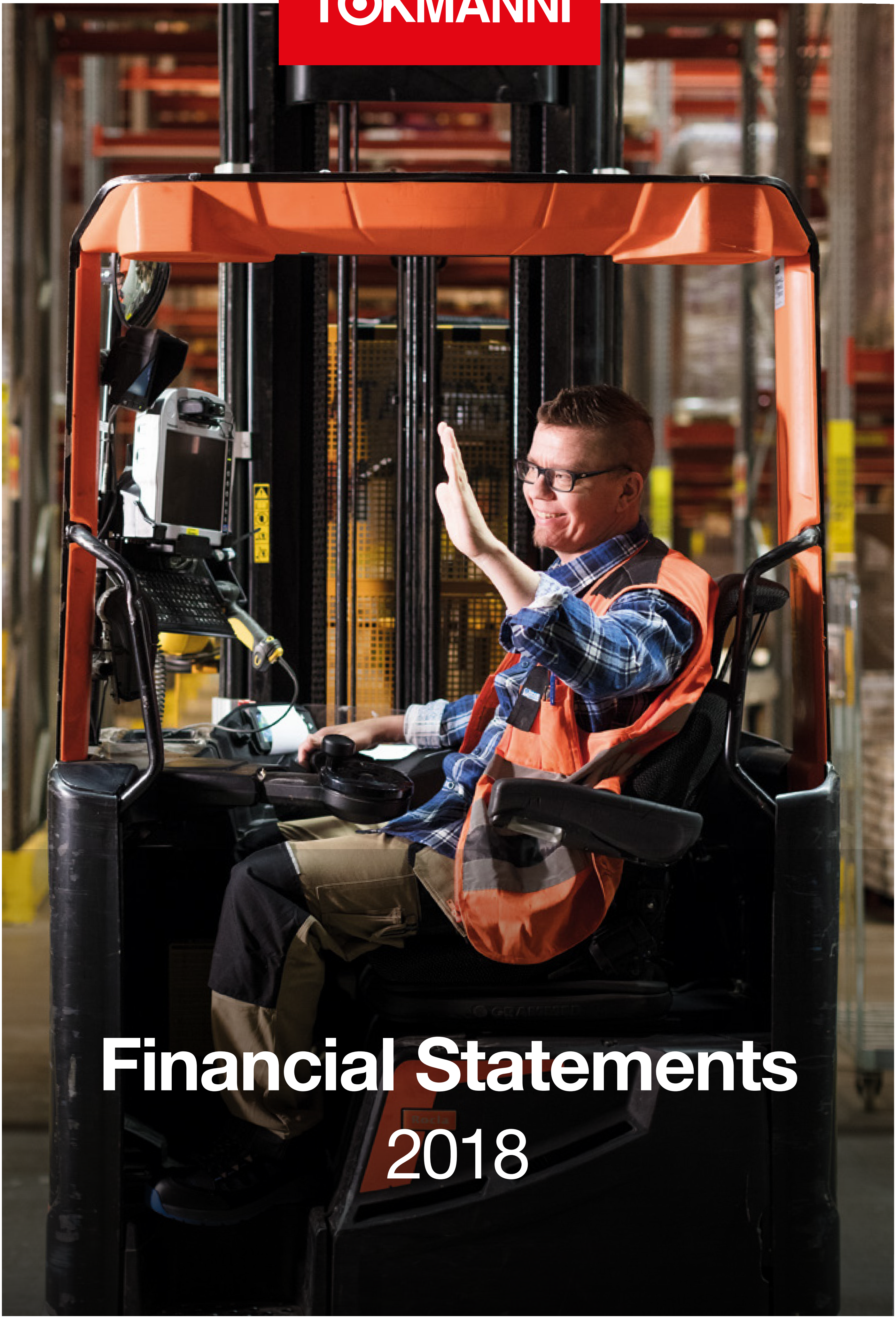
TOKMANNI



# Financial Statements 2018

# Tokmanni Group Corporation

# Report by the Board of Directors and financial statements

## Report by the Board of Directors 2018

The principal line of business of Tokmanni Group Corporation is to sell administrative services to the other companies in the Tokmanni Group. These companies include Retail Leasing Oy, whose line of business is to own and lease property, plant and equipment to the other Group companies. Retail Leasing Oy is also the parent of Nordic Disco AB (Sweden) which, in turn, is the parent of Tokmanni Oy. Tokmanni Oy engages in wholesale, retail and speciality goods trade in collaboration.

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

### HIGHLIGHTS 2018

The main focus in 2018 was on improving customer confidence. Over the course of the year, Tokmanni improved customer confidence by focusing on low prices, diversifying and expanding its assortment, revising the store concept and strengthening its marketing. In 2018, Tokmanni's customer numbers grew by 6.9%.

Revenue for 2018 amounted to EUR 870.4 million, a growth of 9.3%. Like-for-like revenue grew by 5.6% on the previous year. The comparable EBITDA was EUR 63.3 million (55.0), representing 7.3% of revenue (6.9%). Comparable EBIT amounted to EUR 48.6 million (40.6), accounting for 5.6% of revenue (5.1%).

In 2018, Tokmanni opened new stores in Kalajoki and Liperi. Tokmanni also increased the coverage of its store network with the acquisition of nine Ale-Makasiini stores. In addition, Tokmanni relocated three stores and enlarged three stores. The company increased its retail space by about 25,700 square metres during 2018. At the end of 2018 Tokmanni had 186 stores.

### TOKMANNI'S BUSINESS

Tokmanni is the largest and only nationwide general discount retailer in Finland. At the end of 2018 Tokmanni had 186 stores across the country, as well as an online store. Tokmanni offers its customers an extensive and attractive product selection, low prices, pleasant and inspiring shopping experience in all of its sales channels. Tokmanni has a wide range of low priced products for example for home renovation and cleaning, dressing and leisure, as well as interior decoration and gardening. Tokmanni's product selection consists of leading international brands, the company's own private label products and non-branded products.

### OPERATING ENVIRONMENT AND MARKET DEVELOPMENT

#### Competitive field

Tokmanni competes in six product categories with its wide product assortment, as a result of which its target market is large and fragmented. The product categories are groceries; home cleaning and personal care; clothing; tools and electrical equipment; home, decoration and garden; and leisure and home electronics.

Tokmanni is the market leader in Finland's general discount retail market. Tokmanni's competitors in this market are several smaller local companies. Tokmanni is the only general discount retailer in Finland with a nationwide network of stores. In addition to its low perceived price image, Tokmanni has focused on its store concept and the continuous development of the customer experience in order to distinguish itself from other discount retailers.

Hypermarkets carry a large product assortment, from fresh food to consumer goods. They are mostly located in the suburbs of the main cities and benefit from repeated visits thanks to their fresh food offering. Tokmanni also has a wide selection of consumer goods. Its competitive edge against hypermarkets comes from its low perceived price image and attractive product selection that sets it apart from hypermarkets, as well as from its accessible locations and the ease of shopping at them.

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

In the centres of large cities, Tokmanni also competes with department stores and specialty stores. Specialty stores and department stores, however, have a different perceived price image, assortment and store network than Tokmanni.

In recent years, the importance of international online stores has also increased in Finland. Competition has increased especially in the product categories of clothing and home electronics, and online stores are expected to further grow over coming years. Tokmanni continuously develops its digital services to meet the changed needs of its consumers and to develop the total customer experience. Tokmanni's competitive edge compared to other online stores lies in its attractive and surprising product offering, in the low prices of its products and in easy pick-up offered to customers by extensive store network. Tokmanni's extensive store network and online store support each other seamlessly.

**Market development**

After a long quiet period, the Nordic countries discount retail market saw some international M&A activity in 2018 when the Swedish discount retailer Rusta announced its acquisition of Finnish discounter Hong Kong department store. In June, the Norwegian chain Europris announced that it would acquire a stake in Swedish discount retailer ÖoB. This 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 also expected to benefit Tokmanni in the longer term.

In Tokmanni's view, consolidation into larger companies will continue in the European discount retail market. Besides online retail, general discount retail is one of the fastest growing segments in the retail sector. Companies with strong know-how in online retail, combined with a comprehensive network of brick-and-mortar stores, are best positioned to succeed over their competition.

Tokmanni continuously monitors market developments and the competitive environment and actively develops its own business to maintain its strong market position and competitiveness in general discount retail. In 2018, Tokmanni actively contributed to the changes taking place in its market by acquiring the business of Ale-Makasiini Matti Riikonen Oy. This increased Tokmanni's service network by nine Ale-Makasiini stores. In addition, Tokmanni acquired four stores in northern Finland. Tokmanni gained control of the businesses of these stores on 1 January 2019.

The non-grocery market declined by 0.7% for the full year in 2018. The revenue of department store and hypermarket chains fell by 0.3% in the final quarter, although it achieved growth of 1.3% for the full year in 2018. Tokmanni clearly outperformed the rest of the market in terms of growth.

The member companies of the FGTA operate the department store and hypermarket chains of K-Citymarket, Prisma, Sokos, 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 targets in growing Tokmanni's revenue and operating profit. Tokmanni has an efficient process of rolling out and ramping up new stores. At the end of 2018 Tokmanni had 186 stores (175 stores on 31 December 2017).

In 2018, Tokmanni opened new stores in Kalajoki and Liperi. Tokmanni also increased the coverage of its store network with the acquisition of nine Ale-Makasiini stores. In addition, Tokmanni relocated three stores and enlarged three stores. The company increased its retail space by about 25,700 square metres during 2018.

Tokmanni had agreed by 8 February 2019 on the opening of three new stores and one relocated store during 2019. In addition, in early 2019 Tokmanni's store network grew by four new stores in northern Finland, thanks to a business acquisition. The company's retail space is expected to grow by about 12,000 square metres in 2019, depending on possible store downsizing or closures.

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

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

## FINANCIAL DEVELOPMENT

### Revenue

Revenue for January–December 2018 amounted to EUR 870.4 million (796.5), a growth of 9.3%. The number of customers grew by 6.9% in 2018 compared to the previous year. At the same time, the average basket size grew by 1.7%. Ale-Makasiini's customer numbers have not yet been registered for 2018.

Tokmanni's investments in further developing its assortment and store concept, as well as in low prices, were reflected in its growing customer numbers and the growth of its like-for-like revenue. Like-for-like revenue grew by 5.6% on the previous year. The continuous assortment represented 74.7% (74.3%) of sales, while seasonal products represented 18.2% (20.3%) and stock lots represented 7.1% (5.5%). Demand for Tokmanni's leisure goods, clothing and tools and electrical equipment was particularly good.

### Profitability

Gross profit totalled EUR 295.3 million (267.1) and the gross margin was 33.9% (33.5%). Comparable gross profit was EUR 295.0 million (268.1), corresponding to a gross profit margin of 33.9% (33.7%).

One of the targets for raising Tokmanni's profitability is increasing the share of direct imports and the company's private label products. In 2018, direct imports accounted for 24.4% of revenue (23.0%). The calculation of the figures for 2017 has been revised from the previous year and the figures for 2018 have been calculated using this revised accounting principle. Tokmanni is focusing increasingly on making sourcing more efficient and on sourcing through the joint company in Shanghai. A total of 14.1% (13.6%) of products sold were procured through Tokmanni's sourcing company in Shanghai. In 2018, Tokmanni's private label products, licenced brands and non-branded products represented 32% of revenue (32%), the same percentage as the year before. The share of private labels in seasonal products was high. Campaign products accounted for a slightly larger percentage of sales than the year before.

Operating expenses in 2018 totalled EUR 234.3 million (217.8), accounting for 26.9% of revenue (27.3%). Comparable operating expenses were EUR 235.7 million (217.0), representing 27.1% of revenue (27.2%). The increase in operating expenses was mainly due to the additional operating expenses that came from the new stores added to the store network. The high sales volume also had an impact on operating expenses. Profitability was burdened significantly by non-recurring expenses related to the recall of decoration lights, the integration of the acquired Ale-Makasiini stores and to the preparation of the purchase of stores in Northern Finland. Personnel expenses also grew due to the introduction of a sales bonus scheme covering all personnel, which was based on the quarterly sales performance. The expenses recognised on the sales bonus scheme amounted to EUR 1.4 million (0.0) in 2018. The expenses booked from the annual bonus scheme for the Group's key persons totalled EUR 0.6 million (0.0) in 2018. Tokmanni also has a share-based incentive scheme for the Group's key persons. The expenses recognised on the share-based incentive scheme totalled EUR 0.1 million (0.0) in 2018. Personnel expenses in 2018 totalled EUR 106.9 million (97.9).

EBITDA in 2018 amounted to EUR 64.9 million (53.1), representing 7.5% of revenue (6.7%), and the comparable EBITDA was EUR 63.3 million (55.0), representing 7.3% of revenue (6.9%).

EBIT in 2018 totalled EUR 50.3 million (38.8), representing 5.8% of revenue (4.9%). Comparable EBIT amounted to EUR 48.6 million (40.6), accounting for 5.6% of revenue (5.1%).

Net financial items in 2018 totalled EUR 5.6 million (5.8). The result before taxes was EUR 44.7 million (32.9). Taxes for the period amounted to EUR 8.9 million (6.6). The net result for 2018 was EUR 35.8 million (26.3).

Earnings per share were EUR 0.61 (0.45). The return on capital employed was 14.6% (11.4%) and the return on equity was 21.2% (16.0%).

### Balance sheet, cash flow and financial position

At the close of 2018, Tokmanni's inventories amounted to EUR 190.5 million (170.2). The increase was primarily due to growth in the store network and partly to the controlled addition of stock keeping units to the assortment. The inventories were also increased by the inventories of the acquired Ale-Makasiini stores by EUR 6.4 million.

At the end of December 2018, Tokmanni's interest-bearing debt totalled EUR 173.0 million (176.6). The ratio of net debt to comparable EBITDA (rolling 12 months) was 2.1 (2.4). Tokmanni's equity ratio was 36.0% (35.3%).

Cash flow from operating activities in 2018 amounted to EUR 44.9 million (27.1). The company's cash and cash equivalents totalled EUR 37.9 million (42.5) at the end of 2018.

### Capital expenditure

Net capital expenditure in 2018 totalled EUR 19.8 million (8.1), a figure that includes goodwill of EUR 6.0 million arising from the acquisition of the business of Ale-Makasiini. Additionally, the transaction for acquiring these business locations, which are geographically well-suited to Tokmanni's store network, also involved the transfer of 93 employees to the Group as well as inventories of EUR 6.4 million, which are included in the value of the Group's inventories. Capital expenditure in 2018 increased due to, in particular, the expansion of the store network and the business acquisition, renovations of grocery stores and other stores and the development of digital services.

Capital expenditure in 2019 is expected to roughly equal the level of depreciation. Depreciation and amortisation in 2018 amounted to EUR 14.7 million (14.3).

## BUSINESS ACQUISITIONS

Tokmanni acquired the operations of Ale-Makasiini Matti Riikonen Oy. The operations were transferred to Tokmanni's ownership as of 1 November 2018 and they comprise the Ale-Makasiini general discount retail stores in nine locations (Äänekoski, Suolahti, Viitasaari, Saarijärvi, Laukaa, Siilinjärvi, Pielavesi, Pihtipudas and Kangasniemi). The revenue of the acquired general discount retail business was EUR 19.7 million in 2017.

## STRATEGY

Tokmanni's goal is to continue to reinforce its position as the leading general discount retailer in Finland by making the most out of its key competitive advantages, which are its low perceived price image, wide and attractive assortment and good shopping experience.

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

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

### Financial targets

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

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

### Strategic measures taken in 2018

During 2018, Tokmanni continued to implement its strategy and pursue its goal-oriented development of the company. The main focus in 2018 was on improving customer confidence. Over the course of the year, Tokmanni improved customer confidence by focusing on low prices, diversifying and expanding its assortment, revising the store concept and strengthening its marketing. Moreover, Tokmanni continued to develop its online store and focused on improving internal efficiency. Service improves as systems and the supply chain gain in efficiency, which allows customers to find discount products more easily and Tokmanni to stock its stores with the products that the customers desire.

Tokmanni is continuously developing its customer-focused assortment, offering its customers attractive products at low prices in 2018. The renewed and expanded assortment in several different product categories was well-received. In 2018, campaign products accounted for a slightly larger percentage of sales than the year before as the number of pages of discount leaflets increased.

To guarantee a pleasant shopping experience for its customers, Tokmanni continuously develops its store- and department-specific concepts. The key factors in developing the store concept are optimisation and division of the retail space, the development of easy-to-use and attractive "worlds" and increasing impulse purchases by improving mass product areas, among other things. Tokmanni continued to strengthen its store concept in 2018. The company regularly analyses the effectiveness of the concept, changing unsuccessful solutions and planning new elements to be added to the concept. These new elements are tested in pilot stores, after which they are implemented partially or fully throughout the store network. The company also continued to improve the efficiency of its stores in 2018, with the aim of increasing the effectiveness of product displays and freeing up the store personnel's time for providing even better customer service.

Expanding the store network is one of the drivers of Tokmanni's revenue and profit growth, and it is based on the efficient roll-out and rapid ramp-up of new stores. In 2018, Tokmanni opened new stores in Kalajoki and Liperi. Tokmanni also increased the coverage of its store network with the acquisition of nine Ale-Makasiini stores. In addition, Tokmanni relocated three stores and enlarged three stores. The company increased its retail space by about 25,700 square metres during 2018. In addition to developing its store network in 2018, Tokmanni invested more heavily in the maintenance of the network than in previous years. Tokmanni made significant modifications to around 70 stores by revising the store concept in the clothing and home departments, among others, and by completely renewing the grocery departments in nine fresh grocery stores. In the course of this renewal, the refrigeration equipment in the grocery departments was replaced with new equipment that consumes less energy and uses environmentally friendly refrigerants.

Tokmanni's product assortment is extensive and attractive. Tokmanni focuses particularly on six different product categories: groceries; home cleaning and personal care; clothing; home, decoration and garden; tools and electrical equipment; and leisure and home electronics.

The assortment in Tokmanni's product categories consists of the company's own private label products, and non-branded products as well as leading international and domestic brands. One of the key drivers for raising Tokmanni's profitability is increasing the share of direct imports and the company's private label products. Tokmanni has a joint sourcing company in Shanghai with the Norwegian general discount retailer Europris. In future, the sourcing company in Shanghai will be utilised to a greater extent for increasing direct imports. In 2018, Tokmanni invested in developing its private label product portfolio.

Tokmanni expanded its selection of tools by launching its private label brand Brücke. The brand covers for example a wide range of electrical tools and appliances as well as different kinds of garden machines and devices. In 2018, Tokmanni launched among other things the Pretty by Flormar cosmetics series and the Mascot of Norway pillows and duvets as exclusively distributed brands.

During the review period, Tokmanni continued to strengthen and develop its marketing and advertising efforts by fine-tuning its direct advertising and increasing store-specific marketing in social media. The company also invested more heavily in marketing and advertising its private label brands. As a result the exposure of the seasonal assortment and highlighting its suitability for the season in question were improved.

Tokmanni's digitalisation project proceeded as planned in 2018. In the first phase of the project, the company focused on building a system platform to enable a multi-channel approach. The goal is to create new tools for reaching and serving customers as well as to develop sales digitally. In March, Tokmanni's online store was successfully transferred to the new platform and during the year the company continued to develop its online presence in accordance with its plans. The number of SKUs online almost doubled in 2018 and, by the end of December, Tokmanni had close to 20,000 SKUs online. The online store had an average of 1,400,000 visitors per month. Tokmanni continues to develop its online store, improve its user experience and increase the number of SKUs, with the aim of significantly increasing the number of products sold online as well as supporting brick-and-mortar sales and the Tokmanni brand. Additionally, the company is focusing on developing digital marketing and analytics and optimisation tools.

**PERSONNEL**

Tokmanni's goal is to ensure that it possesses the right kind of competence and that its employees are committed to achieving the common goals. Tokmanni is systematically developing its responsibility culture, which comprises such aspects as shared values and team spirit, wellbeing at work, diversity, development of competence and fair wages.

During 2018, Tokmanni continued to hold the workshops it started in the autumn of the previous year, where employees contributed to creating shared values for the company. The workshops resulted in values suited to Tokmanni: Proudly cheap, Dare to renew and Together.

