TOKMANNI

# Q2

## January – June 2018

## Half year financial report

TOKMANNI GROUP CORPORATION HALF YEAR REPORT JANUARY-JUNE 2018

# Q218: strong growth and profitability improved

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

## SECOND QUARTER HIGHLIGHTS

- Revenue grew by 11.0% to EUR 217.7 million (196.0)
- Like-for-Like revenue grew by 7.7% (-1.9%)
- Gross profit totaled EUR 76.8 million (65.6) and gross margin 35.3% (33.5%)
- Comparable gross profit totaled EUR 76.1 million (66.8) and comparable gross margin 34.9% (34.1%)
- EBITDA amounted to EUR 17.5 million (10.7), 8.0% of revenue (5.4%)
- Comparable EBITDA totaled EUR 16.0 million (11.6), 7.4% of revenue (5.9%)
- EBIT totaled EUR 13.9 million (7.2), 6.4% of revenue (3.7%)
- Comparable EBIT totaled EUR 12.4 million (8.1), 5.7% of revenue (4.1%)
- Cash flow from operating activities amounted to EUR 21.2 million (18.8)
- Earnings per share were 0.17 euros (0.08)

## HIGHLIGHTS OF THE REVIEW PERIOD JANUARY-JUNE 2018

- Revenue grew by 11.0% to EUR 391.3 million (352.6)
- Like-for-Like revenue grew by 7.0% (-2.7%)
- Gross profit totaled EUR 131.5 million (114.3) and gross margin 33.6% (32.4%)
- Comparable gross profit totaled EUR 130.6 million (116.0) and comparable gross margin 33,4% (32,9%)
- EBITDA amounted to EUR 18.7 million (7.1), 4.8% of revenue (2.0%)
- Comparable EBITDA amounted to EUR 16.8 million (10.1), 4.3% of revenue (2.9%)
- EBIT totaled EUR 11.5 million (-0.1), 2.9% of revenue (0.0%)
- Comparable EBIT amounted to EUR 9.6 million (2.9), 2.5% of revenue (0.8%)
- Cash flow from operating activities amounted to EUR -2.8 million (-19.1)
- Earnings per share were 0.12 euros (-0.04)

## TOKMANNI’S OUTLOOK FOR 2018 UNCHANGED: GOOD GROWTH AND IMPROVED PROFITABILITY

Tokmanni’s 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:

## THE SPRING SEASON WAS PARTICULARLY SUCCESSFUL

" During the first half of 2018 we have focused on reinforcing customer confidence by diversifying our assortments and through investing in low prices. Solutions made concerning our assortment, pricing and store concept pleased our customers. The improved assortment, especially in the tool, yard and garden areas, received positive feedback. Our spring clothing collection was also liked by the customers. The splendid spring weather also supported spring season demand and sales, but nonetheless it is fair to say that we succeeded particularly well in the spring season and especially May was by all measures exceptionally good.

Our second-quarter Like-for-Like revenue grew 7.7% and the total revenue increased by 11.0%. We were also successful in inviting new customers to Tokmanni and the number of customer visits grew by 8.5%. The sales mix, which was more focused on private label seasonal products, clearly had a positive impact on our profitability. I am very proud of the contribution of all Tokmanni employees. It has had a huge impact on customer satisfaction.

Seasons are important for Tokmanni and the spring season is, after Christmas, the most important one. This year we succeeded in the spring season very well. However, it is good to note that the spring previous year was very short and thereby comparison numbers weak. Autumn is a smaller season than the spring, whereas Christmas and fourth quarter sales are traditionally the most important for Tokmanni. Our preparations for the Christmas season are already far going and our target is to, once again, delight our customers with an interesting assortment and low prices.

Online development and market transformation are changing the competitive landscape and market dynamics. Tokmanni is working daily to enhance its concept, assortment, pricing and customer service. Tokmanni's business is subject to seasonality and normally a larger part of revenue and the result is accrued during the second half. Our guidance remains unchanged: in 2018, Tokmanni's revenue will grow well based on the revenue from new stores and low single digit Like-for Like revenue growth and our comparable EBITDA% will improve."

"

May was by all measures exceptionally good.

