Europris

MER TIL OVERS

2018



EUROPRIS ASA ANNUAL REPORT

CONTENT

Europris Awards 2018 5
Key figures 6
Letter from the CEO 8
Directors' report 10
Corporate governance 22
Sustainability report 32

Consolidated financial statements 53
» Income statement 54
» Balance sheet 55
» Statement of changes in equity 57
» Statement of cash flows 58
» Notes 59

Europris ASA financial statements 89
» Income statement 90
» Balance sheet 91
» Statement of changes in equity 93
» Statement of cash flows 94
» Notes 95

Decleration to the annual report 103
Alternative performance measures 104
Auditor's report 106
Shareholder information 109

Europris' values

Positive attitude

Proactive

Clear

Business acumen

Simple



EUROPRIS AWARDS 2018

Each year we celebrate the men and women that make a difference within Europris.
They are all excellent representatives of the Europris values.

Sales person of the year

Monika Bienczak
Europris Oppdal





New opening of the year

Europris Ørnes



Store of the year

Europris Ulsteinvik



Franchise store of the year

Europris Randaberg

EP Ørnes
EP Ulsteinvik
EP Oppdal
EP Randaberg

KEY FIGURES

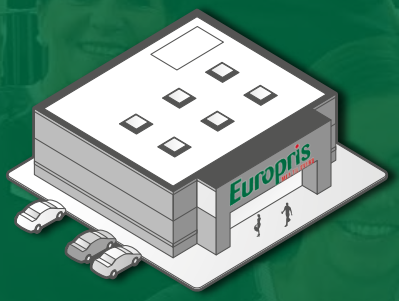
(Amounts in NOK million)	FY 2018	FY 2017
CHAIN KEY FIGURES		
Total retail sales	6,166.7	5,856.9
Growth (%)	5.3%	6.0%
Like-for-like sales growth (%)	2.2%	3.1%
Total number of stores at end of period	258	250
- Directly operated stores	221	205
- Franchise stores	37	45
GROUP KEY INCOME STATEMENT FIGURES		
Sales directly operated stores	5,020.4	4,556,1
Sales from wholesale to franchise stores	717.8	773.4
Franchise fees and other income	78.8	93.1
Group revenue	**5,817.0**	**5,422.5**
% growth	7.3%	6.6%
COGS excluding unrealised foreign exchange effects	3,309.7	3,112.1
Gross profit	**2,507.3**	**2,310.5**
% margin	43.1%	42.6%
Opex	1,840.9	1,669.5
Nonrecurring items	-	-
Opex excluding nonrecurring items	1,840.9	1,669.5
% of group revenue	31.6%	30.8%
Adjusted EBITDA	**666.4**	**641.0**
Adjusted EBIT	**575.6**	**558.3**
Adjusted profit before tax	**552.5**	**510.3**
Adjusted net profit	**429.1**	**389.8**
Adjusted earnings per share	**2.59**	**2.33**
Dividend per share	**1.85**	**1.70**
GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES		
Net change in working capital	(169.4)	29.5
Capital expenditure	79.2	103.2
Financial debt	1,649.4	1,650.8
Cash	427.0	581.7
Net debt	**1,222.5**	**1,069.1**

Note: Alternative performance measures are defined on page 104.