The aim of Tokmanni's wellbeing at work activities is to provide the best conditions for productive work and coping at work. Tokmanni is a responsible employer that also promotes diversity. During 2018, the company launched a diversity programme that involved close cooperation with such organisations as the Children and Youth Foundation and saw the start of cooperation with the City of Helsinki for helping young people at risk of becoming socially excluded.

Tokmanni continuously develops its training programmes to strengthen its strategic know-how and achieve its set targets. In 2018, Tokmanni continued to develop its personnel's competence, focusing particularly on supporting store managers and improving customer service.

The job satisfaction and attitudes of Tokmanni's employees are measured with an annual personnel survey, in addition to a quick survey of a few key indicators every autumn to ensure that the agreed development measures and goals are fulfilled. The results of Tokmanni's personnel survey have been steadily improving in the areas of satisfaction, communication and atmosphere as well as in whether employees would recommend Tokmanni to others.

Tokmanni is a significant employer in Finland. At the end of 2018, the company had 3,558 (3,255) employees. On average, Tokmanni employed 3,415 (3,232) people during 2018. Out of Tokmanni's total personnel, 86.4% (86.0%) worked at the stores, 6.0% (6.4%) at warehouses and 7.6% (7.6%) in support functions.

Personnel expenses in the financial year amounted to EUR 106.9 million (97.9), representing 12.3% (12.3) of revenue. 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.

## CORPORATE RESPONSIBILITY

Responsible business operations are a cornerstone of Tokmanni's success, forming an essential part of every Tokmanni employee's day-to-day work. The key corporate responsibility focus areas at Tokmanni are business integrity, fair treatment, responsible sourcing and products, and efficient use of resources. These themes were determined based on the materiality analysis Tokmanni commissioned in 2015, and they remain relevant. Tokmanni's corporate responsibility will be presented comprehensively in the Corporate Responsibility Report to be published in the week beginning on 18 March 2019. The report is prepared in accordance with GRI standards. In addition, matters related to corporate responsibility will be discussed in the "Non-financial information" section in the Board of Directors' Report.

### Tokmanni's corporate responsibility work in 2018

Tokmanni chose corporate responsibility as one of its focus areas in its new strategy for 2018–2020 and launched projects in the four corporate responsibility areas to advance this. These are Diverse Tokmanni, Tokmanni respects human rights, Carbon neutral Tokmanni and Tokmanni supports circular economy.

**Diverse Tokmanni**
Tokmanni sharpened its aims regarding diversity in order to ensure that it employs people from different backgrounds and to strengthen the employment skills of youth at risk of social exclusion. In Tokmanni's opinion this will allow it to better serve its increasingly diverse customer base, while enabling Tokmanni to carry its social responsibility at the same time.

In autumn 2018, Tokmanni conducted a survey in selected stores on the experiences of employees with an immigrant background. In addition, Tokmanni and the Children and Youth Foundation carried out a pilot project focusing on strengthening the employment skills of youth at risk of social exclusion through Tokmanni employees' visits to schools to tell their career stories and through apprenticeships in Tokmanni stores. The diversity work was led by a steering group that, in addition to the goals mentioned above, aims to integrate diversity work into Tokmanni's HR processes.

**Tokmanni respects human rights**
Tokmanni's aim is to channel all of its direct sourcing from risk countries to factories audited by amfori BSCI or SA8000. In 2018, 98% (99%) of direct purchases from risk countries were made from audited factories. The BSCI audits of the factories used by Tokmanni are generally valid for a year.

**Carbon neutral Tokmanni**
Mitigation of climate change is among the most important areas of corporate responsibility at Tokmanni. The main focus of Tokmanni's climate strategy is to reduce the energy consumption and carbon dioxide emissions of its business premises. In August 2018, Tokmanni commissioned one of the largest solar power plants in Finland at its administration and logistics centre in Mäntsälä. With its 3,000 solar panels, the solar power plant is estimated to have an annual output of approximately 740,000 kWh, or about 15% of the building's total annual electricity consumption. Moreover, Tokmanni installed LED lighting at 20 of its stores and at the Mäntsälä warehouse. Cumulatively, the installations made during the year cut electricity consumption by 16.5% in these stores and at the warehouse. Tokmanni also continued to involve its personnel in the efforts to reduce the environmental impacts of the Mäntsälä office through its internal Deep Green team.

**Tokmanni supports circular economy**
In 2018, Tokmanni started recycling clear plastic film at 40 of its stores, with the aim of extending the practice to all of its stores in 2019. At Tokmanni's logistics centre in Mäntsälä, plastic film has been collected ever since the centre was opened.

**Other significant responsibility work**
In addition to working on various projects, Tokmanni held its annual Corporate Responsibility Day at its Mäntsälä office in June. The goal of the day was to increase its employees' understanding of corporate responsibility issues, to engage and educate employees, and to obtain more in-depth information on corporate responsibility from Tokmanni's key stakeholders.

The Advisory Board for Corporate Responsibility convened twice in 2018. The Advisory Board consists of external experts whose aim is to support Tokmanni's corporate responsibility work by providing the company with an external opinion and to function as a sounding board for the company regarding responsibility trends, risks and best practices.

The compliance team convened regularly in 2018, handling all reports received through the whistleblowing channel in an appropriate manner.

## SHARES AND SHAREHOLDERS

Tokmanni Group Corporation's share capital amounted to EUR 80,000 and the company had 58,868,752 shares outstanding at the end of 2018. During the year, a total of 30,094,042 Tokmanni shares were traded on Nasdaq Helsinki Ltd for a total price of EUR 219.6 million. The final trade in Tokmanni shares on Nasdaq Helsinki was executed at the price of EUR 7.18. The highest quote for the share was EUR 8.04 and the lowest was EUR 6.42. The volume-weighted average price of the share was EUR 7.30. At the end of December 2018, the market value of the shares was EUR 422.7 million.

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

At the end of December 2018, Tokmanni had 15,612 registered shareholders. At the end of the year, the largest shareholders of Tokmanni Group Corporation were Takoa Invest Oy with 17.70%, Elo Mutual Pension Insurance Company with 8.07%, Varma Mutual Pension Insurance Company with 7.38%, OP-Suomi investment fund with 2.54% and Nordea Pro Suomi investment fund with 2.29%.

Financial and insurance institutions held 37.27%, non-financial corporations 23.63%, public-sector entities held 18.52% of the shares, while, households held 17.59% and non-profit institutions 2.01%. Shareholders resident outside Finland held 0.99% of the shares. Of all the above mentioned shares, 22.64% were nominee registered.

More information on Tokmanni's shares and shareholders is available on the company's website, at https://ir.tokmanni.fi/en/investors/share-and-shareholders/shareholders and management holdings at https://ir.tokmanni.fi/en/investors/corporate-governance/insider-management/management-holdings.

### Share purchases by Tokmanni's Executive Group and their financing

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

As a result, members of Tokmanni's Executive Group purchased a total of 265,000 Tokmanni shares through public trading arranged by Nasdaq Helsinki. To finance the share purchases, Tokmanni Group Corporation granted members of the Executive Group a total of EUR 2.0 million in loans on market-based terms. The loan period is five years and the loans must be repaid in full by 31 December 2023 at the latest. The borrowers may repay their loans earlier if desired. The purchased shares serve as collateral for these loans. Of the 265,000 shares purchased, the CEO purchased 105,000 shares and other members of the Executive Group purchased 160,000.

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

The Annual General Meeting authorised the Board of Directors to decide on repurchasing or accepting as a pledge a maximum of 2,943,000 of the Company's own shares with the non-restricted equity of the Company, corresponding to approximately 5% of the total number of shares in the Company. The acquisitions can take place in one or more tranches.

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

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

The authorisation includes the right for the Board of Directors to decide on all other matters related to the repurchase of shares.

The authorisation is effective until the Annual General Meeting to be held in 2019, but no longer than 30 June 2019.

**FLAGGING NOTIFICATIONS**

On 8 January 2018, Tokmanni Group Corporation received a notification according to which Rockers Tukku Oy, a wholly-owned subsidiary of Takoa Invest Oy, had merged with its parent company Takoa Invest Oy on 31 December 2017. Therefore the direct 17.00% stake held in the company by Rockers Tukku Oy was transferred to Takoa Invest Oy on 31 December 2017.

On 5 October 2018, Tokmanni Group Corporation received a notification according to which Nordea Funds Ltd had sold 41,427 shares of Tokmanni Group Corporation. As a result, the direct shareholding of Nordea Funds Ltd in Tokmanni fell below the 5 per cent flagging threshold on 4 October 2018.

**SHARE-BASED INCENTIVE SCHEMES**

The Board of Directors of Tokmanni Group Corporation decided in February 2018 on extending the share-based incentive scheme for the Group's key personnel. The purpose of the scheme is to align the targets of the owners and the key persons to increase the company's value in the long term, to commit the key persons to executing the company's strategy and to offer them a competitive bonus scheme based on earning and accruing shares in the company.

The earning period for the share-based incentive scheme is the 2018 calendar year. The potential bonus from the scheme for the 2018 earning period is based on the Group's earnings per share (EPS) at 31 December 2018 and on the development of its market capitalisation between 1 January and 31 December 2018.

The persons eligible for the scheme are the CEO, the members of the Executive Group and other key persons of the company. The bonuses paid for the 2018 earning period correspond about 9,859 shares of Tokmanni Group Corporation, based on their market value on 31 December 2018. The bonus, which is treated as earned income, will be paid in 2021 in the form of shares in the company and partially in cash. The cash component will cover the withheld taxes incurred from the bonuses by the persons eligible for the scheme. If the employment or manager's contract of an eligible person is terminated before the bonus has been paid, the bonus shall not be paid at all.

**GOVERNANCE**

Governance at Tokmanni Group Corporation is based on the Articles of Association approved by the General Meeting of Shareholders, the Finnish Limited Liability Companies Act and the rules and regulations by Nasdaq Helsinki Ltd. with regard to listed companies. Tokmanni complies with the Finnish Corporate Governance Code for listed companies issued by the Securities Market Association in 2015.

Tokmanni will publish a separate Corporate Governance Statement for 2018 in accordance with the recommendation of the Finnish Corporate Governance Code for listed companies. The statement will be published on Tokmanni's website in the week beginning on 18 February 2019.

**Decisions taken by the Annual General Meeting**

The Annual General Meeting of Tokmanni Group Corporation held on 14 March 2018 adopted the 2017 financial statements, including the consolidated financial statements, the report of the Board of Directors and the auditor's report, and discharged the members of the Board of Directors and the company's CEOs during the financial period from liability.

The Annual General Meeting decided, in accordance with the proposal of the Board of Directors, to pay a dividend of EUR 0.41 per share for the financial period that ended on 31 December 2017. The dividend was paid to shareholders who were registered in the company's shareholder register maintained by Euroclear Finland, on the dividend record date, 16 March 2018. The dividend payment date was 23 March 2018.

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

The general meeting decided that the remuneration of the members of the Board of Directors shall remain unchanged. The Chairman of the Board of Directors will be paid EUR 7,000 as monthly remuneration, and the other members of the Board will be paid EUR 2,500 as monthly remuneration. In addition, the Chairman and the members of the Board of Directors will be paid an attendance fee for each meeting of the Board of Directors as follows: EUR 1,000 for those members of the Board of Directors who are domiciled in Finland, EUR 2,000 for those members of the Board who are domiciled elsewhere in Europe and EUR 3,000 for those members of the Board who are domiciled outside Europe.

The general meeting decided that the auditor will be remunerated in accordance with a reasonable invoice. The authorised public accountants KPMG Oy Ab were reappointed as the company's auditor until the Annual General Meeting in 2019.

The Annual General Meeting authorised the Board of Directors to decide on repurchasing or accepting as a pledge a maximum of 2.943.000 of the Company's own shares with the non-restricted equity of the Company, corresponding to approximately 5% of the total number of shares in the Company. The acquisitions can take place in one or more tranches.

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

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

The authorisation includes the right for the Board of Directors to decide on all other matters related to the repurchase of shares.

The authorisation is effective until the Annual General Meeting to be held in 2019, but no longer than 30 June 2019. The authorization was not used during the year of 2018.

**Constitutive meeting of the Board of Directors**

In its constitutive meeting held after the Annual General Meeting, the Board of Directors of Tokmanni Group Corporation resolved to elect its following members to the Board's Finance and Audit Committee: Juha Blomster, Kati Hagros and Harri Sivula.

**Executive Group**

Tokmanni Group Corporation's new CEO Mika Rautiainen assumed his duties on 1 June 2018. At the same time, changes were made to the composition of Tokmanni's Executive Group. Tuomas Hyvärinen was appointed as Tokmanni's Purchasing Director, Timo Heimo as Director of Information Management and Supply Chain (as of 1 December 2018), Janne Pihkala as Director of Business Development and Harri Koponen as Store Network and Concept Director.

On 31 December 2018, Tokmanni's Executive Group included the following persons:

- Mika Rautiainen, CEO
- Markku Pirskanen, CFO
- Sirpa Huuskonen, HR Director
- Harri Koponen, Store Network and Concept Director
- Mathias Kivikoski, Sales and Marketing Director
- Tuomas Hyvärinen, Purchasing Director
- Timo Heimo, Director, Information Management and Supply Chain
- Janne Pihkala, Director, Business Development

More information on Tokmanni's governance is available on the company's website at https://ir.tokmanni.fi/en/investors/corporate-governance.

## RISK MANAGEMENT

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

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

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

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

#### Market risk

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

#### Reputation risk

If Tokmanni fails in its supervision of product safety or in controlling responsibility in the supply chain, it could result in financial losses as well as an erosion of customer confidence. The importance of different aspects of responsibility in product manufacturing and sourcing as well as fair and equal treatment of employees is increasingly emphasised by customers. Any failure to implement responsibility perspectives would result in negative publicity for Tokmanni, impacting Tokmanni's reputation. The above-mentioned quality and reputation risks are managed with quality and responsibility audits, the compliance requirements of the amfori BSCI Code of Conduct and Tokmanni's Ethical Code of Conduct, and with internal audit measures and a large-scale internal Compliance programme.

#### Data system and data security risks

Like many other companies, Tokmanni, too, has become more dependent on data systems, data traffic and external service providers. The interconnectedness of networks, the outsourcing of services and online and mobile retail have also made it more difficult for companies to monitor their data security effectively. Prolonged operational disturbances in data systems, payment traffic or elsewhere in the supply chain could cause significant sales losses. Tokmanni is focusing increasingly on identifying data security risks and increasing its data security capabilities.

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

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

#### Inventory turnover and working capital management

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

**Brand image and marketing risk**

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

**Personnel competence and key person risks**

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

**Foreign exchange risks**

Tokmanni is exposed to foreign exchange risks through its sourcing. Unfavourable changes in foreign exchange rates can raise the acquisition costs of products purchased in other currencies than the euro, and Tokmanni may not be able to pass on all such costs to its customers. The most important foreign currency for Tokmanni is the United States dollar. In the financial year that ended on 31 December 2018 approximately 90 per cent of Tokmanni's product purchases were made in euros and approximately 10 per cent in US dollars. Tokmanni hedges at least half of its purchases made in US dollars for an average period of six months.

## EVENTS AFTER THE REVIEW PERIOD

Tokmanni acquired four stores in northern Finland, which are Centtilä in Keminmaa, Säästökuoppa in Sodankylä and TEX in Rovaniemi and in Kemijärvi. Tokmanni took control of the businesses of these stores as of 1 January 2019. The combined revenue of the acquired general discount retail businesses was about EUR 9 million in 2017.

## MARKET OUTLOOK

According to the view of Finland's Ministry of Finance, the economic cycle has peaked. In its Economic Survey for winter 2018, the Ministry forecasts that inflation in 2019 will amount to 1.4% (2018: 1.2%). As for GDP growth in 2019, the Ministry's forecasts that it will slow down to 1.5% (2018: 2.5%). According to the Ministry, global trade will slow down as trade barriers are set up, which will put the brakes on export growth and investment expectations. A marked slowdown in investment growth is expected in 2019, mainly as a result of a fall in construction investments. Driven by a more rapid rise in earnings, growth in household disposable income will continue to be brisk. Even though inflation is accelerating, there will be a substantial growth in real income, and household spending will increase in 2019 compared with the previous year.

Tokmanni expects the Finnish retail market to grow slightly in 2019. Discount retail stores, specialty discount stores and online stores are expected to continue strengthening their positions.

## TOKMANNI'S OUTLOOK FOR 2019

Tokmanni expects good revenue growth for 2019, based on the revenue from the new stores acquired and opened in 2018 and new stores to be opened in 2019, as well as on slight growth in like-for-like revenue. Group profitability (comparable EBIT margin) is expected to improve on the previous year.

## BOARD OF DIRECTORS DIVIDEND PROPOSAL

The parent company's distributable funds total EUR 151,378,499.54, which includes EUR 32,613,164.17 in profit for the year. The Board of Directors proposes that a dividend of EUR 0.50 per share, in total EUR 29,434,376.00 be paid for the financial period ending 31 December 2018. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date 21 March 2019. The dividend payment day proposed by the Board of Directors is 4 April 2019. The Group's liquidity is good and the proposed profit distribution does not endanger Tokmanni's solvency.

## NON-FINANCIAL INFORMATION

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

A thorough description of corporate responsibility matters is provided in Tokmanni's Corporate Responsibility Report to be published in the week beginning on 18 March 2019. The report is prepared in accordance with the GRI standards.

### Corporate responsibility at Tokmanni

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

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

### Description of Tokmanni's business model

Tokmanni is the largest and only nationwide general discount retailer in Finland. At the end of 2018 Tokmanni had 186 stores across the country, as well as an online store. Tokmanni offers its customers an interesting and wide assortment, affordable prices and a pleasant and inspiring shopping experience through all of its sales channels. Tokmanni offers a wide assortment of discount products in the home renovation and cleaning, clothing and leisure, and interior decoration and garden categories, for example. Tokmanni's assortment consists of leading Finnish and international brands, the company's own private label products and non-branded products.

Tokmanni has a competitive purchasing function that enables it to offer attractive and low-priced products. The products are sourced from Finnish and international suppliers either directly or through agents. Moreover, Tokmanni has a joint-venture sourcing company in Shanghai with the Norwegian company Europris AS.

Tokmanni's goal is to grow profitably, and the improvement in profitability is driven by increasing the proportion of direct imports and sales of private label products by utilising the sourcing company in Shanghai, among other things. Tokmanni's products are distributed to the stores mainly from the Group's logistics centre in Mäntsälä. The Group's head office is also located in Mäntsälä. At the end of 2018, Tokmanni employed 3,558 people, of whom 86% worked at the stores, 6% at the warehouse and 8% in support functions.

### Business integrity

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

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

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

The Code of Conduct training was delayed in 2018 because of an update to the code and personnel turnover. As a result, the Code of Conduct training, which all Tokmanni employees must complete, was postponed until the first half of 2019.

A technical fault was detected in the Tokmanni online store on 19 November 2018 based on customer feedback. As a consequence, the shopping basket information and the delivery receipts of some customers were disclosed to other customers. Tokmanni is not aware of any cases where this information has been misused. The unauthorised disclosure of personal data affected a small number of customers, and the data was not deemed to have included the type of personal data that could have posed a high risk to these customers' rights and freedoms. However, the company notified the supervisory authority of this incident on its own initiative.

| BUSINESS INTEGRITY | | |
|---|---|---|
| **Targets for 2018** | **Status in 2018** | **Targets for 2019** |
| Tokmanni employees have been trained in the Code of Conduct | Partially achieved | All Tokmanni employees have been trained in the updated Code of Conduct |
| All messages sent to Tokmanni's grievance channel are managed appropriately | Achieved | All messages sent to Tokmanni's grievance channel are managed appropriately |
| Tokmanni has no cases of corruption | Achieved | Tokmanni has no cases of corruption |
| Tokmanni has no privacy violations | Partially achieved | Tokmanni has no privacy violations |
| Tokmanni does not receive any notes from the authorities regarding marketing | Partially achieved | Tokmanni does not receive any notes from the authorities regarding marketing |

**Fair treatment**

Tokmanni generates enterprise value by engaging in responsible operations, utilising the diversity of its personnel and enhancing their expertise.

