Tokmanni Financial Statement bulletin 2018

Q4/2018: revenue grew by 8.0%, good profitability was burdened by non-recurring items

FOURTH-QUARTER HIGHLIGHTS

- Revenue grew by 8.0% to EUR 268.4 million (248.5)
- Like-for-like revenue grew by 4.7% (-1.0%)
- Acquisition of 9 Ale-Makasiini stores
- Recall of the decoration lights impacted gross profit by about EUR -1.4 million
- Gross profit totalled EUR 92.2 million (86.6) and gross margin 34.3% (34.8%)
- Comparable gross profit totalled EUR 92.3 million (86.1) and comparable gross margin 34.4% (34.6%)
- EBITDA amounted EUR 28.6 million (29.3), 10.7% of revenue (11.8%)
- Comparable EBITDA totalled EUR 28.2 million (28.6), 10.5% of revenue (11.5%)
- EBIT totalled EUR 24.7 million (25.7), 9.2% of revenue (10.3%)
- Comparable EBIT totalled EUR 24.4 million (25.0), 9.1% of revenue (10.1%)
- Cash flow from operating activities amounted to EUR 46.7 million (52.6)
- Earnings per share were EUR 0.32 (0.33)

HIGHLIGHTS OF THE REVIEW PERIOD JANUARY-DECEMBER 2018

- Revenue grew by 9.3% to EUR 870.4 million (796.5)
- Like-for-like revenue grew by 5.6% (-1.3%)
- 2 new and 3 relocated stores opened during the review period
- Gross profit totalled EUR 295.3 million (267.1) and gross margin 33.9% (33.5%)
- Comparable gross margin totalled EUR 295.0 million (268.1) and comparable gross margin 33.9% (33.7%)
- EBITDA amounted to EUR 64.9 million (53.1), 7.5% of revenue (6.7%)
- Comparable EBITDA amounted EUR 63.3 million (55.0), 7.3% of revenue (6.9%)
- EBIT totalled EUR 50.3 million (38.8), 5.8% of revenue (4.9%)
- Comparable EBIT totalled EUR 48.6 million (40.6), 5.6% of revenue (5.1%)
- Cash flow from operating activities amounted to EUR 44.9 million (27.1)
- Earnings per share were EUR 0.61 (0.45)

DIVIDEND PROPOSAL

Tokmanni's Board of Directors proposed to the Annual General Meeting to pay a dividend of EUR 0.50 per share.

TOKMANNI'S OUTLOOK FOR 2019

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

CEO Mika Rautiainen

2018 STRONG GROWTH – 2019 IMPROVING PROFIT

Tokmanni's main focus in 2018 was on improving customer confidence. We improved customer confidence by focusing on affordable prices, diversifying our assortment, revising the store concept and strengthening customer experience. Solid growth in revenue and customer numbers indicate that we have been successful in our task. In 2018, Tokmanni's customer numbers grew by 6.9%. Based on this, we estimate that our market share has grown. Total revenue for the year grew by 9.3%, reaching EUR 870.4 million. Like-for-like revenue grew by 5.6%.

Buoyed by the Christmas season, total revenue in the fourth quarter grew by 8.0%, while like-for-like revenue grew by 4.7% compared to previous year of -1.0%. Fourth-quarter profitability was burdened by a significant non-recurring expense arising from the recall of decoration lights. Additionally, the integration of the Ale-Makasiini stores according to plan and preparations for the acquisition of the four stores in northern Finland had a negative impact on profitability in the fourth quarter. However, these were one-off measures and, all in all, we are on a healthy track going forward.

In 2019, Tokmanni will focus strongly on improving the performance of its business. We will make efforts to boost the efficiency of our processes in order to reduce the relative share of fixed expenses. We will also improve the gross margin by growing the sales of our private label products and increasing direct imports. Moreover, we will continue to develop the combination of our online store and brick-and-mortar stores so as to serve consumers even better than before. Based on the measures we have already taken, we expect Tokmanni's online sales and corporate sales to develop favourably.

In 2018, Tokmanni's employees have done a very good job of improving the company's customer confidence. As an acknowledgment for the good work, the company has paid sales bonus of about EUR 2 million to all Tokmanni's employees in 2018.

