8		6.9
Operating profit (EBIT), MEUR	14.0	13.1	6.9%	25.5	13.1	95.5%	38.8
Operating profit (EBIT) margin, %	6.7	6.7		4.2	2.4		4.9
Comparable EBIT, MEUR	14.6	12.7	15.5%	24.2	15.6	55.4%	40.6
Comparable EBIT, %	6.9	6.5		4.0	2.8		5.1
Net financial items, MEUR	-1.5	-1.5	-0.1%	-4.2	-4.2	-0.3%	-5.8
Net capital expenditure, MEUR	3.4	2.3	47.2%	10.9	3.8	187.0%	8.1
Net debt / comparable EBITDA**	2.7	3.4		2.7	3.4		2.4
Net cash from operating activities, MEUR	0.9	-6.4		-1.8	-25.6		27.1
Return on capital employed, %	4.2	3.9		7.7	3.9		11.4
Return on capital employed, %, rolling 12 months	15.5	11.7		15.5	11.7		12.0
Return on equity, %	6.7	6.4		11.4	4.8		16.0
Return on equity, %, rolling 12 months	24.3	17.6		24.3	17.6		18.3
Number of shares, weighted average during the financial period (thousands)	58,869	58,869		58,869	58,869		58,869
Earnings per share (EUR)	0.17	0.16		0.29	0.12		0.45
Personnel at the end of the period	3,353	3,212		3,353	3,212		3,255
Personnel on average during the period	3,487	3,301		3,386	3,223		3,232

** Rolling 12 months (comparable EBITDA)

MARKET DEVELOPMENT

According to statistics compiled by the Finnish Grocery Trade Association (FGTA), non-grocery sales decreased by 1.9% in the third quarter in comparison with the corresponding period last year (www.pty.fi). The non-grocery market grew by 0.3% in January–September 2018. The total revenue of department stores and hypermarket chains belonging to the FGTA increased by 1.6% in the third quarter and by 2.8% in January–September 2018.

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

OPERATIONAL DEVELOPMENT

Store network development

Expanding the store network is one of the drivers of Tokmanni's revenue and profit growth, based on the efficient roll-out and rapid ramp-up of new stores. Tokmanni had 177 (169) stores in Finland at the end of September 2018. Tokmanni aims to open around five new or relocated stores annually, totalling around 12,000 square metres (net).

During the third quarter, Tokmanni relocated and expanded its store in Eura. This increased Tokmanni's total selling space by around 1,100 square metres. Its selling space has increased by around 7,500 square metres year-to-date and is expected to increase by a total of around 9,500 square metres in 2018.

In 2018, in line with its investment programme, Tokmanni is focusing more strongly on the maintenance of its store network than in previous years, particularly on updating its fresh grocery stores.

Tokmanni considers a store to be new or relocated over the duration of its opening year and the following calendar year. On average, a new store becomes profitable in around 12 months and reaches its full capacity in around 24 months.

FINANCIAL DEVELOPMENT

Seasonality

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

Strong revenue growth continued

Tokmanni's revenue grew by 7.8% to EUR 210.7 million (195.4) in the third quarter of 2018. Tokmanni's investments in developing its assortment and store concept, as well as in low prices, were reflected in its growing customer numbers and the continued growth of its comparable revenue. In the third quarter, the number of customer visits increased by 6.7% year-on-year. At the same time, the average basket size grew by 1.1%, with the average price decreasing slightly. Like-for-like revenue grew by 4.0% in the third quarter.

Tokmanni has renewed its clothing and grocery department concepts during 2018. These changes have been well received among customers, and sales in these product categories developed favourably in the third quarter. The sales of gardening products were accelerated by the beautiful spring weather in the second quarter. However, their sales developed more moderately in the third quarter.

Tokmanni's revenue in January–September 2018 amounted to EUR 602.0 million (547.9), representing an increase of 9.9%. Its comparable revenue grew by 5.9%.

Comparable gross profit and EBITDA developed favourably

Gross profit in the third quarter totalled EUR 71.6 million (66.2), representing 34.0% of revenue (33.9%). Comparable gross profit was EUR 72.1 million (66.0), corresponding to a gross profit margin of 34.2% (33.8%). Gross profit development was primarily affected by the sales mix. The shares of direct imports and private labels of total sales remained at the previous year's level.

Gross profit in January–September 2018 was EUR 203.1 million (180.5), or 33.7% (32.9%). Comparable gross profit was EUR 202.7 million (182.0), corresponding to a gross profit margin of 33.7% (33.2%).