An open and fair corporate culture that respects all personnel is essential for conducting successful and sustainable business activities. With inclusive and fair personnel management, Tokmanni is able to evolve, benefit from new opportunities, reduce business risks and generate added value for all its stakeholders. The Group continuously monitors the standard of good management, supervisory work, the working atmosphere and equal treatment.

Tokmanni recognises and values diversity. Tokmanni manages diversity and strives to make it a strength. In 2018, Tokmanni specified its aims regarding diversity in order to better support the employment of people from different backgrounds and to strengthen the employment skills of youth at risk of social exclusion. The majority of Tokmanni's employees are women and the age distribution of employees is wide. Tokmanni employs a large number of young workers at its stores and in other tasks across the organisation through summer jobs and various forms of work experience. The company also believes it is especially important to provide the best possible service to all of its customers. The company has established procedures for handling cases of inappropriate treatment and for preventing such occurrences. The guidelines state that an intervention must be made immediately in cases of inappropriate treatment.

In 2018, Tokmanni conducted a survey in selected stores on the experiences of employees with an immigrant background. Tokmanni also piloted cooperation with the Children and Youth Foundation focusing on strengthening the employment skills of youth at risk of social exclusion through school visits where Tokmanni employees told students their career stories and apprenticeships. Tokmanni established a steering group responsible for diversity work, which, in addition to the goals mentioned above, has the aim of integrating diversity into the company's HR processes.

Tokmanni's aim is a motivated and committed personnel who value the customer, their own work and their employer and contribute responsibly to the company's performance. The development of personnel expertise ensures that Tokmanni achieves its strategic objectives. The personnel are offered various training and development opportunities. The professional expertise of Tokmanni's personnel is developed through conventional and online training and in-service training, in all tasks. Tokmanni's in-house experts participate in the development of training and improving personnel skills in collaboration with external training partners.

Tokmanni is successful when its healthy and satisfied personnel conduct their work tasks safely. The health, working capacity and safety of personnel are ensured with working capacity management. The goal of Tokmanni's working capacity management is to anticipate the occupational health risks of the personnel, improve job satisfaction and lengthen careers.

Tokmanni tracks employee satisfaction, focusing on factors such as the development of equality, working atmosphere, supervisory work and fair management. Development areas are selected each year, and these are monitored on a regular basis.

At the end of 2018 Tokmanni had a total of 3,558 employees, which was 303 more than a year earlier. The main reasons for the increase in the number of employees were the opening of new stores and the acquisition of the Ale-Makasiini stores. The average number of Tokmanni personnel in 2018 was 3,415. The figures reported include those who were on periods of absence from the workplace (e.g. on maternity, paternity, parental, childcare, study and job alternation leave). The most common reasons for fixed-term employment relationships were various substitute positions (e.g. for the duration of family or study leave) and seasonal work.

There were only 29 safety observations reported at Tokmanni in 2018. A total of 77 workplace accidents were reported. Tokmanni's aim is to introduce a system for reporting safety observations in 2019.

The company is currently developing HR key performance indicators (KPIs), and this will continue during 2019.

| Targets for 2018 | Status in 2018 | Targets for 2019 |
|---|---|---|
| The personnel continue to be involved in business development<br><br>New values and management principles have been created and implemented throughout the organisation | **Achieved** | Implementation of the values continues<br><br>Focus areas for 2019:<br>- Developing customer service<br>- Enhancing competence, customer service and supervisory work in the purchasing function<br>- Developing workplace skills |
| Safety observations are made and reported more actively, and occupational health and safety are improving | **Partially achieved** | - A system for reporting safety observations is in place<br>- Safety observations are made and reported more actively, and occupational health and safety are improving |
| Operational KPIs related to the personnel are being updated and knowledge management is improving | **Partially achieved** | Development of knowledge management continues (personnel NPS in 2019) |

### Responsible sourcing and products

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

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

In 2018, 98% (99%) of direct purchases from risk countries were made from amfori BSCI audited factories.

In addition to commissioning amfori BSCI audits, Tokmanni conducts its own audits to monitor and develop responsibility in its sourcing. In 2018, Tokmanni carried out a total of 98 own audits, covering 13% of the active sourcing factories in risk countries. Tokmanni's own audits focus simultaneously on product quality and on verifying the results of amfori BSCI audits. Tokmanni aims to conduct at least 100 of its own audits in 2019.

### Respect for human rights

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

The salient potential human rights impacts in Tokmanni's operations are related to health and safety, safety of buildings, excessive overtime, lack of living wage, child labour and forced labour. The negative impacts identified can affect a range of human rights, including the right to work, the right to health, the right to life and the right to a family life. Tokmanni's measures concerning its purchasing operations consisted of further developing a strategy and action plan for responsible sourcing, further developing a supplier management system, developing a grievance mechanism and a process for correcting detected deficiencies, and going deeper into the supply chain in accordance with the effectiveness principles included in the UN Guiding Principles on Business and Human Rights. A partial solution for several salient human rights impacts in risk countries would be functional trade unionisation and collective bargaining. These could promote such aspects as the payment of a living wage and reasonable working hours.

In 2018, Tokmanni piloted a feedback channel for reporting human rights violations. In the initial phase, Tokmanni added a feedback form for reporting irresponsible actions on its Finnish-language and English-language web pages. The feedback channel in English was primarily intended for those working in Tokmanni's supply chains. Tokmanni did not receive any feedback from the desired target group through the form. As a result, the pilot was deemed to have failed. In future, the company will continue to improve the management of corporate responsibility risks with regard to the most-sold products in the different product categories and to human rights in the supply chains. In its own audits, Tokmanni focuses particularly on factories where the estimated risk of human rights violations is the highest. In the longer term, Tokmanni will strive to create a well-functioning feedback channel down to the factory level.

Human rights impacts are monitored constantly through audits and communication with suppliers, among other measures. Any negative impacts are addressed immediately.

The most important measures for eliminating or mitigating human rights impacts in Tokmanni's own operations are improving occupational health and safety, improving the safety of business travel and increasing the flexibility of work.

**Product responsibility**

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

The aim in 2018 was to improve the product safety, product quality and quality of experience of private label products, licensed products and products imported by the company. The indicator used in this assessment is the number of instances of non-compliance for these product categories. The number of non-compliance cases in 2018 was 20 (15), most of which were due to the quality of experience of the product deviating from the product specification. A typical example of inadequate quality of experience was knitwear producing colour stains when washed. Two serious faults were detected in Tokmanni's private label products in 2018. At the end of 2017,a case was reported where an excessively long wire inside a LED spotlight enabled the electrical current to be transmitted to the spotlight's structure. Some time before Christmas, a large manufacturing fault was detected in the transformers of dozens of decoration light models.

In the final quarter of 2017, Tokmanni introduced a system that enables it to gain more accurate information on products returned by customers. The information that has been generated by the system since the final quarter of 2018 can be compared to that of a year earlier, making it easier to react to customer feedback. With respect to quality control, Tokmanni will focus in 2019 on the most-sold products in the different product categories, where the risks are also the biggest.

| Targets for 2018 | Status in 2018 | Targets for 2019 |
|---|---|---|
| Tokmanni has piloted a feedback channel for reporting human rights violations in the supply chain (grievance mechanism) | Not achieved | Further development of risk management in responsible sourcing with regard to the most-sold private label products in the different product categories and to the biggest human rights risks |
| Tokmanni verified with factory visits that more than 25% of its active sourcing factories in risk countries have been audited by amfori BSCI | Partially achieved | Verifying amfori BSCI audits with at least 100 own audits. At least 25% of new sourcing factories in risk countries will be audited by Tokmanni, in addition to amfori BSCI |
| No serious faults related to product safety have been found in products sold by Tokmanni, and none have caused any accidents | Partially achieved | No serious faults related to product safety have been found in products sold by Tokmanni, and none have caused any accidents<br><br>Further development of the quality control process for the most-sold products in different product categories<br><br>Setting targets for the number of certified products manufactured from recycled raw materials in each product category |

**Efficient use of resources**

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

### Energy-efficient business

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

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

### Environmentally sound logistics

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

### Resource efficiency

Tokmanni seeks to minimise the amount of waste sent to incinerator plants by reducing waste, and by increasing the reuse and recycling of waste. In 2018, Tokmanni recycled approximately 35% and reused 44% of its waste. This was achieved by reusing pallets in transportation. In 2019, Tokmanni aims to achieve a recycling rate of 36% and to maintain the reuse rate at 44%. To raise the recycling rate, the company will strive to increase the recycling of clear plastic film and to train the store personnel in various aspects of recycling at individual stores.

The location-based emissions of Tokmanni's properties decreased by about 1% in 2018. There was a greater need for heating in 2018 than in the previous year because of the colder winter, a fact that contributed to an increase in heating consumption. For 2019, Tokmanni's target is to reduce the amount of location-based emissions at its properties by 3%.

In August, Tokmanni commissioned one of the largest solar power plants in Finland at its administration and logistics centre in Mäntsälä. With its 3,000 solar panels, the solar power plant is estimated to have an annual output of approximately 740,000 kWh, or about 15% of the building's total annual electricity consumption.

Tokmanni also installed LED lighting at 20 of its stores and at the Mäntsälä warehouse. The LED lighting was installed throughout the year, and cumulatively the installations cut electricity consumption by 16.5% in the stores in question and at the warehouse.

| EFFICIENT USE OF RESOURCES | | |
|---|---|---|
| **Targets for 2018** | **Status in 2018** | **Targets for 2019** |
| Reduction of location-based carbon dioxide emissions at the properties (scope 1 and 2) by 5% | Partially achieved | Reduction of location-based carbon dioxide emissions at the properties (scope 1 and 2) by 3% |
| Maintaining greenhouse gas emissions from transport at the 2015 level in relation to revenue | Achieved | Maintaining greenhouse gas emissions from transport at the 2015 level in relation to revenue |
| Maintaining the waste recycling rate at 34% and increasing the reuse rate to 62% | Partially achieved | Waste recycling rate is 36% and reuse rate is 44%<br>Comparable power consumption: -5%<br>Power consumption (total): -2% |

## Group key figures and calculation of financial ratios

| Key figures | 1-12/2018 | 1-12/2017 | 1-12/2016 |
|---|---|---|---|
| Revenue, MEUR | 870.4 | 796.5 | 775.8 |
| Like-for-like revenue development, % | 5.6 | -1.3 | -0.1 |
| Customer visit development % | 6.9 | 3.6 | 44.7 |
| Gross profit, MEUR | 295.3 | 267.1 | 268.4 |
| Gross margin, % | 33.9 | 33.5 | 34.6 |
| Comparable gross profit, MEUR | 295.0 | 268.1 | 267.9 |
| Comparable gross margin, % | 33.9 | 33.7 | 34.5 |
| Operating expenses | -234.3 | -217.8 | -207.4 |
| Comparable operating expenses | -235.7 | -217.0 | -208.5 |
| EBITDA, MEUR | 64.9 | 53.1 | 64.3 |
| EBITDA, % | 7.5 | 6.7 | 8.3 |
| Comparable EBITDA, MEUR | 63.3 | 55.0 | 62.8 |
| Comparable EBITDA, % | 7.3 | 6.9 | 8.1 |
| Operating profit (EBIT), MEUR | 50.3 | 38.8 | 49.2 |
| Operating profit margin EBIT, % | 5.8 | 4.9 | 6.3 |
| Comparable EBIT, MEUR | 48.6 | 40.6 | 47.7 |
| Comparable EBIT, % | 5.6 | 5.1 | 6.1 |
| Net financial items, MEUR | -5.6 | -5.8 | -15.2 |
| Net capital expenditure, MEUR | 19.8 | 8.1 | 9.8 |
| Net debt / comparable EBITDA ** | 2.1 | 2.4 | 1.8 |
| Net cash from operating activities, MEUR | 44.9 | 27.1 | 62.5 |
| Return on capital employed, % | 14.6 | 11.4 | 14.5 |
| Return on capital employed %, rolling 12 months | 15.0 | 12.0 | 14.5 |
| Return on equity, % | 21.2 | 16.0 | 18.1 |
| Return on equity %, rolling 12 months | 23.4 | 18.3 | 18.8 |
| Equity ratio, % | 36.0 | 35.3 | 36.4 |
| Personnel at the end of the period | 3,558 | 3,255 | 3,224 |
| Personnel on average in the period | 3,415 | 3,232 | 3,209 |

** Rolling 12 months comparable EBITDA

| Per-share data | 2018 | 2017 | 2016 |
|---|---|---|---|
| Earnings per share (EUR/share) | 0.61 | 0.45 | 0.50 |
| Dividend per share | 0.50 ** | 0.41 | 0.51 |
| Equity per share * | 2.96 | 2.77 | 3.08 |
| Share price at 31 December | 7.18 | 7.25 | 8.50 |
| Highest price during the period | 8.04 | 11.13 | 9.88 |
| Lowest price during the period | 6.42 | 6.66 | 6.26 |
| Average price during the period | 7.30 | 8.17 | 7.62 |
| Share turnover (thousands) | 30,094 | 63,315 | 51,668 |
| Share turnover, % | 51.1 | 107.6 | 87.8 |
| Market capitalization at 31 December (MEUR) | 422.7 | 426.80 | 500.38 |
| Number of shares at 31 December (thousands) | 58,869 | 58,869 | 58,869 |
| Number of shares, weighted average during the financial period (thousands) | 58,869 | 58,869 | 54,095 |

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

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

## Alternative Performance Measures (APM)

Tokmanni presents APMs because management uses APM to manage the underlying business performance and to enhance comparability. The items affecting comparability and APMs used by Tokmanni are defined below:

| MEUR | **1-12/2018** | **1-12/2017** | **1-12/2016** |
|---|---|---|---|
| **Gross profit** | **295.3** | **267.1** | **268.4** |
| Changes in fair value of currency derivatives | -0.3 | 1.0 | -0.5 |
| **Comparable Gross Profit** | **295.0** | **268.1** | **267.9** |
| | | | |
| **Operating expenses** | **-234.3** | **-217.8** | **-207.4** |
| Changes in fair value of electricity derivatives | -1.4 | -0.4 | -1.1 |
| Brand harmonization costs | - | - | - |
| Loss on real estate sales | - | 1.2 | - |
| IPO costs | - | - | 0.0 |
| **Comparable operating expenses** | **-235.7** | **-217.0** | **-208.5** |
| | | | |
| **EBITDA** | **64.9** | **53.1** | **64.3** |
| **Operating profit (EBIT)** | **50.3** | **38.8** | **49.2** |
| Changes in fair value of currency derivatives | -0.3 | 1.0 | -0.5 |
| Changes in fair value of electricity derivatives | -1.4 | -0.4 | -1.1 |
| Brand harmonization costs | - | - | - |
| Loss on real estate sales | - | 1.2 | - |
| IPO costs | - | - | 0.0 |
| **Comparable EBITDA** | **63.3** | **55.0** | **62.8** |
| **Comparable operating profit (adj. EBIT)** | **48.6** | **40.6** | **47.7** |

### Calculation of Group's 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. 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 in 2017) |
| EBITDA | = | Operating profit + Depreciation |
| Adjusted EBITDA | = | EBITDA - (Changes in fair value of currency derivatives + Changes in fair value of electricity derivatives + Loss on real estate in 2017) |
| Adjusted 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 / adjusted EBITDA | = | Net debt / Adjusted 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, % | = | Profit before taxes + Interest and other financial expenses / Average capital employed |
| Return on equity, % | = | Net result for the financial period / Average equity |
| 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 | = | Equity / Balance sheet total - Advances received |

**Calculation of Group's per-share data**

| | | |
|---|---|---|
| Earnings Per Share | = | Net profit / Number of shares weighted average during the financial period |
| Equity per share | = | Equity / Number of shares at the end of the reporting period |
| Average price during the period | = | Share turnover in euro terms divided by the number of shares traded during the period |
| Share turnover | = | Number of shares traded during the period |
| Market capitalization at 31 December | = | Number of shares x share price on the balance sheet date |
| Number of shares at 31 December | = | Number of shares on the balance sheet date |

## Shares and share capital

There were no changes in the amount of shares during the financial period 2018.

Tokmanni has one share series and all shares carry equal voting rights at the general meeting. The share has no nominal value. Tokmanni does not hold any of its own shares.

### Tokmanni's shares on the Nasdaq Helsinki stock exchange 2018

| | |
|---|---|
| Turnover EUR | 219,614,957 |
| Volume | 30,094,042 |
| High, EUR | 8.04 |
| Low, EUR | 6.42 |
| WVAP, EUR | 7.30 |
| Last, EUR | 7.18 |
| Market cap 31 December 2018, EUR | 422,677,639 |

### Division of shares 31 December 2018

| | Shareholders | | Shares | | Votes | |
|---|---|---|---|---|---|---|
| | **Number** | **%** | **Number** | **%** | **Number** | **%** |
| 1-100 | 4,621 | 29.60 | 251,425 | 0.43 | 251,425 | 0.43 |
| 101-500 | 6,444 | 41.28 | 1,791,648 | 3.04 | 1,791,648 | 3.04 |
| 501-1 000 | 2,361 | 15.12 | 1,856,880 | 3.15 | 1,856,880 | 3.15 |
| 1001-5 000 | 1,853 | 11.87 | 3,969,060 | 6.74 | 3,969,060 | 6.74 |
| 5 001-10 000 | 171 | 1.10 | 1,231,686 | 2.09 | 1,231,686 | 2.09 |
| 10 001-50 000 | 103 | 0.66 | 2,323,908 | 3.95 | 2,323,908 | 3.95 |
| 50 001-100 000 | 22 | 0.14 | 1,606,280 | 2.73 | 1,606,280 | 2.73 |
| 100 001-500 000 | 20 | 0.13 | 4,247,076 | 7.21 | 4,247,076 | 7.21 |
| 500 001 | 17 | 0.11 | 41,590,789 | 70.65 | 41,590,789 | 70.65 |
| **Total** | **15,612** | **100.00** | **58,868,752** | **100.00** | **58,868,752** | **100.00** |
| Out of which nominee registered | 11 | | 13,326,308 | 22.64 | 13,326,308 | 22.64 |

### Ownership structure on 31 December 2018

| | Shares number | % |
|---|---|---|
| Private Corporations | 13,911,181 | 23.63 |
| Public sector organizations | 11,527,013 | 19.58 |
| Households | 10,354,578 | 17.59 |
| Financial and insurance institutions | 8,434,382 | 14.33 |
| Non-profit organizations | 1,180,500 | 2.01 |
| Outside Finland and nominee registered | 13,461,098 | 22.87 |
| **Total** | **58,868,752** | **100.00** |

**Tokmanni’s major shareholders by number of shares 31 December 2018**

| | Shares | % of shares |
|---|---|---|
| Takoa Invest | 10,417,688 | 17.70 |
| Elo Pension Company | 4,750,000 | 8.07 |
| Varma Mutual Pension Insurance Company | 4,343,252 | 7.38 |
| OP-Finland Value Fund | 1,493,910 | 2.54 |
| Nordea Pro Finland Fund | 1,350,421 | 2.29 |
| Ilmarinen Mutual Pension Insurance Company | 1,100,587 | 1.87 |
| Nordea Fennia Fund | 853,376 | 1.45 |
| Fondita Nordic Small Cap Investment Fund | 800,000 | 1.36 |
| Evli Finnish Small Cap Fund | 750,000 | 1.27 |
| Veritas Pension Insurance Company Ltd. | 645,000 | 1.10 |
| Säästöpankki Kotimaa | 626,527 | 1.06 |
| Kirkon Eläkerahasto | 626,458 | 1.06 |
| Hulkko Juha Olavi | 550,000 | 0.93 |
| OP Life Assurance Company Ltd | 528,171 | 0.90 |
| Sivula Harri | 460,000 | 0.78 |
| OP-Finland Small Firms Fund | 438,805 | 0.75 |
| Säästöpankki Pienyhtiöt | 424,474 | 0.72 |
| Danske Invest Finland Opportunities | 417,029 | 0.71 |
| Säästöpankki Korko Plus-Sijoitusrahasto | 231,556 | 0.39 |
| Tapiola Keskinäinen Henkivakuutusyhtiö | 228,547 | 0.39 |