On the whole, I consider the development of Tokmanni's business to be encouraging. We are in a strong position to face potential slowdown in general economic growth. The importance of cheap prices tends to be emphasized in the economic downturn. We will continue to execute our strategy with the aim of reinforcing our position as the largest and best known general discount retailer in Finland.

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

Key figures	10-12/ 2018	10-12/ 2017	Change %	1-12/ 2018	1-12/ 2017	Change %
Revenue, MEUR	268.4	248.5	8.0%	870.4	796.5	9.3%
Like-for-like revenue development, %	4.7	-1.0		5.6	-1.3	
Customer visit development %	5.7	3.6		6.9	3.6	
Gross profit, MEUR	92.2	86.6	6.5%	295.3	267.1	10.6%
Gross margin, %	34.3	34.8		33.9	33.5	
Comparable gross profit, MEUR	92.3	86.1	7.2%	295.0	268.1	10.1%
Comparable gross margin, %	34.4	34.6		33.9	33.7	
Operating expenses	-64.7	-58.5	10.6%	-234.3	-217.8	7.6%
Comparable operating expenses	-65.2	-58.7	11.1%	-235.7	-217.0	8.6%
EBITDA, MEUR	28.6	29.3	-2.4%	64.9	53.1	22.3%
EBITDA, %	10.7	11.8		7.5	6.7	
Comparable EBITDA, MEUR	28.2	28.6	-1.3%	63.3	55.0	15.1%
Comparable EBITDA, %	10.5	11.5		7.3	6.9	
Operating profit (EBIT), MEUR	24.7	25.7	-3.8%	50.3	38.8	29.7%
Operating profit margin EBIT, %	9.2	10.3		5.8	4.9	
Comparable EBIT, MEUR	24.4	25.0	-2.6%	48.6	40.6	19.7%
Comparable EBIT, %	9.1	10.1		5.6	5.1	
Net financial items, MEUR	-1.3	-1.6	-14.8%	-5.6	-5.8	-4.2%
Net capital expenditure, MEUR	8.8	4.3	104.1%	19.8	8.1	142.9%
Net debt / comparable EBITDA **	2.1	2.4		2.1	2.4	
Net cash from operating activities, MEUR	46.7	52.6		44.9	27.1	
Return on capital employed, %	7.2	7.6		14.6	11.4	
Return on capital employed %, rolling 12 months	15.0	12.0		15.0	12.0	
Return on equity, %	11.1	11.7		21.2	16.0	
Return on equity %, rolling 12 months	23.4	18.3		23.4	18.3	
Equity ratio, %	36.0	35.3		36.0	35.3	
Number of shares, weighted average during the financial period (thousands)	58 869	58 869		58 869	58 869	
Earnings per share (EUR/share)	0.32	0.33		0.61	0.45	
Personnel at the end of the period	3 558	3 255		3 558	3 255	
Personnel on average in the period	3 500	3 258		3 415	3 232	

* Net investments without long-term receivables from others
** Rolling 12 months comparable EBITDA

Adjustments affecting comparability

Tokmanni has used the non-IFRS measure EBITDA and made adjustments to improve comparability and give a better view of Tokmanni's operational performance. EBITDA represents operating profit before depreciation and amortization. Comparable EBITDA represents EBITDA excluding items that Tokmanni's management considers to be exceptional and non-trading items, including the 2017 loss on real estate and changes in the fair value of electricity and currency derivatives, which are adjusted by Tokmanni as they are unrealized gains or losses related to Tokmanni's open cash flow hedge positions, and hence not related to Tokmanni's operational performance during the periods under review. Tokmanni's management uses comparable EBITDA and other measures mentioned below as a key performance indicators to assess Tokmanni's underlying operational performance.