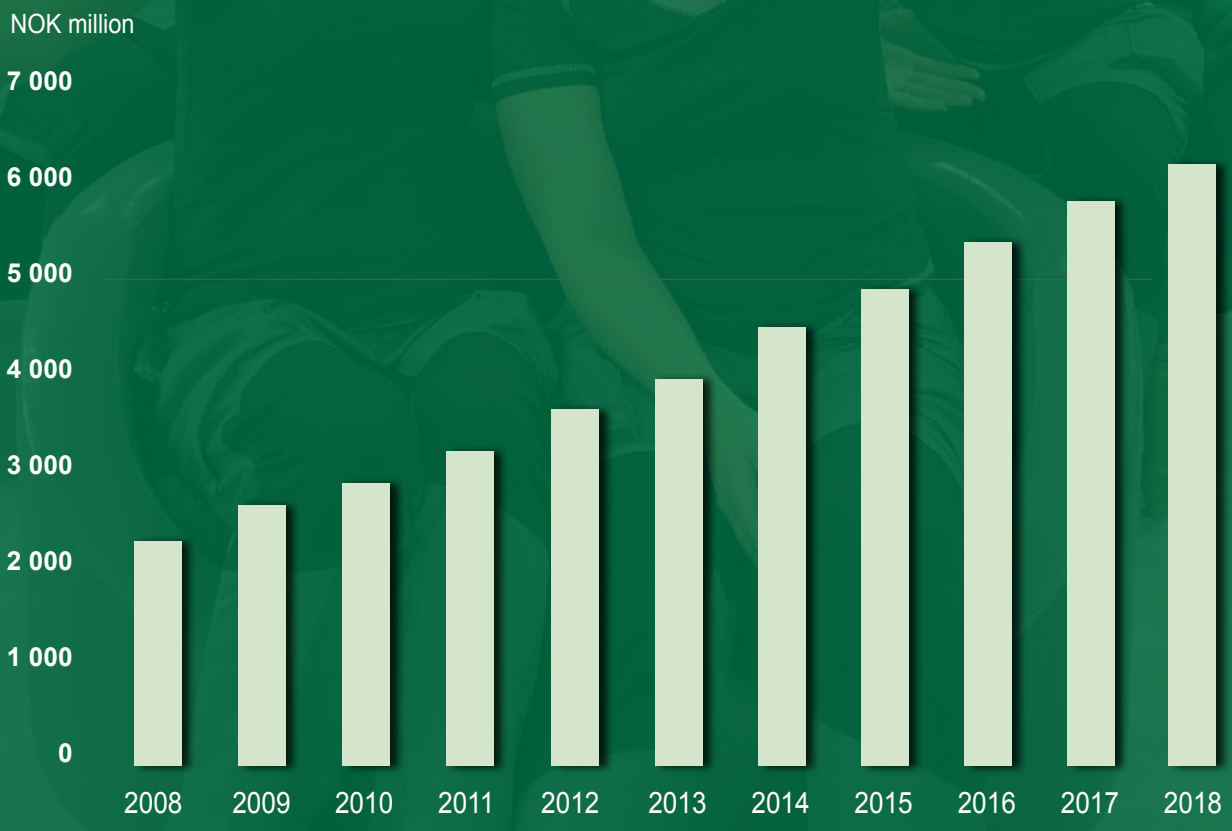
Revenue growth 7.3%

More than 30.5 million customer transactions

9 new store openings



Total retail sales NOK 6,167 million



LETTER FROM THE CEO

Tales of two worlds

Retail is changing. Some say that is a challenge. At Europris, we see it as a huge opportunity.

The pattern is clear in the USA, the UK and the Nordic markets. While online is taking an ever-larger share of total retail sales, discount variety retailing is also thriving. In fact, this sector is outpacing the growth of the total retail market twofold. So it is growing alongside the online giants.

Our DNA

We have been growing for 26 years and have no intention of slowing down, since we enjoy 100 per cent brand recognition and are the undisputed number one in the Norwegian discount variety retail market.

The key vision underlining everything we do is to give our customers “mer til overs” (pay less – save more), and we will always focus on concepts, categories and seasons to ensure that we deliver on that promise.

Our most important building block in delivering on our vision is our corporate culture. A position with us is not an ordinary job, it’s something much more. The dedication and commitment of our people makes me immensely proud, and I believe it is a key success factor in a steadily tougher retail market. We can be proud of what we accomplished in 2018, ambitious in our plans for 2019, and yet humble about the fact that we still have a way to go before we achieve our long-term target of being the best discount variety retailer in Europe.

So although we’re the undisputed leader in Norway’s discount variety retail market, this is no time to rest on our laurels. If we stand still, we will be eaten.

Our priorities

In the short term, we will work on sourcing more together with our partners, ÖoB in Sweden and Tokmanni in Finland. And we will focus relentlessly in the short-term on value chain and cost-efficiency opportunities.

For the longer term, we have set three strategic priorities:

First, we will strengthen our price and cost position. This is perhaps the single most important thing we will concentrate on over the next few years. If we want to remain the price leader, not just in Norway but also in the Nordic market, we must have the best price position and the lowest costs. We are going to work hard to achieve that.

Second, we will continuously improve the customer experience through further developing our concept, seasonal offering and categories.

Third, we will drive customer growth. Coupled with our proud 26-year history, we see many exciting digital opportunities because customers in 2019 have many options – and they now have the power to choose. We also believe that, done the right way, digital growth and development will drive traffic to our physical stores.

Our opportunities

Digitalisation creates new alliances, ecosystems and competition across sectors. Industry boundaries are shifting, and competition in the digital age now takes place beyond traditional sector borders. This represents a perfect challenge for a company which is synonymous with encroachment on other retail sectors in Norway.

The changing retail landscape is noticeable every day in every country and in every market. This change reflects the wide array of competitive options which truly enables and empowers customers in the modern retail world.