# Consolidated financial statements (IFRS)

## Consolidated income statement

| **MEUR** | **Note** | **1 Jan - 31 Dec 2018** | **1 Jan - 31 Dec 2017** |
|---|---|---|---|
| **Revenue** | | **870.4** | **796.5** |
| Other operating income | 4 | 4.0 | 3.9 |
| Materials and services | 4 | -575.1 | -529.4 |
| Employee benefits expenses | 6, 25 | -106.9 | -97.9 |
| Depreciation | 5 | -14.7 | -14.3 |
| Other operating expenses | 4 | -127.4 | -119.9 |
| Share of profit (loss) in joint ventures | 11 | 0.0 | 0.0 |
| **OPERATING PROFIT** | | **50.3** | **38.8** |
| Financial income | 7 | 0.0 | 0.0 |
| Financial expenses | 7 | -5.6 | -5.9 |
| **PROFIT/LOSS BEFORE TAX** | | **44.7** | **32.9** |
| Income taxes | 8, 13 | -8.9 | -6.6 |
| **Net result for the financial period** | | **35.8** | **26.3** |
| | | | |
| **Profit for the year attributable to** | | | |
| Equity holders of the parent company | | 35.8 | 26.3 |

## Consolidated statement of comprehensive income

| | | |
|---|---|---|
| **Net result for the financial period** | **35.8** | **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 |
| **Comprehensive income for the financial period, net of tax** | **0.0** | **0.0** |
| **Comprehensive income for the financial period** | **35.8** | **26.3** |
| **Comprehensive income for the financial period attributable to** | | |
| Equity holders of the parent company | 35.8 | 26.3 |

| **Earnings per share** | **2018** | **2017** |
|---|---|---|
| Equity holders of the parent company | 35.8 | 26.3 |
| Number of shares, weighted average during the financial period (thousands) | 58 869 | 58 869 |
| Undiluted earnings per share (EUR/share) | 0.61 | 0.45 |

| **Consolidated statement of financial position** <br> **MEUR** | **Note** | **31 Dec 2018** | **31 Dec 2017** |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 9 | 86.6 | 88.6 |
| Goodwill | 10 | 134.6 | 128.6 |
| Other intangible assets | 10 | 5.8 | 4.8 |
| Non-current receivables | 12, 18 | 2.6 | 0.2 |
| Investments in joint ventures and other financial assets | 11 | 0.2 | 0.2 |
| Deferred tax asset | 13 | 5.2 | 5.1 |
| **NON-CURRENT ASSETS, TOTAL** | | **234.9** | **227.5** |
| **CURRENT ASSETS** | | | |
| Inventories | 14 | 190.5 | 170.2 |
| Trade and other receivables | 15, 18 | 20.6 | 18.4 |
| Income tax receivables | | 1.5 | 3.8 |
| Cash and cash equivalents | 16 | 37.9 | 42.5 |
| **CURRENT ASSETS, TOTAL** | | **250.5** | **235.0** |
| **ASSETS, TOTAL** | | **485.4** | **462.5** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to the equity holders of the parent company** | | | |
| Share capital | 17 | 0.1 | 0.1 |
| Reserve for invested unrestricted equity | 17 | 109.9 | 109.9 |
| Translation differences | | 0.0 | 0.0 |
| Retained earnings | | 64.5 | 52.9 |
| **EQUITY, TOTAL** | | **174.5** | **162.8** |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 13 | 5.6 | 5.1 |
| Non-current interest-bearing liabilities | 18, 19, 22 | 169.3 | 173.0 |
| Non-current non-interest-bearing liabilities | 18, 21, 22 | 6.8 | 7.4 |
| **NON-CURRENT LIABILITIES, TOTAL** | | **181.8** | **185.4** |
| **CURRENT LIABILITIES** | | | |
| Current interest-bearing liabilities | 18, 19, 22 | 3.7 | 3.6 |
| Trade payables and other current liabilities | 18, 21, 22 | 122.7 | 107.3 |
| Income tax liabilities | 21 | 2.8 | 3.3 |
| **CURRENT LIABILITIES, TOTAL** | | **129.1** | **114.2** |
| **EQUITY AND LIABILITIES, TOTAL** | | **485.4** | **462.5** |

## Consolidated statement of cash flows

| MEUR | Note | 1 Jan - 31 Dec 2018 | 1 Jan - 31 Dec 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net result for the financial period | | **35.8** | **26.3** |
| Adjustments: | | | |
| Depreciation | 5 | 14.7 | 14.3 |
| Capital gains and losses on non-current assets | | 0.0 | 1.3 |
| Financial income and expenses | 7 | 5.6 | 5.8 |
| Income taxes | 8 | 8.9 | 6.6 |
| Other adjustments | | -2.5 | -0.2 |
| Change in working capital: | | | |
| Change in current non-interest-bearing receivables | | -1.3 | -2.4 |
| Change in inventories | | -19.8 | -14.7 |
| Change in current non-interest-bearing liabilities | | 15.7 | 3.8 |
| Interest paid | | -5.3 | -5.3 |
| Other financing items | | -0.1 | -0.2 |
| Income taxes paid | | -6.7 | -8.3 |
| **Net cash from operating activities** | | **44.9** | **27.1** |
| **Cash flows from investing activities** | | | |
| Purchases of tangible and intangible assets | 10 | -19.8 | -11.7 |
| Proceeds from disposal of tangible and intangible assets | | 0.0 | 0.8 |
| Disposal of subsidiaries | | 0.0 | 0.1 |
| Loans granted | | -2.0 | -0.3 |
| Proceeds from repayments of loans | | 0.0 | 2.9 |
| **Net cash from investing activities** | | **-21.7** | **-8.1** |
| **Cash flows from financing activities** | | | |
| Proceeds from share issue | | 0.0 | -0.1 |
| Dividends paid | | -24.1 | -30.0 |
| Repayments of finance lease liabilities | | -3.7 | -3.6 |
| **Net cash from financing activities** | | -27.8 | **-33.7** |
| **Net change in cash and cash equivalents** | | **-4.7** | **-14.7** |
| Cash and cash equivalents at beginning of the financial period | | 42.5 | 57.6 |
| Cash and cash equivalents, corporate arrangements | | 0.0 | -0.3 |
| Cash and cash equivalents at end of the financial period | | 37.9 | 42.5 |

# Consolidated statement of changes in equity

| MEUR | Note | Share capital | Reserve for invested unrestricted equity | Translation differences | Retained earnings | Equity attributable to owners of the parent | Total equity |
|---|---|---|---|---|---|---|---|
| **Equity 1 Jan 2018** | 17 | **0.1** | **109.9** | **0.0** | **52.9** | **162.8** | **162.8** |
| **Comprehensive income** | | | | | | | |
| Net result for the financial period | | | | | 35.8 | 35.8 | 35.8 |
| Translation differences | | | | 0.0 | | 0.0 | 0.0 |
| **Total comprehensive income for the financial period** | | | | **0.0** | **35.8** | **35.8** | **35.8** |
| Dividends | | | | | -24.1 | -24.1 | -24.1 |
| Incentive scheme | | | | | 0.1 | 0.1 | 0.1 |
| **Equity 31 Dec 2018** | | **0.1** | **109.9** | **0.0** | **64.5** | **174.5** | **174.5** |

| MEUR | Note | Share capital | Reserve for invested unrestricted equity | Translation differences | Retained earnings | Equity attributable to owners of the parent | Total equity |
|---|---|---|---|---|---|---|---|
| **Equity 1 Jan 2017** | 17 | **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 |
| | | | | | 0.0 | 0.0 | 0.0 |
| Costs directly attributable to the issue of new shares net of tax | | | -0.1 | | | -0.1 | -0.1 |
| **Equity 31 Dec 2017** | | **0.1** | **109.9** | **0.0** | **52.9** | **162.8** | **162.8** |

## Notes to the consolidated financial statements

### NOTE 1.
### Accounting policies used in the consolidated financial statements

### Basic information on the Group

Tokmanni Group Corporation (Finnish limited liability company, business ID 2483212-7) is the parent company of the Tokmanni Group. The shares of the parent company are listed on the Nasdaq Helsinki exchange.

The principal line of business of Tokmanni Group Corporation is to sell administrative services to the other companies in the Group. These companies include Retail Leasing Oy, whose line of business is to own and lease property, plant and equipment to the other Group companies. Retail Leasing Oy is also the parent of Nordic Disco AB (Sweden) which, in turn, is the parent of Tokmanni Oy. Tokmanni Oy engages in wholesale, retail and speciality goods trade. Taitomanni Oy is a company owned by Tokmanni Oy, whose business is to provide Group companies with personnel rental and support services in the retail sector. The Group also includes Retail Property Investment Ltd, which carries out a real estate business by investing in own real estate companies that build store premises for Group company use.

Tokmanni Group Corporation is domiciled in Helsinki and its registered address is Isolammintie 1, 04600 Mäntsälä. Copies of the parent company financial statements and the consolidated financial statements are available at the Group's head office at Isolammintie 1, 04600 Mäntsälä and on the company website www.tokmanni.fi. At its meeting of 15 February 2019, the Board of Directors of Tokmanni Group Corporation approved the financial statements for publication. Under the Finnish Limited Liability Companies Act, the shareholders may either adopt or reject the financial statements at the Annual General Meeting held after their publication. In addition, the AGM may also decide to amend the financial statements.

### Accounting policies used in the financial statements

These financial statements are compiled in accordance with the International Financial Reporting Standards (IFRS) and in particular with the IAS and IFRS standards and SIC and IFRIC interpretations in force on 31 December 2018. The term "International Financial Reporting Standards" refers to the standards adopted in the Finnish Accounting Act and provisions issued under it in accordance with the procedure under Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the EU. The notes to the consolidated financial statements also comply with Finnish accounting and company legislation that complements the IFRS provisions.

Unless otherwise specified in the present accounting policies, the information in the financial statements is based on historical cost. The consolidated financial statements are presented in euro which is the operating and reporting currency of the Group's parent company. The information is given in millions of euro unless otherwise mentioned.

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

### Accounting policies used in the consolidated financial statements

*Consolidation policies - subsidiaries*

The consolidated financial statements include not only the parent company, Tokmanni Group Corporation, but also the subsidiaries controlled by the Group. Control is deemed to arise when the Group, while being involved with the entity, becomes exposed to the entity's variable returns or is entitled to such variable returns and the Group is able to affect those returns by exercising its power over the entity. In practice, control normally arises when the Group owns over half of the voting rights in the subsidiary. The acquired subsidiaries have been consolidated in the consolidated financial statements from the date at which the Group acquires control, until the moment at which this control expires.

All internal transactions, receivables and liabilities, unrealised profits and internal distribution of profit are eliminated at the preparation of the consolidated financial statements. Unrealised losses are not eliminated if the loss is caused by impairment of an asset.

Mutual share ownership within the Group is eliminated using the acquisition method. Considerations transferred and the identifiable assets as well as liabilities assumed of the acquire are valued at their fair value of the date of acquisition. Acquisition-related costs are recognised as expenses, excluding the expenses incurred for the issuance of debt or equity securities. The consideration transferred does not include transactions treated separately from the acquisition, and the impact of such transactions is recognised in profit or loss at acquisition. On 31 December 2018 or on 31 December 2017, there were no non-controlling interests within the Group. The way to recognise the goodwill generated through subsidiary acquisitions and business acquisitions is described later in the policies under "Goodwill".

*Consolidation policies - joint ventures*

The Group also includes a joint arrangement operating in Hong Kong, classified as a joint venture (Tokmanni – Europris Sourcing Ltd.). A joint arrangement is one where two or several parties exercise joint control. Joint control means contractually agreed sharing of control over the arrangement, and it prevails only if decisions about relevant activities require unanimous consent of the parties sharing the control. A joint arrangement is either a joint operation or a joint venture. In a joint operation, the Group has rights based on the assets and obligations based on the liabilities in the arrangement, while a joint venture is an arrangement where the Group has rights to the net assets of the arrangement.

A joint venture is consolidated using the equity method. If the Group's share of the losses from the joint venture exceeds the carrying amount of the investment, it will be recognised in the statement of financial position at zero, while the losses in excess of the carrying amount are not consolidated unless the Group is committed to meeting the obligations of the joint venture. The Group's share of the net profit for the financial period of the joint venture, proportional to its ownership interest, is disclosed prior to the operating profit.

## Translation of items in foreign currencies

Transactions in foreign currencies are converted into the functional currency using the exchange rate of the transaction date. Gains and losses resulting from the translation of foreign currency transactions and items are recognised in profit or loss, disclosed after the operating profit in financial income and expenses. The following items included in the purchase costs of the financial period constitute an exception:

- Exchange rate gains or losses arising from the translation of trade payables in foreign currencies.
- Exchange rate gains or losses arising from the changes in the fair values of currency options that hedge purchases quoted in foreign currencies.

The income and expenses in the statement of comprehensive income and the separate income statement of a foreign subsidiary are translated into euro at the exchange rates of the transaction dates, while the statement of financial position is translated using the closing rates of the reporting period. The translation of the net profit for the financial period and of the comprehensive income by using different rates in the income statement / statement of comprehensive income on the one hand and in the statement of financial position on the other hand, gives rise to a translation difference recognised in equity, with the respective changes recognised under other comprehensive income. The translation differences arising from the elimination of the acquisition cost of a foreign subsidiary and the post-acquisition equity items are recognised under other comprehensive income. When a subsidiary is disposed of, either in full or in part, the cumulative translation differences are recognised in profit or loss as a part of capital gains or losses.

Translation differences arising prior to 1 January 2013, the Group's date of transition to IFRSs, are recognised in line with the respective relief under IFRS 1 in retained earnings at the adoption of IFRS. Later, these items will not be recognised in profit or loss if a subsidiary is disposed of. Starting from the transition date, the translation differences arising at the preparation of the consolidated financial statements are disclosed as a separate item in equity.

## Property, plant and equipment

Property, plant and equipment include land areas, buildings and refurbishment expenses related to them, as well as machinery and equipment. In the statement of financial position, property, plant and equipment are measured at cost less accumulated depreciation and eventual impairment losses.

Assets, with the exception of land, are depreciated over their useful lives using the straight-line depreciation method, while land is not subject to depreciation. Depreciation commences when the asset is ready for use and functioning in the way expected by Management. When an item in property, plant and equipment is classified as one held for sale in line with IFRS 5 *Non-current assets held for sale and discontinued operations*, depreciation is no longer recorded.

The estimated useful lives are as follows:

| | | |
|---|---|---|
| Buildings and constructions | 15 | years |
| Machinery and equipment | 5 | years |

The capital gains and losses from retirements and disposals of property, plant and equipment are recognised in profit or loss and disclosed in other operating income or expenses. Capital gain or loss is defined as the difference between the sales price and the residual acquisition cost. The normal repair, service and maintenance expenses of property, plant and equipment are recognised as expenses in the income statement during the period in which they are incurred.

The residual value, useful life and depreciation method of an asset item are re-examined at least at the end of each financial period and adjusted, if necessary, to reflect the changes in the expected economic benefits.

## Intangible assets

*Goodwill*

The goodwill generated from business combinations is recognised as the excess of the aggregate of the consideration transferred, the non-controlling interests in the acquire and any previous interest held, over the fair value of the acquired net assets. The goodwill generated from business combinations prior to 1 January 2013 corresponds to the carrying amount under the earlier FAS, used as the deemed cost under the IFRS standard 1.

Goodwill is not subject to amortisation, but is tested for impairment on an annual basis and also whenever there is an indication of impairment. Goodwill is recognised at deemed cost defined at the IFRS transition less impairment.

*Other intangible assets*

Intangible assets are recognised in the statement of financial position at their cost, on condition that the cost can be determined reliably and it is probable that the Group will receive the expected economic benefits from the asset. The other intangible assets of the Group are mainly IT software and licenses. They are recognised at acquisition cost less amortisation and impairment losses. The cost is the purchase price and all other expenses directly incurred for making the asset available for its intended use.

Intangible assets with definite useful lives will be amortised using the straight-line method over their known or estimated useful lives. Intangible assets with a fixed timeframe are amortised and recognised as expenses over the respective contract period. Once the intangible asset is classified as held-for-sale, amortisation is no longer recorded. The amortisation period for other intangible assets is five years on average.

The estimated useful lives and residual values are reviewed at least at the end of each financial period, and, if they differ significantly from earlier estimates, the amortisation periods are adjusted correspondingly.

## Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is defined using the weighted average method. The cost of finished goods includes all costs of purchase, including direct transportation and handling costs and other costs. The net realisable value is the estimated sales price obtainable through normal business, less the estimated product expenses and the estimated indispensable expenses related to materialised sales.

## Leases

The Group engages in considerable intra-Group lease operations related to property, plant, equipment and intangible assets, the respective economic impacts of which are eliminated in the consolidated financial statements. In addition, the Group has leased properties and cars from third parties.

*Group as lessee*

The lease agreements on property, plant and equipment in which the Group carries a material share of the risks and benefits typical of ownership, are classified as finance leases.

An asset acquired through a finance lease is recognised in the statement of financial position at the commencement of the lease at the fair value of the leased asset at the inception of the lease, or at the present value of the minimum lease payments, whichever is lower.
Assets acquired through finance leases are depreciated over the shorter of their useful lives or the lease period. The leases payable are divided into finance expenses and debt repayments over the lease period, so that the residual debt at each period is subject to the same rate of interest. Contingent rents are recognised as expenses during the periods they are incurred. Lease obligations are included in financial liabilities.

Lease agreements in which the risks and benefits typical of ownership are substantially all carried by the lessor are accounted for as operating leases. The operating lease payments are recognised as expenses in profit or loss over the lease term. Contingent rents are recognised as expenses during those periods in which they are incurred.

When a lease agreement includes parts relating to both land and buildings, the classification of each item is made separately.

*Group as lessor*

The Group is a lessor mainly in the intra-Group lease agreements, and the economic impacts of them are eliminated in the consolidated financial statement. Lease agreements outside the Group play an insignificant role.

*Arrangements that may involve a lease agreement*

When an arrangement starts, the Group looks at the substance of the arrangement to define whether it is a lease agreement or whether a lease agreement is included in the arrangement. A lease agreement exists if execution of the arrangement depends on the use of a particular asset and the arrangement gives the right to use the said asset. If the arrangement includes a lease agreement, it will be subject to the requirements under IAS 17. The other elements of the arrangements are subject to the respective IFRS provisions.

*Sale and leaseback*

If the sale and leaseback agreement results in a finance lease agreement, the proceeds in excess of the carrying amount are not recognized immediately, but are recognized as a liability in the balance sheet and recognized over the lease term. If the sale and leaseback agreement results in a lease and the sale is made at fair value, any gain or loss is recognized immediately.

## Impairment of intangible and tangible assets

At the end of each reporting period, the Group estimates whether there are indications of the value of any asset being impaired. Should there be such indication, the respective recoverable amount will be assessed. The impairment testing of goodwill takes place at least once a year and also whenever there is an indication of impairment.

The recoverable amount is the higher of the fair value less the costs of disposal of the asset, or its value in use. The value in use refers to the future net cash flows, discounted to their present value, estimated to be obtained from the asset or cash-generating unit. The discount rate is the pre-tax rate which reflects the current assessment view on the time value of money and on the risks associated with the asset.

The impairment loss will be recognised immediately in profit or loss if the carrying amount of the asset item exceeds the recoverable amount. If the impairment loss relates to a cash-generating unit, it is first recognised as an element decreasing the goodwill allocable to the cash-generating unit, followed by a decrease in other assets in the unit on a pro rata basis. Coinciding with this, the useful life of the asset subject to impairment is re-assessed. The impairment loss recognised for an asset other than goodwill can be reversed if there has been a change in the estimates used for determining the recoverable amount for the asset in question. However, the reversal of the impairment loss cannot exceed the carrying amount of the assets without the earlier impairment loss recognition. The impairment loss of goodwill is not reversible.

## Employee benefits

The Group companies have defined contribution plans, with the related payments expenses in profit or loss during the period in which the contributions are paid. The Group does not have a legal or constructive obligation to make additional contributions in the event that the recipient of the premium payments is not able to pay out the pension benefits.