Adjustments affecting comparability				
MEUR	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Gross profit	**92.2**	**86.6**	**295.3**	**267.1**
Changes in fair value of currency derivatives	0.1	-0.5	-0.3	1.0
Comparable Gross Profit	**92.3**	**86.1**	**295.0**	**268.1**
Operating expenses	**-64.7**	**-58.5**	**-234.3**	**-217.8**
Changes in fair value of electricity derivatives	-0.5	-0.2	-1.4	-0.4
Loss on real estate sales	-	-	-	1.2
Comparable operating expenses	**-65.2**	**-58.7**	**-235.7**	**-217.0**
EBITDA	**28.6**	**29.3**	**64.9**	**53.1**
Operating profit (EBIT)	**24.7**	**25.7**	**50.3**	**38.8**
Changes in fair value of currency derivatives	0.1	-0.5	-0.3	1.0
Changes in fair value of electricity derivatives	-0.5	-0.2	-1.4	-0.4
Loss on real estate sales	-	-	-	1.2
Comparable EBITDA	**28.2**	**28.6**	**63.3**	**55.0**
Comparable operating profit (adj. EBIT)	**24.4**	**25.0**	**48.6**	**40.6**

TOKMANNI'S BUSINESS

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

OPERATING ENVIRONMENT AND MARKET DEVELOPMENT

Competitive field

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

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

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

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

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

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

Market development

After a long quiet period, the Nordic countries discount retail market saw some international M&A activity in 2018 when the Swedish discount retailer Rusta announced its acquisition of Finnish discounter Hong Kong department store. In June, the Norwegian chain Europris announced that it would acquire a stake in Swedish discount retailer ÖoB. This collaboration is expected to lead to synergies primarily in purchasing thanks to a stronger bargaining position. Tokmanni has a joint purchasing company in Shanghai with Europris, and the combined purchasing volumes are also expected to benefit Tokmanni in the longer term.

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

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

The non-grocery market declined by 2.9% during the fourth quarter according to the Finnish Grocery Trade Association FGTA (www.pty.fi), with growth being especially weak in October. The non-grocery market declined by 0.7% for the full year in 2018. The revenue of department store and hypermarket chains fell by 0.3% in the final quarter, although it achieved growth of 1.3% for the full year in 2018. Tokmanni clearly outperformed the rest of the market in terms of growth.

The member companies of the FGTA operate the department store and hypermarket chains of K-Citymarket, Prisma, Sokos, Stockmann, Tokmanni and Minimani. However, it is important to note that the statistics compiled by the FGTA only cover part of Tokmanni's addressable market and exclude online sales, for example.

OPERATIONAL DEVELOPMENT

Store network development

Expanding the store network is one of the targets in growing Tokmanni's revenue and operating profit. Tokmanni has an efficient process of rolling out and ramping up new stores. At the end of 2018 Tokmanni had 186 stores (175 stores on 31 December 2017).

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

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

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

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

FINANCIAL DEVELOPMENT

Seasonality

Tokmanni's business is subject to seasonality, which has a significant effect on its revenue, profitability and cash flows. Generally, revenue, profitability and cash flows are lowest in the first quarter and highest in the fourth quarter due to Christmas sales.

Fourth-quarter revenue

Tokmanni's revenue grew by 8.0% to EUR 268.4 million (248.5) in the fourth quarter of 2018. The number of customers grew in the fourth quarter by 5.7% compared to the previous year. The average basket size remained at the same level as in the previous year. Ale-Makasiini's customer numbers have not yet been registered for 2018.

Tokmanni's efforts to develop and expand its assortments yielded good results. Products were available at stores early in the Christmas season and, at the same time, sales were supported more than before with marketing and advertising in all channels. Tokmanni posted extremely good Christmas sales despite stiff competition, and the like-for-like revenue in October–December grew by 4.7% on the previous year. Demand for Tokmanni's groceries, clothing and tools and electrical equipment was particularly good.

Revenue for the full year 2018

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

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

Fourth-quarter profitability

Gross profit in the fourth quarter of 2018 totalled EUR 92.2 million (86.6), and the gross margin was 34.3% of revenue (34.8%). Comparable gross profit was EUR 92.3 million (86.1), corresponding to a gross profit margin of 34.4% (34.6%). Profitability was burdened significantly by non-recurring expenses related to the recall of decoration lights, the integration of the acquired Ale-Makasiini stores and to the preparation of the purchase of stores in Northern Finland. The effect of the recall of the decoration lights was particularly large, as it impacted gross profit by about EUR -1.4 million.

