Europris

Q3-16

# EUROPRIS ASA



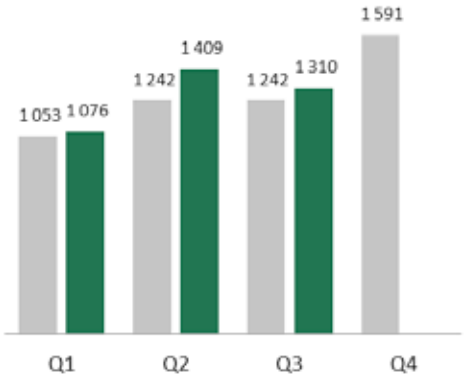
# HIGHLIGHTS

## THIRD QUARTER 2016

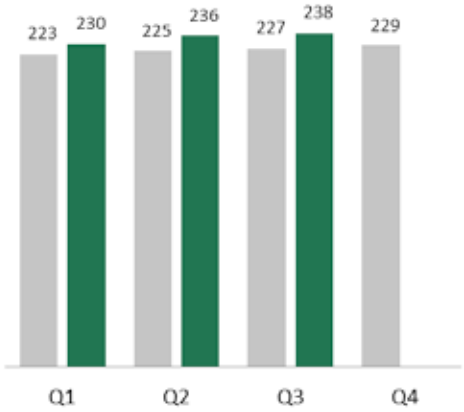
- Group revenues increased 7.3 per cent to NOK 1,218 million (1,135 million)
    - 1.5 per cent growth on a like-for-like basis
    - New stores performing ahead of management's expectations
- Adjusted EBIT increased 6.4 per cent to NOK 110 million (104 million)
- Year-on-year, Adjusted profit before tax negatively impacted by NOK 21 million from unrealised fx effects
- Streamlining and efficiency throughout the value chain ensures continued cost control
- Three new store openings, of which two shopping centre locations
- Significant progress made to pipeline of new stores for 2017, adding seven new stores in the quarter (total pipeline of thirteen)

Figures for the corresponding period of last year in brackets. The figures are unaudited.
For non-IFRS figures (e.g adjusted figures), see page 17 for definitions.

**Retail sales, NOK million**




**Number of stores**




2015 2016

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# KEY FIGURES



| Figures are stated in NOK 1,000 | Q3 2016 | Q3 2015 | YTD 2016 | YTD 2015 | FY 2015 |
|---|---|---|---|---|---|
| **CHAIN KEY FIGURES** | | | | | |
| Total retail sales | 1,309.6 | 1,242.4 | 3,794.9 | 3,537.2 | 5,128.6 |
| Growth (%) | 5.4% | 6.4% | 7.3% | 7.8% | 8.4% |
| Like for like sales growth (%) | 1.5% | 2.9% | 3.8% | 5.0% | 5.4% |
| Number of stores at end of period | 238 | 227 | 238 | 227 | 229 |

