Europris
MER TIL OVERS

Q2-18

EUROPRIS ASA

HIGHLIGHTS

SECOND QUARTER 2018

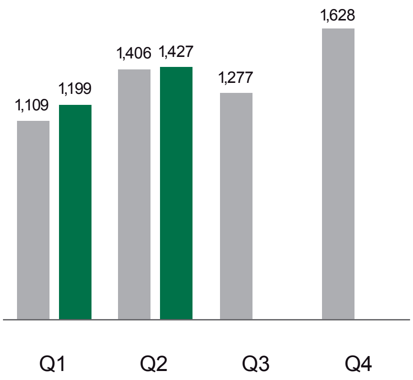
- Timing of Easter distorts comparability of figures for the quarter
- 1.5 per cent increase in group revenues to NOK 1,427 million (NOK 1,406 million)
- Gross margin improved to 43.8 per cent (42.9 per cent)
- Adjusted net profit of NOK 136 million (NOK 129 million), up 5.6 per cent
- Soft launch of e-commerce operations
- Acquisition of 20 per cent holding in Runsvengruppen AB (ÖoB)

FIRST HALF 2018

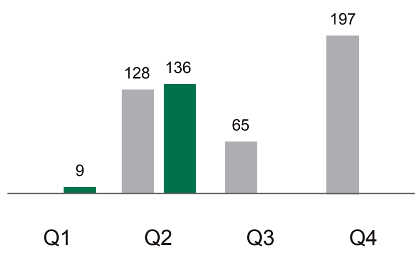
- 4.4 per cent increase in group revenues to NOK 2,626 million (NOK 2,516 million)
  - » Solid sales performance during the main sales seasons – Easter and spring
  - » 0.6 per cent like-for-like growth
- Gross margin increased from the same period of 2017, and good overall cost control
- Adjusted net profit increased by 13 per cent to NOK 145 million (NOK 128 million)
- Six new store openings and five franchise takeovers

Figures for the corresponding period of last year in brackets. The figures are unaudited.
For non-IFRS figures (e.g adjusted figures), see page 18 for definitions.

Group revenue, NOK million



Adjusted net profit, NOK million



2017 2018

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KEY FIGURES

Figures are stated in NOK million	Q2 2018	Q2 2017	YTD 2018	YTD 2017	FY 2017
CHAIN KEY FIGURES					
Total retail sales	1,535.8	1,409.4	2,798.4	2,705.5	5,856.9
Growth (%)	(0.3%)	9.3%	3.4%	8.9%	6.0%
Like for like sales growth (%)	(2.9%)	5.7%	0.6%	5.2%	3.1%
Total number of stores at end of period	256	244	256	244	250
- Directly operated stores	216	198	216	198	205
- Franchise stores	40	46	40	46	45

	Q2 2018	Q2 2017	YTD 2018	YTD 2017	FY 2017
GROUP KEY INCOME STATEMENT FIGURES					
Sales directly operated stores	1,239.5	1,196.0	2,259.8	2,089.7	4,556.1
Sales from wholesale to franchise stores	168.7	186.5	330.0	383.4	773.4
Franchise fees and other income	18.8	23.8	36.5	42.8	93.1
Group revenue	**1,427.0**	**1,406.3**	**2,626.4**	**2,516.0**	**5,422.5**
% growth	1.5%	12.7%	4.4%	11.1%	6.6%
COGS excluding unrealised foreign exchange effects	802.1	803.7	1,507.3	1,459.9	3,112.1
Gross profit	**625.0**	**602.6**	**1,119.0**	**1,056.0**	**2,310.5**
% margin	43.8%	42.9%	42.6%	42.0%	42.6%
Opex	427.7	398.1	875.5	817.5	1,669.5
Nonrecurring items	-	-	-	-	-
Opex excluding nonrecurring items	427,7	398.1	875.5	817.5	1,669.5
% of group revenue	30.0%	28.3%	33.3%	32.5%	30.8%
Adjusted EBITDA	**197.3**	**204.5**	**243.6**	**238.5**	**641.0**
Adjusted EBIT	**175.5**	**183.8**	**200.2**	**197.7**	**558.3**
Adjusted profit before tax	**176.9**	**169.7**	**187.9**	**168.5**	**510.3**
Adjusted net profit	**136.2**	**129.0**	**144.7**	**128.0**	**389.8**
Adjusted earnings per share (167 million shares)	**0.82**	**0.77**	**0.87**	**0.77**	**2.33**
GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES					
Net change in working capital	37.6	87.1	(222.8)	(249.7)	29.5
Capital expenditure	22.2	31.8	43.1	56.4	103.2
Financial debt			1,646.9	1,647.6	1,650.8
Cash			136.4	15.7	581.7
Net debt			**1,510.5**	**1,631.9**	**1,069.1**

