Europris
MER TIL OVERS

Q2-19

EUROPRIS ASA

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HIGHLIGHTS

Second quarter 2019

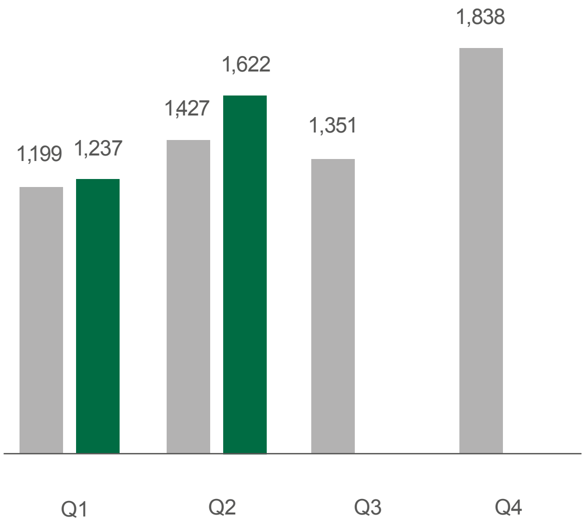
- Group revenue increased by 13.6 per cent to NOK 1,622 million (NOK 1,427 million)
  - 9.8 per cent like-for-like growth, significantly above market decline of 0.1 per cent
    The timing of Easter distorts the comparability of figures for the quarter
- Gross margin decreased to 42.4 per cent (43.8 per cent)
  - Provision for a NOK 7 million loss owing to potential supplier bankruptcy
- Opex affected by additional costs related to high fill-rate at the central warehouse
  - Additional cost of NOK 35 million
- Adjusted net profit of NOK 109.1 million (NOK 136.2 million)
- Operations began in the low-bay area of the new warehouse on schedule

First half 2019

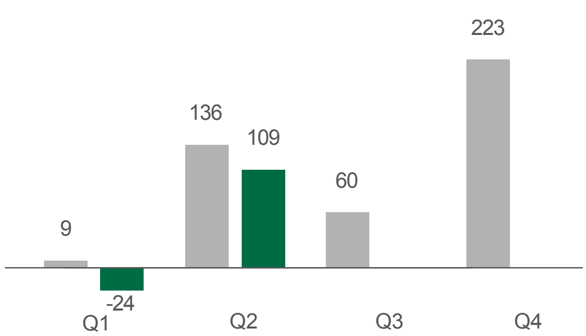
- Group revenues increased by 8.8 per cent to NOK 2,859 million (NOK 2,626 million)
  - Sales growth was driven by an increased number of customers
  - Five per cent like-for-like growth, well above market decline of 0.4 per cent
- Gross margin decreased to 42.0 per cent (42.6 per cent)
- Opex affected by increased costs related to high fill-rate at the central warehouse
  - Additional cost of NOK 46 million
- Adjusted net profit of NOK 85 million (NOK 145 million)
- Five new store openings and three franchise takeovers
  - Promising Europris City concept in Oslo may open up for such stores
  - Pipeline of additional nine stores for 2019 and beyond
- IFRS 16 Leases implemented 1 January 2019, last year figures not restated

Figures for the corresponding period last year in brackets. The figures are unaudited.
See page 23 for definitions of APMs.

Group revenue, NOK million



Adjusted net profit, NOK million



2018 2019

KEY FIGURES

Figures are stated in NOK million	Q2 2019	Q2 2018	YTD 2019	YTD 2018	FY 2018
CHAIN KEY FIGURES					
Total retail sales	1,723,9	1,535,8	3,002,8	2,798.4	6,166.7
Growth (%)	12.3%	(0.3%)	7.3%	3.4%	5.3%
Like-for-like sales growth (%)	9,8%	(2.9%)	5.0%	0.6%	2.2%
Total number of stores at end of period	263	256	263	256	258
- Directly operated stores	229	216	229	216	221
- Franchise stores	34	40	34	40	37
GROUP KEY INCOME STATEMENT FIGURES					
Sales directly operated stores	1,439.6	1,239.5	2,504.7	2,259.8	5,020.4
Sales from wholesale to franchise stores	157.8	168.7	314.5	330.0	717.8
Franchise fees and other income	24.3	18.8	39.6	36.5	78.8
Group revenue	**1,621.6**	**1,427.0**	**2,858.7**	**2,626.4**	**5,817.0**
% growth	13.6%	1.5%	8,8%	4.4%	7.3%
COGS excluding unrealised foreign exchange effects	933.7	802.1	1,658.8	1,507.3	3,309.7
Gross profit	**687.9**	**625,0**	**1,199.9**	**1,119.0**	**2,507.3**
% margin	42.4%	43,8 %	42.0%	42.6%	43.1%
Opex	400.4	427.7	787.2	875.5	1,840.9
Non-recurring items	8.0	-	8.0	-	-
Opex excluding non-recurring items	392.4	427.7	779.2	875.5	1,840.9
% of group revenue	24.2%	30.0%	27.3%	33.3%	31.6%
Adjusted EBITDA	**295.5**	**197.3**	**420.7**	**243.6**	**666.4**
Adjusted EBIT	**165.4**	**175.5**	**169.2**	**200.2**	**575.6**
Adjusted profit before tax	**139.2**	**176.9**	**109.6**	**187.9**	**552.5**
Adjusted net profit	**109.1**	**136.2**	**84.8**	**144.7**	**429.1**
Adjusted earnings per share	**0.68**	**0.82**	**0.52**	**0.87**	**2.59**
Figures ex. IFRS 16 effects					
Opex excluding non-recurring items	503.8	427.7	992.6	875.5	1,840.9
% of group revenue	31.1%	30.0%	34.7%	33.3%	31.6%
Adjusted EBITDA	**184.1**	**197.3**	**207.3**	**243.6**	**666.4**
Adjusted EBIT	**157.1**	**175.5**	**154.2**	**200.2**	**575.6**
Adjusted net profit before tax	**142.6**	**176.9**	**116.5**	**187.9**	**552.5**
Adjusted net profit	**111.8**	**136.2**	**90.2**	**144.7**	**429.1**
GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES					
Net change in working capital	146.7	37.6	(195.8)	(222.8)	(169.4)
Capital expenditure	49.0	22.2	73.1	43.1	79.2
Financial debt (incl. IFRS 16 effects)			3,800.5	1,646.9	1,649.4
Cash			4.4	136.4	427.0
Net debt			**3,796.2**	**1,510.5**	**1,222.5**