Operating expenses for the fourth quarter grew, amounting to EUR 64.7 million (58.5), representing 24.1% of revenue (23.5%). Comparable operating expenses were EUR 65.2 million (58.7), representing 24.3% of revenue (23.6%). The increase in operating expenses was mainly due to the additional operating expenses that came from the new stores added to the store network. The high sales volume also increased other operating expenses, which include the costs of freight between the Logistics Centre and the stores. Moreover, expenses grew due to the above-mentioned recall of decoration lights and the integration of Ale-Makasiini. Personnel expenses for the fourth quarter totalled EUR 28.8 million (26.0).

Fourth-quarter EBITDA amounted to EUR 28.6 million (29.3), and the EBITDA margin was 10.7% (11.8%). Comparable EBITDA was EUR 28.2 million (28.6), representing 10.5% of revenue (11.5%).

EBIT in the fourth quarter totalled EUR 24.7 million (25.7), corresponding to 9.2% of revenue (10.3%). Comparable EBIT amounted to EUR 24.4 million (25.0), representing 9.1% of revenue (10.1%).

Net financial items amounted to EUR 1.3 million (1.6) in the fourth quarter. The result before taxes was EUR 23.4 million (24.1). Taxes amounted to EUR 4.6 million (4.8). The net result for the period was EUR 18.7 million (19.3).

Earnings per share were EUR 0.32 (0.33). The return on capital employed was 7.2% (7.6%) and the return on equity was 11.1% (11.7%).

Profitability for the full year 2018

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

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

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

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

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

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

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

Balance sheet, cash flow and financial position

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

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

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

Capital expenditure

Net capital expenditure in the fourth quarter of 2018 amounted to EUR 8.8 million (4.3). Net capital expenditure in 2018 totalled EUR 19.8 million (8.1), a figure that includes goodwill of EUR 6.0 million arising from the acquisition of the business of Ale-Makasiini. Additionally, the transaction for acquiring these business locations, which are geographically well-suited to Tokmanni's store network, also involved the transfer of 93 employees to the Group as well as inventories of EUR 6.4 million, which are included in the value of the Group's inventories. Capital expenditure in 2018 increased due to, in particular, the expansion of the store network and the business acquisition, renovations of grocery stores and other stores and the development of digital services.

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

BUSINESS ACQUISITIONS

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

STRATEGY

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

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

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

Financial targets

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

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

Strategic measures taken in 2018

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

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

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

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

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

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

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

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

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

PERSONNEL

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

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

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

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

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

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

Personnel expenses in the financial year amounted to EUR 106.9 million (97.9), representing 12.3% (12.3) of revenue. The salaries of full-time employees covered by the commercial sector's collective agreement were raised by 1.6% on average on 1 April 2018 and will be raised by a further 1.6% on 1 April 2019. Most of Tokmanni's employees are covered by the agreement.

CORPORATE RESPONSIBILITY

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

Tokmanni's corporate responsibility work in 2018

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

Diverse Tokmanni

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

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

Tokmanni respects human rights

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

Carbon neutral Tokmanni

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

Tokmanni supports circular economy

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

Other significant responsibility work

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

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

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

SHARES AND SHAREHOLDERS

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

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

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

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

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

Share purchases by Tokmanni's Executive Group and their financing

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

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

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

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

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

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

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

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

FLAGGING NOTIFICATIONS

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

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

SHARE-BASED INCENTIVE SCHEMES

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

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

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

GOVERNANCE

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

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

Decisions taken by the Annual General Meeting

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

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

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

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

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

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

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

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

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

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

Constitutive meeting of the Board of Directors

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

Executive Group

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

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

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

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

RISK MANAGEMENT

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

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

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

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

Market risk

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

Reputation risk

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

Data system and data security risks

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

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

Tokmanni is increasing the number of private label products in all product categories in order to achieve its aim of improving profitability. Tokmanni's private label products usually have a low perceived price image and they offer better margins than the brand products the company sells. Tokmanni is also boosting its capability to make direct procurements by dropping intermediaries and dealing directly with goods suppliers.

An increase in Tokmanni's direct procurements may increase operational risks related to the availability of products, the need for working capital and the quality and safety of products. A failure by Tokmanni to increase the number of its private label products or direct procurements could also jeopardise the company's strategic goals, which could have a negative effect on Tokmanni's business and financial position. To manage the above-mentioned risks, Tokmanni utilises its joint sourcing company in Shanghai, continues to utilise and develop its sourcing model and conducts audits of manufacturers.