PERIOD REVIEW

SECOND QUARTER

Europris increased its group revenues by 1.5 per cent to NOK 1,427 million (NOK 1,206 million). Sales growth was driven by new store openings and franchise takeovers. Like-for-like sales decreased by 2.9 per cent. Europris has a strong seasonal focus and the timing of Easter distorts comparability of the figures for the quarter. The two additional sales days did not compensate for the lack of Easter sales.

FIRST HALF

Figures for the first half-year are comparable. Group revenue increased by 4.4 per cent to NOK 2,626 million (NOK 2,516 million). Like-for-like sales growth was 0.6 per cent. An improved gross margin and the attention paid to costs throughout the organisation compensated for the low like-for-like growth. Net profit for the group was NOK 145 million (NOK 128 million), an increase of 13 per cent.

SALES PERFORMANCE

Overall, sales in the second quarter was slow owing to lower than expected like-for-like sales growth, especially towards the end of the quarter. Seasonal sales were well executed with some geographical variations. In the southern parts of Norway, the spring/summer season has so far been good with sales meeting expectations. However, unfavourable weather conditions affected sales in northern areas.

Towards the end of the quarter, overall traffic in stores and seasonal sales slowed down. It is too early to determine the reasons for this development, since the season must be evaluated as a whole.

Europris has deliberately adjusted campaign pressure slightly in 2018 through minor changes to the campaign product mix. While the overall level of discounting remains unchanged, campaign sales have decreased by 3.3 per cent during the first half. The campaign share of total sales was 27.6 per cent to 30 June (28.6 per cent). This decline has had a positive impact on gross profit.

The “personal care” and “laundry and cleaning” product categories have experienced demanding conditions with increased price competition, especially from the grocery sector. In response, Europris has lowered sales prices and made necessary adjustments to the product offering. These categories showed stable progress in volume terms during the first half on a like-for-like basis, while the average price per item fell by three per cent. Europris experiences more intense competition in some categories from time to time. This is usually of varying duration, and price levels tend to stabilise after a time.

The 11 new stores opened in 2017 and the six opened so far in 2018 are on track, with total sales meeting the expectations set out in their business cases. In connection with the opening of the chain’s second store in Lillehammer during January, sales space in the first store was significantly reduced. Overall sales in Lillehammer are increasing, but like-for-like sales are negative.

Market figures for sales growth are not yet available, but Europris and other seasonally dependent concepts are expected to be below the market benchmark in the second quarter.

OPERATIONAL REVIEW

Concept and category development

Europris is continuing to make progress with the work of increasing and enhancing central control of spacing, planograms and volumes in the stores. Test results are positive, and the first few elements were rolled out in the second quarter. Owing to long lead times for the supply of goods, the full effect of these measures is not expected until towards the end of the year.

Acquisition of 20 per cent stake in Runsvengruppen AB

On 18 June, Europris announced the acquisition of 20 per cent of Runsvengruppen AB, which operates the Swedish discount variety retailer ÖoB. As part of the transaction, ÖoB will enter Europris' sourcing partnership with Finnish discount variety retailer Tokmanni. The expanded partnership represents combined retail sales of NOK 17.1 billion and will be among the top three large constellations in northern Europe's discount variety retail sector.