## Key figures

| | 4-6/2018 | 4-6/2017 | Change% | 1-6/2018 | 1-6/2017 | Change% | 1-12/2017 |
|---|---|---|---|---|---|---|---|
| Revenue, MEUR | 217.7 | 196.0 | 11.0% | 391.3 | 352.6 | 11.0% | 796.5 |
| Like-for-like revenue development, % | 7.7 | -1.9 | | 7.0 | -2.7 | | -1.3 |
| Customer visit development, % | 8.5 | 3.1 | | 7.8 | 3.4 | | 3.7 |
| Gross profit, MEUR | 76.8 | 65.6 | 17.0% | 131.5 | 114.3 | 15.1% | 267.1 |
| Gross margin, % | 35.3 | 33.5 | | 33.6 | 32.4 | | 33.5 |
| Comparable gross profit, MEUR | 76.1 | 66.8 | 13.9% | 130.6 | 116.0 | 12.6% | 268.1 |
| Comparable gross margin, % | 34.9 | 34.1 | | 33.4 | 32.9 | | 33.7 |
| Operating expenses | -60.2 | -55.8 | 7.9% | -114.7 | -108.9 | 5.3% | -217.8 |
| Comparable operating expenses | -61.0 | -56.0 | 8.8% | -115.6 | -107.6 | 7.5% | -217.0 |
| EBITDA, MEUR | 17.5 | 10.7 | 64.0% | 18.7 | 7.1 | 163.8% | 53.1 |
| EBITDA, % | 8.0 | 5.4 | | 4.8 | 2.0 | | 6.7 |
| Comparable EBITDA, MEUR | 16.0 | 11.6 | 38.2% | 16.8 | 10.1 | 66.4% | 55.0 |
| Comparable EBITDA, % | 7.4 | 5.9 | | 4.3 | 2.9 | | 6.9 |
| Operating profit (EBIT), MEUR | 13.9 | 7.2 | 93.2% | 11.5 | -0.1 | | 38.8 |
| Operating profit margin EBIT, % | 6.4 | 3.7 | | 2.9 | 0.0 | | 4.9 |
| Comparable EBIT, MEUR | 12.4 | 8.1 | 53.1% | 9.6 | 2.9 | 226.6% | 40.6 |
| Comparable EBIT, % | 5.7 | 4.1 | | 2.5 | 0.8 | | 5.1 |
| Net financial items, MEUR | -1.3 | -1.4 | -11.1% | -2.8 | -2.8 | -0.4% | -5.8 |
| Net capital expenditure, MEUR | 6.2 | 0.0 | | 7.6 | 1.5 | | 8.1 |
| Net debt / comparable EBITDA ** | 2.7 | 3.1 | | 2.7 | 3.1 | | 2.4 |
| Net cash from operating activities, MEUR | 21.2 | 18.8 | | -2.8 | -19.1 | | 27.1 |
| Return on capital employed, % | 4.4 | 2.2 | | 3.7 | 0.0 | | 11.4 |
| Return on capital employed %, rolling 12 months | 15.2 | 12.0 | | 15.2 | 12.0 | | 12.0 |
| Return on equity, % | 7.2 | 3.4 | | 5.0 | -1.7 | | 16.0 |
| Return on equity %, rolling 12 months | 24.3 | 18.3 | | 24.3 | 18.3 | | 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/share) | 0.17 | 0.08 | | 0.12 | -0.04 | | 0.45 |
| Personnel at the end of the period | 3 724 | 3 534 | | 3 724 | 3 534 | | 3 255 |
| Personnel on average in the period | 3 512 | 3 312 | | 3 336 | 3 184 | | 3 232 |

** Rolling 12 months comparable 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. Comparable EBITDA represents EBITDA excluding 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 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 comparable EBITDA and other measures mentioned below as a key performance indicators to assess Tokmanni's underlying operational performance.

### Adjustments affecting comparability

| MEUR | 4-6/2018 | 4-6/2017 | 1-6/2018 | 1-6/2017 | 1-12/2017 |
|---|---|---|---|---|---|
| **Gross profit** | **76.8** | **65.6** | **131.5** | **114.3** | **267.1** |
| Changes in fair value of currency derivatives | -0.7 | 1.1 | -0.9 | 1.7 | 1.0 |
| **Comparable Gross Profit** | **76.1** | **66.8** | **130.6** | **116.0** | **268.1** |
| | | | | | |
| **Operating expenses** | **-60.2** | **-55.8** | **-114.7** | **-108.9** | **-217.8** |
| Changes in fair value of electricity derivatives | -0.8 | -0.2 | -1.0 | 0.1 | -0.4 |
| Loss on real estate sales | - | - | - | 1.2 | 1.2 |
| **Comparable operating expenses** | **-61.0** | **-56.0** | **-115.6** | **-107.6** | **-217.0** |
| | | | | | |
| **EBITDA** | **17.5** | **10.7** | **18.7** | **7.1** | **53.1** |
| **Operating profit (EBIT)** | **13.9** | **7.2** | **11.5** | **-0.1** | **38.8** |
| Changes in fair value of currency derivatives | -0.7 | 1.1 | -0.9 | 1.7 | 1.0 |
| Changes in fair value of electricity derivatives | -0.8 | -0.2 | -1.0 | 0.1 | -0.4 |
| Loss on real estate sales | - | - | - | 1.2 | 1.2 |
| **Comparable EBITDA** | **16.0** | **11.6** | **16.8** | **10.1** | **55.0** |
| **Comparable operating profit (adj. EBIT)** | **12.4** | **8.1** | **9.6** | **2.9** | **40.6** |

## MARKET DEVELOPMENT

For the first time in a long time international M&A activity was seen in the Finnish discount retail market when the Swedish discount retailer Rusta announced its acquisition of Finnish discounter Hong Kong. In June, the Norwegian chain Europris announced that it would acquire a stake in Swedish discount retailer ÖoB. The collaboration is expected to lead to synergies primarily in purchasing thanks to a stronger bargaining position. Tokmanni has a joint purchasing company in Shanghai with Europris, and the combined purchasing volumes are expected to benefit also Tokmanni in the longer term. Tokmanni continuously monitors market developments and the competitive environment and actively develops its own business to maintain its strong market position and competitiveness.