| | Q3 2016 | Q3 2015 | YTD 2016 | YTD 2015 | FY 2015 |
|---|---|---|---|---|---|
| **GROUP KEY INCOME STATEMENT FIGURES** | | | | | |
| Sales directly operated stores | 942.9 | 863.2 | 2,705.7 | 2,441.3 | 3,555.3 |
| Sales from wholesale to franchise stores | 250.2 | 248.2 | 703.1 | 709.2 | 970.4 |
| Franchise fees and other income | 24.4 | 23.3 | 72.6 | 69.7 | 103.5 |
| **Group revenue** | **1,217.6** | **1,134.7** | **3,481.4** | **3,220.2** | **4,629.2** |
| % growth | 7.3% | 7.6% | 8.1% | 8.7% | 8.7% |
| | | | | | |
| COGS excluding unrealised foreign exchange effects | 707.0 | 639.6 | 2,006.9 | 1,806.4 | 2,569.3 |
| **Gross profit** | **510.6** | **495.1** | **1,474.4** | **1,413.8** | **2,059.9** |
| % margin | 41.9% | 43.6% | 42.4% | 43.9% | 44.5% |
| | | | | | |
| Opex | 381.6 | 373.5 | 1,098.3 | 1,093.4 | 1,456.3 |
| Nonrecurring items | - | - | - | 36.7 | 36.7 |
| Opex excluding nonrecurring items | 381.6 | 373.5 | 1,098.3 | 1,056.7 | 1,419.6 |
| % of group revenue | 31.3 % | 32.9 % | 31.5 % | 32.8 % | 30.7 % |
| | | | | | |
| **Adjusted EBITDA** | **129.0** | **121.6** | **376.1** | **357.1** | **640.3** |
| % margin | 10.6% | 10.7% | 10.8% | 11.1% | 13.8% |
| | | | | | |
| **Adjusted EBIT** | **110.1** | **103.5** | **320.3** | **304.0** | **569.2** |
| % margin | 9.0% | 9.1% | 9.2% | 9.4% | 12.3% |
| | | | | | |
| **Adjusted profit before tax** | **91.9** | **102.1** | **272.5** | **211.9** | **461.3** |
| | | | | | |
| **Adjusted net profit** | **68.9** | **74.5** | **204.4** | **158.9** | **346.0** |
| | | | | | |
| **Adjusted earnings per share (167 million shares)** | **0.41** | **0.45** | **1.22** | **0.95** | **2.07** |
| | | | | | |
| **GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES** | | | | | |
| Net change in working capital | | | (221.8) | (124.7) | (40.3) |
| Capital expenditure | | | 65.2 | 84.7 | 117.3 |
| | | | | | |
| Financial debt | | | 1,650.3 | 1,647.5 | 1,652.7 |
| Cash and cash equivalents | | | 157.1 | 173.2 | 447.1 |
| **Net debt** | | | **1,493.2** | **1,474.3** | **1,205.6** |

# PERIOD REVIEW

Group revenues increased 7.3 per cent to NOK 1,218 million (1,135 million) in the third quarter. On a like-for-like basis the store chain grew 1.5 per cent in the quarter (3.8 per cent YTD), compared with market growth of 2.1 per cent (2.8 per cent YTD).

A soft start in July, which is the busiest sales month in the third quarter, was compensated by a significant pick-up in sales throughout the last two months of the quarter. Europris beat the market in both of the last two months, despite a delay in the seasonal shift to autumn.

The soft start can be attributed to consumer demand for summer products largely being satisfied following a record-breaking spring in the second quarter.

Team effort and operational execution in Europris continued their high standards in the quarter, and efficiency throughout the value chain ensured continued cost control.

## SALES PERFORMANCE

Performance during the quarter was significantly influenced by the success of the second quarter. A long and warm spring season resulted in consumer demand for summer products largely being satisfied ahead of the commencement of the third quarter. As a concept benefitting from seasonal demand, this resulted in a soft start in July. Market performance during the month was also muted, with figures from Kvarud showing a decrease in July compared to last year.[1]

However, group performance in the remaining parts of the third quarter was solid, despite the delay in the seasonal shift to autumn not providing any topline tailwind during the period. Europris performed better than the market in both August and September.[1]

Management considers general store performance to be continuing the positive development seen so far, steadily improving in-store execution, merchandising and the overall customer experience. This was illustrated during the quarter through the introduction of new elements to the group's sales campaigns. All campaigns were well received.

The group's new stores opened in 2015 and 2016 have performed well during the third quarter and last year, generally delivering sales above initial expectations. The positive trend is testament to the progress Europris has made in the process of identifying potential white spots and originating new locations.

## OPERATIONAL REVIEW

### New store openings

Europris opened three new stores in the third quarter, including two shopping centre locations (Stovner and Laksevåg). One store was permanently closed (Solheimsviken) as the building is due to be demolished.

At the end of September, the total number of stores in the chain was 238, comprising 178 directly operated and 60 franchise stores.