## Provisions and contingencies

A provision is recorded when the Group has a legal or constructive obligation as a result of an earlier event, and when the materialisation of the obligation is probable and its amount can be reliably estimated. Provisions are valued at the present value of the expenses required to cover the obligation. The discount rate used for the calculation of the present value is chosen to reflect the current market view of the time value of money and the risks associated with the obligation. If it is possible to have compensation for part of the obligation from a third party, the compensation is recognised as a separate asset when the reimbursement in virtually certain. The amounts of the provisions are estimated at each closing of the accounts, and they will be adjusted to correspond with the best current estimate. Changes in provisions are recognised in the income statement under the same item where the original provision was recorded. The increase in the provision resulting from the passing of time is recognised as interest expenses. At the end of the reporting or comparison period, the Group did not have any provisions.

A contingent liability is a possible obligation arising from past events, the existence of which is confirmed only if an uncertain event beyond the Group's control occurs. A contingent liability is also deemed to be a present obligation where payment is not probable or the amount cannot be measured reliably. Contingent liabilities are specified in the Notes.

## Current tax and deferred tax

The tax expense is constituted by the current tax and the deferred tax. Taxes are recognised in profit or loss except when they are directly related to items under equity or other comprehensive income, in which case the tax is also recognised under such items. Current tax is calculated on the basis of taxable income using the valid tax rates.

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

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

Deferred taxes are calculated using the tax rates in force on the date of the financial statements, and, when the tax rates change, on the known new rates if they are substantively enacted by the end of the reporting period.

## Revenue recognition principles

The Group is engaged in the wholesale, retail and specialty goods trade. Its revenue comes from the sale of goods and, when the revenue is calculated, the sales proceeds are adjusted for indirect taxes and sales adjustment items. Revenue from the sale of goods is recognised when the major risks, benefits and control from the ownership of the goods have been taken over by the buyer, and it is probable that the Group will obtain the economic benefits related to sales. Most of the sales are cash or credit card sales, and therefore the proceeds are recognised as revenue at the moment the products are delivered to the buyers. Other operating income includes mainly rental income and service sales proceeds. Service sales proceeds are recognized when the service has been provided.

## Financial assets and liabilities

*Financial assets*

The Group's financial assets are classified on initial recognition into the following categories: Financial assets at fair value through profit or loss and financial receivables measured at amortised cost. With respect to financial assets other than those recognised at fair value through profit or loss, the transaction costs are added to the historical cost. All purchases and sales of financial assets are recognised on the transaction date, which is the date on which the Group commits to the purchase or sale of the financial instrument. Derecognition of financial assets takes place when the Group has lost the contractual right to the cash flows or when it has transferred a significant part of the risks and income outside the Group.

*Financial assets at fair value through profit or loss*

This group includes financial assets that are classified on initial recognition at fair value recognised through profit or loss. The items classified in this group by the Group include derivatives that are not subject to hedge accounting. Financial assets that will mature within 12 months of the end of the reporting period are included in current assets. The items in this group are measured at fair value, based principally on the market price quoted at the end of the reporting period. Should an item not have a quoted market price, it is measured by using general valuation methods mainly based on observable market information. Any realised or unrealised gains and losses resulting from changes in the fair value are recognised in profit or loss during the financial period in which they arise.

*Loans and receivables*

This group includes non-derivative assets that have fixed or determinable payments and are not quoted on the active market. The Group does not hold them for sale or classify them on initial recognition as held-for-sale. They are measured on the basis of amortised cost using the effective interest method, and they are included, in line with their inherent nature, in either current or non-current assets.

*Cash and cash equivalents*

Cash and cash equivalents include money in cash, demand deposits at banks and other current liquid investments readily convertible to an amount of cash known in advance, with a minor risk of change in value. The maximum maturity of the items classified in cash and cash equivalents is three months from the moment of acquisition.

*Impairment of financial assets*

At the end of each reporting period, the Group reviews items measured at amortised cost to assess whether there is objective evidence of the impairment of the financial asset or group in question. For each significant item, the impairment analysis is made separately based on empirical evidence.

The Group will recognise an impairment loss on trade receivables once it has objective evidence that the receivable cannot be collected in full. Significant economic difficulties, probable bankruptcy, payment defaults or delay in payments by the debtor constitute evidence of impairment of trade receivables. The amount of the impairment loss, recognised in profit or loss, is determined as the difference between the carrying amount of the receivables and the expected future cash flows. Should the amount of the impairment loss diminish in a later period and the decrease can be objectively associated with an event after the recognition of the impairment, the recognised loss is reversed in profit or loss.

*Financial liabilities*

The Group’s financial liabilities are classified on initial recognition as either financial liabilities at fair value through profit or loss, or financial liabilities measured at amortised cost. For financial liabilities other than those recognised at fair value through profit or loss, the transaction costs are deducted from the historical cost. All financial liability transactions are recognised on the contract date, or the date on which the Group commits to the contractual terms of the financial liability. The derecognition of financial liabilities takes place when the Group's contractual obligation has been met or cancelled or the obligation has expired.

The arrangement fees related to loan commitments are recognised as transaction costs to the extent that it is probable that the entire loan commitment or part of it will be drawn out, and in this case the fee will be recognised in the statement of financial position until the loan is drawn out. The arrangement fee related to loan commitments at the withdrawal is recognised under transaction costs. To the extent that it is probable that the loan commitment will not be drawn out, the arrangement fee is recognised as an advance payment for liquidity-related services and is amortised over the loan commitment period.

The policies determining the fair values of all financial assets and liabilities are outlined in Note 18.

*Derivative contracts*

The Group concludes derivative contracts only for the purpose of hedging, but does not apply hedge accounting. The derivatives include electricity derivative contracts and currency derivatives. Electricity derivative contracts are used as a hedge against variation in electricity prices, to the maximum of the Group's own electricity consumption. The Group can use interest rate swap agreements to hedge against interest flow risks caused by long-term loans from credit institutions. Currency derivatives and options provide hedging against the changes in the cash flows of forecast purchases in foreign currencies. Derivative contracts are measured at fair value when the Group becomes a contractual party, and later they are further measured at fair value. The gains and losses thus arising are accounted for in line with the purpose of use of the derivative contract.

## Equity

The Group classifies the issued instruments on the basis of their nature either as equity or as a financial liability. An equity instrument is any agreement that includes the right to participate in company funds after deducting all of its liabilities. Expenditure relating to the issue or acquisition of own equity instruments is presented as a deduction of equity. If equity instruments are repurchased, these acquisition costs are deducted from equity. The dividend proposed by the Board of Directors or the repayment of principal will not be deducted from distributable equity before the approval of the General Meeting.

## Operating profit

IAS 1 *Presentation of Financial Statements* provides no definition for the concept of operating profit. The Group defines operating profit as revenue plus other operating income less purchase expenses and changes in inventory. Moreover, the expenses incurred for employment benefits, depreciation, any impairment losses and other operating expenses are deducted. Other income statement items are disclosed below operating profit. Exchange differences are included in financial items, with the exception of the following items included in the purchase costs of the financial period:

- Exchange gains or losses arising from the conversion of trade payables in foreign currencies.
- Exchange gains or losses arising from changes in the fair values of currency options that hedge purchases quoted in foreign currencies.
- Realised currency derivatives exchange gains or losses

**Accounting policies requiring management judgement and major sources of estimation uncertainty**

When preparing the financial statements, it is necessary to make certain assessments and assumptions about the future, although the actual outcomes may prove different. Moreover, Management must use its judgement in choosing and applying the accounting policies.

*Management discretion related to the items in the financial statements*

The Group Management makes judgements on the choice of accounting policies and their application. This applies, in particular, to the cases where the currently effective IFRS norms allow for alternative ways to recognise measure or disclose the items. The most significant areas where Management has used judgement are related to the classification of the Group's lease agreements and measurement of its inventories.

*Leases*

When classifying the leases, the Group has assessed the cases in which the risks and benefits associated with ownership and related to the leases can be deemed to have been transferred to the Group. These leases are accounted for as finance leases. Lease agreements in which the risks and benefits typical of ownership are substantially all carried by the lessor are recorded as operating lease. The most important classification criteria are the following:

- The present value of the minimum lease payments payable in proportion to the leased asset's fair value at the inception of the lease: In order for the lease to be classified as a finance lease, the present value must constitute a material part of the fair value of the leased asset. There are no observable prices available for certain assets, such as properties in certain localities, and in this case Management must use its judgement when assessing the fair value of these assets.
- The proportion of the lease period of the total useful life of the leased assets: in order for the lease to be classified as a finance lease, the lease period must account for the major part of the total useful life of the asset in question. When examining this criteria, the Group Management must likewise base its decision on judgements.

When classifying leases, each lease is seen as a whole, considering also other impacting factors.

*Inventories*

The Group's inventories are classified into different groups based on their turnaround times and, the slowest moving are, if appropriate, impairment recognized. Impairment recognition calls for judgements and estimates based on issues such as the future demand for the products. Changes in these assessments may impact the measurement of inventories in future financial periods.

*Major assumptions about the future and uncertainties related to the estimates*

The major assumptions about the future and the key sources of uncertainty related to estimations concerning the end of the reporting period, associated with a risk of changes in the carrying amount of assets and liabilities during the following period, are hereunder:

*Goodwill impairment testing*

In impairment testing, the Group must assess indications of impairment based on both internal and external sources of information. The Group Management must make assessments while analysing the information obtained from these sources and making its conclusions. When determining the value in use, the Group estimates future market trends, such as the growth rate and profitability. The most impacting factors underpinning the estimates are the average EBIT margin (EBIT/revenue) and the discount rate. Changes in these assumptions may have a material impact on the estimated future cash flows. Note 10 *Goodwill* includes additional information on the sensitivity of the recoverable amount to the changes in the assumptions made.

## Application of new and revised IFRS standards

The Group has complied with the new and amended standards since the beginning of the financial year 2018:

- IFRS 9 Financial Instruments; IFRS 9 replaces the earlier guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard has not a significant impact on Tokmanni Group Corporation's consolidated financial statements. 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 have not any material effect on the figures presented in the classification of financial assets or financial statements as at 31 December 2018. The Group does not apply hedge accounting
- IFRS 15 Revenue from Contracts with Customers; the new standard has replaced earlier IAS 18 and

IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognize revenue, and at what amount. Revenue is recognized when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard has also introduced extensive new disclosure requirements. The standard has not a significant impact on Tokmanni Group Corporation's consolidated financial statements. The Group's sales proceeds consist of retail sales of products, whereby the customer acquires control over the products at the time of purchase. The Group has no loyalty programs. Relating to the online sales, the number of product returns has been found to be low.

- Amendments to IFRS 2 Clarification and Measurement of Share-based Payment Transactions; The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled. The interpretation is not expected to have an impact on Tokmanni Group Corporation's consolidated financial statements.
- Annual Improvements to IFRSs (2014-2016 cycle); The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28 and they are not significant.
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts; The amendments respond to industry concerns about the impact of differing effective dates by allowing two optional solutions to alleviate temporary accounting mismatches and volatility. The amendment will not have a significant impact on the Group's financial statements.
- IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration; When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates - standard is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation is not expected to have an impact on Tokmanni Group Corporation's consolidated financial statements.
- Amendments to IAS 40 - Transfers of Investment Property; when making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The amendment will not have a significant impact on the Group's financial statements.

**Future standard changes that have been approved by the EU but were not applicable in until 2018:**

- 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 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.
  As a result of the introduction of the lease agreement, the Group's liabilities will increase by approximately EUR 242 million at the time of transition. As a result of the change, the depreciation and interest expense on the asset is recognized in the income statement instead of the rental expense. The change will improve the current comparable EBITDA by approximately EUR 46 million and the operating profit level will be around EUR 4 million. When looking at net income, the impact on profit is approximately EUR -1 million. The standard change affects the equity ratio and the ratio of net debt / comparable EBITDA. The equity ratio at 31 December 2018 was 36% and the impact of IFRS 16, on the date of transition, on equity ratio would have been approximately 23%. In the financial statements at 31 December 2018, the Group's net debt to comparable EBITDA is 2.1 and taking into account the change in the standard for leases, the corresponding figure would be around 3.5.
  Further information on Group leases is given in Note 23.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after 1 January 2019); The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment The interpretation is not expected to have an impact on Tokmanni Group Corporation's consolidated financial statements.
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019); The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendment will not have a significant impact on the Group's financial statements.

**Future standard changes that were not valid and not yet approved by the EU in 2018:**

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective for financial years beginning on or after 1 January 2019); The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendment will not have a significant impact on the Group's financial statements.
- Plan amendment, Curtailment or Settlement (Amendments to IAS 19) (effective for financial years beginning on or after 1 January 2019); The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendment will not have a significant impact on the Group's financial statements.
- Annual Improvements to IFRSs (2015-2017 cycle) (effective for financial years beginning on or after 1 January 2019); the annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The effects of these changes vary by standard, but they are not significant.
- Amendments to References to Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020); the revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs
- Definition of a Business (Amendments to IFRS 3) (effective for financial years beginning on or after 1 January 2020); the amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendment will not have a significant impact on the Group's financial statements.
- Definition of Material (Amendments to IAS 1 and IAS 8) (effective for financial years beginning on or after 1 January 2020); the amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendment will not have a significant impact on the Group's financial statements.
- IFRS 17 Insurance Contracts (IASB's tentative proposal: effective for financial years beginning on or after 1 January 2022); the new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4-standard. The standard will not have impact on Tokmanni Group Corporation's consolidated financial statements.

The introduction of other published standards or standard changes is not expected to have a material impact on Tokmanni Group Corporation's result, financial position or disclosures in connection with their application.

## NOTE 2.
## Segment information

As a result of the nature of Tokmanni's operations, the Group only has one operating segment to report. This is based on the fact that the Group's purchasing and logistics are managed in a centralised manner, the opening of new and closing of existing stores is a Group-level decision, and the stores are deemed to be the Group's distribution channels and all operate under the Tokmanni brand. The Group only operates in Finland.

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

The Group's revenue is fully generated through the sale of goods, i.e. the group has no sale of services. All revenue is generated in Finland and all assets are also located in Finland. There are no single customers for which the revenues received amount to more than 10% of the Group's revenues.

## Notes to the consolidated income statement

## NOTE 3.
## Income

| MEUR | 2018 | 2017 |
|---|---|---|
| Revenue | 870.4 | 796.5 |
| Service income | 2.2 | 2.1 |
| Rental income | 0.3 | 0.3 |
| Other operating income | 1.5 | 1.5 |
| Total income | 874.4 | 800.4 |

The Group's revenue is fully generated through the sale of goods, i.e. the group has no sale of services. Service revenues include slot gaming and betting bonuses on store sites. Rental income consists of the cost of using real estate for sub-tenants. Other income includes among others, income from the sale and leaseback arrangement of the Mäntsälä logistics centre as well as from sales of pallets.

## NOTE 4.
## Other operating expenses

| MEUR | 2018 | 2017 |
|---|---|---|
| Rental expenses | -49.5 | -46.9 |
| Marketing expenses | -15.2 | -14.3 |
| Real estate and store site expenses | -34.3 | -32.1 |
| Purchased services | -12.2 | -7.9 |
| Other expenses | -16.2 | -18.7 |
| Total | -127.4 | -119.9 |

## Auditors' fees
## KPMG Oy Ab, Authorised Public Accountants

| MEUR | 2018 | 2017 |
|---|---|---|
| Audit | -0.1 | -0.1 |
| Other services | 0.0 | 0.0 |
| Tax services | 0.0 | 0.0 |
| Total | -0.1 | -0.1 |

Non-audit services performed by KPMG Oy Ab for the Tokmanni Group companies during the financial year 2018 totalled EUR 31 thousand. Services consisted of tax services (EUR 5 thousand) and other services (EUR 26 thousand).

## NOTE 5.
## Depreciation

| MEUR | 2018 | 2017 |
|---|---|---|
| **Intangible assets** | | |
| IT software and licences | -1.7 | -1.5 |
| Other intangible assets | 0.0 | 0.0 |
| Total | -1.7 | -1.6 |
| | | |
| **Property, plant and equipment** | | |
| Buildings and constructions | -6.6 | -6.6 |
| Machinery and equipment | -6.4 | -6.2 |
| Total | -13.0 | -12.8 |
| | | |
| Total | -14.7 | -14.3 |

The Group has not recognised impairments for tangible or intangible assets in the 2018 and 2017 financial periods.

## NOTE 6.
## Employee benefit expenses

| MEUR | 2018 | 2017 |
|---|---|---|
| Wages, salaries and fees | -87.1 | -79.4 |
| Pension expenses - defined contribution plans | -16.6 | -15.0 |
| Other social security expenses | -3.2 | -3.6 |
| Total | -106.9 | -97.9 |
| | | |
| Number of personnel on average in the financial period | 3 415 | 3 232 |

The information on Management's employment-related benefits is in Note 25, Related party transactions.

## NOTE 7.
## Financial income and expenses

| MEUR | 2018 | 2017 |
|---|---|---|
| **Interest income and other financial income** | | |
| Interest income on financial assets at amortised cost | 0.0 | 0.0 |
| Dividend income | 0.0 | 0.0 |
| Foreign exchange gains on cash and cash equivalents | 0.0 | 0.0 |
| Other financing income | 0.0 | 0.0 |
| Total | 0.0 | 0.0 |
| | | |
| **Interest expenses and other financial costs** | | |
| Interest expenses on financial liabilities at amortised cost | -1.7 | -1.7 |
| Interest expenses on finance leases | -3.8 | -3.8 |
| Foreign exchange losses on cash and cash equivalents | 0.0 | -0.2 |
| Other financial costs | -0.1 | -0.1 |
| Total | -5.6 | -5.9 |
| | | |
| Total | -5.6 | -5.8 |

Exchange rate differences are also recorded under purchases in the financial period. Changes in the fair value of currency derivatives are recognised as adjustments of purchases in the period by EUR 0.3 million (EUR -1.0 million). Changes in the fair value of commodity derivatives are recognised as adjustments of other operating expenses by EUR 1.4 million (EUR 0.4 million).

## NOTE 8.
## Income taxes

| MEUR | 2018 | 2017 |
|---|---|---|
| Income taxes for the financial period | -8.4 | -6.9 |
| Income taxes for previous financial periods | 0.1 | 0.0 |
| Change in deferred taxes | -0.6 | 0.3 |
| Total | -8.9 | -6.6 |

Tax effects related to other comprehensive income

| MEUR | 2018 | 2017 |
|---|---|---|
| Exchange differences on translating foreign operations | 0.0 | 0.0 |

Reconciliation between the income tax expense in the income statement and the Group's tax expense at the Finnish tax rate of 20.0% (20.0%):

| MEUR | 2018 | 2017 |
|---|---|---|
| Profit/loss before tax | 44.7 | 32.9 |
| Income taxes at Finnish tax rate 20,0 % (20,0 %) | -8.9 | -6.6 |
| Differing tax rates of foreign subsidiaries | 0.0 | 0.0 |
| Tax-exempt income | 0.0 | 0.0 |
| Non-deductible expenses | 0.0 | 0.0 |
| Use of tax losses not recognised earlier | 0.0 | 0.0 |
| Unrecognised deferred tax assets from losses in taxation | 0.0 | 0.0 |
| Income taxes for previous financial periods | 0.1 | 0.0 |
| Total | -8.9 | -6.6 |

Tokmanni Group Corporation has a case pending with the tax authorities concerning the right to deduct value added taxes. No decision has been issued on the case yet. The amount of the disputed tax is about EUR 0.4 million.