The non-grocery market grew by 1.6% during the second quarter 2018 according to the Finnish Grocery Trade Association's FGTA (www.pty.fi). May was particularly strong. During the review period January-June 2018 the non-grocery market grew by 1.5%. FGTA member department stores and hypermarket chains grew 1.0% in the second quarter 2018 and 3.5% in January-June 2018. Tokmanni's growth was well above market growth.

FGTA member department stores and hypermarket chains are K-Citymarket, Prisma, Sokos, Stockmann, Tokmanni and Minimani. It is important to note that the FGTA statistics only partially covers Tokmanni's addressable market and doesn't for instance include online sales.

## OPERATIONAL DEVELOPMENT

### The development of digital services proceeded as planned

During the review period, Tokmanni's digitalization 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 March, Tokmanni's online store was successfully transferred to the new platform and during the spring the Tokmanni has continued to develop online presence in accordance with its plans. The number SKUs online has almost doubled compared to the year-end, and by the end of June Tokmanni had more than 10,000 SKUs online. Tokmanni continues to develop its online store and increase the number of SKUs, with the aim to significantly increase the number of products sold online as well as support brick and mortal sales and the Tokmanni brand.

> ” By the end of June Tokmanni had more than 10,000 SKUs online.

### 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 had 177 (168) stores at the end June 2018. Tokmanni's target is to open approximately 5 net new or relocated stores, in total approximately 12,000 square meters net per year.

During the second quarter Tokmanni opened new stores in Ylämylly and Kalajoki. The store in Tammisaari was relocated in June. Tokmanni thereby increased its selling space by approximately 4,750 square meters in the second quarter. The selling space has increased by approximately 6,000 square meters from the beginning of the year and the total increase in 2018 is estimated to amount to approximately 8,000 square meters.


In 2018, Tokmanni invests more heavily in the maintenance of its store network than in the previous years, especially in updating its fresh grocery stores. Tokmanni has 12 fresh grocery stores around Finland. During the second quarter 7 grocery departments were completely renewed.

### Stores opened in 2017 and new store definition

In 2017 Tokmanni opened 13 new and 2 relocated stores and thereby increased its selling space by approximately 24,000 square meters net.

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.

## 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.

> The number of customer visits increased by 8.5% in the second quarter.

### Strong revenue growth

Tokmanni's second quarter 2018 revenue grew by 11.0% to EUR 217.7 million (196.0). Tokmanni succeeded in its spring season very well and May in particular was very strong. In the second quarter Like-for-Like revenue grew by a record high 7.7%. Tokmanni's efforts to develop and expand its assortments yielded results. In recent years, Tokmanni has invested in the development of its clothing assortment and the 2018 spring and summer collections were very well received. The products were available at stores early in the spring season and at the same time clothing sales were further emphasized in the company's marketing and advertising in all channels. Demand was also strong in tools and garden products due to the renewed and expanded range. During the spring Tokmanni has expanded its tool assortment and launched its new private label tool series Brücke. The series includes electrical tools and appliances as well as different kinds of garden machines and devices. Very good spring weather also added customers' interest in Tokmanni's garden and yard products.

The number of customer visits grew by 8.5% compared to the corresponding period in 2017. The average basket size grew by 2.5% to the average price improved.

Revenue for January-June 2018 amounted to EUR 391.3 million (352.6), a growth of 11.0%. Like-for-Like revenue grew by 7.0%. The continuous assortment represented 75% (74%) of revenue, seasonal products 18% (19%) and stock lots 7% (6%).

### Comparable gross profit and EBITDA improved significantly

Second quarter 2018 gross profit totaled EUR 76.8 million (65.6), corresponding to a gross margin of 35.3% (33.5%). Comparable gross profit amounted to EUR 76.1 million (66.8), 34.9% (34.1%) of revenue. The gross profit development was primarily impacted by the favorable sales mix. The share of private labels in seasonal products was high. The campaigning level remained nearly at the previous year's level.

January-June 2018 gross profit amounted to EUR 131.5 million (114.3), corresponding to a 33.6% gross margin (32.4%). Comparable gross profit totaled EUR 130.6 million (116.0), 33.4% of revenue (32.9%).

Operating expenses for the second quarter 2018 grew and amounted to EUR 60.2 million (55.8). Comparable operating expenses totaled EUR 61.0 million (56.0). The growth in operating expenses was mainly due to increased personnel expenses which resulted from the expansion of the store network. Personnel expenses for the second quarter totaled EUR 28.5 million (25.7). The high sales volume also had an impact on operating expenses. Comparable operating expenses were 28.0% (28.6%) of revenue. January-June operating expenses amounted to EUR 114.7 million (108.9). Comparable operating expenses totaled EUR 115.6 million (107.6). The growth in operating expenses was mainly due to the expansion of the store network.