ALTERNATIVE PERFORMANCE MEASURES

Figures are stated in NOK million	Q2 2019	Q2 2018	YTD 2019	YTD 2018	FY 2018
Group revenue	**1,621.6**	**1,427.0**	**2,858.7**	**2,626.4**	**5,817.0**
Cost of goods sold (COGS)	937.7	793.0	1,669.7	1,504.8	3,298.3
Unrealised foreign exchange effects	***(3.9)***	***9.0***	***(10.9)***	***2.5***	***11.4***
Gross profit	**687.9**	**625.0**	**1,199.9**	**1,119.0**	**2,507.3**
% margin	42.4%	43.8%	42.0%	42.6%	43.1%
Employee benefits expense	218.8	198.9	459.4	421.0	898.5
Other operating expenses	293.1	228.7	541.3	454.4	942.4
Other operating expenses - IFRS 16 effect	*(111.5)*	-	*(213.4)*	-	-
Opex	**400.4**	**427.7**	**787.2**	**875.5**	**1,840.9**
Non-recurring items	8.0	-	8.0	-	-
Opex excluding non-recurring items	**392.4**	**427.7**	**779.2**	**875.5**	**1,840,9**
% of group revenue	24.2%	30.0%	27.3%	33.3%	31.6%
Adjusted EBITDA	**295.5**	**197.3**	**420.7**	**243.6**	**666.4**
Depreciation	27.0	21.8	53.0	43.3	90.7
Depreciation - IFRS 16 effect	*103.1*	-	*198.5*	-	-
Adjusted EBIT	**165.4**	**175.5**	**169.2**	**200.2**	**575.6**
Net financial income (expense)	(13.2)	(7.6)	(23.9)	(14.8)	(40.9)
Net financial expense - IFRS 16	*(11.7)*	-	*(21.9)*	-	-
Unrealised foreign exchange effects	***(3.9)***	***9.0***	***(10.9)***	***2.5***	***11.4***
Profit (loss) from associated companies	2.6	-	(2.9)	-	6.4
Adjusted profit before tax	**139.2**	**176.9**	**109.6**	**187.9**	**552.5**
Adjusted net profit	**109.1**	**136.2**	**84.8**	**144.7**	**429.1**
Adjusted earnings per share	**0.68**	**0.82**	**0.52**	**0.87**	**2.59**
GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES					
Net change in working capital	146.7	37.6	(195.8)	(222.8)	(169.4)
Purchases of fixed assets	43.6	13.5	64.6	32.1	59.1
Purchases of intangible assets	5.3	8.7	8.5	11.0	20.1
Capital expenditure (incl. IFRS 16 effects)	**48.9**	**22.2**	**73.1**	**43.1**	**79.2**
Financial debt			3,800.5	1,646.9	1,649.4
Lease liabilities - IFRS 16			*2,037,7*	-	-
Cash			4.4	136.4	427.0
Net debt			**1,758.5**	**1,510.5**	**1,222.5**

For definitions of APMs see page 23.

PERIOD REVIEW

Europris continued to deliver high sales growth in a soft retail market. Sales growth was driven by an increase in the number of customers and by solid execution of seasonal sales and campaigns.

Profits are strongly influenced by increased costs as a result of misjudgements in the purchase of goods. Excessive volumes of goods have been purchased in the non-food categories and the goods have arrived at the central warehouse too early. The misjudgements have resulted in significant operational disturbances and cost overruns amounted to NOK 35 million in the second quarter. The management has put full focus on solving the situation and a broad range of measures have been implemented.

Second quarter and first half

Europris maintained high growth in the second quarter through increased customer traffic. Where the first half is concerned, the strong expansion in customer traffic yielded further revenue growth for Europris despite a soft retail market.