## Notes to the consolidated statement of financial position

### NOTE 9.
### Property, plant and equipment

Property, plant and equipment 2018:

| MEUR | Land and waters | Buildings | Machinery and equipment | Prepayments | Total |
|---|---|---|---|---|---|
| Acquisition cost as at 1 Jan | 0.0 | 93.5 | 58.3 | 0.1 | 151.9 |
| Additions | 0.0 | 1.9 | 9.0 | 5.3 | 16.3 |
| Disposals | 0.0 | -1.5 | -0.2 | -5.1 | -6.8 |
| Acquisition cost as at 31 Dec | 0.0 | 93.9 | 67.1 | 0.3 | 161.3 |
| Accumulated depreciation as at 1 Jan | 0.0 | -29.0 | -34.3 | 0.0 | -63.3 |
| Depreciation charge for the financial period | 0.0 | -6.6 | -6.4 | 0.0 | -13.0 |
| Accumulated depreciation of disposals | 0.0 | 1.4 | 0.1 | 0.0 | 1.5 |
| Accumulated depreciation as at 31 Dec | 0.0 | -34.3 | -40.5 | 0.0 | -74.8 |
| | | | | | |
| Carrying amount as at 1 Jan | 0.0 | 64.5 | 24.0 | 0.1 | 88.6 |
| Carrying amount as at 31 Dec | 0.0 | 59.7 | 26.6 | 0.3 | 86.6 |

Property, plant and equipment 2017:

| MEUR | Land and waters | Buildings | Machinery and equipment | Prepayments | Total |
|---|---|---|---|---|---|
| Acquisition cost as at 1 Jan | 0.2 | 88.6 | 52.0 | 2.4 | 143.2 |
| Additions | 0.0 | 8.1 | 7.3 | 2.0 | 17.4 |
| Disposals | -0.3 | -3.2 | -1.0 | -4.3 | -8.8 |
| Acquisition cost as at 31 Dec | 0.0 | 93.5 | 58.3 | 0.1 | 151.9 |
| Accumulated depreciation as at 1 Jan | 0.0 | -23.6 | -28.9 | 0.0 | -52.5 |
| Depreciation charge for the financial period | 0.0 | -6.6 | -6.2 | 0.0 | -12.8 |
| Accumulated depreciation of disposals | 0.0 | 1.2 | 0.8 | 0.0 | 2.0 |
| Accumulated depreciation as at 31 Dec | 0.0 | -29.0 | -34.3 | 0.0 | -63.3 |
| | | | | | |
| Carrying amount as at 1 Jan | 0.2 | 65.0 | 23.1 | 2.4 | 90.7 |
| Carrying amount as at 31 Dec | 0.0 | 64.5 | 24.0 | 0.1 | 88.6 |

Buildings and constructions also include related refurbishing costs of store properties.

Property, plant and equipment include assets acquired through finance leases as follows:

| MEUR | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| **31 Dec 2018** | | | |
| Acquisition cost | 81.1 | 0.0 | 81.1 |
| Accumulated depreciation | -25.9 | 0.0 | -25.9 |
| Carrying amount | 55.2 | 0.0 | 55.2 |

| MEUR | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| **31 Dec 2017** | | | |
| Acquisition cost | 82.6 | 0.2 | 82.8 |
| Accumulated depreciation | -22.6 | -0.1 | -22.7 |
| Carrying amount | 60.0 | 0.1 | 60.1 |

The Group has leased the Mäntsälä logistics centre, certain store properties and cars from external parties.

## NOTE 10.
## Intangible assets

Intangible assets 2018:

| MEUR | Goodwill | IT software and licences | Other intangible assets | Prepayments | Total |
|---|---|---|---|---|---|
| Acquisition cost as at 1 Jan | 128.6 | 12.5 | 0.1 | 1.2 | 142.3 |
| Additions | 6.0 | 3.3 | 0.0 | 2.1 | 11.4 |
| Disposals | 0.0 | 0.0 | 0.0 | -2.7 | -2.7 |
| Acquisition cost as at 31 Dec | 134.6 | 15.7 | 0.1 | 0.5 | 151.0 |
| Accumulated depreciation as at 1 Jan | 0.0 | -8.8 | -0.1 | 0.0 | -8.9 |
| Depreciation charge for the financial period | 0.0 | -1.7 | 0.0 | 0.0 | -1.7 |
| Accumulated depreciation of disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accumulated depreciation as at 31 Dec | 0.0 | -10.5 | -0.1 | 0.0 | -10.6 |
| | | | | | |
| Carrying amount as at 1 Jan | 128.6 | 3.6 | 0.1 | 1.2 | 133.4 |
| Carrying amount as at 31 Dec | 134.6 | 5.2 | 0.0 | 0.5 | 140.4 |

Intangible assets 2017:

| MEUR | Goodwill | IT software and licences | Other intangible assets | Prepayments | Total |
|---|---|---|---|---|---|
| Acquisition cost as at 1 Jan | 128.6 | 10.9 | 0.1 | 0.0 | 139.6 |
| Additions | 0.0 | 1.7 | 0.0 | 1.3 | 3.0 |
| Disposals | 0.0 | -0.1 | 0.0 | -0.1 | -0.2 |
| Acquisition cost as at 31 Dec | 128.6 | 12.5 | 0.1 | 1.2 | 142.3 |
| Accumulated depreciation as at 1 Jan | 0.0 | -7.4 | -0.1 | 0.0 | -7.4 |
| Depreciation charge for the financial period | 0.0 | -1.5 | 0.0 | 0.0 | -1.6 |
| Accumulated depreciation as at 31 Dec | 0.0 | -8.8 | -0.1 | 0.0 | -8.9 |
| | | | | | |
| Carrying amount as at 1 Jan | 128.6 | 3.5 | 0.1 | 0.0 | 132.1 |
| Carrying amount as at 31 Dec | 128.6 | 3.6 | 0.1 | 1.2 | 133.4 |

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

The group acquired the operations of Ale-Makasiini Matti Riikonen Oy. The operations were transferred to Tokmanni's ownership as of 1 November 2018 and they comprise the Ale-Makasiini general discount retail stores in nine locations. The transaction price was paid in cash. The acquisition generated goodwill of EUR 6.0 million, which is tax deductible. The transaction for acquiring these business locations, also involved the transfer of 93 employees to the Group as well as inventories of EUR 6.4 million, which are included in the value of the Group's inventories. The business acquisition enables the Tokmanni Group to extend its geographical coverage thanks to the suitable store locations of the acquired business. The inventories acquired with the business are presented in the cash flow statement under change in working capital, while the remainder of the transaction price is presented under capital expenditure.

### Allocation of goodwill and testing practice

For impairment testing purposes goodwill is allocated to the Group, which constitutes one group of cash-generating units and the Group's reporting segment.

The group of cash-generating units is tested for impairment by comparing the carrying amounts of the group of cash-generating units with the respective recoverable amounts. The tested carrying amounts include property, plant and equipment, goodwill and other intangible assets and net working capital. The Group performs annual impairment testing on the goodwill during the last quarter of each reporting period. Impairment testing is also performed whenever there is an indication of the recoverable amount from an asset or the group of cash-generating units being less than the carrying amount. Besides goodwill, the Group has no other intangible assets deemed to have an indefinite useful life.

Impairment is the amount by which the asset's carrying amount exceeds the recoverable amount. An impairment loss is recognised immediately in profit or loss. Recognition of impairment loss has an adverse effect on the Group's result and thereby also on its equity, but does not influence the Group's cash flows. When an impairment loss is recognised, the useful life of the asset subject to impairment is re-evaluated.

No impairment loss has been recognized during the financial periods 2018 and 2017.

## Determining cash flows

The recoverable amount is the higher of the fair value less costs of disposal of the asset, or its value in use. In testing the goodwill of Tokmanni, the recoverable amount is based on value in use (present value), determined by discounting the estimated net cash flows for the moment of review.

Estimated net cash flows are constituted of two elements: three-year cash flows based on the business plan adopted by Management, and the so-called terminal value after the forecast period. New stores are taken into account, so that new stores where investment decisions have been approved by the testing day, are included. The terminal value is determined by extrapolating the forecasted cash flows. In the calculations, the growth factor for the years after the forecast period is 0.5% which is not estimated to be in excess of long-term growth in the sector.

The assumptions of cash flow growth and improved profitability reflect Management's view of the development of sales and expenses during the forecast period. The cash flows calculated on the basis of the budget and forecasts have, however, been adjusted in impairment testing by eliminating the estimated cash flows that are estimated to be generated through rearrangements not yet committed to, and cash flows that are estimated to be generated through improving or enhancing the performance of an asset.

The assumptions used in impairment testing are mainly the same as those underpinning the business plan and forecasts. The assumptions used are based on historical trends and on market data from external information sources. In determining the future cash flow projections, the assumptions calling for major Management judgement are those related to market and profitability outlooks.

If the assumptions used for the calculation of the amounts change, the recoverable amount used in impairment testing may also change.

## Discount rate

The discount rate applied in determining the recoverable amount is the pre-tax weighted average cost of capital (WACC), calculated for Tokmanni. The elements of WACC are risk-free interest rate, equity beta, market risk premium, small company risk premium, credit margin, and the capital structure employed. The pre-tax WACC used was 8,8 % (9,3 %).

## Sensitivity analysis in impairment testing

The key assumptions used in determining value in use are defined by the Management of Tokmanni. The most important assumptions are:

- discount rate; and
- average operating profit margin (operating profit/revenue)

The assumptions are based on expectations of future events believed to be realistic under the current circumstances. The assumptions have been adopted by the Executive Group and Board of Directors.

Sensitivity analyses have been made on the assumption that the average EBIT margin will decrease both during the forecast period and thereafter, and that the discount rate will increase. The table below presents a change in the key assumption which (with other assumptions remaining unchanged) would cause the recoverable amount to equal the carrying amount.

| 2018 | Value used | Change |
|---|---|---|
| 1. Discount rate (before tax) | 8.8% | 15.5 percentage point increase |
| 2. Average operating profit margin (operating profit/revenue) | 8.3% | 3.7 percentage point decrease each year |

| 2017 | Value used | Change |
|---|---|---|
| 1. Discount rate (before tax) | 9.3% | 9.1 percentage point increase |
| 2. Average operating profit margin (operating profit/revenue) | 6.3% | 2.5 percentage point decrease each year |

The consequential effects of the change in the value of the above key assumptions on other variables have not been taken into consideration in the sensitivity analysis. In estimating the recoverable amount, Management did not find that a reasonably possible change in any of the core variables used would result in a situation where the recoverable amounts of units would be less than their carrying amounts.

## NOTE 11.
## Investments in joint ventures

| MEUR | 2018 | 2017 |
|---|---|---|
| Acquisition cost as at 1 Jan | 0.0 | 0.0 |
| Share of result for the financial period | 0.0 | 0.0 |
| Translation differences | 0.0 | 0.0 |
| Acquisition cost as at 31 Dec | 0.0 | 0.0 |

Tokmanni Oy owns 50% of the shares of the Hong Kong based joint venture Tokmanni-Europris Sourcing Ltd. The joint venture owns the Tokmanni-Europris (Shanghai) Trading Co., Ltd., a Shanghai-based procurement company. The joint venture is consolidated by using the equity method. The Group's share of the net profit for the financial period of the joint venture, proportional to its ownership interest, is disclosed prior to the operating profit. The company is the cornerstone of goods procurements made in China and the Far East. The company's operations include identifying and selecting local suppliers, ensuring the correct quality, monitoring delivery times, and ensuring responsible operations on the part of suppliers.

## NOTE 12.
## Non-current receivables

| MEUR | 2018 | 2017 |
|---|---|---|
| Derivatives, non-hedge accounting | | |
| Commodity derivatives | 0.6 | 0.2 |
| Non-current other receivables | 2.0 | 0.0 |
| Total | 2.6 | 0.2 |

## NOTE 13.
## Deferred tax assets and liabilities

Change in deferred tax balances (2018):

| MEUR | 1 Jan 2018 | Recognised in income statement | 31 Dec 2018 |
|---|---|---|---|
| **Deferred tax asset** | | | |
| Fair value on derivatives | 0.1 | -0.1 | 0.0 |
| Sale and lease back of Mäntsälä logistic centre | 1.6 | -0.1 | 1.5 |
| Other finance leases | 3.5 | 0.2 | 3.7 |
| Total | 5.1 | 0.0 | 5.2 |
| | | | |
| **Deferred tax liabilities** | | | |
| Fair value on derivatives | 0.1 | 0.3 | 0.3 |
| Freight expenses related to inventories | 0.4 | 0.1 | 0.5 |
| Cumulative depreciation differences | 0.8 | 0.3 | 1.1 |
| Deductible goodwill amortization, reversal | 3.6 | 0.0 | 3.6 |
| Arrangement fees of financial liabilities paid | 0.2 | -0.1 | 0.1 |
| Total | 5.1 | 0.6 | 5.6 |
| | | | |
| Net deferred tax liabilities | 0.0 | | 0.5 |

Change in deferred tax balances (2017):

| MEUR | 1 Jan 2017 | Recognised in income statement | 31 Dec 2017 |
|---|---|---|---|
| **Deferred tax asset** | | | |
| Fair value on derivatives | 0.1 | 0.0 | 0.1 |
| Sale and lease back of Mäntsälä logistic centre | 1.7 | -0.1 | 1.6 |
| Other finance leases | 3.2 | 0.2 | 3.5 |
| Total | 5.0 | 0.1 | 5.1 |
| | | | |
| **Deferred tax liabilities** | | | |
| Fair value on derivatives | 0.2 | -0.1 | 0.1 |
| Freight expenses related to inventories | 0.3 | 0.1 | 0.4 |
| Cumulative depreciation differences | 1.0 | -0.2 | 0.8 |
| Deductible goodwill amortization, reversal | 3.5 | 0.1 | 3.6 |
| Arrangement fees of financial liabilities paid | 0.2 | -0.1 | 0.2 |
| Total | 5.3 | -0.2 | 5.1 |
| | | | |
| Net deferred tax liabilities | 0.2 | | 0.0 |

On 31 December 2018, the Group did not have any unused tax-loss carry-forward.

## NOTE 14.
## Inventories

| MEUR | 2018 | 2017 |
|---|---|---|
| Finished goods | 186.9 | 168.3 |
| Write-down in inventories | -4.2 | -3.9 |
| Goods, in transport | 7.7 | 5.9 |
| Total | 190.5 | 170.2 |

The financial statements include a write-down in inventories for obsolescent and slowly moving products, with the impairment per 31 December amounting to EUR 4.2 million (EUR 3.9 million).

## NOTE 15.
## Trade and other receivables

| MEUR | 2018 | 2017 |
|---|---|---|
| **Loans and other receivables** | | |
| Trade receivables | 1.3 | 1.6 |
| | | |
| **Financial assets at fair value through profit or loss** | | |
| Derivatives, non-hedge accounting | 1.0 | 0.1 |
| | | |
| **Other receivables** | | |
| Prepayments and accrued income | 3.9 | 3.7 |
| Income tax receivables | 1.5 | 3.8 |
| Other receivables | 14.5 | 13.1 |
| Other receivables, total | 19.9 | 20.5 |
| | | |
| Total | 22.2 | 22.2 |

The receivables are not associated with any significant credit risk concentrations, and the maximum credit risk corresponds to the carrying amount of the receivables at year's end. The impairment losses recognised in the Group's trade receivables are not significant. The other receivables item includes EUR 0.4 million (EUR 0.0 million) worth of advance payments for inventories and EUR 7.7 million (EUR 6.3 million) of invoiced annual bonus receivables.

Ageing analysis of trade receivables (external parties)

| MEUR | 2018 | 2017 |
|---|---|---|
| Not overdue | 1.0 | 1.4 |
| Overdue | 0.3 | 0.2 |
| Less than 30 days | 0.2 | 0.2 |
| Between 31-60 days | 0.0 | 0.0 |
| Between 61-75 days | 0.0 | 0.0 |
| Over 75 days | 0.0 | 0.0 |
| Total | 1.3 | 1.6 |

Prepayments and accrued income

| MEUR | 2018 | 2017 |
|---|---|---|
| Annual discounts | 0.3 | 0.5 |
| Receivable from occupational health care payments | 0.6 | 0.7 |
| Receivables from Veikkaus | 0.3 | 0.2 |
| | | |
| Prepayments | 0.4 | 0.8 |
| VAT-receivable | 0.0 | 0.0 |
| Consumables expenses | 0.7 | 0.7 |
| Other prepayments and accrued income | 1.5 | 0.7 |
| Total | 3.9 | 3.7 |

## NOTE 16.
## Cash and cash equivalents

| MEUR | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | 37.9 | 42.5 |
| Total | 37.9 | 42.5 |

## NOTE 17.
## Equity

| | Number of shares | Share capital (MEUR) | Reserve for invested non-restricted equity (MEUR) | Total (MEUR) |
|---|---|---|---|---|
| 31 Dec 2016 | 58 868 752 | 0.1 | 110.0 | 110.1 |
| Costs directly attributable to the issue of new shares net of tax | | | -0.1 | -0.1 |
| 31 Dec 2017 | 58 868 752 | 0.1 | 109.9 | 110.0 |
| 31 Dec 2018 | 58 868 752 | 0.1 | 109.9 | 110.0 |

The general meeting at 14 March 2018 authorized the Board of Directors to decide on repurchase or accepting as pledge, using the company's non-restricted equity, a maximum of 2,943,000 own shares, which corresponds to approximately 5% of the company's shares. The authorization is effective until the annual general meeting held in 2019. The authorization was not exercised during the financial period.

The general meeting authorized the Board of Directors to decide on the issuance of at most 2.943.000 new shares or shares held by the company in one or more tranches through a share issue and/or by issuing options or other special rights entitling to shares as referred to in Chapter 10 Section 1 of the Limited Liability Companies Act.The authorization is effective until 23 March 3.2022. The authorization was not exercised during the financial period.

Tokmanni Group Corporation has one series of shares. The maximum number of the shares or the nominal value of the share has not been determined. Each share provides one voting right. All issued shares have been paid in full.

The descriptions of the equity reserves are hereunder.

**Reserve for invested unrestricted equity**

The reserve for invested unrestricted equity includes other equity type investments and the subscription price of the shares less transaction costs to the extent that it has not by explicit decision been registered in the share capital.

**Translation differences**

The translation differences reserve contains the translation differences arising from the conversion of the financial statements of foreign companies. The changes in the reserve are disclosed in comprehensive income.

**Dividends**

The parent company’s distributable funds total 151,378,499.54 euros, which includes 32,613,164.17 euro in profit for the year. After the balance sheet date, the Board has proposed for the financial year ended on 31 December 2018 to distribute a dividend of EUR 0.50 per share. This dividend amounts to a total of EUR 29.4 million. The remaining part of the retained earnings be retained in unrestricted shareholders' equity.

**Share-based payments**

At the end of the review period on December 31, 2018, the Group had a long-term share-based incentive program with an earnings period of year 2018 and as earnings criteria the Group's earnings per share (EPS) and the company's market value during the period January 1 - December 31, 2018. The target group of the system is the President and CEO, the members of the Group Executive Team and other key personnel of the Group. The maximum remuneration from the system is 120,000 Tokmanni Group Plc shares on December 31, 2017 based on market value. Any premium will be paid in 2021 as a company's shares and possibly partly in cash. A person in the target group could manage the tax consequences of the remuneration.

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

Based on realized earnings per share ratio and the market value of the company for the financial year 2018, the program will generate a total of EUR 71 (0) to be paid to employees. For the year 2018, EUR 29 (31) thousand has been recognized as cost based on IFRS 2 standard.