Everyone is digital, everyone is online, and everyone is mobile. In Europris, we do not believe this poses a threat, but provides an opportunity to add to existing sales. We are convinced that online is a tremendous opportunity to extend our range, and that digital communication represent a huge opportunity for us to cement the relationship with our customers and reach new segments in a true omni-channel way.

I have been in retail for most of my career, and strongly believe that it has never been more exciting to work in this industry. I am really looking forward to 2019 and beyond.





Pål Wibe
CEO, Europris ASA

DIRECTORS' REPORT

The Europris growth story continued in 2018. In a changing retail landscape, discount variety retail alongside online retail is continuing to win market share. Group revenues amounted to NOK 5,817 million (2017: NOK 5,423 million) representing an increase of 7.3 per cent from the year before. Growth was driven by the opening of eight new stores net, the takeover of eight franchise stores and like-for-like sales growth of 2.2 per cent for the full year. During 2018, Europris has continued to develop its concept and cemented its position as the "champion of seasons", especially in the important fourth quarter.

Net profit for the year was NOK 429 million (NOK 390 million), representing an increase of 10 per cent. During the first half, Europris deliberately adjusted its campaign sales to improve the gross margin. Products subject to the sugar tax purchased before 1 January also had a positive impact on gross profit in 2018. Operating expenses were negatively affected by an accounting change in the timing of freight costs and extra costs for third-party handling and container hire towards the end of the year. Europris recorded a net unrealised currency gain of NOK 11 million (loss of NOK 6 million) during the year on hedging contracts and accounts payable.

Net cash flow for the year was an outflow of NOK 155 million (inflow of NOK 5 million). Working capital was affected by increased inventory levels at the central warehouse to secure a better level of service to the stores. In addition, Europris completed three share buy-back programmes during 2018 with a cash outflow of NOK 121 million.

The board of directors of Europris ASA has proposed an ordinary dividend for 2018 of NOK 1.85 per share to the AGM, up by 8.8 per cent from NOK 1.70 per share for 2017.

In 2018, Europris acquired a 20 per cent equity stake in Runsvengruppen AB, which operates the Swedish discount variety retailer ÖoB. As part of the transaction, ÖoB will enter Europris' sourcing partnership with Finnish discount variety retailer Tokmanni.

No material events have occurred since 31 December.

Business operations and strategy

Europris is Norway's largest discount variety retailer by sales. The group offers its customers a broad range of quality private-label and branded merchandise across 12 product categories.

The Europris group head office and distribution centre are currently located in Fredrikstad. While the new head office will remain there, the distribution centre is due to be relocated to Moss in 2019-20.

Europris delivers a unique value proposition for shoppers by offering a broad range of quality merchandise at low prices in destination stores across Norway. Its merchandise is sold through the chain, which comprised a network of 258 stores nationwide at the beginning of 2019. Of these, 221 are operated directly and 37 run as franchises. Europris stores are designed to facilitate a consistent, easy and efficient shopping experience with a defined layout, making use of a distinctive "shop-in-shop" concept.

Europris offers e-commerce solutions, with a broad range of products available for both home delivery and click and collect in the stores. The e-commerce offering is still in its start-up phase.

The group manages the chain's range of merchandise centrally, which results in a consistent array of products in each category at both directly operated and franchise stores as well as online.

Europris employs a low-cost operating model, with attention concentrated on efficiency across the entire value chain from factory to customer. It aims to maintain a low cost base through optimised and efficient sourcing, logistics and distribution processes.

The group's experienced procurement team purchases large volumes of goods, which are principally sourced directly from suppliers. High-quality sourcing operations are central to the group's value proposition. Europris has a sourcing collaboration with Tokmanni in Finland and ÖoB in Sweden. Together, this partnership represents a significant scale in sourcing terms and ranks among the top three constellations in northern Europe's discount variety retail sector.

Europris gave a strategic update at the group's capital markets day on 5 December 2018. Attention is focused on three key strategic initiatives:

- strengthen the price and cost position
- improve the customer experience
- drive customer growth

Operational review

Sales performance

With a strong end to a challenging year, Europris once again outperformed the market with a like-for-like growth of 2.2 per cent compared with the market rise of 0.8 per cent in 2018. The market was soft in 2018, especially during the summer, when the warm weather had a negative effect on store traffic. Together with online retail, the discount variety retail sector continued to win market share in 2018.