> ”The gross profit development was primarily impacted by the favorable sales mix.

Second quarter 2018 EBITDA amounted to EUR 17.5 million (10.7) and the EBITDA margin 8.0% (5.4%). Second quarter comparable EBITDA totaled EUR 16.0 million (11.6), 7.4% of revenue (5.9%). January-June 2018 EBITDA were EUR 18.7 (7.1), 4.8% of revenue (2.0%). Comparable EBITDA totaled EUR 16.8 million (10.1), 4.3% (2,9%) of revenue.

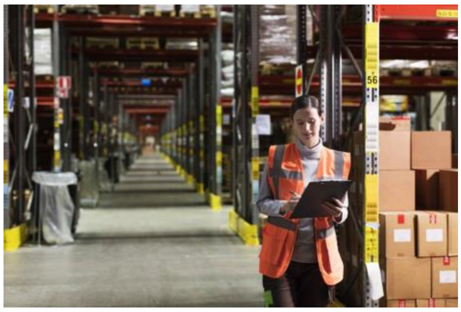
Second quarter EBIT totaled EUR 13.9 million (7.2), 6.4% (3.7%) of revenue. Comparable EBIT amounted to EUR 12.4 million (8.1), 5.7% (4.1%) of revenue. January-June 2018 EBIT totaled EUR 11.5 million (-0.1), 2.9% (0.0%) of revenue. Comparable EBIT amounted to EUR 9.6 million (2.9), 2.5% (0.8%) of revenue.

Net financial items amounted to EUR -1.3 million (-1.4) for the second quarter and for January-June 2018 -2.8 million (-2.8). The second quarter result before taxes was EUR 12.6 million (5.8). The net result more than doubled and totaled EUR 10.1 million (4.6). Earnings per share for the second quarter were 0.17 euros (0.08). The January-June 2018 result before taxes was EUR 8.7 million (-2.9). The net result for the review period was EUR 7.0 million (-2.3). Earnings per share were 0.12 euros (-0.04).


## BALANCE SHEET, FINANCING AND CASH FLOW

At the end of June 2018, Tokmanni's inventories amounted to EUR 195.2 (179.9). The growth was primarily due to growth in the store network and partly to the controlled addition of SKUs to the assortment.

At the end of June 2018, interest-bearing debt totaled EUR 175.1 million (189.8). The company's cash and cash equivalents totaled EUR 6.6 million (19.8) at the end of the review period. Net debt / comparable EBITDA (rolling 12 months) was 2.7 (3.1) at the end of the period. Tokmanni's goal is to reach a level where the net debt / comparable EBITDA is less than 2.0.



Second quarter operating cash flow totaled EUR 21.1 million (18.8) and in January-June 2018 EUR -2.8 million (-19.1).

## CAPITAL EXPENDITURE

Net capital expenditure in the second quarter were EUR 6.2 million. EUR (0.0). The majority of the quarter's capital expenditure related to the refurbishment of grocery stores and other stores as well as the expansion of the store network. Net Capital expenditure for January-June 2018 were EUR 7.6 million. (1.5). In its investment program for 2018, Tokmanni will invest more heavily in the maintenance of its store network than in the previous years, especially in updating its grocery stores, and in Tokmanni's digital services. Capital expenditure related to new store openings will be lower than in the previous years. Capital expenditure is expected to be at the level of depreciation in 2018.

## PERSONNEL

Tokmanni is a significant employer in Finland and the company had 3,724 (3,534) employees at the end of June 2018. Personnel expenses for the second quarter were EUR 28.5 million (25.7). January-June 2018 personnel expenses totaled EUR 53.5 million (49.4). Salaries of full-time employees covered by the collective bargaining agreement were raised on average by 1.6% on 1 April 2018 and will be further raised by 1.6% on 1 April 2019. The majority of Tokmanni's employees is covered by the agreement.

## 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.

In June, 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.

Tokmanni is everybody's store and diversity, which enables a responsible and growing business, is a resource for Tokmanni. The company makes diversity and the prevention of exclusion visible by addressing issues regarded important for the company and takes measures that support them. These measures include the employment and support of young people, immigrants and people at risk of exclusion. In 2018, such measures have included the participation of the Mielinauha campaign arranged by the Finnish Mental Health Association campaign, the official partnership of the Helsinki Pride 2018 event and cooperation with Plan and Hanken & SSE supporting the employment of immigrants. At the same time, the work to bring diversity into Tokmanni's personnel and recruitment processes continues.

More information about Tokmanni's responsibility themes and work can be found in the 2017 Corporate Responsibility report published on the company website in February 2018.

## SHARES AND SHAREHOLDERS

During January-June 2018, 12.2 million Tokmanni's shares were traded on Nasdaq and the value of the shares traded was EUR 88.5 million. At the end of the period, the company had approximately 15,000 shareholders.