However, the strong sales growth in the quarter was overshadowed by increased costs from the high fill-rate at the central warehouse.

Capacity constraints at the central warehouse

As reported for the first quarter, inventories rose owing to the early arrival of seasonal items and excess purchases in non-food categories. This caused significant operational inefficiencies, which affected payroll costs, goods distribution – including the use of third-party handling – and container hire.

Timing of the increase in inventories was the worst possible. The second quarter is the most demanding season in terms of goods volume and the present warehouse setup is about to be replaced. These factors have increased the severity of the situation.

Because of this effect, NOK 35 million in additional costs was recognised in the second quarter and NOK 46 million for the first half. The internal issues which caused inventory to increase have been addressed by management and there is full focus in the organisation to solve the issues.

These additional costs decreased through the second quarter, and the number of containers in the port was significantly reduced. Excess inventory was stored in vacant warehouses in Fredrikstad towards the end of the quarter. As the first transfer of goods to the new central warehouse was completed in late May, the vacated warehouses were used as a buffer to increase storage capacity. That made it possible to reduce the fill-rate at the central warehouse towards a more normal level of operation.

A large part of the increased inventory consists of excess seasonal items, and a full business cycle will be required to normalise their level. During this period, extra costs will occur.

Routines have been implemented to secure better control of both purchase volumes and the flow of incoming goods. In addition, the number of SKUs (Stock Keeping Unit) will be reduced. These initiatives are expected to resolve the inventory position, but the full effect is not expected before the second quarter of 2020, when the high-bay area of the new warehouse will be open.

To secure warehouse capacity in this period, Europris has extended rental payments for part of the vacated warehouse facilities in Fredrikstad until 30 June 2020. The additional rent is estimated at NOK 2 million per quarter from the fourth quarter of 2019, and will be recognised as non-recurring rent. The increased capacity will be used for storage of seasonal items during the winter. This will permit more efficient operation at the central warehouse and reduce the need to have containers in the port, particularly during the spring/summer of 2020. This is the most demanding season in terms of goods volume.

Sales performance

Europris continued its solid sales performance from previous quarters with a like-for-like sales growth of 9.8 per cent in the second quarter. The comparison with last year was favourable owing to the timing of Easter. Where the first half year was concerned, Europris had like-for-like growth of five per cent with one fewer sales days. The sales growth was mainly driven by an increase in the number of customers.

This strong sales performance was achieved in a soft retail market, which indicates that Europris continues to deliver growth above the market rate over time, and is thereby increasing its market share. According to Kvarud Analyse, the market declined by 0.1 per cent in the second quarter on a like-for-like basis.

	Q1	Q2	YTD
Total growth Europris chain	1.3%	12.3%	7.3%
Total growth market	0.3%	0.8%	0.6%
LFL growth Europris	(0,8%)	9.8%	5.0%
LFL growth market	(0.6%)	(0.1%)	(0.4%)

Sources: Kvarud Analyse and Europris.

Europris operates a seasonal concept, and the main seasonal events in the second quarter were Easter and early summer. During Easter, Europris experienced high sales growth for lower-margin seasonal items in the chocolate and confectionery category. In addition, customers have responded to sales campaigns for seasonal items. However, the cold weather limited upselling and add-on sales of higher-margin seasonal products. As a result, gross profit in the quarter was higher while the gross margin decreased by around one percentage point compared with the same quarter of last year.

The combination of a late Easter, with high customer traffic in the stores, and favourable weather in April ensured a good start to the spring/summer season. Well-prepared stores achieved successful execution of the two seasons at the same time.

The weather was less favourable for seasonal sales in May and June compared with last year. By 30 June, sales of seasonal items were on a par with last year.

Europris continues to benefit from improved campaign implementation in the stores. Larger volumes of campaign products in the stores have significantly reduced the occasions when such products sold out. As a result, sales are increasing and, over time, Europris expects that this initiative will increase customer satisfaction and strengthen the chain's price leadership in the market.

Operational review

Concept and category development

Europris needs to focus on category development to maintain its leading position as a discount variety retailer. In addition, category development is an important driver for growing sales and profits. Continuous improvements were made during the quarter, especially in the seasonal range. Several new products were introduced in garden furniture, and trampolines were revitalised with a new product range and design. Furthermore, the Jansens trampoline school has been developed by Europris in collaboration with Norwegian athlete Espen Jansen.

During the first half of 2019, the home and kitchen category saw positive developments after a few years of low growth. Several changes will be presented in coming quarters as part of a major upgrade to the category. A new concept for kitchen utensils and accessories has been developed, and was tested in selected stores during the second quarter. Initial test results are promising.

E-commerce

Europris launched its e-commerce platform a year ago. Subsequent development has been promising in terms of both sales potential and the importance of continuous improvement based on customer feedback. Based on this, the group launched an upgrade of its e-commerce platform earlier this year. When moving into the summer, e-commerce sales will be concentrated more strongly around the click-and-collect offering. A new platform is expected to be rolled out in early 2020.

Europris is positioning itself as an omni-channel retailer, and the interaction between physical and digital marketing was an important contributor to the high sales growth in the second quarter.