	2018	
	total growth	l-f-l growth
Virke: total retail[1]	2.2%	n/a
Virke: wide range – other[1]	3.0%	n/a
Kvarud Shopping Centre Index[1]	1.3%	0.8%
Europris chain	5.3%	2.2%

The execution challenges faced by Europris in 2017, which related to performance in the low season and in the period building up to peak seasons, have been addressed. Over the past year, the group has increased central control of volumes and spacing in the stores. The full effect of these initiatives was realised in the fourth quarter of 2018.

During the fourth quarter, Europris strengthened its focus on implementing the weekly sales campaigns. The volume of campaign products was increased to reduce the number of times goods are sold out during campaign periods, and display and labelling were improved for campaign products in the stores. This led to increased sales of campaign products. While this had a negative effect on the gross margin, gross profit rose since the overall level of discounting remained unchanged. Europris believes this initiative will increase customer satisfaction and shopping frequency over time, and will further reinforce the group's price leadership in the market.

Concept and category development

Europris continues to make progress with its concept and category development work. During the year, that was demonstrated by a new concept for coffee and tea in the grocery category. This has expanded the product range, and the overall presentation of the category has been improved. During the Christmas period, Europris introduced an extended product range for outdoor Christmas lighting and artificial Christmas trees. These segments are growing, and Europris has taken a market lead in both categories.

The group has developed and introduced "design-to-price" products to take advantage of the customer focus on value for money. This includes a stronger concentration on developing private-label brands in selected categories, which will be pursued from now on in partnership with discount variety retail sourcing partners Tokmanni in Finland and ÖoB in Sweden.

Increasing central control of volumes and spacing in the stores will continue to attract attention and be developed further. The initiatives introduced so far have been successful and were a key contributor to sales growth in the fourth quarter. Better planning has made the ramp-up to new seasons more efficient and permitted improved utilisation of sales space during these periods. In addition, central spacing has ensured a more consistent implementation of the season across the store base.

E-commerce

The Europris e-commerce offering is still in its start-up phase, and performance is advancing as planned. Overall, e-commerce accounts for 0.5 per cent of the group's total retail sales but was up by 76.6 per cent from the year before. Click and collect accounts for most of the online sales.

Since the launch of the e-commerce offering in the second quarter, attention has been concentrated on continued development of the technical solutions to improve the customer experience. Providing a wider range of products online than in the physical stores was also tested in the fourth quarter. Sales results were positive, and the opportunity to offer an even

[1] According to (i) Kvarud Analyse Shopping Centre Index, December 2018 report, which analyses the performance of 240 shopping centres in Norway, and (ii) the Virke Retail Index (using figures reported by Statistics Norway).

wider product range online than in the physical stores will be further explored.

Where online customer relationship management (CRM) is concerned, the Christmas period was used to test unique daily deals for members of MER, the Europris customer club. Combined with the analysis of customer data, this represents the first step towards delivering relevant personalised marketing and offers to customers.

Growing the store estate

Europris opened nine new stores in 2018. One store, at Maura in Akershus, was closed, bringing net new stores for the year to eight.

Month	Store	County
January	Lillehammer	Oppland
March	Digernes	Møre og Romsdal
May	Rykkinn	Akershus
May	Stokke	Vestfold
June	Ørnes	Nordland
June	Kjørbekk, Skien	Telemark
August	Lura, Sandnes	Rogaland
October	Nannestad	Akershus
December	Rjukan	Telemark

Europris believes that opening new stores will remain a key value driver for the group, in combination with relocating, expanding and upgrading the existing store base. A good dialogue is maintained with landlords, and the group's unique concept and positioning continue to represent an attractive offering.

Progress with the new central warehouse

Construction of the group's new central warehouse in Moss is progressing as planned in terms of both schedule and costs. Europris plans to move into the low-rise part of the site in May 2019, while operations in the high-bay area will begin in 2020. During the 2019-20 transition period, Europris will operate two central warehouses. All this is in accordance with the original plan.

Europris has explored the possibility of further automating work processes at the central warehouse. The largest potential was identified in the picking area, and the decision was taken in the fourth quarter to invest in a shuttle solution covering 70 per cent of the stock-keeping units (SKUs). This is expected to increase picking efficiency by more than 300 per cent when fully operational. Development of the shuttle solution will run in parallel with the high-bay automation project, and is expected to be completed in late 2020. With the investment estimated at NOK 115 million, the supplier and financing are yet to be decided.

The additional automation in the new warehouse is expected to reduce the ratio of Opex to group revenue by 0.25 percentage points, assuming current volumes and the normal course of business. This brings the total savings potential from the new warehouse and automation to 0.75-1.25 percentage points of group revenue. Further details were disclosed in the Europris capital markets day presentation held on 5 December 2018.