### Concept and category development

Europris will build on the recent success in pet food and expects to grow this category further. As part of this effort, the group recently signed an agreement with Harringtons, one of the leading independent dog food brands in the UK. The brand will be positioned as a high quality

[1] According to Kvarud Analyse, Shopphing Centre Index; report analyses the performance of the 237 largest shopping centres in Norway.




alternative to the premium brand, Purina, launched earlier this year. Harringtons pet food was introduced in September.

The group continued to focus on improving the concept and improving customer communication during the quarter. In September, Europris launched its initial version ("version 1.0") of the digital direct marketing leaflet online, improving information availability related to products, assortment and campaigns. Management plans to continue the development in this area, with additional and improved versions expected next year.

During the third quarter, the group increased focus on preparing for the important and remaining period of the year. The whole organisation was in full swing gearing up for an eventful period, including Halloween, Black Friday and Christmas, with significant in-store activity levels. This included completion of online training modules for in-store sales staff, as well as support from the logistics, marketing and procurement departments, and the rest of the Europris team. Hence, the organisation is well prepared for an eventful fourth quarter.

## EVENTS AFTER THE REPORTING PERIOD

Europris cares about the environment and works to ensure environmental concerns are taken into account in the group's business activities. As part of the group's focus on corporate social responsibility, Europris adheres to the CDP disclosure system for investors and companies. The system is a way to measure and manage the group's environmental impact. The first report was filed in June this year.

On 25 October, with a score of A÷, Europris was awarded by CDP as the "best newcomer" in the Nordics. Management believes this reflects the value the organisation puts on securing sustainable development.

# FINANCIAL REVIEW

## PROFIT AND LOSS – THIRD QUARTER

**Group revenue** in the third quarter of 2016 amounted to NOK 1,218 million (1,135 million), up by 7.3 per cent. The key drivers behind revenue growth were new store openings and successful sales campaigns.

**Group revenue, NOK million**

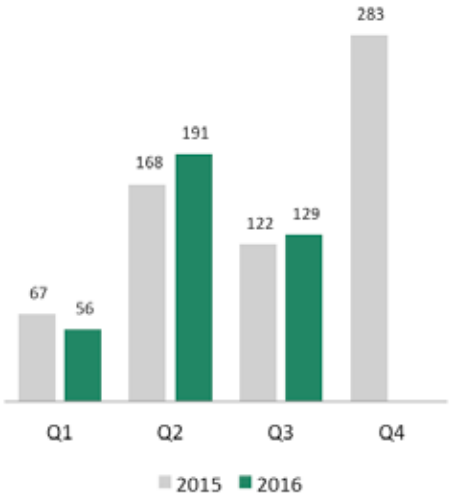



**Gross profit** for the group was NOK 511 million (495 million). The gross margin was 41.9 per cent in the third quarter of 2016, compared with 43.6 per cent in the same period last year. In 2015, the gross margin was positively influenced by the results from the annual in-store stocktaking. Stocktaking was conducted during the same period in 2016. While the effect on gross margin from the stocktaking was still positive, it was less significant than last year. This was mainly a result of improved inventory control and more stable currency rates compared to last year. Adjusting for stocktaking, the gross margin was 41.5 per cent (41.8 per cent). In addition, while relative discounting remains stable, comprehensive and successful campaign execution resulted in a somewhat higher portion of campaign sales in the period compared to last year. This had a negative impact on margin.

**Operating expenditure** (opex) excluding nonrecurring items in the third quarter came to NOK 382 million (374 million). This represented a minor increase of 2.2 per cent from the same period last year. Relative to group revenue, operating expenses was 31.3 per cent (32.9 per cent). Last year included special costs mainly in connection with the opening of a new warehouse in Fredrikstad. The group continued strong focus on cost control throughout the value chain, and the underlying development is still positive when adjusting for the relevant special costs incurred last year. Adjusting for these, relative to group revenue, operating expenses was 32.1 per cent last year.

**Adjusted EBITDA** was NOK 129 million (122 million) in the third quarter, up by 6.1 per cent compared to last year. The Adjusted EBITDA margin was 10.6 per cent (10.7 per cent). The gross profit reduction was offset by opex savings.