Developing the store estate

Europris opened four new stores in the second quarter and had 263 at 30 June. Of these, 229 were directly operated and 34 were franchises. Europris opened five stores during the first half. The new stores opened in 2018 and 2019 are performing well, with sales exceeding expectations.

The chain's first City concept store at Gunerius in Oslo has had a promising start, and Europris is looking for premises to accommodate additional shops in downtown Oslo. In the slightly longer term, the potential for opening City shops in Bergen, Stavanger and Trondheim will also be assessed.

In addition to the new stores, Europris relocated three stores during the quarter and completed four smaller store developments. The group will continue to develop the existing store base, and sees this as an important value driver.

New stores opened in 2019

Month	Store	County
March	Gunerius	Oslo
April	Vestnes	Møre og Romsdal
April	Øksenvad	Rogaland
May	Fosnavåg	Møre og Romsdal
June	Meråker	Trøndelag

Store relocations in 2019

Month	Store	County
April	Mosjøen	Nordland
May	Bjugn	Trøndelag
June	Elverum	Hedmark

Store expansions in 2019

Month	Store	County
March	Stord	Hordaland

The potential closure of the Europris store at Grini in Akershus county by 1 July was temporarily avoided. On 16 May, the Ministry of Local Government and Modernisation changed its standpoint and decided to postpone the implementation of the decision by the county and the local authority that the store was illegal. The temporary injunction applies in the first instance to the district court's judgment. This store has annual sales of NOK 51 million and the lease expires in 2020. A closure would cost Europris lost sales and one-off expenses in connection with closure and terminating the lease. Total costs in the event of a closure are expected to be in the NOK 5-8 million range.

Europris Fosnavåg

Status of the new central warehouse

Construction of the new central warehouse in Moss was completed on time and to budget. Europris took over the facilities in May and has started operations in the low-bay part of the new warehouse. Since June, all distribution of campaign goods has been successfully performed from the new warehouse. This is the first of three key milestones in the project.

Milestone two is the automation in the high-bay area, which will significantly increase warehouse capacity. During the second quarter, installation was completed and testing of the equipment began. The project is progressing as planned, and the start of operations in the high-bay area is scheduled for the first half of 2020.

The third and final milestone is the automation of the low-bay area. The automated shuttle solution will improve efficiency for goods picking. It will be delivered by the same supplier who provided the automation of the high-bay area. During the second quarter, the project concentrated on the design and layout for the solution. This project is also on schedule, and Europris expects to start operations in the first half of 2021. With milestone three completed, all warehouse operations will be concentrated at the new highly efficient central warehouse in Moss.

The period from now until 2022 will be a transitional time for Europris, when some additional costs will be incurred before the savings from the new warehouse materialise. The latter are estimated at 0.75-1.25 percentage points of group revenues once all stages have been completed.

Overview of estimated rent costs and non-recurring expenses in the transitional period

	2019							
NOK million	**Q1**	**Q2**	**Q3**	**Q4**	**2019**	**2020**	**2021**	**2022**
Ordinary rent	13.6	18.5	~ 18.2	~ 18.2	~ 69	~ 70	~ 52	~ 39
Non-recurring rent	-	1.4	~ 4.2	~ 2.0	~ 8	~ 4	~ 13	~ 5
Non-recurring moving expenses	-	8	-	-	~ 8-10	~ 3-5	~ 0-13	~ 0-5

Ordinary rent relates to warehouses which Europris will operate from, while non-recurring rent relates to the outstanding duration of leases for vacated warehouses. Non-recurring rent in 2021 and 2022 may be reduced if the premises are sub-let. Owing to the current inventory position, Europris extended rental payments during the second quarter for part of the premises in Fredrikstad until 30 June 2020. These costs are included as non-recurring rent in the table above.

Overview of estimated investments

	2019							
NOK million	**Q1**	**Q2**	**Q3**	**Q4**	**2019**	**2020**	**2021**	**2022**
IT, office equip. and other CAPEX	6	16	~ 5	-	~ 27	~ 5	-	-
Automation, high-bay (lease)	9	28	~ 30	~ 40	~ 107	~ 5	-	-
Automation, low-bay (CAPEX)	-	18	~ 10	~ 35	~ 63	~ 50	-	-

FINANCIAL REVIEW

Profit and loss – second quarter

Group revenue in the second quarter amounted to NOK 1,622 million (NOK 1,427 million), up by 13.6 per cent. The timing of Easter distorts comparability with last year. The Easter effect is estimated to be around NOK 60 million. The key drivers behind revenue growth were the increase in the chain's like-for-like sales driven by increased customer traffic, and solid execution of seasonal sales and campaigns.

Other drivers of revenue growth were new store openings and franchise takeovers.

Gross profit for the group was NOK 688 million (NOK 625 million). The gross margin was 42.4 per cent (43.8 per cent). This was affected by sales of lower-margin seasonal Easter products with an estimated margin effect of 0.8 per cent. In addition, a NOK 7 million provision for loss owing to the potential bankruptcy of a supplier with whom Europris had a return agreement for unsold products, was recognised in the quarter. This provision accounted for a negative margin effect of 0.4 per cent.