New central warehouse in Moss

Acquisition of 20 per cent stake in Runsvengruppen AB

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

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

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

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

Financial review

Income statement

Consolidated Europris revenues amounted to NOK 5,817 million in 2018 (NOK 5,423 million), up by 7.3 per cent. The key drivers behind revenue growth were the like-for-like increase of 2.2 per cent for the chain, the opening of eight new stores net and the takeover of eight franchise stores.

Consolidated gross profit was NOK 2,519 million (NOK 2,304 million), an increase of 9.3 per cent. The gross margin was 43.3 per cent, compared with 42.5 per cent in 2017. As a result of the increase in sugar tax from 1 January 2018, purchases of sugar-taxable products in 2017 accounted for savings of about NOK 12 million in 2018. The cost of goods sold included a net unrealised currency gain of NOK 11 million (loss of NOK 6 million) on hedging contracts and accounts payable.

Operating expenses (excluding the cost of goods sold and depreciation) came to NOK 1,841 million (NOK 1,669 million), an increase of 10.3 per cent. Relative to group revenue, operating expenses were 31.6 per cent (30.8 per cent). They were affected by a 7.8 per cent increase in the number of directly operated stores, from 205 in 2017 to 221. The way the timing of freight costs is recognised in the accounts changed in 2018. A delay in recognising these costs had built up over time. As a result, a cost of NOK 8 million related to 2017 was recognised in 2018. A high fill-rate at the central warehouse towards the end of the year led to increased use of third-party handling and extra rental payments for containers, amounting to about NOK 8 million.

BOARD

Tom Vidar Rygh (chair) is an adviser to the Nordic Capital Funds. He holds a degree in economics and business administration (siviløkonom) from the Norwegian School of Economics (NHH). Rygh has held various leading executive positions in industrial and financial companies, including executive vice president of Orkla ASA, CEO of SEB Enskilda and partner in/CEO of NC Advisory AS – adviser to the Nordic Capital Funds. He has served as chair and director of several companies in a number of sectors, including Telenor ASA, Oslo Børs, Carlsberg Breweries A/S, Storebrand ASA, Aktiv Kapital ASA, Eniro AB, Netcom ASA, Helly Hansen ASA, Dyno ASA, Industrikapital Ltd, Actinor Shipping ASA, Borregaard Forests AS, Holberg Inc, Orkla Eiendom AS, Telia Overseas AB and Baltic Beverage Holding AB. Rygh has also served as an adviser to a number of prominent investment groups, such as TPG and the John Fredriksen group.



Operating profit amounted to NOK 587 million (NOK 552 million), up by 6.3 per cent from the year before.

Net financial expenses in 2018 came to NOK 41 million (NOK 42 million).

Profit from associated companies amounted to NOK 6 million (NOK 0) and related to the group's 20 per cent stake in Runsvengruppen AB.

Profit before tax was NOK 553 million (NOK 510 million), up by 8.4 per cent from 2017.

Income tax expense in 2018 was NOK 123 million (NOK 121 million), giving an effective tax rate of 22.3 per cent (23.6 per cent).

Net profit for 2018 came to NOK 429 million (NOK 390 million).

Cash flow

Net cash flow generated from operating activities was NOK 348 million (NOK 473 million). Net change in working capital was negative at NOK 169 million (positive at NOK 30 million). Net working capital was affected by a rise in inventory levels. This reflected both increased inventory at the central warehouse and somewhat higher inventory in the stores. The underlying development in net working capital was also affected by a decrease in accounts payable owing to the maturing of payments. Income tax paid was down by NOK 29 million from 2017.

Net cash flow used in investing activities was negative at NOK 89 million (negative at NOK 128 million). The decrease reflected the NOK 20 million investment made in 2017 in a piece of land adjacent to the new warehouse in Moss, and reduced spending on new and modernised stores in 2018. Payments related to acquisitions amounted to NOK 13 million (NOK 28 million).

Net cash from financing activities was negative at NOK 413 million (negative at NOK 340 million). Dividend paid was reduced by NOK 50 million from 2017. The group completed three share buy-back programmes totalling 5,500,000 shares in 2018. A total of 5,370,000 treasury shares were registered in the Norwegian Central Securities Depository (VPS) at 31 December 2018, and 130,000 shares were registered in January 2019. Cash outflow related to the 5,370,000 treasury shares amounted to NOK 121 million in 2018.

The net change in cash for 2018 was an outflow of NOK 155 million (inflow of NOK 5 million).