**Adjusted EBITDA, NOK million**




**Adjusted profit before tax** for the third quarter of 2016 was NOK 92 million (102 million), down by 10 per cent. The reduction was explained by an unrealised loss of NOK 10 million on currency hedging contracts and on accounts payable in foreign currencies in the quarter. Last year, the group recorded an unrealised gain of NOK 11 million in the equivalent period, resulting in a negative impact of NOK 21 million year-on-year.



Helen Fredholm is an award winning professional garden designer. Helen is the figurhead for Europris garden department. She brings her experience and tips to Europris customers.

## PROFIT AND LOSS – YEAR TO DATE (01.01 – 30.09)

**Group revenue** for the first nine months of 2016 amounted to NOK 3,481 million (3,220 million), up by 8.1 per cent. The key drivers behind revenue growth were the positive like-for-like development and the opening of ten new stores. One store was closed in September.

**Gross profit** for the group was NOK 1,474 million (1,414 million). The gross margin was 42.4 per cent in the first nine months of 2016, compared with 43.9 per cent in the same period last year.

**Opex excluding nonrecurring items** in the first nine months came to NOK 1,098 million (1,057 million). This represented an increase of 3.9 per cent from the same period last year. Relative to group revenue, operating expenses were 31.5 per cent (32.8 per cent).

**Adjusted EBITDA** was NOK 376 million (357 million) in the nine months, up by 5.3 per cent compared to last year. The Adjusted EBITDA margin was 10.8 per cent (11.1 per cent).

**Adjusted profit before tax** for the first nine months of 2016 was NOK 273 million (212 million).

## CASH FLOW

**Net change in working capital** was negative NOK 222 million in the period that ended 30 September 2016 (negative 125 million). In 2015, the net change in other working capital was influenced by one-off effects from the refinancing in connection with the IPO (total of NOK 92 million). Management believes the underlying development in net working capital is good.

**Capital expenditure** was NOK 65 million (85 million). The decrease from last year is explained by the lower level of investment activity related to the modernisation programme for directly operated stores, slightly offset by new store openings and store relocations.

## FINANCIAL POSITION AND LIQUIDITY

**Financial debt** was NOK 1,650 million at the end of the third quarter (1,648 million).

**Cash and cash equivalents** for the group at 30 September 2016 were NOK 157 million (173 million).

There were no drawings on the group's liquidity reserves at the end of the quarter.

**Net debt** at 30 September 2016 was NOK 1,493 million (1,474 million).

## OUTLOOK

Early macro indications are that the Norwegian economy has started to improve, and demand for discount variety retail remains sound. The segment is still underpenetrated in Norway, and continues to gain market share from specialist retailers.

The group distinguishes itself through a truly mixed assortment, which provides a large addressable market, competitive flexibility and a resilient business model. Europris remains the market leader in the segment.

Europris will continue to concentrate attention on category development and on expanding the seasons. Combined with the store modernisation programme, it expects this to be the key driver behind like-for-like sales growth in the future. Having experienced a positive development on inventory levels centrally, Europris continues to focus on reducing the level of inventory in-store, alongside its initiative related to making store operations even more efficient.

The group remains well positioned in the current year.

As part of normal course of business, the group plans to take over six additional franchise stores in the fourth quarter. This will take the total number of franchise takeovers to nine for the year as a whole, bringing the number of franchise stores down to 54.

Due to delays in construction, one of the planned store openings in the fourth quarter has been postponed to 2017. The group plans to open one additional store at Grasmyr (in the county of Telemark) before the end of the year, and in time for the important Christmas selling period. This opening will bring the total number of new stores to eleven for the full year, or a net addition of ten new stores to the estate, given the closure of Solheimsviken.