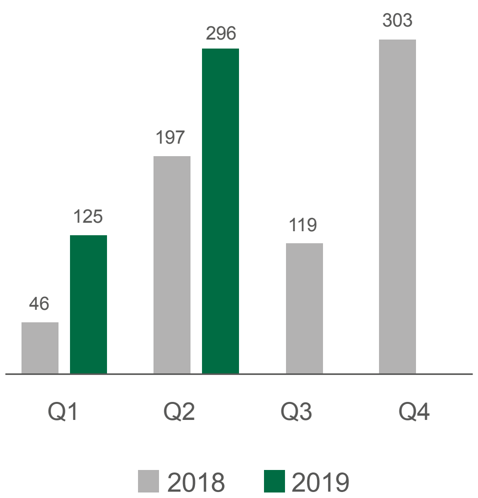
The group has implemented the new IFRS 16 Leases standard with effect from 1 January 2019. Figures for last year have not been adjusted, and are therefore not fully comparable with those presented for 2019. Operating expenses, depreciation and interest expenses are the items affected in the profit and loss statement.

Operating expenditure (Opex), excluding non-recurring items, came to NOK 392 million in the second quarter. Rent costs of NOK 112 million have been reclassified, partly as depreciation and partly as interest expense. Adjusted for the IFRS 16 effect, Opex came to NOK 504 (NOK 428 million), up by NOK 76 million.

Opex was affected by the increase in the number of directly operated stores from 216 to 229. In addition, logistical costs rose by NOK 35 million owing to the high fill-rate at the central warehouse. Europris took over the new central warehouse in Moss on 1 May, and rental costs related to these premises amounted to NOK 6 million in the quarter.

Operating expenses amounted to 24.2 per cent of group revenue. Adjusted for the IFRS 16 effect, the Opex ratio was 31.1 per cent (30 per cent).

Non-recurring items of NOK 8 million are related to moving the central warehouse from Fredrikstad to Moss.



Adjusted EBITDA was NOK 296 million. Excluding the IFRS 16 effect, it came to NOK 184 million (NOK 197 million), down by NOK 13 million.

The adjusted profit before tax was NOK 139 million (NOK 177 million), a reduction of NOK 38 million.

Depreciation increased by NOK 108 million, with NOK 103 million relating to IFRS 16.

Net financial expense rose by NOK 17 million, with NOK 12 million reflecting the IFRS 16 effect. The group recognised a net unrealised currency loss of NOK 4 million on hedging contracts and accounts payable (net currency gain of NOK 9 million).

Europris recorded an estimated profit of NOK 2.6 million from its 20 per cent stake in Runsvengruppen AB (ÖoB). This is based on preliminary and unaudited figures from the associated company.

Adjusted net profit for the second quarter of 2019 was NOK 109 million (NOK 136 million).

Profit and loss – first half

Group revenue for the first half of 2019 amounted to NOK 2,859 million (NOK 2,626 million), up by 8.8 per cent. The key drivers for revenue growth were the five per cent increase in the chain's like-for-like sales as well as new store openings and franchise takeovers.

Gross profit for the group was NOK 1,199 million (NOK 1,119 million). The gross margin was 42 per cent, compared with 42.6 per cent for the same period of last year. Gross profit was affected by the decrease in the sugar tax from 1 January 2019, which accounted for a one-off loss of around NOK 8 million on the purchases of sugar-taxable products made in 2018. Last year included a positive impact of NOK 5 million from the increase in the sugar tax. In addition, gross profit was negatively affected by a NOK 7 million provision for the potential bankruptcy of a supplier.

Opex excluding non-recurring items came to NOK 779 million. Adjusted for the IFRS 16 effect, Opex came to NOK 993 (NOK 876 million). This represented an increase of 13.4 per cent from the same period of last year. Operating expenses were 34.7 per cent (33.3 per cent) of group revenue. Opex in the first half was affected by the increase from 216 to 229 directly operated stores. In addition, logistical cost rose by NOK 46 million owing to the high fill-rate at the central warehouse.

Adjusted EBITDA was NOK 421 million. Excluding the IFRS 16 effect, it amounted to NOK 207 million (NOK 244 million), down by NOK 37 million. The adjusted EBITDA margin was 7.3 per cent (9.3 per cent).

Adjusted net profit for the first half of 2019 was NOK 85 million (NOK 145 million).

Net financial expense rose by NOK 31 million, with NOK 22 million reflecting the IFRS 16 effect. The group recorded a net unrealised currency loss of NOK 11 million on hedging contracts and on accounts payable (net currency gain of NOK 3 million).

Cash flow

Net change in working capital in the period was negative at NOK 196 million (NOK 223 million).

Capital expenditure was NOK 73 million (NOK 43 million). The increase from the year before reflected investment in the new central warehouse together with equipment for the new head office.

Financial position and liquidity

Financial debt at 30 June 2019 were NOK 3,801 million. Adjusted for the IFRS 16 effect, financial liabilities amounted to NOK 1,763 million (NOK 1,647 million).