### Shares on Nasdaq Helsinki stock exchange

| 1.1.–30.6.2018 | | | **Nr. of shares and votes** | **Share turnover, MEUR** |
|---|---|---|---|---|
| **TOKMAN** | | | 58,868,752 | 88.5 |
| | **High** | **Low** | **Close** | **Average*** |
| **Share price** | 8.04 | 6.42 | 7.10 | 7.26 |
| | | | **30.6.2018** | **30.6.2017** |
| **Market cap**, MEUR | | | 418.0 | 429.2 |

*Trade weighted average

## GOVERNANCE

### Decisions taken by the Annual General Meeting

Tokmanni Group Corporation's annual general meeting, which was held on 14 March 2018, approved the 2017 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 of EUR 0.41 per share for the accounting period that ended on 31 December 2017. In March the company paid as dividend in total EUR 24.1 million to its shareholder.

The general meeting decided the number of Board members to be six. The meeting elected Seppo Saastamoinen, Juha Blomster, Thérèse Cedercreutz, Kati Hagros, Erkki Järvinen and Harri Sivula. Seppo Saastamoinen was 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 2019.

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.

The Annual General Meeting authorized the Board of Directors to decide on the acquisition or pledging of a maximum of 2,943,000 of the Company's own shares with the distributable funds of the Company, corresponding to approximately 5% of the total number of shares in the Company. The authorization is valid until the Annual General Meeting in 2019, but no longer than 30 June 2019. The authorization was not used during the review period.

### Constitutive meeting of the Board of Directors

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

### Organisational changes and appointments

Tokmanni Group Corporation's new CEO M.Sc. (Econ.) Mika Rautiainen assumed his duties on 1 June 2018. Simultaneously, the composition of Tokmanni's Executive Group was renewed. The following appointments were made to the Executive Group:

Tuomas Hyvärinen M.Sc. (Econ.), was appointed Purchasing Director and member of the Executive Group. He joins Tokmanni from Attaboy Workshop Oy. He has been in the discounting and purchasing business for more than 25 years and is one of Finland's most experienced import trade experts.

Timo Heimo M.Sc., was appointed Director, Information Management and Supply Chain and member of the Executive Group. He joins Tokmanni from Kesko where he has held several leadership positions in information management, supply chain and logistics.

Janne Pihkala M.Sc. (Econ.), was appointed Director, Business Development and member of the Executive Group. Pihkala joined Tokmanni from an Investment Manager position at Takoa Invest. He has also worked as management Consultant at Bearing Point and Deloitte.

Harri Koponen M.Sc. (Econ.), eMBA, was appointed Director, Store Network and Concept and member of the Executive Group. He joined Tokmanni in the autumn 2016. Prior to joining Tokmanni, Koponen made a long career in the S-Group, where he held several leadership positions among others as Managing Director for Turun Osuuskauppa.

Marketing Director Tomi Hakanpää, HR Director Sirpa Huuskonen, Sales Director Mathias Kivikoski and CFO Markku Pirskanen continue in their positions and as members of the Executive Group.

## RISKS AND BUSINESS UNCERTAINTIES

Tokmanni's risks and uncertainties have been discussed in detail in the 2017 financial statements bulletin and in the 2017 Report by the Board of Directors. No major changes to these risks have occurred during 2018.

## MARKET OUTLOOK

Finland's economy has developed well during 2018, and consumer confidence has continued to strengthen as the worst unemployment threat has vanished. Unemployment is forecasted to decline this year and continue to decline in the coming years. In 2018, private consumption growth will be boosted by rising employment and earnings levels. The wage increases for 2018 and 2019 have been negotiated by sector and the disposable income of households has increased. As inflation intensifies, the growth in disposable real income will however be more moderate. The Ministry of Finance predicts an inflation of 1.1% for the current year and 1.4% measured by the national consumer price index. The impact of the product prices on inflation is expected to remain negative this year.

Tokmanni expects the Finnish non-grocery market to grow slightly in 2018, and that specialty stores and online stores will continue to strengthen their position.

## TOKMANNI'S SHORT TERM OUTLOOK UNCHANGED

Tokmanni's 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.

## IR CALENDAR

- January-September 2018 Business Review to be published on 24 October 2018
- Tokmanni's Capital Markets Day will be held in November-December

Mäntsälä 8 August 2018

Tokmanni Group Corporation

Board of Directors

## TOKMANNI GROUP CORPORATION INTERIM REPORT JANUARY-JUNE 2018

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 2017. In addition, Tokmanni has introduced the new standards IFRS 9 Financial Instruments and IFRS 15 Sales Receipts from customer contracts at the beginning of the financial year. All figures in the accounts have been rounded and as a consequence the sum of individual figures can deviate from the presented sum figure.

## NEW STANDARDS

### IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments as of January 1, 2018.
The standard includes revised guidance on the classification and measurement of financial instruments. The standard has not had any significant impact on Tokmanni Group Corporation's consolidated financial statements and accounting principles. Impacts on trade receivables and other receivables for which the credit loss provision should be based on expected loan losses instead of the existing standard loss-based model is not significant. The Group applies the simplified procedure in IFRS 9, according to which write downs are recognized in an amount equal to the expected impairment for the entire term of validity. According to the Group's estimates, the credit loss provision for sales and other receivables will not have a significant impact on the financial statements due to the low volume of business invoicing. Changes in the accounting principles resulting from the transition to other IFRS 9 standards will not, in our estimation, have any material effect on the figures presented in the classification of financial assets. The Group does not apply hedge accounting.