Significant progress was made during the quarter, as the group added seven new stores to its pipeline for 2017. Management believes the pipeline of new stores for 2017 is sound and somewhat ahead of expectation, with thirteen new locations confirmed for the full year so far.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

| Figures are stated in NOK 1,000 | Notes | Q3 2016 | Q3 2015 | YTD 2016 | YTD 2015 | FY 2015 |
|---|---|---|---|---|---|---|
| | | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| **Total operating income (group revenue)** | | **1,217,589** | **1,134,730** | **3,481,382** | **3,220,236** | **4,629,232** |
| Cost of goods sold (COGS) | 2 | 717,311 | 639,604 | 2,023,536 | 1,806,426 | 2,569,337 |
| Employee benefits expense | | 197,778 | 182,470 | 538,289 | 506,094 | 702,336 |
| Depreciation | 5 | 18,905 | 18,076 | 55,769 | 53,061 | 71,061 |
| Other operating expenses | | 183,857 | 191,047 | 560,050 | 587,283 | 753,932 |
| **Operating profit *** | | **99,738** | **103,533** | **303,739** | **267,372** | **532,567** |
| **Net financial income (expense)** | 2 | **(7,836 )** | **(1,480 )** | **(31,213 )** | **(149,211)** | **(164,956)** |
| **Profit before tax** | | **91,902** | **102,054** | **272,525** | **118,161** | **367,610** |
| Income tax expense | | 22,975 | 27,554 | 68,131 | 27,628 | 90,029 |
| **Profit for the period** | | **68,926** | **74,499** | **204,394** | **90,532** | **277,582** |
| Attributable to the equity holders of the parent | | 68,926 | 74,499 | 204,394 | 90,532 | 277,582 |
| **Interim condensed consolidated statement of comprehensive income** | | | | | | |
| Profit for the period | | 68,926 | 74,499 | 204,394 | 90,532 | 277,582 |
| **Total comprehensive income** | | **68,926** | **74,499** | **204,394** | **90,532** | **277,582** |
| Attributable to the equity holders of the parent | | 68,926 | 74,499 | 204,394 | 90,532 | 277,582 |

* Please note that “Operating profit” includes NOK 10.3 million in unrealised fx loss in Q3 2016. See note 2 for details.

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 Sept 2016 | 30 Sept 2015 | 31 Dec 2015 |
|---|---|---|---|---|
| | | Unaudited | Unaudited | Audited |
| **ASSETS** | | | | |
| Total intangible assets | 5 | 2,002,159 | 1,990,647 | 2,010,804 |
| Total fixed assets | 5 | 248,308 | 230,703 | 225,178 |
| Total financial assets | 6 | 3,142 | 2,499 | 5,211 |
| **Total non-current assets** | | **2,253,609** | **2,223,849** | **2,241,193** |
| Inventories | | 1,346,121 | 1,251,454 | 1,109,189 |
| Trade receivables | | 242,518 | 211,543 | 239,627 |
| Other receivables | 6 | 64,558 | 63,760 | 56,877 |
| Cash and cash equivalents | | 157,078 | 173,188 | 447,116 |
| **Total current assets** | | **1,810,275** | **1,699,945** | **1,852,808** |
| **Total assets** | | **4,063,884** | **3,923,794** | **4,094,001** |
| **EQUITY AND LIABILITIES** | | | | |
| Total paid-in capital | | 836,406 | 1,070,162 | 1,070,162 |
| Total retained equity | | 662,699 | 271,256 | 458,305 |
| **Total shareholders' equity** | | **1,499,105** | **1,341,418** | **1,528,467** |
| Provisions | | 124,781 | 103,515 | 57,920 |
| Borrowings | 6 | 1,646,298 | 1,644,099 | 1,648,385 |
| Other non-current liabilities | 6 | 3,979 | 3,363 | 4,266 |
| **Total non-current liabilities** | | **1,775,058** | **1,750,977** | **1,710,572** |
| Accounts payable | | 548,057 | 559,313 | 444,888 |
| Tax payable | | 15,471 | 49,076 | 107,985 |
| Public duties payable | | 57,855 | 60,267 | 127,154 |
| Other current liabilities | 6 | 168,340 | 162,743 | 174,935 |
| **Total current liabilities** | | **789,722** | **831,399** | **854,962** |
| **Total liabilities** | | **2,564,780** | **2,582,376** | **2,565,534** |
| **Total equity and liabilities** | | **4,063,884** | **3,923,794** | **4,094,001** |