Operating expenses totalled EUR 55.0 million (50.4) in the third quarter of 2018. Comparable operating expenses amounted to EUR 54.9 million (50.7). In January–September, operating expenses amounted to EUR 169.6 million (159.3). Comparable operating expenses were EUR 170.5 million (158.3). Operating expenses increased significantly as a result of the higher number of stores. The year-on-year increase in sales volumes was also reflected in operating expenses.

EBITDA amounted to EUR 17.6 million (16.7) in the third quarter of 2018, with the EBITDA margin being 8.4% (8.6%). Comparable EBITDA in the third quarter was EUR 18.2 million (16.2), or 8.6% of revenue (8.3%). In January–September 2018, EBITDA amounted to EUR 36.3 million (23.8), or 6.0% of revenue (4.3%). Comparable EBITDA was EUR 35.0 million (26.3), or 5.8% of revenue (4.8%).

EBIT in the third quarter totalled EUR 14.0 million (13.1), or 6.7% of revenue (6.7%). Comparable EBIT was EUR 14.6 million (12.7), or 6.9% of revenue (6.5%). In January–September 2018, EBIT amounted to EUR 25.5 million (13.1), or 4.2% of revenue (2.4%). Comparable EBIT was EUR 24.2 million (15.6), or 4.0% of revenue (2.8%).

Net financial items amounted to EUR -1.5 million (-1.5) in the third quarter. In January–September 2018, net financial items totalled EUR -4.2 million (-4.2).

The third-quarter result before taxes was EUR 12.6 million (11.7). Taxes amounted to EUR -2.5 million (-2.4). The net result for the period was EUR 10.1 million (9.3). Earnings per share were EUR 0.17 (0.16). The result before taxes for January–September was EUR 21.3 million (8.8). Taxes amounted to EUR -4.3 million (-1.8). The net result for the review period was EUR 17.0 million (7.0). Earnings per share were EUR 0.29 (0.12).

Balance sheet, financing and cash flow

Tokmanni's inventories amounted to EUR 202.6 (189.5). The increase was primarily due to growth in the store network and partly to the controlled addition of stock keeping units to the assortment. At the end of September 2018, Tokmanni's interest-bearing debt totalled EUR 179.1 million (187.5). Its net debt to comparable EBITDA ratio was 2.7 (3.4) at the end of September. Tokmanni's goal is to reach a level where the net debt to comparable EBITDA ratio is less than 2.0.

Cash flow from operating activities amounted to EUR 0.9 million (-6.4) in the third quarter of 2018. In January–September 2018, cash flow from operating activities amounted to EUR -1.8 million (-25.6).

Capital expenditure

Net capital expenditure in the third quarter totalled EUR 3.4 million (2.3). Most of this was related to the refurbishment of grocery stores and other stores. Net capital expenditure totalled EUR 10.9 million (3.8) in January–September 2018. In 2018, in line with its investment programme, Tokmanni is focusing more strongly on the maintenance of its store network than in the previous years, particularly on updating its grocery stores, as well as on developing its digital services. In 2018, capital expenditure related to new stores will be lower than in previous years. Capital expenditure is expected to roughly equal the level of depreciation in 2018.

Personnel

Tokmanni is a significant employer in Finland. At the end of September 2018, the company had 3,353 (3,212) employees. Personnel expenses totalled EUR 24.6 million (22.5) in the third quarter. In January–September 2018, personnel expenses totalled EUR 78.1 million (71.9). The salaries of full-time employees covered by the commercial sector's collective agreement were raised by 1.6% on average on 1 April 2018 and will be raised by a further 1.6% on 1 April 2019. Most of Tokmanni's employees are covered by the agreement.

RISKS AND BUSINESS UNCERTAINTIES

Tokmanni's risks and uncertainties are discussed in detail in its financial statements bulletin and Board of Directors' report for 2017. No major changes to these risks have occurred during the quarter.

MARKET OUTLOOK

The Finnish economy has developed favourably during 2018. Employment has increased, even more rapidly than expected, and is predicted to increase at least until 2020. The Ministry of Finance has not adjusted its inflation forecast since the summer. In its Economic Survey for autumn 2018, the ministry continues to expect the inflation rate to be 1.1% in 2018 and 1.4% in 2019. Furthermore, the ministry expects the GDP to grow by 3.0% in 2018 and by 1.7% in 2019. The forecast figures have not changed significantly since the summer, but the ministry has taken a slightly more moderate view and considers the current year to be the best year of the cycle. In addition, the increasing inflation rate is expected to decelerate the growth of consumers' real income. Despite the slightly more moderate outlook, the forecast figures continue to be at a relatively good level, and the economy is expected to develop favourably over the next few years. Tokmanni expects the Finnish non-grocery market to grow slightly in 2018, and it expects speciality stores and online stores to continue to strengthen their position.