### IFRS 15 Revenue from Customer Contracts

The Group has adopted IFRS 15 Revenue from Customer Contracts on 1 January 2018. IFRS 15 replaces the current recognition guidelines IAS 11 Long-term Projects and IAS 18 Income, and interpretations related to them. The standard has not had any significant impact on Tokmanni Group Corporation's consolidated financial statements and accounting principles. According to IFRS 15, the entity must recognize the proceeds of the sale as a sum reflecting the consideration that the entity expects to be entitled in exchange for the goods or services in question.

The Group's sales proceeds consist of retail sales of products, whereby the customer acquires control over the products at the time of purchase. Variable remedies or significant rights that should be treated as separate execution obligations with significant relevance for deployment have not been identified. The Group has no loyalty programs. Relating to the online sales, the number of product returns has been found to be low. The adoption of the standard therefore has no significant impact on the amount or timing of the revenue recognition.

### IFRS 16 Leases (applicable for financial periods beginning on or after 1 January 2019)

The new standard supersedes IAS 17 and related interpretations. IFRS 16 requires the lessors to recognize lease agreements in the balance sheet as a rental obligation and as an associated asset. Balance sheet recognition is much like the accounting treatment of finance leases under IAS 17. There are two optional exemptions in the balance sheet that relate to short-term leases and leases of low-value items. The accounting treatment of the lessees will largely remain in line with current IAS 17. The Group has continued to evaluate the effects of the standard. It is estimated that the Group's assets and interest-bearing liabilities will grow significantly when the lessee break-down of the finance lease and operating leases expires. IFRS 16 also affects the profit and loss account, as instead of the rental expense recognized in the current operating leases, depreciation and amortization of finance lease liabilities are recognized in the income statement. The Standard will also affect key figures, such as the equity ratio and the notes to the financial statements. The Group has leases related to stores and equipment, whose handling changes with the new standard. Tokmanni Group Corporation will adopt the standard as of January 1, 2019. The Group will provide an estimate of the euro-denominated impact of the standard and of the post-transition treatment during the autumn 2018.

## 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)

| | 4-6/2018 | 4-6/2017 | 1-6/2018 | 1-6/2017 | 1-12/2017 |
|---|---|---|---|---|---|
| **Revenue** | **217.7** | **196.0** | **391.3** | **352.6** | **796.5** |
| Other operating income | 0.9 | 0.8 | 1.8 | 1.7 | 3.9 |
| Materials and services | -140.9 | -130.4 | -259.8 | -238.3 | -529.4 |
| Employee benefits expenses | -28.5 | -25.7 | -53.5 | -49.4 | -97.9 |
| Depreciation and amortization | -3.6 | -3.5 | -7.2 | -7.2 | -14.3 |
| Other operating expenses | -31.7 | -30.1 | -61.1 | -59.5 | -119.9 |
| Share of profit (loss) in joint ventures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Operating profit** | **13.9** | **7.2** | **11.5** | **-0.1** | **38.8** |
| Financial income | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| Financial expenses | -1.3 | -1.4 | -2.8 | -2.8 | -5.9 |
| **Profit/loss before tax** | **12.6** | **5.8** | **8.7** | **-2.9** | **32.9** |
| Income taxes | -2.6 | -1.1 | -1.8 | 0.6 | -6.6 |
| **Net result for the financial period** | **10.1** | **4.6** | **7.0** | **-2.3** | **26.3** |
| | | | | | |
| **Profit for the year attributable to** | | | | | |
| Equity holders of the parent company | 10.1 | 4.6 | 7.0 | -2.3 | 26.3 |

## Consolidated statement of comprehensive income (MEUR)

| | 4-6/2018 | 4-6/2017 | 1-6/2018 | 1-6/2017 | 1-12/2017 |
|---|---|---|---|---|---|
| **Net result for the financial period** | **10.1** | **4.6** | **7.0** | **-2.3** | **26.3** |
| | | | | | |
| **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** | **10.1** | **4.6** | **7.0** | **-2.3** | **26.3** |
| | | | | | |
| **Comprehensive income for the financial period attributable to** | | | | | |
| Equity holders of the parent company | 10.1 | 4.6 | 7.0 | -2.3 | 26.3 |

## Earnings per share

| | | | | | |
|---|---|---|---|---|---|
| Equity holders of the parent company | 10.1 | 4.6 | 7.0 | -2.3 | 26.3 |
| Number of shares, weighted avarage during the financial period (thousands)* | 58 869 | 58 869 | 58 869 | 58 869 | 58 869 |
| Earnings per share (EUR/share) | 0.17 | 0.08 | 0.12 | -0.04 | 0.45 |