With this acquisition and sourcing partnership, Europris and ÖoB are bringing together two strong players in Norway and Sweden to create the leading Nordic discount variety retailer. This will establish a platform for growth in both sales and profitability, while strengthening the competitiveness of both companies.

The process of establishing joint sourcing will commence immediately, and annual sourcing synergies in the range of NOK 60-80 million on a combined basis are expected. The agreement will enable the companies to pool volumes in order to secure better prices, share platforms for own brands and get a broader access to low-cost country sourcing. In addition, the two companies expect to attain significant synergies from joint concept development and sharing best-practice experiences, especially within e-commerce and e-crm.

The transaction is on a share-for-share basis, and Europris has an option to acquire the remaining 80 per cent of Runsvengruppen AB.

E-commerce

Europris launched its online shop at the beginning of June. With the opportunities provided by online shopping, Europris is no longer limited by the number of stores and the physical space in these. This enables Europris to extend its offering. While the physical stores will continue to be Europris' main channel for the foreseeable future, the group's growth strategy remains firm and its expansion as a discount variety retailer will now continue in two areas – both physical stores and the new online channel.

The online store has been subject to a "soft" launch without targeted marketing. Attention has focused initially on ensuring a user-friendly shopping experience and on increasing the number of products offered online. The online store currently offers 2,600 products, and this will be significantly increased in coming months.

The online store acts as a "listening post" to identify what and how customers want to buy online. The product offering, delivery service and technical solutions will be adjusted in accordance with customer feedback.

Growing store estate

Europris opened four new stores in the second quarter, at Rykkinn, Stokke, Ørnes and Kjørbekk. This brings the total number of new store openings in 2018 so far to six.

New store openings in 2018:

Month	Store	County
January	Lillehammer	Oppland
March	Digernes	Møre og Romsdal
May	Rykkinn	Akershus
May	Stokke	Vestfold
June	Ørnes	Nordland
June	Kjørbekk	Telemark

The number of stores totalled 256 at 30 June, of which 216 were directly operated and 40 were franchise stores.

Progress on new central warehouse

The construction of the group's new central warehouse in Moss is progressing as planned with respect to both timeline and costs. Construction is well under way and the group is on track to move into the low-rise part of the site in May 2019. Europris will take over the automated high-bay storage in June that year in order to commence testing. In accordance with the original plans, operations in the high-bay area will begin in 2020.

FINANCIAL REVIEW

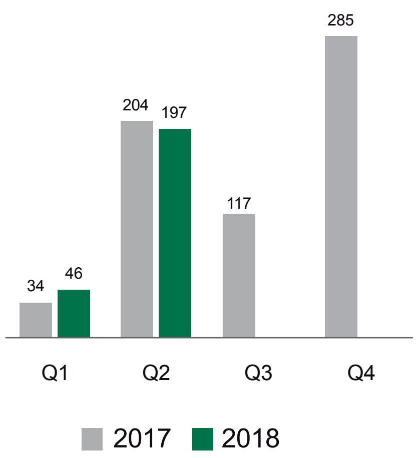
PROFIT AND LOSS - SECOND QUARTER

Group revenue in the second quarter amounted to NOK 1,427 million (NOK 1,406 million), up by 1.5 per cent. The key drivers behind revenue growth were new stores and franchise takeovers. The timing of Easter distorted comparability with last year.

Gross profit for the group was NOK 625 million (NOK 603 million). The gross margin was 43.8 per cent (42.9 per cent). The positive developement in gross margin was due to a deliberate adjustment of campaign pressure. In addition, gross profit was negatively affected by a one-off cost of NOK 1 million from one franchise takeover. The timing of Easter had a positive impact on the margin in the second quarter.

Operating expenditure (opex) excluding nonrecurring items in the second quarter came to NOK 428 million (NOK 398 million), up by 7.4 per cent. The number of directly operated stores increased by 9.1 per cent, from 198 to 216. Operating expenses were 30 per cent (28.3 per cent) of group revenue.