The group's bank borrowings of NOK 1,645 million have been reclassified from non-current to current. This reflects the fact that the five-year term-loan facility matures in May 2020 and will be refinanced within the next 12 months. The internal preparations for a refinancing tender process have started as planned.

Net debt at 30 June 2019 were NOK 3,796 million. Adjusted for the IFRS 16 effect, net financial liabilities were NOK 1,759 million (NOK 1,511 million). The increase in net liabilities reflected an increase in inventory and the purchase of treasury shares.

Cash and liquidity reserves for the group at 30 June 2019 amounted to NOK 336 million (NOK 555 million).

Settlement of the acquisition cost of a 20 per cent stake in Runsvengruppen AB

The process of determining the final purchase price of the shares in Runsvengruppen AB has been delayed because of a disagreement concerning the provision for shrinkage in the accounts. An independent expert has been engaged to assist the parties in resolving the matter. The purchase price cannot increase as a result of this disagreement.

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 2018.

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 2019.

Outlook

Europris is well positioned to capitalise on global trends which are continuously pushing retailers to improve their offering. The greater attention being given to price, accessibility and trust in private labels favours discount variety retailers. In this segment, Europris is Norway's best recognised brand with a leading price perception.

Through its partnership with ÖoB and Tokmanni, Europris has strengthened its competitive position in a changing retail landscape. Furthermore, by moving operations to a single highly-automated warehouse, the group will strengthen its cost position. Increased purchasing power and lower costs will support the low-price profile, and the international footprint provides a basis for continued growth.

The launch of the group's e-commerce solution positions Europris as an omnichannel retailer with online shopping as both a channel for new sales and a tool for driving traffic to the physical stores. While the latter will continue to be the main sales channel for the foreseeable future, e-commerce will enable Europris to expand its product offering, provide access to new customer groups and increase visibility through a new channel.

Combined with the group's unique offering and strategy, management therefore expects continued growth in revenue and profits.

The current situation with high inventory level at central warehouse following the misjudgements in purchase of goods, will impact profits short term. Europris is fully concentrated on solving the issues and corrective measures are implemented, resulting in a decrease in the additional costs throughout the quarter. Additional warehouse capacity has been rented until 30 June 2020 and control of purchase volumes and timing for incoming goods improved.

Europris continue to deliver above market sales growth and the gap to market has been significant so far this year. This fact gives ground for optimism as the organisation copes with the short-term cost overruns in logistics. The sales growth is mainly driven by an increase in the number of customers which underpins the company's market leadership position.

Europris continues to have a healthy pipeline of new stores. The board has approved an additional six for 2019 and beyond, one of which are subject to planning permission. So far in 2019, Europris has opened five new stores and has one more scheduled to follow during the year.

The group took over one franchise store on 1 April 2019, with a negative one-off effect on the gross margin of about NOK 1.5 million. Europris expects an additional one-two takeovers in 2019.

The long-term financial and operational ambitions of Europris are unchanged.

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 2019 has been prepared in accordance with current applicable accounting standards, and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the group. We also confirm that the directors' report contains a true and fair review of the development and performance of the group, together with the risks and uncertainties facing the group.

Fredrikstad, 11 July 2019

THE BOARD OF DIRECTORS OF EUROPRIS ASA

Tom Vidar Rygh *Chair*	Hege Bømark	Claus Juel-Jensen
Bente Sollid Storehaug	Tone Fintland	Sverre R Kjær
Karl Svensson		Pål Wibe *CEO*

EUROPRIS ASA
Q2 AND FIRST HALF 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Figures are stated in NOK 1,000	Notes	Q2 2019	Q2 2018	YTD 2019	YTD 2018	FY 2018
		Unaudited	Unaudited	Unaudited	Unaudited	Audited
Total operating income (group revenue)		**1,621,649**	**1,427,020**	**2,858,712**	**2,626,369**	**5,816,984**
Cost of goods sold (COGS)		937,673	793,031	1,669,745	1,504,840	3,298,296
Employee benefits expense		218,787	198,934	459,408	421,008	898,504
Depreciation	5	130,087	21,775	251,513	43,344	90,743
Other operating expenses		181,642	228,719	327,837	454,448	942,369
Operating profit		**153,460**	**184,562**	**150,209**	**202,729**	**587,073**
Net financial income (expense)		**(24,950)**	**(7,641)**	**(45,762)**	**(14,803)**	**(40,942)**
Profit (loss) from associated companies	7	2,600	-	(2,900)	-	6,400
Profit before tax		**131,110**	**176,920**	**101,546**	**187,926**	**552,531**
Income tax expense		28,272	40,692	22,978	43,223	123,400
Profit for the period		**102,837**	**136,229**	**78,568**	**144,703**	**429,132**
Attributable to the equity holders of the parent		102,837	136,229	78,568	144,703	429,132
Interim condensed consolidated statement of comprehensive income						
Profit for the period		102,837	136,229	78,568	144,703	429,132
Total comprehensive income		**102,837**	**136,229**	**78,568**	**144,703**	**429,132**
Attributable to the equity holders of the parent		102,837	136,229	78,568	144,703	429,132