Inventory turnover and working capital management

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

Brand image and marketing risk

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

Personnel competence and key person risks

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

Foreign exchange risks

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

EVENTS AFTER THE REVIEW PERIOD

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

MARKET OUTLOOK

According to the view of Finland's Ministry of Finance, the economic cycle has peaked. In its Economic Survey for winter 2018, the Ministry forecasts that inflation in 2019 will amount to 1.4% (2018: 1.2%). As for GDP growth in 2019, the Ministry's forecasts that it will slow down to 1.5% (2018: 2.5%). According to the

Ministry, global trade will slow down as trade barriers are set up, which will put the brakes on export growth and investment expectations. A marked slowdown in investment growth is expected in 2019, mainly as a result of a fall in construction investments. Driven by a more rapid rise in earnings, growth in household disposable income will continue to be brisk. Even though inflation is accelerating, there will be a substantial growth in real income, and household spending will increase in 2019 compared with the previous year.

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

TOKMANNI’S OUTLOOK FOR 2019

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

BOARD OF DIRECTORS DIVIDEND PROPOSAL

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

Tokmanni’s 2018 Financial Statements including the Report of the Board of Directors will be published during week 8 after which it can be found on the Groups’ webpages ir.tokmanni.fi.

Helsinki 8 February 2019

Tokmanni Group Corporation

Board of Directors

Annual General Meeting 2019

Tokmanni's Annual General Meeting is planned to be held on 19 March 2019. Tokmanni’s Board of Directors will summon the meeting at a later date.

IR calendar 2019

- January-March 2019 Business review: 25 April 2019
- January-June 2019 Half Year Financial review: 8 August 2019
- Tammi-September 2019 Business review: 30 October 2019

TOKMANNI GROUP CORPORATION FINANCIAL STATEMENTS BULLETIN 2018

The Financial Statements bulletin is prepared in accordance with IAS 34 (Interim Financial Reporting) using the same accounting policies and methods of computation as in the annual financial statement for 2017. In addition, Tokmanni has introduced the new standards IFRS 9 Financial Instruments and IFRS 15 Sales Receipts from customer contracts at the beginning of the financial year. All figures in the accounts have been rounded and as a consequence the sum of individual figures can deviate from the presented sum figure.

NEW STANDARDS

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

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

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

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

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

USE OF ESTIMATES

The preparation of the half year financial reports in accordance with IFRS requires management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and other information, such as contingent liabilities and the recognition of income and expenses in the statement of income. Although the estimates are based on the management’s best knowledge of current events and actions, actual results may differ from the estimates.

This interim report is unaudited.

Consolidated income statement (MEUR)				
	10-12/ 2018	10-12/ 2017	1-12/ 2018	1-12/ 2017
Revenue	**268.4**	**248.5**	**870.4**	**796.5**
Other operating income	1.1	1.2	4.0	3.9
Materials and services	-176.2	-161.9	-575.1	-529.4
Employee benefits expenses	-28.8	-26.0	-106.9	-97.9
Depreciation and amortization	-3.9	-3.6	-14.7	-14.3
Other operating expenses	-36.0	-32.5	-127.4	-119.9
Share of profit (loss) in joint ventures	0.0	0.0	0.0	0.0
Operating profit	**24.7**	**25.7**	**50.3**	**38.8**
Financial income	0.0	0.0	0.0	0.0
Financial expenses	-1.3	-1.6	-5.6	-5.9
Profit/loss before tax	**23.4**	**24.1**	**44.7**	**32.9**
Income taxes	-4.6	-4.8	-8.9	-6.6
Net result for the financial period	**18.7**	**19.3**	**35.8**	**26.3**
Profit for the year attributable to				
Equity holders of the parent company	18.7	19.3	35.8	26.3

Consolidated statement of comprehensive income (MEUR)				
	10-12/ 2018	10-12/ 2017	1-12/ 2018	1-12/ 2017
Net result for the financial period	**18.7**	**19.3**	**35.8**	**26.3**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	0.0	0.0	0.0	0.0
Comprehensive income for the financial period, net of tax	**0.0**	**0.0**	**0.0**	**0.0**
Comprehensive income for the financial period	**18.7**	**19.3**	**35.8**	**26.3**
Comprehensive income for the financial period attributable to				
Equity holders of the parent company	18.7	19.3	35.8	26.3

Earnings per share				
Equity holders of the parent company	18.7	19.3	35.8	26.3
Number of shares, weighted avarage during the financial period (thousands)*	58 869	58 869	58 869	58 869
Earnings per share (EUR/share)*	0.32	0.33	0.61	0.45

* The amount of shares 2016 has been adjusted with effects of the bonus issue.