Adjusted EBITDA was NOK 197 million (NOK 205 million), down by 3.5 per cent. The adjusted EBITDA margin was 13.8 per cent (14.5 per cent).



Adjusted profit before tax for the second quarter of 2018 was NOK 177 million (NOK 170 million), up by NOK 7 million. The group recorded a net unrealised currency profit of NOK 9 million on hedging contracts and on accounts payable (net currency loss of NOK 4 million). In addition, the second quarter included NOK 3.3 million in compensation of banking fees for previous periods.

PROFIT AND LOSS - FIRST HALF

Group revenue for the first half of 2018 amounted to NOK 2,626 million (NOK 2,516 million), up by 4.4 per cent. The key drivers for revenue growth were the strong seasonal performance in Easter and spring, opening of new stores and franchise takeovers.

Gross profit for the group was NOK 1,119 million (NOK 1,056 million). The gross margin was 42.6 per cent in the first half of 2018, compared with 42 per cent in the same period of last year. The gross margin increased as a result of a deliberate adjustment of campaign pressure.

Opex excluding nonrecurring items in the first half came to NOK 876 million (NOK 818 million). This represented an increase of 7.1 per cent from the same period of last year. Operating expenses were 33.3 per cent (32.5 per cent) of group revenue. Opex in the first half was affected by the 9.1 per cent increase in the number of directly operated stores. The group maintains good overall cost control.

Adjusted EBITDA was NOK 244 million (NOK 239 million) in the first half, up by NOK 5 million from last year. The adjusted EBITDA margin was 9.3 per cent (9.5 per cent).

Adjusted net profit for the first half of 2018 was NOK 145 million (NOK 128 million), up by 13 per cent.

CASH FLOW

The net change in working capital was negative at NOK 223 million in the period ending 30 June 2018 (negative at NOK 250 million). The decrease in trade receivables owing to fewer franchise stores was offset by the increase in account payables. Inventory levels per store have stabilised.

Capital expenditure was NOK 43 million (NOK 56 million). The decrease reflected the investment of NOK 18 million in land adjacent to the new warehouse in Moss during the first half of 2017, offset by increased investment in software so far in 2018.

FINANCIAL POSITION AND LIQUIDITY

Financial debt at 30 June was NOK 1,647 million (NOK 1,648 million).

Net debt at 30 June 2018 was NOK 1,511 million (NOK 1,632 million).

The group's liquidity reserves were unused at 30 June. These facilities amounted to NOK 419 million.

Cash for the group at 30 June 2018 was NOK 136 million (NOK 16 million). A total dividend of NOK 284 million was paid out in the second quarter, down by NOK 50 million from last year.

RISK FACTORS

The Europris group is exposed to a variety of risks, as described in the directors' report and note 2 of the consolidated financial statements in the annual report for 2017.

RELATED PARTIES

Related parties of the Europris group include its associates, key management personnel, directors and major shareholders. No significant transactions were conducted with related parties during the first half of 2018.

OUTLOOK

Management expects continued growth in long-term revenue and profits, supported by the group's leading position in an expanding segment.

Europris is already in the process of strengthening its position in a changing retail landscape. The partnership with ÖoB will lead to increased purchasing power combined with an international footprint which provides the basis for further growth.

The board has decided to initiate a share buy-back program. Pursuant to the authorisation granted by the annual general meeting in Europris on 23 May 2018, the board has decided that the company may carry out acquisitions of up to 2,000,000 own shares. These shares may either be used as payment of acquisition of 20 per cent equity stake in Runsvengruppen AB (ÖoB) or be deleted in connection with a reduction of the registered share capital.

The group launched its e-commerce solution in the second quarter and will introduce its e-crm system during the second half. These solutions will position Europris as an omni-channel retailer. No significant revenue from e-commerce is expected in the first year of operation. Over time, however, the group expects the new channels to contribute to both increased sales and access to new customer groups.