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Figures are stated in NOK 1,000	Notes	30 June 2019	30 June 2018	31 Dec 2018
		Unaudited	Unaudited	Audited
ASSETS				
Total intangible assets	5	2,043,618	2,035,408	2,040,688
Total fixed assets	1,5	2,728,439	274,755	262,063
Total financial assets	6,7	165,506	227,020	166,952
Total non-current assets		**4,937,563**	**2,537,183**	**2,469,702**
Inventories		1,716,270	1,454,088	1,573,233
Trade receivables		138,616	140,637	185,712
Other receivables	6	77,991	62,700	101,722
Cash		4,367	136,363	426,967
Total current assets		**1,937,244**	**1,793,787**	**2,287,634**
Total assets		**6,874,806**	**4,330,970**	**4,757,337**
EQUITY AND LIABILITIES				
Total paid-in capital	8	213,121	218,621	213,251
Total retained equity		1,352,683	1,406,469	1,575,677
Total shareholders' equity		**1,565,804**	**1,625,090**	**1,788,928**
Provisions		66,170	89,897	45,146
Borrowings	6	18,061	1,646,891	1,649,428
Lease liabilities	1,6	2,037,792	-	-
Total non-current liabilities		**2,122,023**	**1,736,789**	**1,694,574**
Borrowings	6	1,744,766	-	-
Current lease liabilities	1,6	398,401	-	-
Accounts payable		546,457	448,696	553,643
Tax payable		12,203	1,868	124,140
Public duties payable		186,472	183,968	251,540
Other current liabilities	6,7	298,680	334,559	344,512
Total current liabilities		**3,186,979**	**969,091**	**1,273,835**
Total liabilities		**5,309,002**	**2,705,880**	**2,968,409**
Total equity and liabilities		**6,874,806**	**4,330,970**	**4,757,337**

Fredrikstad, 11 July 2019
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	Treasury shares	Share premium	Retained earnings	Total equity
At 1 January 2019	**166,969**	**(5,370)**	**51,652**	**1,575,677**	**1,788,928**
Profit for the period	-	-	-	78,568	78,568
Dividend	-	-	-	(298,717)	(298,717)
Net purchase of treasury shares	-	(130)	-	(2,845)	(2,975)
Other comprehensive income	-	-	-	-	
At 30 June 2019	**166,969**	**(5,500)**	**51,652**	**1,352,683**	**1,565,804**
(unaudited)					

	Attributed to equity holders of the parent				
	Share capital	Treasury shares	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)					

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 2019	Q2 2018	YTD 2019	YTD 2018	FY 2018
		Unaudited	Unaudited	Unaudited	Unaudited	Audited
Cash flows from operating activities						
Profit before income tax		131,110	176,920	101,546	187,926	552,531
Adjusted for:						
Depreciation of fixed and intangible assets	5	130,087	21,775	251,513	43,344	90,743
Profit/loss from associated companies		(2,600)	-	2,900	-	(6,400)
Changes in net working capital		146,747	37,606	(195,839)	(222,787)	(169,407)
Income tax paid		(55,976)	(45,280)	(111,936)	(115,225)	(117,069)
Net cash generated from operating activities		**349,367**	**191,022**	**48,184**	**(106,741)**	**350,398**
Cash flows from investing activities						
Purchases of fixed and intangible assets	5	(48,987)	(22,196)	(73,137)	(43,093)	(79,152)
Acquisition		(2,424)	(950)	1,075	(3,983)	(12,875)
Net cash used in investing activities		**(51,410)**	**(23,147)**	**(72,062)**	**(47,076)**	**(92,027)**
Cash flows from financing activities						
Revolving Credit Facility drawdown		100,000	-	100,000	-	-
Repayment of debt to financial institutions		(861)	(6,341)	(1,341)	(7,637)	(8,629)
Changes in lease liabilities IFRS 16		(103,874)	-	(195,688)	-	-
Dividend		(298,717)	(283,847)	(298,717)	(283,847)	(283,847)
Buy-back of treasury shares		-	-	(2,975)	-	(120,590)
Net cash from financing activities		**(303,453)**	**(290,188)**	**(398,722)**	**(291,484)**	**(413,067)**
Net increase (decrease) in cash		(5,496)	(122,313)	(422,600)	(445,301)	(154,696)
Cash at beginning of period		9,862	258,677	426,967	581,663	581,663
Cash at end of period		**4,367**	**136,364**	**4,367**	**136,363**	**426,967**

The IFRS 16 implementation has no cash effects but, in the consolidated statement of cash flows, the part of the lease payment which is classified as repayment of loans will be reclassified from operating to financing activities.

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 2019 were authorised for issue by the board on 11 July 2019.

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 2019 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 2018.

New standards, interpretations and amendments adopted by the group

The accounting policies adopted in preparing 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 2018, except for the new IFRS 16 Leases standard which has been implemented with effect from 1 January 2019.

IFRS 16 Leases specifies how to recognise, measure, present and disclose leases. It will result in almost all leases being recognised on the balance sheet, since the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rent are recognised. The only exception is short-term and low-value leases. Europris has chosen to adopt this exception.