Changes in share-based payments:
- Number outstanding at the beginning of the period, 0
- 120,000 awarded in the period
- 114,085 expired in the period
- Outstanding and executable at the end of the period, 5,915

## NOTE 18.
## Financial assets and liabilities

Financial assets and liabilities 31 Dec 2018:

| MEUR | Financial assets and liabilities at fair value through income statement | Financial assets and liabilities measured at amortised cost | Carrying amounts of assets as per balance sheet | Fair value | |
|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | |
| Derivatives, non-hedge accounting | 0.6 | | 0.6 | 0.6 | |
| **Current financial assets** | | | | | |
| Derivatives, non-hedge accounting | 1.0 | | 1.0 | 1.0 | |
| Trade receivables | | 1.3 | 1.3 | 1.3 | |
| Cash and cash equivalents | | 37.9 | 37.9 | 37.9 | |
| Total | 1.7 | 39.1 | 40.8 | 40.8 | |
| | | | | | |
| **Non-current financial liabilities** | | | | | |
| Loans from financial institutions | | 99.6 | 99.6 | 99.6 | * |
| Long-term finance lease liabilities | | 69.7 | 69.7 | 69.7 | |
| **Current financial liabilities** | | | | | |
| Loans from financial institutions | | -0.3 | -0.3 | -0.3 | ** |
| Finance lease liabilities | | 3.9 | 3.9 | 3.9 | |
| Derivatives, non-hedge accounting | 0.2 | | 0.2 | 0.2 | |
| Trade payables | | 72.4 | 72.4 | 72.4 | |
| Total | 0.2 | 245.4 | 245.6 | 245.6 | |
| | | | | | |
| Financial assets and liabilities, total | 1.5 | -206.2 | -204.8 | -204.8 | |

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

** Long-term debt from financial institutions, adjusted by short-term emission fees carried forward.

Financial assets and liabilities 31 Dec 2017:

| MEUR | Financial assets and liabilities at fair value through income statement | Loans and other receivables | Other financial liabilities | Carrying amounts of assets as per balance sheet | Fair value | |
|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | |
| Derivatives, non-hedge accounting | 0.2 | | | 0.2 | 0.2 | |
| **Current financial assets** | | | | | | |
| Derivatives, non-hedge accounting | 0.1 | | | 0.1 | 0.1 | |
| Trade receivables | | 1.6 | | 1.6 | 1.6 | |
| Cash and cash equivalents | | 42.5 | | 42.5 | 42.5 | |
| Total | 0.3 | 44.1 | | 44.4 | 44.4 | |
| | | | | | | |
| **Non-current financial liabilities** | | | | | | |
| Loans from financial institutions | | | 99.4 | 99.4 | 99.4 | * |
| Long-term finance lease liabilities | | | 73.6 | 73.6 | 73.6 | |
| Derivatives, non-hedge accounting | 0.1 | | | 0.1 | 0.1 | |
| **Current financial liabilities** | | | | | | |
| Loans from financial institutions | | | -0.3 | -0.3 | -0.3 | ** |
| Finance lease liabilities | | | 3.9 | 3.9 | 3.9 | |
| Derivatives, non-hedge accounting | 0.4 | | | 0.4 | 0.4 | |
| Trade payables | | | 64.0 | 64.0 | 64.0 | |
| Total | 0.5 | | 240.7 | 241.2 | 241.2 | |
| | | | | | | |
| Financial assets and liabilities, total | -0.2 | 44.1 | -240.7 | -196.7 | -196.7 | |

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

** Long-term debt from financial institutions, adjusted by short-term emission fees carried forward.

The carrying amounts of current items are substantially all estimated to correspond to their fair values.

**Reconciliation of liabilities arising from financing activities**

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| MEUR | Financial liabilities 1 Jan 2018 | Cash flows | Finance leases | Other changes | Financial liabilities 31 Dec 2018 |
| Loans from financial institutions | 99.1 | | | 0.3 | 99.4 |
| Finance lease liabilities | 77.5 | -3.7 | 0.0 | -0.2 | 73.6 |
| Total | 176.6 | -3.7 | 0.0 | 0.1 | 173.0 |

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| MEUR | Financial liabilities 1 Jan 2017 | Cash flows | Finance leases | Other changes | Financial liabilities 31 Dec 2017 |
| Loans from financial institutions | 98.8 | | | 0.3 | 99.1 |
| Finance lease liabilities | 74.7 | -3.6 | 6.6 | -0.1 | 77.5 |
| Total | 173.5 | -3.6 | 6.6 | 0.1 | 176.6 |

**Policies applied by the Group in determining the fair value of all financial instruments**

The following price quotes, assumptions and measurement models have been used in determining the fair values of the financial assets and liabilities given in the table:

Derivatives

The fair values of forward exchanges and options are determined using counterparty price quotations. Moreover, the Group has made its own verification calculation using generally accepted methods of valuation. The fair values of commodity derivatives are determined using publicly quoted market prices.

Finance lease liabilities

The fair value of financial lease liabilities is estimated by discounting future cash flows with an internal rate corresponding to that of the lease agreements.

Loans from financial institutions

The fair values of loans have been calculated on the basis of the present value of future cash flows, using the rates at the end of the financial period. Substantially all carrying amounts of the loans correspond to fair values, since the loans are floating-rate loans and the Group's risk premium has not changed to any essential degree. The loans are broken down by maturity in Note 22.

Trade receivables and other receivables, as well as trade payables and other liabilities

The initial carrying amounts of non-derivative receivables and liabilities correspond to their fair value since the impact of discounting is not material, considering the maturity of these receivables and liabilities.

Fair value hierarchy of the financial assets and liabilities measured at fair value

Level 1 instruments are subject to active trading in the market, and therefore their fair values are directly based on the market price. The fair value of the level 2 instruments is based on available market data. The fair value of level 3 instruments is not based on observable market information (unobservable inputs).

The Group's financial assets and liabilities measured at fair value (i.e., all of the Group's derivatives and lease liabilities) are level 2 of the fair value hierarchy as per IFRS 13. The fair value of these instruments at the end of the reporting period, 31 Dec 2018 was EUR 1.5 million (EUR -0.2 million).

## NOTE 19.
## Finance lease liabilities

Maturity of finance lease liabilities:

| MEUR | 2018 | 2017 |
|---|---|---|
| **Gross finance lease liabilities - minimum lease payments by maturity** | | |
| No later than 1 year | 7.5 | 7.6 |
| Later than 1 year and no later than 5 years | 31.7 | 32.3 |
| Later than 5 years | 64.8 | 71.8 |
| Total | 104.0 | 111.7 |
| Future finance charges | -30.4 | -34.2 |
| Present value of finance lease liabilities | 73.6 | 77.5 |
| | | |
| **Present value of finance lease liabilities due as follows** | | |
| No later than 1 year | 3.9 | 3.9 |
| Later than 1 year and no later than 5 years | 16.8 | 16.5 |
| Later than 5 years | 52.9 | 57.2 |
| Total | 73.6 | 77.5 |

The fair value of finance lease liabilities is estimated by discounting future cash flows with an internal rate corresponding to that of the lease agreements. Additional information on the assets leased with finance lease is in Note 9. Contingent rents paid on the basis of finance leases in 2018 amounted to EUR 0.1 million (EUR 0.2 million). Contingent rents are recognised under other operating expenses.

## NOTE 20.
## Derivative contracts

| 31 Dec 2018 | Fair value (MEUR) | Underlying value (MEUR) | Secured energy (MWh) |
|---|---|---|---|
| Foreign exchange forward contracts and options | 0.0 | 21.0 | |
| Electricity derivatives | | | |
| System price | 1.4 | 4.5 | 110.0 |
| Area price | 0.0 | 0.3 | 70.5 |

| 31 Dec 2017 | Fair value (MEUR) | Underlying value (MEUR) | Secured energy (MWh) |
|---|---|---|---|
| Foreign exchange forward contracts and options | -0.2 | 15.0 | |
| Electricity derivatives | | | |
| System price | 0.0 | 2.7 | 101.0 |
| Area price | 0.0 | 0.4 | 57.2 |

## NOTE 21.
## Trade payables and other non-current and current non-interest-bearing liabilities

| MEUR | 2018 | 2017 |
|---|---|---|
| **Trade payables and other current non-interest-bearing liabilities** | | |
| Current financial liabilities at amortised cost | | |
| Trade payables | 72.4 | 64.0 |
| Current financial assets at fair value through profit or loss | | |
| Derivatives, non-hedge accounting (liabilities), interest-free | 0.2 | 0.4 |
| Other liabilities | | |
| Other non-interest-bearing liabilities | 22.5 | 17.9 |
| Accrued liabilities | 27.6 | 24.9 |
| Income tax liabilities | 2.8 | 3.3 |
| Other liabilities, total | 52.9 | 46.1 |
| Trade payables and other current non-interest-bearing liabilities, total | 125.4 | 110.6 |

Current accrued liabilities

| MEUR | 2018 | 2017 |
|---|---|---|
| Wages and salaries including social expenses | 7.4 | 6.4 |
| Holiday pay | 14.7 | 13.3 |
| Compulsory insurances | 3.9 | 3.5 |
| Current interest liabilities | 0.2 | 0.2 |
| Other accrued liabilities | 1.4 | 1.4 |
| Total | 27.6 | 24.9 |

| MEUR | 2018 | 2017 |
|---|---|---|
| **Non-current non-interest-bearing liabilities** | | |
| Non-current financial assets at fair value through profit or loss | | |
| Derivatives, non-hedge accounting | 0.0 | 0.1 |
| Other liabilities | | |
| Mäntsälä logistic centre, sale and leaseback arrangement | 6.8 | 7.3 |
| Non-current non-interest-bearing liabilities, total | 6.8 | 7.4 |

# NOTE 22.
## Management of financial risks

In its normal business operations, the Group is exposed to many financial risks, the principal types of which are currency and interest-rate risks. The objective of the Group's risk management is to minimise the adverse effects of changes in the financial market on the Group's financial performance. The general principles of the Group's risk management are adopted by the Board of Directors. The responsibility for practical implementation of financial risk management is shouldered by the Group's CFO, with such management comprising the identification and assessment of the risks, and furnishing the Group with the necessary instruments of risk hedging. In risk management, the Group employs forward exchanges, currency options and electricity derivative contracts. The Group does not engage in hedge accounting under IFRS 9/ IAS 39.

### Exchange rate risk

The Group is exposed to currency risks from its purchases. The most significant foreign currency for the Group is the US dollar (USD). According to Tokmanni's hedging principles, about half of the purchases in USD are hedged for an average length of five months. Currency hedging takes place through forward exchanges and currency options. The Group's import and finance departments collaborate to draft a monthly updated estimate of the purchases in USD. Since the Group's non-current loans are fully in euro, financial liabilities do not involve any currency risk.

Currency derivatives are recognised at their acquisition value and are measured at the end of the financial period at their fair value in profit or loss.

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

| MEUR | 2018 | 2017 |
|---|---|---|
| Trade payables | 3.5 | 1.5 |
| Forecasted purchases in the next 6 months | 30.8 | 31.3 |
| Cash and cash equivalents | -0.4 | -0.2 |
| Total | 33.9 | 32.7 |
| | | |
| Currency options | -21.0 | -15.0 |
| | | |
| **Position, total** | **12.9** | **17.7** |

The table below shows the impacts on the Group's profit before taxes, as well as the impact on equity. Should the euro strengthen or weaken against the USD (+/- 10%), with the other factors remaining unchanged, the Group's profit before taxes would be affected by EUR 1.3 million (EUR 1.8 million) positively or negatively. The sensitivity analysis is based on the currency position at the end of the reporting period.

| MEUR | 2018 | 2017 |
|---|---|---|
| Change | +/-10% | +/-10% |
| Effect on profit before tax | 1.3 | 1.8 |
| Effect on equity | 0.0 | 0.0 |

### Interest rate risk

The Group's revenues and operational cash flows are largely independent of fluctuations in the market rates of interest, and, therefore, the Group's exposure to interest rate risks is mainly related to its external loan portfolio. According to its risk management principles, the Group aims to have at least two-thirds of the loans with fixed interest rates or hedged against interest rate changes, subject to discretion of the Board of Directors. The Board of Directors evaluates the Group's exposure to interest rate risks and the level of hedging on a regular basis and makes interest rate hedging decisions if needed. The average annual rate of the Group's interest-bearing liabilities excluding IAS 17 finance liabilities was about 1.3% in 2018 (1.2%).

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

| MEUR | 2018 | 2017 |
|---|---|---|
| Fixed interest rate | | |
| Financial liabilities | 73.6 | 77.5 |
| | | |
| Floating interest rate | | |
| Financial liabilities | 100.0 | 100.0 |
| | | |
| **Floating interest rate position, total** | **100.0** | **100.0** |

The table below shows the impacts on the Group’s profit before taxes, as well as the impact on equity. Should the interests increase or decrease (+/- 0.5 percentage points), with the other factors remaining unchanged, the Group’s profit before taxes would be affected by EUR 0.5 million (EUR 0.5 million) negatively or positively. The sensitivity analysis is based on the risk position at the end of the reporting period.

| MEUR | 2018 | 2017 |
|---|---|---|
| Change | +/-0.5% | +/-0.5% |
| Effect on profit before tax | 0.5 | 0.5 |
| Effect on equity | 0.0 | 0.0 |

**Credit risks**

The Group’s credit exposure is constituted of the credit risk related to the receivables from business operations, and the counterparty risk associated with other financial instruments.

The Group has no significant credit risk concentrations related to receivables because its clientele is widely spread, the sales are mainly retail sales against cash, and no single customer or group of customers is dominant from the Group's perspective. Note 15 presents the breakdown of trade receivables by maturity.The credit losses with impact on profit or loss incurred during the financial period were not significant. The maximum amount of the Group’s credit loss corresponds to the carrying amount of financial assets at the end of the reporting period (note 18).

Part of the purchases from the Far East need to be paid in advance, and the respective risk is minimised by long-term cooperation with suppliers. In the autumn of 2013, the Group opened a procurement company in Shanghai, China together with the Norwegian discount store chain, Europris AS. The Shanghai company has 23 employees. The company is the cornerstone of goods procurements made in China and the Far East. The company’s operations include identifying and selecting local suppliers, ensuring the correct quality, monitoring delivery times, and ensuring responsible operations on the part of suppliers.

**Liquidity risk**

The Group seeks to follow the financing required in business operations by analysing the sales cash flow forecasts in order to have sufficient liquid assets to fund the operations and to repay loans at maturity.

The availability and flexibility of the Group's financing is guaranteed through sufficient credit facilities, balanced maturity distribution of the loans and sufficiently long loan periods, and by using several financial institutions and forms for the procurement of funding. On December 31, 2018 the Group had EUR 59 million (EUR 59 million) in credit limit reserves and their maturity profile is linked to the maturity of underlying finance agreements.

The Group has not identified any significant liquidity risk concentration in relation to its financial assets or sources.

Liability-related defaults and violations of contractual terms

Loans from financial institutions contain a covenant according to which the Group has to achieve a certain ratio of net debt in relation to adjusted EBITDA. Operations in accordance with the loan covenants are reported lenders on a quarterly basis. The Group's management monitors compliance with loan covenants on a regular basis. In 2018, Tokmanni has met the required covenants.

The following table illustrates the Group's financial liability maturity break down. The amounts are undiscounted and they include both the future interest payments and the principal repayments.

**Maturity of contractual cash flows of non-derivative financial liabilities:**

| MEUR | Carrying amount 31 Dec 2018 | Cash flows based on agreements | Less than 1 year | 1-2 years | 2-3 years | 3-4 years | Over 4 years | |
|---|---|---|---|---|---|---|---|---|
| Loans from financial institutions | 99.4 | 102.8 | 1.2 | 1.2 | 100.4 | 0.0 | 0.0 | * |
| Finance lease liabilities | 73.6 | 104.0 | 7.5 | 7.6 | 7.5 | 7.0 | 74.4 | |
| Trade payables | 72.4 | 72.4 | 72.4 | | | | | |
| Total | 245.4 | 279.2 | 81.1 | 8.8 | 107.9 | 7.0 | 74.4 | |

| MEUR | Carrying amount 31 Dec 2017 | Cash flows based on agreements | Less than 1 year | 1-2 years | 2-3 years | 3-4 years | Over 4 years | |
|---|---|---|---|---|---|---|---|---|
| Loans from financial institutions | 99.1 | 104.0 | 1.2 | 1.2 | 1.2 | 100.4 | 0.0 | * |
| Finance lease liabilities | 77.5 | 111.7 | 7.6 | 7.5 | 7.6 | 7.5 | 81.4 | |
| Trade payables | 64.0 | 64.0 | 64.0 | | | | | |
| Total | 240.7 | 279.7 | 72.9 | 8.7 | 8.8 | 107.9 | 81.4 | |

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

The table above includes all the instruments in force at the closing of the accounts, as well as their contractual loan principals and interests. The Group does not have financial liabilities liable to be called in for repayment before their maturity.

**Maturity of contractual cash flows of derivative financial liabilities:**

| MEUR | Carrying amount 31 Dec 2018 | Cash flows based on agreements | Less than 1 year | 1-2 years | 2-3 years | 3-4 years | Over 4 years |
|---|---|---|---|---|---|---|---|
| Commodity derivatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest rate swaps | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Foreign exchange forward contracts and options | 0.2 | 0.2 | 0.2 | | | | |
| Total | 0.2 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |

| MEUR | Carrying amount 31 Dec 2017 | Cash flows based on agreements | Less than 1 year | 1-2 years | 2-3 years | 3-4 years | Over 4 years |
|---|---|---|---|---|---|---|---|
| Commodity derivatives | 0.2 | 0.2 | 0.0 | 0.2 | 0.1 | 0.0 | 0.0 |
| Interest rate swaps | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Foreign exchange forward contracts and options | 0.3 | 0.3 | 0.3 | | | | |
| Total | 0.5 | 0.5 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 |

The cash flows related to interest derivatives are disclosed in net. The cash flows related to currency and electricity derivative contracts are based on their fair values at the end of the reporting period with the maturity corresponding to the due date.

**Commodity risks**

In its operations, the Group is exposed to a commodity risk caused by the possible impacts of the electricity price risk on the Group's energy costs. The Group hedges itself against electricity price changes through electricity derivative contracts in line with the policy determined by the Tokmanni Board. However, the maximum amount corresponds to the Group's estimated electricity consumption. The hedge level covers about 70% of the consumption for one year ahead, gradually decreasing over a period of about 3-4 years.

The changes in the value of the derivatives hedging the price of electricity supplied during the financial period are included in the adjustments of other operating expenses.

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

| MEUR | 2018 | 2017 |
|---|---|---|
| Electricity derivative contracts | 1.4 | 0.0 |

The table below shows the impacts on the Group's profit before taxes, as well as the impact on equity. Should the prices of electricity increase or decrease (+/- 10%), with the other factors remaining unchanged, the Group's profit before taxes would be affected by EUR 0.5 million (EUR 0.3 million) positively or negatively. The sensitivity analysis is based on the risk position at the end of the reporting period.

| MEUR | 2018 | 2017 |
|---|---|---|
| Change | +/-10% | +/-10% |
| Effect on profit before tax | 0.5 | 0.3 |
| Effect on equity | 0.0 | 0.0 |

**Capital management**

The objective of the Group’s capital management function is to retain an optimal capital structure in line with the Group’s strategy. By managing its capital, the Group ensures that its business operations will continue without interruption, thus guaranteeing cash flow financing under all circumstances, allowing for investments according to the Group’s strategy and increasing shareholder value long-term.

The effects of the adoption of IFRS 16 are described in the accounting policies under the section “Future standard changes that have been approved by the EU but were not applicable in 2018”.

| MEUR | | 2018 | 2017 |
|---|---|---|---|
| Interest-bearing liabilities | | 173.0 | 176.6 |
| Cash and cash equivalents | | 37.9 | 42.5 |
| Interest-bearing net debt | | 135.1 | 134.1 |
| | | | |
| Total equity according to IFRS | | 174.5 | 162.8 |
| | | | |
| | Target level | 2018 | 2017 |
| Net debt / adjusted EBITDA | < 2.0 | 2.1 | 2.4 |
| Equity ratio | | 36.0% | 35.2% |

## NOTE 23.
## 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 non-terminable leases:

| MEUR | 2018 | 2017 |
|---|---|---|
| No later than 1 year | 56.6 | 51.9 |
| Later than 1 year and no later than 5 years | 176.7 | 150.1 |
| Later than 5 years | 69.8 | 62.3 |
| Total | 303.1 | 264.3 |

Rental expenses paid based on operating leases amounted to EUR 48.2 million (EUR 46.3 million) recognised in profit or loss, with contingent rents accounting for EUR 46.3 million (EUR 44.3 million) of the whole. Contingent rents are recognised under other operating expenses.

**Group as lessor**

The Group has sublet certain business premises. The rental expenses incurred for these premises, as well as the minimum lease payments obtainable in the future on the basis of the subleases, are not significant for the Group.

## NOTE 24.
## Contingent liabilities, assets and commitments

The Group does not have any liabilities for which assets have been given as collateral.

Leasing obligations related to Group operating lease agreements are presented in note 23.

## NOTE 25.
## Related party transactions

The Group's related parties are the Board of Directors and Executive Group members, including the CEO and Deputy CEO, as well as subsidiaries and joint ventures. The owners related parties are defined by societies and persons who have control, joint control or significant influence in the Tokmanni Group.