Europris continues to maintain a healthy pipeline of new stores. The group has opened six new stores so far this year, with another three confirmed for 2018. One store closure is scheduled in the fourth quarter, bringing total net new stores for the year to eight. The board has approved an additional nine stores for 2019 and beyond, six of which are subject to zoning regulations.

The group took over five franchise stores in the first half. In addition, two franchise stores were taken over on 1 July, with an estimated one-off effect on gross margin of about NOK 2 million. Europris expects an additional one-two franchise takeovers in the rest of the year, with corresponding accounting effects.

STATEMENT BY THE BOARD OF DIRECTORS

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2018, have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. We also confirm that the board of directors' report includes a true and fair review of the development and performance of the group, together with the risks and uncertainties facing the group.

Fredrikstad, 12 July 2018

THE BOARD OF DIRECTORS OF EUROPRIS ASA

Tom Vidar Rygh
Chair

Hege Bømark

Claus Juel-Jensen

Bente Sollid Storehaug

Tone Fintland

Sverre R. Kjær

Pål Wibe
CEO

EUROPRIS ASA
Q2 AND FIRST HALF 2018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Figures are stated in NOK 1,000	Notes	Q2 2018	Q2 2017	YTD 2018	YTD 2017	FY 2017
		Unaudited	Unaudited	Unaudited	Unaudited	Audited
Total operating income (group revenue)		**1,427,020**	**1,406,304**	**2,626,369**	**2,515,975**	**5,422,530**
Cost of goods sold (COGS)		793,031	807,675	1 504,840	1,468,908	3,118,345
Employee benefits expense		198,934	185,395	421,008	391,314	826,847
Depreciation	5	21,775	20,695	43,344	40,819	82,690
Other operating expenses		228,719	212,748	454,448	426,226	842,641
Operating profit		**184,562**	**179,792**	**202,729**	**188,709**	**552,007**
Net financial income (expense)		**(7,641)**	**(10,080)**	**(14,803)**	**(20,237)**	**(41,682)**
Profit before tax		**176,920**	**169,712**	**187,926**	**168,471**	**510,325**
Income tax expense		40,692	40,731	43,223	40,433	120,526
Profit for the period		**136,229**	**128,981**	**144,703**	**128,038**	**389,799**
Attributable to the equity holders of the parent		136,229	128,981	144,703	128,038	389,799
Interim condensed consolidated statement of comprehensive income						
Profit for the period		136,229	128,981	144,703	128,038	389,799
Total comprehensive income		**136,229**	**128,981**	**144,703**	**128,038**	**389,799**
Attributable to the equity holders of the parent		136,229	128,981	144,703	128,038	389,799

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Figures are stated in NOK 1,000	Notes	30 June 2018	30 June 2017	31 Dec 2017
		Unaudited	Unaudited	Audited
ASSETS				
Total intangible assets	5	2,035,408	2,023,753	2,029,297
Total fixed assets	5	274,755	268,268	272,540
Total financial assets	6,7	227,020	25,125	25,175
Total non-current assets		**2,537,183**	**2,317,146**	**2,327,012**
Inventories		1,454,088	1,456,484	1,368,361
Trade receivables		140,637	165,865	207,755
Other receivables	6	62,700	54,169	63,586
Cash		136,363	15,685	581,663
Total current assets		**1,793,787**	**1,692,204**	**2,221,366**
Total assets		**4,330,970**	**4,009,350**	**4,548,378**
EQUITY AND LIABILITIES				
Total paid-in capital		218,621	502,468	502,468
Total retained equity		1,406,469	1,000,005	1,261,765
Total shareholders' equity		**1,625,090**	**1,502,473**	**1,764,233**
Provisions		89,897	85,066	48,250
Borrowings	6	1,646,891	1,645,427	1,648,567
Other non-current liabilities	6	-	2,159	2,213
Total non-current liabilities		**1,736,789**	**1,732,653**	**1,699,030**
Accounts payable		448,696	404,966	580,795
Tax payable		1,868	44,592	116,767
Public duties payable		183,968	189,434	205,279
Other current liabilities	6,7	334,559	135,232	182,275
Total current liabilities		**969,091**	**774,224**	**1,085,116**
Total liabilities		**2,705,880**	**2,506,877**	**2,784,145**
Total equity and liabilities		**4,330,970**	**4,009,350**	**4,548,378**