Financial position

Cash for the group at 31 December 2018 amounted to NOK 427 million (NOK 582 million). The group's liquidity reserves were undrawn at 31 December 2018. These facilities totalled NOK 429 million. Total available liquidity came to NOK 856 million.

Net debt at 31 December 2018 was NOK 1,223 million (NOK 1,069 million). The group is in compliance with all its financial covenants.

Equity

Equity at 31 December 2018 was NOK 1,789 million (NOK 1,764 million) and represented an equity ratio for the group of 37.6 per cent. The equity ratio will be impacted by the implementation of IFRS 16 Leases from 2019. For further details see note 1.21. The increase in equity was made up of the net profit of NOK 429 million less dividend paid of NOK 284 million and NOK 121 million in the purchase of treasury shares.

Allocation of profit

Europris ASA (the parent company) posted a profit of NOK 437 million for 2018.

The board proposes the following allocation (NOK million):

Dividend	309
Retained earnings	128
Total	**437**

The Europris group achieved a profit of NOK 429 million in 2018.

The board of directors of Europris ASA has proposed an ordinary dividend for fiscal 2018 of NOK 1.85 per share to the AGM, up by 8.8 per cent from the ordinary dividend of NOK 1.70 for 2017. The proposed dividend amounts to a total of NOK 309 million for all shares. The total cash outflow for dividend will be reduced by the amount falling due to treasury shares. Dividend for the 5,500,000 treasury shares amounts to NOK 10 million.

Pursuant to section 3-3a of the Norwegian Accounting Act, the board confirms that the financial statements have been prepared on the assumption that the group is a going concern.

Risk and risk management

The board pays great attention to risk, risk management and internal control procedures. The risk register, which is updated annually by management and reviewed by the board, focuses on three key risk categories:

1. market and financial risk
2. operational risk
3. strategic risk

For each key category, the risks are identified and classified in accordance with the likelihood of the risk occurring and the potential impact should it occur. The risk classification is subject to a quarterly review by management to identify any change in classification. The key risks identified are as follows:

Market and financial risk

Risk type	Description of risk	Internal control
Economic environment	Changes in the macro-economic environment which result in reduced consumer spending.	Europris has a wide range of products and price points which allow customers to trade up and down. Its operating model is based on low costs to keep sale prices as low as possible. Its forecasting and planning models are detailed so that the group can react in time if the economic outlook changes.
Competition	Significantly increased competition in the market affecting the group's profitability and growth.	Management follows developments in the market closely through regular reporting of market data as well as through its own competitor analysis. Price surveys are systematically performed to monitor the group's competitiveness continuously. Category development is an important element, where Europris can reduce the product offering in categories facing strong competition while introducing new products in categories where competition is weaker.
Digitalisation	Change in shopping patterns as a result of digitalisation affecting the group's growth.	Europris launched its e-commerce solutions in 2018 with a broad range of products available for both home delivery and click and collect in the stores. The MER customer loyalty programme is expanding its membership base and a new e-CRM system which permits personalised direct marketing is in place. Marketing is to a greater extent directed at social and digital media.
Sustainability	Change in shopping patterns as a result of sustainability affecting the group's growth.	Sustainability is an integrated part of Europris' strategy and will be taken into account in all product development and strategic initiatives. More than 85 per cent of all products are today sourced from certified factories (BSCI, Sedex, ICTI). Detailed programmes for reducing waste and energy consumption are in place.
Currency	Currency rate volatility affecting the group's gross margins.	The group's financial policy includes a detailed currency strategy, where all purchase orders in USD and EUR are hedged for six months. That allows sufficient time to adjust the retail price. Historically, this has proved to work well in periods with large fluctuations in the currency market.
Interest rates	Interest-rate volatility affecting the group's interest costs.	The financial policy includes a detailed description of hedging, and 25 per cent of the group's long-term loans are currently hedged. Management monitors developments in the fixed income market, and regularly assesses the exposure to interest-rate risk.
Credit and liquidity risk	Increased indebtedness affecting the group's ability to grow and posing a threat of breaching financial covenants.	Europris has limited exposure to credit and liquidity risk. The clear majority of revenue transactions are settled in cash or by debit card. Trade receivables relate mainly to the group's franchisees, and losses on trade receivables have historically been limited. Projected cash flow is updated regularly, and the group has sufficient credit facilities available.