## Consolidated statement of financial position (MEUR)

| | 30.6.2018 | 30.6.2017 | 31.12.2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 88.0 | 87.1 | 88.6 |
| Goodwill | 128.6 | 128.6 | 128.6 |
| Other intangible assets | 5.7 | 3.5 | 4.8 |
| Non-current receivables | 0.6 | 0.1 | 0.2 |
| Investments in joint ventures and other financial assets | 0.2 | 0.2 | 0.2 |
| Deferred tax asset | 5.1 | 5.3 | 5.1 |
| **NON-CURRENT ASSETS, TOTAL** | **228.2** | **224.7** | **227.5** |
| **CURRENT ASSETS** | | | |
| Inventories | 195.2 | 179.9 | 170.2 |
| Trade and other receivables | 20.5 | 14.6 | 18.4 |
| Income tax receivables | 2.6 | 2.1 | 3.8 |
| Cash and cash equivalents | 6.6 | 19.8 | 42.5 |
| **CURRENT ASSETS, TOTAL** | **224.9** | **216.4** | **235.0** |
| **ASSETS, TOTAL** | **453.0** | **441.1** | **462.5** |
| **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 | 109.9 | 109.9 |
| Translation differences | 0.0 | 0.0 | 0.0 |
| Retained earnings | 35.7 | 24.2 | 52.9 |
| **EQUITY, TOTAL** | **145.7** | **134.2** | **162.8** |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 5.4 | 5.0 | 5.1 |
| Non-current interest-bearing liabilities | 171.2 | 171.5 | 173.0 |
| Non-current non-interest-bearing liabilities | 7.1 | 7.9 | 7.4 |
| **NON-CURRENT LIABILITIES, TOTAL** | **183.6** | **184.3** | **185.4** |
| **CURRENT LIABILITIES** | | | |
| Current interest-bearing liabilities | 3.9 | 18.3 | 3.6 |
| Trade payables and other current liabilities | 119.1 | 104.0 | 107.3 |
| Income tax liabilities | 0.7 | 0.2 | 3.3 |
| **CURRENT LIABILITIES, TOTAL** | **123.7** | **122.6** | **114.2** |
| **EQUITY AND LIABILITIES, TOTAL** | **453.0** | **441.1** | **462.5** |

## Consolidated statement of cash flows

| | 1-6/2018 | 1-6/2017 | 1-12/2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| | | | |
| Net result for the financial period | 7.0 | -2.3 | 26.3 |
| Adjustments: | | | |
| Depreciation | 7.2 | 7.2 | 14.3 |
| Capital gains and losses on non-current assets | 0.0 | 1.2 | 1.3 |
| Financial income and expenses | 2.8 | 2.8 | 5.8 |
| Income taxes | 1.8 | -0.6 | 6.6 |
| Other adjustments | -2.3 | 1.4 | -0.2 |
| | | | |
| Change in working capital: | | | |
| Change in current non-interest-bearing receivables | -1.1 | 1.3 | -2.4 |
| Change in inventories | -24.7 | -24.6 | -14.7 |
| Change in current non-interest-bearing liabilities | 12.2 | -0.1 | 3.8 |
| | | | |
| Interest paid | -2.6 | -2.5 | -5.3 |
| Other financing items | 0.0 | -0.1 | -0.2 |
| Income taxes paid | -2.8 | -2.8 | -8.3 |
| **Net cash from operating activities** | **-2.8** | **-19.1** | **27.1** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchases of tangible and intangible assets | -7.6 | -5.0 | -11.7 |
| Proceeds from disposal of tangible and intangible assets | 0.0 | 0.7 | 0.8 |
| Disposal of subsidiaries | | 0.1 | 0.1 |
| Loans granted | | -0.3 | -0.3 |
| Proceeds from repayments of loans | | 2.9 | 2.9 |
| **Net cash from investing activities** | **-7.6** | **-1.5** | **-8.1** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from share issue | | -0.1 | -0.1 |
| Dividends paid | -24.1 | -30.0 | -30.0 |
| Change in current loans | 0.4 | 15.0 | |
| Repayments of finance lease liabilities | -1.8 | -1.7 | -3.6 |
| **Net cash from financing activities** | **-25.6** | **-16.9** | **-33.7** |
| | | | |
| **Net change in cash and cash equivalents** | **-35.9** | **-37.5** | **-14.7** |
| | | | |
| Cash and cash equivalents at beginning of the financial period | 42.5 | 57.6 | 57.6 |
| Cash and cash equivalents, corporate arrangements | 0.0 | -0.3 | -0.3 |
| Cash and cash equivalents at end of the financial period | 6.6 | 19.8 | 42.5 |