Fredrikstad, 12 July 2018

THE BOARD OF DIRECTORS OF EUROPRIS ASA

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Figures are stated in NOK 1,000	Attributed to equity holders of the parent			
	Share capital	Share premium	Retained earnings	Total equity
At 1 January 2018	**166,969**	**335,499**	**1,261,765**	**1,764,233**
Profit for the period	-	-	144,703	144,703
Dividend	-	(283,847)	-	(283,847)
Other comprehensive income	-	-	-	-
At 30 June 2018	**166,969**	**51,652**	**1,406,469**	**1,625,090**
(unaudited)				

	Attributed to equity holders of the parent			
	Share capital	Share premium	Retained earnings	Total equity
At 1 January 2017	**166,969**	**669,437**	**871,966**	**1,708,372**
Profit for the period	-	-	128,038	128,038
Dividend	-	(333,938)	-	(333,938)
Other comprehensive income	-	-	-	-
At 30 June 2017	**166,969**	**335,499**	**1,000,004**	**1,502,473**
(unaudited)				

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Figures are stated in NOK 1,000	Notes	Q2 2018	Q2 2017	YTD 2018	YTD 2017	FY 2017
		Unaudited	Unaudited	Unaudited	Unaudited	Audited
Cash flows from operating activities						
Profit before income tax		176,920	169,712	187,926	168,471	510,326
Adjusted for:						
Depreciation of fixed and intangible assets	5	21,775	20,695	43,344	40,819	82,690
Changes in net working capital		37,606	87,087	(222,787)	(249,664)	29,527
Income tax paid		(45,280)	(50,565)	(115,225)	(101,221)	(145,832)
Net cash generated from operating activities		**191,022**	**226,929**	**(106,741)**	**(141,594)**	**476,710**
Cash flows from investing activities						
Purchases of fixed and intangible assets	5	(22,196)	(31,806)	(43,093)	(56,429)	(103,196)
Acquisition of franchise stores		(950)	-	(3,983)	(24,954)	(28,403)
Net cash used in investing activities		**(23,147)**	**(31,806)**	**(47,076)**	**(81,383)**	**(131,599)**
Cash flows from financing activities						
Repayment of debt to financial institutions		(6,341)	(830)	(7,637)	(4,364)	(6,475)
Dividend		(283,847)	(333,938)	(283,847)	(333,938)	(333,938)
Net cash from financing activities		**(290,188)**	**(334,767)**	**(291,484)**	**(338,302)**	**(340,413)**
Net (decrease)/increase in cash		(122,313)	(139,644)	(445,301)	(561,279)	4,699
Cash at 1 January		258,676	155,329	581,663	576,964	576,964
Cash at end of period		**136,363**	**15,685**	**136,363**	**15,685**	**581,663**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NOTES

NOTE 1 CORPORATE INFORMATION

The interim condensed consolidated financial statements of Europris ASA and its subsidiaries (collectively, the group) for the second quarter and the six months ended 30 June 2018 were authorised for issue by the board on 12 July 2018.

Europris ASA is domiciled in Norway. The group is a discount variety retailer with stores across Norway.

These condensed interim financial statements have not been audited.

NOTE 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

BASIS OF PREPARATION

The interim condensed consolidated financial statements for the second quarter and the six months ended 30 June 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the group's annual financial statements at 31 December 2017.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the group's annual consolidated financial statements for the year ended 31 December 2017. New standards and interpretations effective at 1 January 2018 do not impact the annual consolidated financial statements of the group or the interim condensed consolidated financial statements of the group.

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of interim condensed financial statements requires management to make accounting judgements and estimates that impact how accounting policies are applied and the reported amounts for assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical accounting estimates and judgements are consistent with those in the consolidated financial statements for 2017.