Fredrikstad, 2 November 2016

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 2016** | **166,969** | **903,193** | **458,305** | **1,528,467** |
| Profit for the period | - | - | 204,394 | 204,394 |
| Dividend | - | (233,756) | - | (233,756) |
| Other comprehensive income | - | - | - | - |
| **At 30 September 2016** | **166,969** | **669,437** | **662,699** | **1,499,105** |

(unaudited)

| | Attributed to equity holders of the parent | | | |
|---|---|---|---|---|
| | Share capital | Share premium | Retained earnings | Total equity |
| **At 1 January 2015** | **9,255** | **916,245** | **279,102** | **1,204,602** |
| Capital reduction [1] | (5,553) | (797,974) | - | (803,527) |
| Capital contribution by transfer from distributable equity (bonus issue) [2] | 144,378 | (46,000) | (98,378) | - |
| Proceeds from shares issued (Initial public offering) [3] | 18,889 | 830,922 | - | 849,811 |
| Profit for the period | - | - | 90,532 | 90,532 |
| Other comprehensive income | - | - | - | - |
| **At 30 September 2015** | **166,969** | **903,193** | **271,256** | **1,341,418** |

(unaudited)

[1] Restructuring of the company's share capital implemented by redemption of 222,120,000 preference shares, cf, the Norwegian Public Limited Companies Act, cf. Section 12-1 paragraph 2.

[2] The share capital increased with NOK 144,378 by increasing the par value of the Company's 148,080,000 shares from NOK 0.025 with NOK 0.975 to NOK 1 per share by way of transfer from other equity, wereof NOK 98 378 from retained earnings and NOK 46,000 from previously paid in capital.

[3] In the Offering Europris ASA issued a total of 18,888,888 new shares issued to investors at an average subscription price of NOK 44.99.

In accordance with the Norwegian Public Limited Liability Companies Act sections 9-4 and 9-5, the board of directors is authorised to acquire the Company's own shares on given conditions.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| Figures are stated in NOK 1,000 | Notes | YTD 2016 | YTD 2015 | FY 2015 |
|---|---|---|---|---|
| | | Unaudited | Unaudited | Audited |
| **Cash flows from operating activities** | | | | |
| Profit before income tax | | 272,525 | 118,161 | 367,610 |
| Adjusted for: | | | | |
| Depreciation of fixed and intangible assets | 5 | 55,769 | 53,061 | 71,061 |
| Changes in pension liabilities | | - | (55) | (55) |
| Changes in net working capital | | (221,829) | (124,717) | (40,346) |
| Income tax paid | | (92,586) | (46,186) | (95,254) |
| **Net cash generated from operating activities** | | **13,879** | **263** | **303,016** |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Purchases of fixed and intangible assets | 5 | (65,203) | (84,738) | (117,322) |
| Acquisition of franchise stores | | (1,382) | (2,656) | (2,656) |
| **Net cash used in investing activities** | | **(66,584)** | **(87,394)** | **(119,978)** |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Proceeds from borrowings | | - | 1,636,969 | 1,642,318 |
| Payment of shareholder loan | | - | (17,735) | (17,735) |
| Repayment of debt to financial institutions | | (3,575) | (1,650,217) | (1,651,806) |
| Dividend | | (233,756) | - | - |
| Net capital increase | | - | 46,284 | 46,284 |
| **Net cash from financing activities** | | **(237,332)** | **15,301** | **19,061** |
| Net (decrease)/increase in cash and cash equivalents | | (290,038) | (71,829) | 202,100 |
| Cash and cash equivalents at 1 January | | 447,116 | 245,016 | 245,016 |
| **Cash and cash equivalents at end of period** | | **157,078** | **173,187** | **447,116** |

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 third quarter and the nine months ended 30 September 2016 were authorised for issue by the board of directors on 2 November 2016.