## 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 2018** | **0.1** | **109.9** | **0.0** | **52.9** | **162.8** | **162.8** |
| **Comprehensive income** | | | | | | |
| Net result for the financial period | | | | 7.0 | 7.0 | 7.0 |
| Translation differences | | | 0.0 | | 0.0 | 0.0 |
| **Total comprehensive income for the financial period** | | | **0.0** | **7.0** | **7.0** | **7.0** |
| Dividends | | | | -24.1 | -24.1 | -24.1 |
| Incentive scheme | | | | 0.0 | 0.0 | 0.0 |
| **Equity 30 Jun 2018** | **0.1** | **109.9** | **0.0** | **35.7** | **145.7** | **145.7** |

| | 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 | | | | 26.3 | 26.3 | 26.3 |
| Translation differences | | | 0.0 | | 0.0 | 0.0 |
| **Total comprehensive income for the financial period** | | | **0.0** | **26.3** | **26.3** | **26.3** |
| Dividends | | | | -30.0 | -30.0 | -30.0 |
| Incentive scheme | | | | 0.0 | 0.0 | 0.0 |
| Transaction costs for equity | | -0.1 | | | -0.1 | -0.1 |
| **Equity 31 Dec 2017** | **0.1** | **109.9** | **0.0** | **52.9** | **162.8** | **162.8** |

| | 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** |

## OPERATING LEASES

### The 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 | 30.6.2018 | 30.6.2017 | 31.12.2017 |
|---|---|---|---|
| No later than 1 year | 53.1 | 50.9 | 51.9 |
| Later than 1 year and no later than 5 years | 154.8 | 137.9 | 150.1 |
| Later than 5 years | 64.0 | 67.2 | 62.3 |
| Total | 272.0 | 256.0 | 264.3 |

### Contingent liabilities, assets and commitments

| MEUR | 30.6.2018 | 30.6.2017 | 31.12.2017 |
|---|---|---|---|
| **Loans for which property has been given as collateral** | | | |
| Loans from financial institutions | 100.0 | 100.0 | 100.0 |

### Fair value

| MEUR | Carrying amounts of assets as per balance sheet 30.6.2018 | Fair value 30.6.2018 | Carrying amounts of assets as per balance sheet 30.6.2017 | Fair value 30.6.2017 | Carrying amounts of assets as per balance sheet 31.12.2017 | Fair value 31.12.2017 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivatives (level 2) | 1.8 | 1.8 | 0.2 | 0.2 | 0.3 | 0.3 |
| **Financial liabilities** | | | | | | |
| Derivatives (level 2) | 0.1 | 0.1 | 1.5 | 1.5 | 0.5 | 0.5 |
| Loans from financial institutions (level 2) | 99.2 | 99.2 | 99.0 | 99.0 | 99.1 | 99.1 |
| Finance lease liabilities (level 2) | 75.5 | 75.5 | 75.8 | 75.8 | 77.5 | 77.5 |
| Total | 174.9 | 174.9 | 176.4 | 176.4 | 177.1 | 177.1 |

## Calculation of financial ratios

| | | |
|---|---|---|
| Like-for-like revenue | = | Like-for like revenue growth: Like-for-like revenue growth is calculated by taking into account the revenue growth of stores that are not considered to be net new and relocated stores, as defined by Tokmanni to include: (i) new stores opened; (ii) store relocations where the store size changes by 30 percent or more 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. |
| Customer visit development % | = | Development of number of customer transactions (excluding online) |
| Gross profit | = | Revenue - Materials and services |
| Comparable gross profit | = | Gross profit - Changes in fair value of currency derivatives |
| Operating expenses | = | Employee benefits expenses + Other operating expenses |
| Comparable operating expenses | = | Operating expenses - (Changes in fair value of electricity derivatives + Loss on real estate in 2017) |
| EBITDA | = | Operating profit + Depreciation and Amortisation |
| Comparable EBITDA | = | EBITDA - (Changes in fair value of currency derivatives + Changes in fair value of electricity derivatives + Loss on real estate in 2017) |
| Comparable EBIT | = | EBIT - (Changes in fair value of currency derivatives + Changes in fair value of electricity derivatives + Loss on real estate in 2017) |
| Net financial items | = | Financial income - Financial expenses |
| Net debt | = | Interest bearing debt - Cash and cash equivalents |
| Net debt / Comparable EBITDA | = | $\frac{\text{Net debt}}{\text{Comparable EBITDA}}$ |
| Net cash from operating activities | = | Sum of changes in current non-interest bearing operating receivables, changes in inventories and changes in current non-interest bearing operating liabilities |
| Capital employed | = | Balance sheet total - Deferred tax liability and other non-interest-bearing liabilities |
| Return on capital employed, % | = | $\frac{\text{Profit before taxes + Interest and other financial expenses}}{\text{Capital employed, average of the beginning and end of the reporting period}}$ |
| Return on capital employed, %, rolling 12 months | = | $\frac{\text{Profit before taxes + Interest and other financial expenses (preceding 12 months)}}{\text{Capital employed, average of the preceding 12 months}}$ |
| Return on equity, % | = | $\frac{\text{Net result for the financial period}}{\text{Equity, average of the beginning and end of the reporting period}}$ |
| Return on equity %, rolling 12 months | = | $\frac{\text{Net result for the preceding 12 months}}{\text{Equity, average of the preceding 12 months}}$ |
| Number of personnel | = | Number of personnel at the end of the period |
| Number of personnel on average | = | Number of personnel on average in the financial period |
| Equity ratio | = | $\frac{\text{Equity}}{\text{Balance sheet total}}$ |