The Group includes Retail Leasing Oy, whose line of business is to own and lease other tangible or intangible assets to the other Group companies. Retail Leasing Oy is the parent of Nordic Disco AB (Sweden), which in turn is the parent of Tokmanni Oy.

The disclosed transactions with related parties include those not eliminated in the consolidated financial statements of Tokmanni Group Corporation. All transactions with related parties are on market-based terms.

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

The Group’s parent and subsidiary relationships are as follows:

| Company | Domicile | Shareholding | Voting rights |
|---|---|---|---|
| Parent company Tokmanni Group Corporation | Finland | | |
| Retail Property Investment Oy | Finland | 100% | 100% |
| Retail Leasing Oy | Finland | 100% | 100% |
| Nordic Disco AB | Sweden | 100% | 100% |
| Tokmanni Oy | Finland | 100% | 100% |
| Taitomanni Oy | Finland | 100% | 100% |

### Specification of transactions carried out with related parties

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

| MEUR | Majority owner and related parties to majority owner | Board of Directors and management | Joint ventures | |
|---|---|---|---|---|
| **Income statement** | | | | |
| Revenue and other operating income | | 0.0 | | |
| Other operating expenses | | 1.2 | 1.2 | |
| Financial income | | 0.0 | | |
| **Balance sheet** | | | | |
| Assets | | 2.0 | 0.1 | |
| Non-current receivables from related parties | | 2.0 | | * |
| Interest receivables from related parties | | 0.0 | | |

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

- A total of EUR 2.0 million in loans was granted during the financial period.
- The loan period is five years and the loan must be repaid in full by 31 December 2023 at the latest. The borrowers may repay their loans earlier if desired.
- The purchased shares serve as collateral for these loans.

The borrowers will pay an annual interest rate consisting of the 12-month Euribor plus one percentage point. The interest will be paid on the outstanding loan amount and calculated for an interest period of one (1) calendar year. The first interest period, however, begins on the drawdown date of the loan and ends on 31 December 2019. The loan interest is paid annually in arrears.

Transactions during the financial period 2017 including receivables, payables and liabilities per 31 Dec 2017 carried out with related parties:

| MEUR | Majority owner and related parties to majority owner | Board of Directors and management | Joint ventures |
|---|---|---|---|
| **Income statement** | | | |
| Revenue and other operating income | | 0.0 | |
| Other operating expenses | | 1.3 | 1.1 |
| **Balance sheet** | | | |
| Assets | | | 0.1 |

### Management employee benefits

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

Chairman of the board and member of the board Harri Sivula acted as interim CEO until 31 May 2018. Mika Rautiainen was appointed to the CEO 1 June 2018.

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

| EUR | | 2018 | 2017 | |
|---|---|---|---|---|
| Heikki Väänänen | CEO | 0 | 351,162 | until 15 June 2017 |
| Mika Rautiainen | CEO | 782,408 | 0 | from 1 June 2018 * |
| Seppo Saastamoinen | Chairman of the Board | 83,500 | 45,000 | from 14 March 2018 |
| Harri Sivula | Chairman of the Board and Interim CEO | 251,069 | 304,806 | Chairman of the Board until 13 March 2018 and Interim CEO until 31 May 2018 |
| Christian Gylling | Member of the Board | 8,500 | 51,000 | until14 March 2018 |
| Sven-Olof Kulldorff | Member of the Board | 15,500 | 54,000 | until14 March 2018 |
| Thérèse Cedercreutz | Member of the Board | 43,000 | 43,000 | |
| Kati Hagros | Member of the Board | 50,000 | 49,000 | |
| Juha Blomster | Member of the Board | 40,000 | 0 | from 14 March 2018 |
| Erkki Järvinen | Member of the Board | 35,000 | 0 | from 14 March 2018 |
| Robert Furuhjelm | Member of the Board | 0 | 14,500 | until 24 March 2017 |
| CEO of the Group companies and members of the Board of Directors | | 1,308,977 | 912,468 | |
| Executive Group | | 1,538,059 | 1,252,113 | |
| Monetary salaries, fees and fringe benefits, total | | 2,847,036 | 2,164,581 | |

* includes a one-off compensation of EUR 492,800

### Pension benefits

In Tokmanni Group Corporation, the pensions of the key management personnel are determined in line with the general provisions applied in Finland to employee pensions (Employee Pensions Act). The CEO's statutory pension cost was EUR 166,933.12 in 2018 (95,042.00).

### Termination benefits

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

## Other notes

### NOTE 26.
### Events after the end of the reporting period

Tokmanni acquired four stores in northern Finland, which are Centtilä in Keminmaa, Säästökuoppa in Sodankylä and TEX in Rovaniemi and in Kemijärvi. Tokmanni took control of the businesses of these stores as of 1 January 2019. The combined revenue of the acquired general discount retail businesses was about EUR 9 million in 2017.

## Parent company's financial statements (FAS)

| Parent company's income statement<br>EUR | 1 Jan - 31 Dec 2018 | 1 Jan - 31 Dec 2017 |
|---|---|---|
| **REVENUE** | **1 724 800.00** | **1 270 200.00** |
| Other operating income | 0.00 | 1 112.62 |
| Wages, salaries and employee benefits | | |
| Wages, salaries and fees | -1 401 877.44 | -853 734.37 |
| Social security expenses | | |
| Pension expenses | -188 727.27 | -115 694.19 |
| Other social security expenses | -20 836.55 | -13 785.58 |
| | -1 611 441.26 | -983 214.14 |
| Other operating expenses | -841 359.49 | -938 288.89 |
| **OPERATING PROFIT** | **-728 000.75** | **-650 190.41** |
| Financial income and expenses | | |
| Other interests and financial income | | |
| From group companies | 0.00 | 3 752 296.27 |
| From others | 7 170.92 | 11 837.43 |
| | 7 170.92 | 3 764 133.70 |
| Interests and other finacial expenses | | |
| To others | -1 512 746.95 | -1 582 326.47 |
| Financial income and expenses | -1 505 576.03 | 2 181 807.23 |
| **PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES** | **-2 233 576.78** | **1 531 616.82** |
| Appropriations | | |
| Group contribution | 43 000 000.00 | 28 800 000.00 |
| Income taxes | -8 153 259.05 | -6 066 315.94 |
| **NET RESULT FOR THE FINANCIAL PERIOD** | **32 613 164.17** | **24 265 300.88** |

## Parent company's balance sheet

| EUR | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **ASSETS** | | |
| **NON-CURRENT ASSETS** | | |
| Investments | | |
| Holdings in group companies | 235 233 761.80 | 235 233 761.80 |
| **NON-CURRENT ASSETS, TOTAL** | **235 233 761.80** | **235 233 761.80** |
| **CURRENT ASSETS** | | |
| Non-current receivables | | |
| Non-current loan receivables, related parties | 1 975 543.20 | 0.00 |
| Current receivables | | |
| Amounts owed by group companies | 45 229 199.37 | 32 289 232.78 |
| Other receivables | 0.00 | 2 876.35 |
| Prepayments and accrued income | 9 322.88 | 38 293.17 |
| | 45 238 522.25 | 32 330 402.30 |
| Receivables, total | 47 214 065.45 | 32 330 402.30 |
| Cash in hand and at banks | 31 405 270.77 | 36 362 096.98 |
| **CURRENT ASSETS, TOTAL** | **78 619 336.22** | **68 692 499.28** |
| **ASSETS TOTAL** | **313 853 098.02** | **303 926 261.08** |
| **EQUITY AND LIABILITIES** | | |
| **EQUITY** | | |
| Share capital | 80 000.00 | 80 000.00 |
| Reserve for invested unrestricted equity | 114 629 589.41 | 114 629 589.41 |
| Retained earnings | 4 135 745.96 | 4 006 633.40 |
| Net result for the financial period | 32 613 164.17 | 24 265 300.88 |
| **EQUITY, TOTAL** | **151 458 499.54** | **142 981 523.69** |
| **LIABILITIES** | | |
| Non-current liabilities | | |
| Loans from financial institutions | 100 000 000.00 | 100 000 000.00 |
| Current liabilities | | |
| Trade payables | 196 173.90 | 30 283.34 |
| Amounts owed to group companies | 58 943 467.57 | 56 840 322.65 |
| Other payables | 78 801.18 | 128 348.58 |
| Accruals and deferred income | 3 176 155.83 | 3 945 782.82 |
| | 62 394 598.48 | 60 944 737.39 |
| **LIABILITIES, TOTAL** | **162 394 598.48** | **160 944 737.39** |
| **EQUITY AND LIABILITIES, TOTAL** | **313 853 098.02** | **303 926 261.08** |

## Parent company's cash flow statement

**1,000 EUR**

| | **31 Dec 2018** | **31 Dec 2017** |
|---|---|---|
| **Cash flows from operating activities** | | |
| PROFIT (LOSS) FOR THE PERIOD | 32 613 | 24 265 |
| Adjustments: | | |
| Financial income and expenses | 1 506 | -2 182 |
| Appropriations | -43 000 | -28 800 |
| Tax on income from operations | 8 153 | 6 066 |
| Change in working capital: | | |
| Increase (-) / decrease (+) of current receivables | 228 | -543 |
| Increase (+) / decrease (-) of current non-interest bearing liabilities | -33 | -98 |
| **Cash flow from operating activities before financial items and taxes** | **-532** | **-1 291** |
| Interest paid | -1 493 | -1 436 |
| Interest received | 0 | 0 |
| Other financing items | -52 | 4 |
| Direct income taxes paid | -8 715 | -4 463 |
| **Cash from operating activities** | **-10 792** | **-7 186** |
| **Cash flows from investing activities** | | |
| Granted loans (+) | -1 976 | 0 |
| **Cash from investing activities** | **-1 976** | **0** |
| **Cash flows from financing activities** | | |
| Change in internal bank account receivables | 1 066 | -2 883 |
| Change in internal bank account liabilities | 2 081 | 24 156 |
| Paid share issue deducted with IPO expenses | 0 | -106 |
| Dividends paid | -24 136 | -30 023 |
| Group contributions | 28 800 | 0 |
| **Cash from financing activities** | **7 811** | **-8 855** |
| **Change in cash in hand and at bank** | **-4 957** | **-16 042** |
| Cash in hand and at bank at the beginning of the period | 36 362 | 52 404 |
| Cash in hand and at bank at the end of the period | 31 405 | 36 362 |

## Notes to the parent company's financial statements

### Basis of preparation

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

The domicile of the company is Helsinki.

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

### Principles used for preparing the financial statements

Tokmanni Group Corporation’s financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS) and in accordance with the accounting regulation for listed companies.

### Valuation of financial instruments

Financial instruments are valued at acquisition cost.

### Cash in hand and at banks

The company has a Group account agreements in Nordea and Swedbank, which includes all Group companies’ Nordea and Swedbank bank accounts. The Group companies' cash and cash equivalents shown in the group account is shown as asset or liability from the Group companies.

### Recognition of pensions

The company’s pension cover is arranged by external pension insurance companies. Pension expenditure is recognised as an expense in the year in which it is accrued.

### Income tax

Income tax includes the income tax payments for the period based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent company's income statement and balance sheet.

Board of director’s dividend proposal is indicated in notes to the consolidated statements of financial position – Note 17 Equity – Dividends.

## Notes to the income statement

**1,000 EUR**

| | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Breakdown of revenue by market area** | | |
| Finland | 1 725 | 1 270 |
| | | |
| **Personnel and members of administrative bodies** | | |
| Average number of employees | 1 | 1 |
| Salaries of CEO and members of the Board of Directors | 1 402 | 854 |

The CEO and members of the Board do not have pension plans that differ from the statutory provisions.

Monetary salaries, fees and fringe benefits by institution are defined in the Group Note 25 Related party transactions, " Monetary salaries, fees and fringe benefits”

| | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Other operating expenses** | | |
| Purchased services | 297 | 417 |
| Other expenses | 544 | 521 |
| Total | 841 | 938 |
| | | |
| **Group contribution** | | |
| Group contribution received | 43 000 | 28 800 |
| | | |
| **Income taxes** | | |
| Ordinary operations | 8 153 | 6 066 |
| | | |
| **Auditor's fees** | | |
| Audit | 47 | 45 |
| Other fees and services | 7 | 17 |
| Tax counselling | 5 | 0 |
| Total | 59 | 62 |

**Related party transactions**

All transactions involving related parties are executed on arm length basis.

## Notes to the balance sheet, assets

**1,000 EUR**

### NON-CURRENT ASSETS

| | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Investments** | | |
| Holdings in group companies | | |
| Acquisition cost as at 1 Jan | 235 234 | 26 173 |
| Additions, 1 Jan - 31 Dec | 0 | 209 061 |
| Acquisition cost as at 31 Dec | 235 234 | 235 234 |
| | | |
| Group companies | Shareholding, % | |
| Retail Property Investment Oy, Mäntsälä | 100 | 100 |
| Retail Leasing Oy, Helsinki | 100 | 100 |
| | | |
| Group Companies | Carrying amount | |
| Retail Property Investment Oy, Mäntsälä | 1 000 | 1 000 |
| Retail Leasing Oy, Helsinki | 234 234 | 234 234 |

### CURRENT ASSETS

| | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Non-current receivables** | | |
| Loan receivables | 1 976 | 0 |
| | | |
| **Current receivables** | | |
| Amounts owed by group companies | | |
| Trade receivables | 3 | 607 |
| Other receivables, group contribution receivables | 43 000 | 28 800 |
| Other receivables, group account receivables | 1 816 | 2 883 |
| Accruals, interest receivables | 410 | 0 |
| Total | 45 229 | 32 289 |
| | | |
| Other receivables | | |
| Other receivables | 0 | 3 |
| Prepayments and accrued income | 9 | 38 |
| Total | 9 | 41 |
| | | |
| Current receivables | 45 239 | 32 330 |
| | | |
| **Prepayments and accrued income** | | |
| Other prepayments and accrued income | 0 | 38 |

## Notes to the balance sheet, liabilities

| 1,000 EUR | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **EQUITY** | | |
| **Restricted equity** | | |
| Share capital as at 1 Jan | 80 | 80 |
| Share capital as at 31 Dec | 80 | 80 |
| Restricted equity | 80 | 80 |
| **Unrestricted equity** | | |
| Reserve for invested unrestricted equity as at 1 Jan | 114 630 | 114 630 |
| Reserve for invested unrestricted equity as at 31 Dec | 114 630 | 114 630 |
| Retained earnings as at 1 Jan | 28 272 | 34 030 |
| Dividends | -24 136 | -30 023 |
| Net result for the financial period | 32 613 | 24 265 |
| Total | 36 749 | 28 272 |
| Unrestricted equity | 151 378 | 142 902 |
| Equity | 151 458 | 142 982 |
| **CALCULATION OF DISTRIBUTABLE EQUITY** | | |
| Retained earnings | 4 136 | 4 007 |
| Net result for the financial period | 32 613 | 24 265 |
| Reserve for invested unrestricted equity | 114 630 | 114 630 |
| Total | 151 378 | 142 902 |
| **NON-CURRENT LIABILITIES** | | |
| Loans from financial institutions | 100 000 | 100 000 |
| **CURRENT LIABILITIES** | | |
| Amounts owed to group companies | | |
| Trade payables | 25 | 3 |
| Other liabilities, internal account payable | 58 918 | 56 838 |
| Total | 58 943 | 56 840 |
| Accruals and deferred income | | |
| Amortised personnel costs | 263 | 376 |
| Interest payable | 150 | 187 |
| Income tax payable | 2 750 | 3 312 |
| Other accruals and deferred income | 13 | 71 |
| Total | 3 176 | 3 946 |

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

Mäntsälä, 15 February 2019

Seppo Saastamoinen
Chairman of the Board

Thérèse Cedercreutz
Member of the Board

Juha Blomster
Member of the Board

Kati Hagros
Member of the Board

Erkki Järvinen
Member of the Board

Harri Sivula
Member of the Board

Mika Rautiainen
CEO

**AUDITOR'S NOTE**

Our auditor’s report has been issued today.

Helsinki, 15 February 2019

KPMG Oy Ab

Ari Eskelinen
Authorized Public Accountant

KPMG Oy Ab
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*This document is an English translation of the Finnish Auditor's Report. Only the Finnish version of the report is legally binding.*

# Auditor's Report

## To the Annual General Meeting of Tokmanni Group Oyj

## *Report on the Audit of the Financial Statements*

### Opinion

We have audited the financial statements of Tokmanni Group Oyj (business identity code 2483212-7) for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

— the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

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

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 4 to the consolidated financial statements.

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

### Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

| KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **Valuation of Goodwill (notes 1 and 10 to the consolidated financial statements)** | |
| — Goodwill in the consolidated balance sheet totaled € 135 million as of 31 December 2018.<br>— During 2018, goodwill increased by € 6 million following a business acquisition.<br>— No depreciation is recorded on goodwill, but the goodwill asset is tested for impairment annually. Impairment testing is based on cash flow projections that involve a significant element of management judgment pertaining to growth in net sales, profitability and discount interest rates.<br>— For the financial statements, the Company prepares impairment testing of goodwill on the basis of a discounted cash flow method with sensitivity analyses. | — We assessed critically management's judgments and assumptions underlying the cash flow projections prepared for the coming years.<br>— We evaluated the impacts of the acquisition on goodwill.<br>— We involved our valuation specialists for evaluating the appropriateness of the discount rate applied and the technical correctness of the calculations as well as assumptions made relating to market and industry-specific information.<br>— In addition, we evaluated the extent of sensitivity analyses and the appropriate presentation of notes related to impairment testing of goodwill in the notes to the financial statements. |
| **Monitoring and valuation of inventory (notes 1 and 14 to the consolidated financial statements)** | |
| — The balance of inventories in the consolidated statement of financial position amounted to € 191 million as of 31 December 2018. | Our audit procedures included, among others: |

- The group conducts its business through an extensive network of stores, which accentuates the importance of functioning IT systems, internal controls and management supervision to ensure the correctness of inventory balances.
- Valuation of inventory includes management judgement as regards estimates of future sales and inventory aging structure, for example. As a result, write-offs recognized on inventories may subsequently prove insufficient.

- We assessed the organization of general control environment and the adequacy of monitoring reports used by management.
- We attended physical inventory counts in selected stores and in the central warehouse.
- We performed data analyses to test the accuracy of inventory pricing same as the reliability of system reports and calculations employed for inventory valuation.
- We assessed critically the inventory valuation principles and the adequacy of loss-of-value provisions recorded, taking into account historical company data.

## Revenue recognition (note 1 to the consolidated financial statements)

- Sales revenue for the financial year ended 31 December 2018 totaled € 870 million.
- The group conducts its business through an extensive network of stores, which accentuates the importance of functioning IT systems, internal controls and management supervision to ensure the correctness of reported sales proceeds.
- The number of sales transactions is considerable and the sales transactions are primarily registered in the cashier system independent of accounting records. The recording of sales in the accounting records in a complete and timely manner is therefore highly dependent on the functionality of IT systems, including the transfer of data from the cashier system to the accounting records.
- Furthermore, effective internal controls over the IT systems and related supervision procedures, including IT security and system access controls, are critical to ensure the integrity of sales reporting.

Our audit procedures included, among others:

- We assessed the organization of general control environment surrounding sales function and the correctness of monitoring reports used by management.
- As for the IT systems, system access controls and segregation of duties we evaluated:
    - the organization of control environment
    - the effectiveness of system based controls
- We assessed and tested the reconciliation controls on the transfer of sales transactions from the cashier system to the accounting records.
- We used data analyses based on store-specific data to identify and analyze trends and anomalies.
- We visited selected stores to assess and test controls related to sales function.

## Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## *Other Reporting Requirements*

### Information on our audit engagement

We were first appointed as auditors of Tokmanni Group Oyj in 2012 and Tokmanni Oy in 2010 by the Annual General Meeting, and our appointment represents a total period of uninterrupted engagement of 7 years in Tokmanni Group Oyj and 9 years in Tokmanni Oy. Tokmanni Group Oyj became a public interest entity on 29 April 2016. We have been the Company's auditors since it became a public interest entity.

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, February 15, 2019

KPMG OY AB

Ari Eskelinen
*Authorized Public Accountant, KHT*