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 third quarter and the nine months ended 30 September 2016 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 2015 and the following changes to the accounting principles adopted at 1 January 2016.

In the 2016 reporting the classification of unrealised gains and losses on foreign currency derivatives that are economic hedges of inventory purchases has changed. These unrealised gains and losses are now classified as part of cost of goods sold (COGS) in the profit and loss statement. Previously the gains and losses were presented as other financial income / other financial expense. Similarly, unrealised foreign currency exchange gains and losses on inventory trade payables are now also included as part of COGS. All gains and losses, both realised and unrealised related to the acquisition of inventory are now included as part of COGS. Prior period figures are not restated in the financial statements. The following table gives the unrealised foreign currency exchange effects that would have been included in COGS each quarter in 2015, if the new principle had been applied during 2015:

| Figures are stated in NOK 1,000 | Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 | FY 2015 |
|---|---|---|---|---|---|
| Unrealised foreign currency exchange | 5,009 | 26,860 | (10,635) | 4,314 | 25,548 |

### 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 2015. New standards and interpretations effective at 1 January 2016 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 2015.

## NOTE 4 SEGMENT INFORMATION

The group manangement 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 is 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 | Software | Trademarks | Contractual rights | Goodwill | Total |
|---|---|---|---|---|---|---|
| Carrying amount 1 January 2016 | 225,178 | 40,744 | 387,573 | - | 1,582,487 | 2,235,982 |
| Acquisition of subsidiaries | 1,307 | - | - | - | 3,532 | 4,839 |
| Additions | 55,633 | 9,783 | - | - | - | 65,416 |
| Disposals | - | - | - | - | - | - |
| Depreciation | (33,810) | (21,959) | - | - | - | (55,769) |
| **Carrying amount 30 September 2016** | **248,308** | **28,568** | **387,573** | **-** | **1,586,019** | **2,250,468** |
| | | | | | | |
| Carrying amount 1 January 2015 | 185,784 | 32,393 | 387,573 | - | 1,579,928 | 2,185,678 |
| Acquisition of subsidiaries | 1,484 | - | - | - | 2,511 | 3,995 |
| Additions | 71,424 | 13,314 | - | - | - | 84,738 |
| Disposals | - | - | - | - | - | - |
| Depreciation | (27,989) | (25,072) | - | - | - | (53,061) |
| **Carrying amount 30 September 2015** | **230,703** | **20,635** | **387,573** | **-** | **1,582,439** | **2,221,350** |

# 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 September 2016 and 31 December 2015:

| Figures are stated in NOK 1,000 | 30 September 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| **Financial assets** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| **Loans and receivables** | | | | |
| Non-current receivables | 1,965 | 1,965 | 1,977 | 1,977 |
| **Total** | **1,965** | **1,965** | **1,977** | **1,977** |
| **Financial liabilities** | | | | |
| **Other financial liabilities** | | | | |
| Borrowings | 1,646,298 | 1,646,298 | 1,648,385 | 1,648,385 |
| **Total** | **1,646,298** | **1,646,298** | **1,648,385** | **1,648,385** |
| **Financial instruments measured at fair value through profit and loss** | | | | |
| **Derivatives - asset** | | | | |
| Interest rate swaps | 803 | 803 | 2,862 | 2,862 |
| Foreign exchange forward contracts | 18 | 18 | 9,615 | 9,615 |
| **Total** | **821** | **821** | **12,477** | **12,477** |
| **Derivatives - liabilities** | | | | |
| Interest rate swaps | 3,979 | 3,979 | 4,266 | 4,266 |
| Foreign exchange forward contracts | 13,015 | 13,015 | - | - |
| **Total** | **16,993** | **16,993** | **4,266** | **4,266** |

## 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.

## 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

Alternative performance measures (APM) 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. APM 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 profit before tax adjusted for nonrecurring items and additional financial expenses related to the refinancing in connection with the IPO.
- **Adjusted net profit** is net profit adjusted for nonrecurring items and additional financial expenses related to the refinancing in connection with the IPO.
- **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.

# CONTACT

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