Consolidated statement of financial position (MEUR)	31.12.2018	31.12.2017
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	86.6	88.6
Goodwill	134.6	128.6
Other intangible assets	5.8	4.8
Non-current receivables	2.6	0.2
Investments in joint ventures and other financial assets	0.2	0.2
Deferred tax asset	5.2	5.1
NON-CURRENT ASSETS, TOTAL	**234.9**	**227.5**
CURRENT ASSETS		
Inventories	190.5	170.2
Trade and other receivables	20.6	18.4
Income tax receivables	1.5	3.8
Cash and cash equivalents	37.9	42.5
CURRENT ASSETS, TOTAL	**250.5**	**235.0**
ASSETS, TOTAL	**485.4**	**462.5**
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the parent company		
Share capital	0.1	0.1
Reserve for invested unrestricted equity	109.9	109.9
Translation differences	0.0	0.0
Retained earnings	64.5	52.9
EQUITY, TOTAL	**174.5**	**162.8**
NON-CURRENT LIABILITIES		
Deferred tax liabilities	5.6	5.1
Non-current interest-bearing liabilities	169.3	173.0
Non-current non-interest-bearing liabilities	6.8	7.4
NON-CURRENT LIABILITIES, TOTAL	**181.8**	**185.4**
CURRENT LIABILITIES		
Current interest-bearing liabilities	3.7	3.6
Trade payables and other current liabilities	122.7	107.3
Income tax liabilities	2.8	3.3
CURRENT LIABILITIES, TOTAL	**129.1**	**114.2**
EQUITY AND LIABILITIES, TOTAL	**485.4**	**462.5**

Consolidated statement of cash flows		
	1-12/2018	1-12/2017
Cash flows from operating activities		
Net result for the financial period	35.8	26.3
Adjustments:		
Depreciation	14.7	14.3
Capital gains and losses on non-current assets	0.0	1.3
Financial income and expenses	5.6	5.8
Income taxes	8.9	6.6
Other adjustments	-2.5	-0.2
Change in working capital:		
Change in current non-interest-bearing receivables	-1.3	-2.4
Change in inventories	-19.8	-14.7
Change in current non-interest-bearing liabilities	15.7	3.8
Interest paid	-5.3	-5.3
Other financing items	-0.1	-0.2
Income taxes paid	-6.7	-8.3
Net cash from operating activities	**44.9**	**27.1**
Cash flows from investing activities		
Purchases of tangible and intangible assets	-19.8	-11.7
Proceeds from disposal of tangible and intangible assets	0.0	0.8
Disposal of subsidiaries	0.0	0.1
Loans granted	-2.0	-0.3
Proceeds from repayments of loans	0.0	2.9
Net cash from investing activities	**-21.7**	**-8.1**
Cash flows from financing activities		
Proceeds from share issue	0.0	-0.1
Dividends paid	-24.1	-30.0
Repayments of finance lease liabilities	-3.7	-3.6
Net cash from financing activities	**-27.8**	**-33.7**
Net change in cash and cash equivalents	**-4.7**	**-14.7**
Cash and cash equivalents at beginning of the financial period	42.5	57.6
Cash and cash equivalents, corporate arrangements	0.0	-0.3
Cash and cash equivalents at end of the financial period	37.9	42.5

Consolidated statement of changes in equity (MEUR)

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

	Share capital	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Equity attributable to owners of the parent	Total equity
Equity 1 Jan 2017	**0.1**	**110.0**	**0.0**	**56.5**	**166.6**	**166.6**
Comprehensive income						
Net result for the financial period				26.3	26.3	26.3
Translation differences			0.0		0.0	0.0
Total comprehensive income for the financial period			**0.0**	**26.3**	**26.3**	**26.3**
Dividends				-30.0	-30.0	-30.0
Incentive scheme				0.0	0.0	0.0
Transaction costs for equity		-0.1			-0.1	-0.1
Equity 31 Dec 2017	**0.1**	**109.9**	**0.0**	**52.9**	**162.8**	**162.8**

Operating leases

Group as lessee

The Group has leased most of its store premises. The leases are in force from eight to twelve years on average. The agreements have varying renewal terms and other index terms.