NOTE 4 SEGMENT INFORMATION

The group management is the group's chief operating decision-maker. Reporting to the group management, which is responsible for evaluating profitability and achivements, is on a consolidated basis that forms the basis for the group management's assessment of profitability at a strategic level. The group as a whole is therefore defined and identified as one segment.

NOTE 5 FIXED AND INTANGIBLE ASSETS

Figures are stated in NOK 1,000	Fixtures and fittings	Land	Software	Trademarks	Goodwill	Total
Carrying amount 1 January 2018	252,060	20,481	42,617	387,573	1,599,106	2,301,837
Acquisition of subsidiaries	4,457	-	-	-	3,996	8,453
Additions	30,072	2,175	10,970	-	-	43,217
Disposals	-	-	-	-	-	-
Depreciation	(34,489)	-	(8,854)	-	-	(43,344)
Carrying amount 30 June 2018	**252,099**	**22,656**	**44,733**	**387,573**	**1,603,102**	**2,310,163**

Figures are stated in NOK 1,000	Fixtures and fittings	Land	Software	Trademarks	Goodwill	Total
Carrying amount 1 January 2017	246,377	-	39,929	387,573	1,589,402	2,263,281
Acquisition of subsidiaries	4,362	-	-	-	8,620	12,982
Additions	32,165	17,628	6,784	-	-	56,577
Disposals	-	-	-	-	-	-
Depreciation	(32,264)	-	(8,555)	-	-	(40,819)
Carrying amount 30 June 2017	**250,640**	**17,628**	**38,158**	**387,573**	**1,598,022**	**2,292,021**

NOTES

NOTE 6 FINANCIAL INSTRUMENTS - FAIR VALUE

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities at 30 June 2018 and 31 December 2017:

Figures are stated in NOK 1,000	30 June 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables				
Non-current receivables	23,944	23,944	24,008	24,008
Total	**23,944**	**23,944**	**24,008**	**24,008**
Financial liabilities				
Other financial liabilities				
Borrowings	1,646,891	1,646,891	1,648,567	1,648,567
Total	**1,646,891**	**1,646,891**	**1,648,567**	**1,648,567**
Financial instruments measured at fair value through profit and loss				
Derivatives - asset				
Interest rate swaps	124	124	794	794
Foreign exchange forward contracts	1,747	1,747	2,243	2,243
Total	**1,871**	**1,871**	**3,037**	**3,037**
Derivatives - liabilities				
Interest rate swaps	-	-	2,213	2,213
Foreign exchange forward contracts	158	158	2,712	2,712
Total	**158**	**158**	**4,925**	**4,925**

FAIR VALUE HIERARCHY

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised at fair value on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

All the group’s financial instruments measured at fair value are classified as level 2.

Specific valuation methods being used to value financial instruments include:

- fair value of interest rate swaps is measured as the net present value of estimated future cash flows based on observable yield curves

- fair value of foreign exchange forward contracts is measured by the net present value of the difference between the contractual forward rate and the forward rate of the currency at the balance sheet date, multiplied by the contractual volume in foreign currency.

NOTE 7 INVESTMENT IN AFFILIATED COMPANY

In June 2018, the group acquired 20 per cent of Runsvengruppen AB (ÖoB). Based on equity value, using a fixed multiple of actual EBITDA for ÖoB in 2018, the purchase price is calculated to be NOK 201 million. In addition, NOK 2 million in transaction expenses have been recognised as part of the acquisition cost, bringing the total investment to NOK 203 million.

A vendor note was issued when closing the deal at the estimated purchase price of NOK 201 million. This will be converted to Europris shares following agreement on the actual 2018 EBITDA for ÖoB.

FORWARD LOOKING STATEMENTS

The condensed interim report contains forward-looking statements, based on various assumptions. These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risk and uncertainties because they relate to events and depend on circumstances that will occur in the future. Although Europris believes that these assumptions were reasonable when made, it cannot provide assurances that its future results, level of activity or performances will meet these expectations.