Operational risk

Risk type	Description of risk	Internal control
Infrastructure and IT systems	Loss of operating facilities or IT systems which affects trading or causes serious injury to employees.	The group's buildings are properly protected against fire, and fire drills are conducted regularly. The group's assets are covered by full-value insurance in addition to business interruption policies. The group has good security routines in the IT area. That applies to both the physical security of hardware and safeguarding of data. Point-of-sale (POS) systems in stores can be run offline.
Supply chain	Disruption to the supply chain resulting in shortages of goods in stores.	Goods are distributed weekly to the stores, mainly by lorry using two transport firms. Some goods are delivered by ship (in northern Norway and the north-west of the country). If a delivery channel fails, volumes may be shifted between distributors. Inventory levels in stores are sufficient to manage for some time without deliveries.
Regulation and compliance	Breach of regulatory or legislative requirements resulting in financial penalties and reputational damage.	The group has established good procedures and instructions for ethics, compliance and corporate governance. These are revised annually by the board, and management training is regularly conducted. The group conducts on-site inspections of suppliers in addition to extensive product testing. Europris is in compliance with the GDPR.
Key management reliance	Loss of key personnel/skills which are critical to business operations.	Europris has a structured approach to succession planning and talent management. In this work, all managers are evaluated and potential successors in both short and long terms are identified. In addition, plans are implemented for retention, development and training of key staff.

BOARD



Hege Bømark is a director of Union Eiendomsinvest Norge AS, AF-Gruppen ASA, OBOSbanken AS and the Institute for Eating Disorders. She has also been a director of Oslo Areal ASA, Norgani Hotels ASA, BWGHomes ASA, Norwegian Property ASA and Fornebu Utvikling ASA, all of which are or have been listed companies. Prior to becoming a fulltime professional director, Bømark served as a project broker in AS Eiendomsutvikling and as a financial analyst at Fearnley Finans AS and Orkla Finans AS. She holds a degree in economics and business administration (siviløkonom) from the Norwegian School of Economics (NHH).



Tone Fintland has many years of experience as a director in the pharmaceutical industry. She has functioned since 2016 as global procurement director at TEVA Pharmaceuticals, and has previously held similar positions in the Actavis Group and Alpharma Inc. In addition, Fintland is a president of NIMA and NIMA Oslo Akershus Affiliate. She holds a Bachelor in Business Administration from the BI Norwegian Business School.

Strategic risk

Risk type	Description of risk	Internal control
Concept and category development	Lack of innovation which entails lower margins and growth.	The group works systematically on concept and category development through its category teams. This includes continuous monitoring of the market and consumer trends in order to adapt to changes and to implement new ideas at an early stage.
New store rollout	Lack of profitable new store locations which affects the group's growth plans.	The property team has a long pipeline for potential locations. The group maintains good relationships with landlords and is working strategically with other retailers for co-location of stores. New store openings must be approved by the board and newly opened stores are performing well.
Omnichannel and e-commerce	Incomplete development of solutions which affects the group's growth.	The group has developed a separate strategy plan for digitalisation, including omnichannel and e-commerce. As part of this work, the board has appointed a digital advisory board to support the management. Significant progress was made in 2018.
New warehouse and automation	Failure in implementing the new warehouse and automation solutions, affecting the group's margin and growth.	Europris has a dedicated team with sufficient expertise and resources for the project, and the board monitors progress and performs risk reviews on a regular basis. External partners are highly rated professionals in their fields.

BOARD



Claus Juel-Jensen is a professional non-executive director and has boardroom experience from more than 15 different companies in food and non-food retailing, food production and wholesale. In his professional career, he was CEO of Netto Germany (1995-2004), a joint venture between Edeka Germany and Dansk Supermarked Group, and then CEO of Netto International (Denmark, Germany, Sweden, Poland and the UK) from 2005-2017. He has extensive experience from the food discount industry and the internationalisation of retail concepts. Juel-Jensen holds master's degrees in business administration and science from Copenhagen Business School and the University of Cologne, and has the rank of captain in the Royal Danish Guard.



Sverre R Kjær served as CFO of NorgesGruppen ASA for 15 years until 2016, after five years with Norway Seafoods ASA. He is currently working on the restructuring of companies owned by Jotunfjell Partners, and as a non-executive director of Bertel O Steen AS and Fagerstad Holding AS, a property developer. Kjær has long and wide experience of boardroom work and was responsible for a number of structural changes and improvements at both NorgesGruppen and Norway Seafoods. He has a Bachelor of Business Administration degree from the Oslo Business School and has attended an advanced management programme at Harvard Business School.

Corporate governance

The board and executive management of Europris ASA review the group's corporate governance principles annually. Reporting accords with section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance as updated most recently on 17 October 2018. Please see page 22 for a detailed statement on Europris' corporate governance.