Minimum lease payments payable based on other no-terminable leases:

MEUR	31.12.2018	31.12.2017
No later than 1 year	56.6	51.9
Later than 1 year and no later than 5 years	176.7	150.1
Later than 5 years	69.8	62.3
Total	303.1	264.3

Contingent liabilities, assets and commitments

The Group has no debts which are secured by assets.

Fair value

MEUR	Carrying amounts of assets as per balance sheet 31.12.2018	Fair value 31.12.2018	Carrying amounts of assets as per balance sheet 31.12.2017	Fair value 31.12.2017
Financial assets				
Derivatives (level 2)	1.7	1.7	0.3	0.3
Financial liabilities				
Derivatives (level 2)	0.2	0.2	0.5	0.5
Loans from financial institutions (level 2)	99.4	99.4	99.1	99.1
Finance lease liabilities (level 2)	73.6	73.6	77.5	77.5
Total	173.2	173.2	177.1	177.1

Calculation of Group's financial ratios

Like-for-like revenue	=	Like-for like revenue growth: Like-for-like revenue growth is calculated by taking into account the revenue growth of stores that are not considered to be net new and relocated stores, as defined by Tokmanni to include: (i) new stores opened; (ii) store relocations where the store size changes by 30 percent or more and the assortment increases or is reduced substantially; (iii) store expansions where the store size changes by 30 percent or more; and (iv) closed stores. If the store falls in one of these categories, it is regarded as a net new or relocated store in its opening year and in the following calendar year.
Customer visit development %	=	Number of customer transactions during the relevant period
Gross profit	=	Revenue - Materials and services
Comparable gross profit	=	Gross profit - Changes in fair value of currency derivatives
Operating expenses	=	Employee benefits expenses + Other operating expenses
Comparable operating expenses	=	Operating expenses - (Changes in fair value of electricity derivatives + Loss on real estate in 2017)
EBITDA	=	Operating profit + Depreciation and Amortisation
Comparable EBITDA	=	EBITDA - (Changes in fair value of currency derivatives + Changes in fair value of electricity derivatives + Loss on real estate in 2017)
Comparable EBIT	=	EBIT - (Changes in fair value of currency derivatives + Changes in fair value of electricity derivatives + Loss on real estate in 2017)
Net financial items	=	Financial income - Financial expenses
Net debt	=	Interest bearing debt - Cash and cash equivalents
Net debt / Comparable EBITDA	=	$\frac{\text{Net debt}}{\text{Comparable EBITDA}}$
Net cash from operating activities	=	Sum of changes in current non-interest bearing operating receivables, changes in inventories and changes in current non-interest bearing operating liabilities
Capital employed	=	Balance sheet total - Deferred tax liability and other non-interest-bearing liabilities
Return on capital employed, %	=	$\frac{\text{Profit before taxes + Interest and other financial expenses}}{\text{Capital employed, average of the beginning and end of the reporting period}}$

Return on capital employed, %, rolling 12 months	=	$\frac{\text{Profit before taxes + Interest and other financial expenses (preceding 12 months)}}{\text{Capital employed, average of the preceding 12 months}}$
Return on equity, %	=	$\frac{\text{Net result for the financial period}}{\text{Equity, average of the beginning and end of the reporting period}}$
Return on equity %, rolling 12 months	=	$\frac{\text{Net result for the preceding 12 months}}{\text{Equity, average of the preceding 12 months}}$
Number of personnel	=	Number of personnel at the end of the period
Number of personnel on average	=	Number of personnel on average in the financial period
Equity ratio	=	$\frac{\text{Equity}}{\text{Balance sheet total - Advances received}}$

Calculation of Group's per-share data

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