Extension options in the lease contracts are not included in the IFRS 16 calculation as it is not considered reasonably certain that the options will be exercised. Contracts are mainly renegotiated to secure better terms, in the form of both shorter duration and lower rent.

The group has implemented the standard by applying the modified retrospective approach and has not restated comparative amounts for the year before first adoption.

The Europris group holds a significant number of leases, and IFRS 16 will have a significant effect on the consolidated financial statements. This will be negative for the equity ratio, which has been reduced from 37.6 per cent to 26.5 per cent.

IFRS 16 implementation effects 1 January 2019:

Figures are stated in NOK 1,000	1 January 2019
Assets	
Right-of-use asset	1,988,873
Total assets increase	**1,988,873**
EQUITY AND LIABILITIES	
Lease liabilities	1,594,553
Current lease liabilities	394,320
Total liabilities increase	**1,988,873**

At the date of implementation, 1 January 2019, lease obligations are measured at the present value of future lease payments. Lease payments are discounted using the incremental borrowing rate as the implicit interest rate of the lease cannot be easily determined. Interest rates used when calculating the implementation effect are as follows:

Duration	Interest rate
1-3 years	2.15%
3-5 years	2.49%
5-10 years	3.11%
Over 10 years	3.62%

Specifications of changes in the first half of 2019:

Figures are stated in NOK 1,000	1 January 2019	△H1	30 June 2019
Assets			
Right-of-use asset	1,988,873	440,389	2,429,262
Depreciation		(198,464)	
Additions/disposals		638,853	
EQUITY AND LIABILITIES			
Lease liabilities	1,594,553	443,239	2,037,792
Changes in lease liabilities		(191,533)	
Additions/disposals		634,772	
Current lease liabilities	394, 320	4,081	398,401
Additions/disposals		4,081	

Further details of the IFRS 16 effects on the financial statement can be found on page 5 Alternative performance measures.

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 2018.

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	Right-of-use asset	Software	Trademarks	Goodwill	Total
Carrying amount 1 January 2019	238,323	23,739	1,988,873	47,167	387,573	1,605,947	4 291,624
Acquisition of subsidiaries	1,544	-	21,291	-	-	4,947	27,782
Additions	76,903	1,227	617,562	8,471	-	-	704,163
Disposals	-	-	-	-	-	-	-
Depreciation	(42,560)	-	(198,464)	(10,489)	-	-	(251,513)
Carrying amount 30 June 2019	**274,211**	**24,966**	**2,429,262**	**45,150**	**387,573**	**1,610,895**	**4,772,056**

	Fixtures and fittings	Land	Right-of-use asset	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**

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 2019 and 31 December 2018:

Figures are stated in NOK 1,000	30 June 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables				
Non-current receivables	24,214	24,214	24,073	24,073
Total	**24,214**	**24,214**	**24,073**	**24,073**
Financial liabilities				
Other financial liabilities				
Borrowings	1,762,827	1,762,827	1,649,428	1,649,428
Lease liabilities	2,037,792	2,037,792	-	-
Current lease liabilities	398,401	398,401	-	-
Total	**4,199,020**	**4,199,020**	**1,649,428**	**1,649,428**
Financial instruments measured at fair value through profit and loss				
Derivatives - asset				
Interest rate swaps	1,161	1,161	237	237
Foreign exchange forward contracts	125	125	13,829	13,829
Total	**1,286**	**1,286**	**14,066**	**14,066**
Derivatives - liabilities				
Interest rate swaps	-	-	-	-
Foreign exchange forward contracts	1,936	1,936	-	-
Total	**1,936**	**1,936**	**-**	**-**

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 associated company

In June 2018, the group acquired 20 per cent of Runsvengruppen AB (ÖoB), a Swedish discount variety retailer. ÖoB has its headquarters in Skänninge and runs 95 stores across Sweden.

The Europris group owns 20 per cent of the shares and voting rights in Runsvengruppen AS.

Based on equity value, using a fixed multiple of 7.7 on adjusted EBITDA for ÖoB in 2018, the purchase price is calculated to be NOK 134 million. NOK 2.4 million in transaction expenses has also been recognised as part of the acquisition cost, bringing the total investment to NOK 136.4 million. In addition, the group recorded an estimated profit of NOK 6.4 million from its 20 per cent stake in 2018 and an estimated loss of NOK 2.9 million in the first half of 2019. All calculations and estimates are based on preliminary and unaudited figures from ÖoB, and might be subject to change.

A vendor note was issued when closing the deal. This will be converted to Europris shares following agreement on the adjusted 2018 EBITDA for ÖoB. It is expected that the deal will be closed during the second half of 2019.

Note 8 Treasury shares

The number of treasury shares held by Europris ASA changed as follows in the period from 1 January to 30 June 2019.

Change in number of treasury shares:	
Treasury shares 1 January 2019	5,370,000
Buy-back of treasury shares	130,000
Sale of shares	-
Treasury shares 31 March 2019	**5,500,000**

Average cost price for treasury shares are NOK 22.47.

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 non-recurring expenses.
- **Adjusted profit before tax** is profit before tax adjusted for non-recurring 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.

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