TOKMANNI'S UPDATED OUTLOOK FOR 2018

Tokmanni expects strong revenue growth for 2018 based on the revenue from new stores opened in 2017 and stores to be opened in 2018 and good like-for-like revenue growth. Group profitability (comparable EBITDA, %) is expected to improve from the previous year.

IR CALENDAR

Tokmanni will publish its financial reviews for 2019 as follows:

- 8 February 2019 – Financial statements bulletin for 2018
- 25 April 2019 – Business review for January–March 2019
- 8 August 2019 – Half-year review for January–June 2019
- 30 October 2019 – Business review, January–September 2019

Financial statements for 2018 will be published during the week 8.

Tokmanni's Annual General Meeting is scheduled to be held on 19 March 2019. Tokmanni's Board of Directors will convene the Annual General Meeting at a later date.

Mäntsälä, 24 October 2018

Tokmanni Group Corporation

Board of Directors

For further information, please contact:

Mika Rautiainen, CEO, tel. +358 20 728 6061, mika.rautiainen@tokmanni.fi

Markku Pirskanen, CFO, tel. +358 20 728 7390, markku.pirskanen@tokmanni.fi

RESULTS PRESENTATION

Tokmanni's CEO Mika Rautiainen and CFO Markku Pirskanen will present the review to analysts, investors and the media on its day of publication. A presentation will be held in Finnish at 10 a.m. and in English at 11.30 a.m.

Live audiocasts will be available at ir.tokmanni.fi or through <https://tokmanni.videosync.fi/2018-10-24-q3>.

Participants may also attend a conference call in conjunction with the audiocasts by calling one of the following numbers and using the participation code provided below 5–10 minutes before the beginning of the meeting:

09 8171 0310 (Finnish callers)
 +46 85 664 2651 (Swedish callers)
 +44 33 3300 0804 (UK callers)
 +1 6319131422 (US callers)
 Passcode: 77111855#

A recording of the presentations, as well as the related materials, will become available on the company's website later on the same day.

ADJUSTMENTS AFFECTING COMPARABILITY

Tokmanni has used the non-IFRS measure EBITDA and made adjustments to improve comparability and provide a better view of Tokmanni's operational performance. EBITDA represents operating profit before depreciation and amortisation. Comparable EBITDA represents EBITDA excluding items that Tokmanni's management considers to be exceptional and non-recurring, including the loss on the sale of real estate in 2017, as well as changes in the fair value of electricity and currency derivatives, which are adjusted by Tokmanni, as they are unrealised gains or losses related to Tokmanni's open cash flow hedge positions and therefore not related to Tokmanni's operational performance during the review periods. Tokmanni's management uses comparable EBITDA as a key performance indicator to assess Tokmanni's underlying operational performance.

Adjustments affecting comparability

MEUR	7–9/2018	7–9/2017	1–9/2018	1–9/2017	1–12/2017
Gross profit	71.6	66.2	203.1	180.5	267.1
Changes in the fair value of currency derivatives	0.5	-0.2	-0.4	1.5	1.0
Comparable gross profit	72.1	66.0	202.7	182.0	268.1
Operating expenses	-55.0	-50.4	-169.6	-159.3	-217.8
Changes in the fair value of electricity derivatives	0.1	-0.3	-0.9	-0.2	-0.4
Loss on real estate sales	-	-	-	1.2	1.2
Comparable operating expenses	-54.9	-50.7	-170.5	-158.3	-217.0
EBITDA	17.6	16.7	36.3	23.8	53.1
Operating profit (EBIT)	14.0	13.1	25.5	13.1	38.8
Changes in the fair value of currency derivatives	0.5	-0.2	-0.4	1.5	1.0
Changes in the fair value of electricity derivatives	0.1	-0.3	-0.9	-0.2	-0.4
Loss on real estate sales	-	-	-	1.2	1.2
Comparable EBITDA	18.2	16.2	35.0	26.3	55.0
Comparable operating profit (adj. EBIT)	14.6	12.7	24.2	15.6	40.6

Tokmanni in brief

Tokmanni is Finland's leading general discount retailer by number of stores and revenue. In 2017, Tokmanni's revenue totalled EUR 796 million, and the company had around 3,200 employees on average. Tokmanni is also the only nationwide general discount retailer in Finland, and it had 175 stores around the country on 31 December 2017.

Distribution:

Nasdaq Helsinki

key media outlets