ALTERNATIVE PERFORMANCE MEASURES

APMs are used by Europris for annual and periodic financial reporting in order to provide a better understanding of Europris financial performance and are also used by management to measure operating performance. APMs are adjusted IFRS figures defined, calculated and used in a consistent and transparent manner.

- **Gross profit** represents group revenue less the cost of goods sold excluding unrealised foreign currency effects.
- **Opex** is the sum of employee benefits expense and other operating expenses.
- **EBITDA** (earnings before interest, tax, depreciation and amortisation) represents Gross profit less Opex.
- **Adjusted EBITDA** is EBITDA adjusted for nonrecurring expenses.
- **Adjusted profit before tax** is net profit before tax adjusted for nonrecurring items.
- **Adjusted net profit** is net profit adjusted for nonrecurring items.
- **Adjusted earnings per share** is adjusted net profit divided by the current number of shares (166,968,888).
- **Working capital** is the sum of inventories, trade receivables and other receivables less the sum of accounts payable and other current liabilities.
- **Capital expenditure** is the sum of purchases of fixed assets and intangible assets.
- **Net debt** is the sum of term loans and financial leases less bank deposits and cash.

OTHER DEFINITIONS

- **Directly operated store** means a store owned and operated by the group.
- **Franchise store** means a store operated by a franchisee under a franchise agreement with the group.
- **Chain** means the sum of directly operated stores and franchise stores.
- **Like-for-like** are stores which have been open for every month of the current calendar year and for every month of the previous calendar year.

ALTERNATIVE PERFORMANCE MEASURES

Figures are stated in NOK 1,000	Q2 2018	Q2 2017	YTD 2018	YTD 2017	FY 2017
Group revenue	**1,427.0**	**1,406.3**	**2,626.4**	**2,516.0**	**5,422.5**
Cost of goods sold (COGS)	793.0	807.7	1,504.8	1,468.9	3,118.3
Unrealised foreign exchange effects	***9.0***	***(4.0)***	***2.5***	***(9.0)***	***(6.3)***
Gross profit	**625.0**	**602.6**	**1,119.0**	**1,056.0**	**2,310.5**
% margin	43.8%	42.9%	42.6%	42.0%	42.6%
Employee benefits expense	198.9	185.4	421.0	391.3	826.8
Other operating expenses	228.7	212.7	454.4	426.2	842.6
Opex	**427.7**	**398.1**	**875.5**	**817.5**	**1,669.5**
Nonrecurring items	-	-	-	-	-
Opex excluding nonrecurring items	**427.7**	**398.1**	**875.5**	**817.5**	**1,669.5**
% of group revenue	30.0%	28.3%	33.3%	32.5%	30.8%
Adjusted EBITDA	**197.3**	**204.5**	**243.6**	**238.5**	**641.0**
Depreciation	21.8	20.7	43.3	40.8	82.7
Adjusted EBIT	**175.5**	**183.8**	**200.2**	**197.7**	**558.3**
Net financial income (expense)	(7.6)	(10.1)	(14.8)	(20.2)	(41.7)
Unrealised foreign exchange effects	***9.0***	***(4.0)***	***2.5***	***(9.0)***	***(6.3)***
Adjusted profit before tax	**176.9**	**169.7**	**187.9**	**168.5**	**510.3**
Adjusted net profit	**136.2**	**129.0**	**144.7**	**128.0**	**389.8**
Adjusted earnings per share (167 million shares)	**0.82**	**0.77**	**0.87**	**0.77**	**2.33**
GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES					
Net change in working capital	37.6	87.1	(222.8)	(249.7)	29.5
Purchases of fixed assets	13.6	28.8	32.2	49.8	83.9
Purchases of intangible assets	8.7	3.1	11.0	6.8	19.3
Capital expenditure	**22.3**	**31.9**	**43.2**	**56.6**	**103.2**
Financial debt			1,646.9	1,647.6	1,650.8
Cash			136.4	15.7	581.7
Net debt			**1,510.5**	**1,631.9**	**1,069.1**

Unrealised foreign exchange effects are the only adjustment to IFRS figures.

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