Organisation and corporate social responsibility

Employees and organisation

The board considers the working environment in the group to be good. Dedicated and enthusiastic employees are Europris' most important asset. Results from the annual employee survey conducted in 2018 show a record high score for both employee engagement and the employer promoter index. In particular, the central warehouse has had a positive development following the implementation of Lean methodology.

Europris continued to invest in employee training during 2018. The simulator-based training programmes introduced in 2015 have been further developed with the addition of new modules for product knowledge and management training. The management training programme has been extended to include store managers and shift leaders at the central warehouse. The talent programme introduced in 2017 shows good results, and several new store managers have been recruited through it.

	2018		2017	
	Employees	Full time employees	Employees	Full time employees
Stores	2,270	1,407	2,283	1,285
Head office and distribution centre	375	366	353	349
Total	**2,645**	**1,773**	**2,636**	**1,634**

The board is not satisfied with the current level of sickness absence and will follow up the initiatives implemented in order to achieve the long-term ambition of a sickness absence of around five per cent.

Sickness absence	2018	2017
Stores	7.8%	7.8%
Head office and distribution centre	6.7%	6.9%

A total of seven injury reports were registered in 2018, but none of the injuries were serious.

Equal opportunities and discrimination

Europris is a workplace with equal opportunities in all areas. The group has traditionally recruited from environments where women and men are relatively equally represented. Where gender equality in Europris ASA (the parent company) is concerned, women account for 50 per cent of directors and 20 per cent of the executive management group. Europris' ambition is to increase the proportion of women in senior positions.

The group has 2,645 employees, of whom 60 per cent are women. Working time arrangements are independent of gender.

BOARD

Bente Sollid Storehaug is CEO of Digital Hverdag and a director of Polaris Media, Hafslund E-CO, Europris, Motor Gruppen and Eika Gruppen. She is also chair of Boostcom Group and Hitch. Storehaug has been a member of several policy advisory boards for government ministers in Norway. She has also been appointed by the government to an expert committee on the future funding of the Norwegian Broadcasting Corporation (NRK). Storehaug established her own internet consultancy in 1993, which is listed today on Oslo Børs as Bouvet ASA. She is the youngest member of the Norwegian Association of Editors.



Europris' policy is to promote equal human rights and opportunities, and to prevent discrimination on the grounds of gender, ethnicity, nationality, ancestry, colour or religion. The group is working actively to promote Norway's Anti-Discrimination Act in its business. These activities include recruitment, salary and working conditions, promotion, professional development and protection against harassment.

Natural environment

The group does not pollute the natural environment beyond the level considered normal for this type of business.

Pursuant to section 3-3c of the Norwegian Accounting Act, the board has drawn up guidelines covering business ethics and corporate social responsibility. The main principles are covered in the company's sustainability policy, available on its website at www.europris.no/corporate. Europris' activities in the area of corporate social responsibility, including human rights, labour rights, the working environment, equality, discrimination, anti-corruption and the natural environment, are described in more detail in a separate section on page 32 of this annual report.

Transactions with related parties

No significant transactions were conducted with related parties in 2018.

Market developments and outlook

While retail is changing, discount variety retail is thriving. Global trends push retailers to improve their offering continuously. The greater attention paid by consumers to price, good accessibility and trust in private labels favours discount variety retailers, as is evident from the rapid growth being experienced by the segment. Europris is well positioned to capitalise on these trends, as the leading discount variety retailer in Norway with the best price perception and brand recognition. Combined with the group's unique offering and strategy, management therefore expects continued growth in revenue and profits.

Europris gave a strategic update at the group's capital markets day on 5 December 2018. Attention is focused on the key strategic initiatives:

- strengthen the price and cost position
- improve the customer experience
- drive customer growth

Through the partnership with ÖoB, Europris has strengthened its competitive position in a changing retail landscape. Increased purchasing power will support the low-price profile, and the international footprint provides a basis for continued growth.

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

Europris opened eight new stores net in 2018 and continues to have a healthy pipeline of new stores. The board has approved an additional 12 stores for 2019 and beyond, five of which are subject to planning permission.



Photo: Fogra Reklamefoto

The group took over eight franchise stores in 2018. Two more were taken over on 1 January 2019, with an estimated negative one-off effect on the gross margin of about NOK 1.9 million. Europris expects an additional two-three takeovers in 2019, with corresponding accounting effects.

The long-term financial and operational ambitions of Europris are to:

- continue to deliver like-for-like growth above the market level over time
- target opening an average of five new stores net per year, depending on the availability of locations which meet strict requirements for financial return, and to explore the potential for relocating, expanding and refurbishing existing stores
- increase the EBITDA margin over time through improved sourcing and a more cost-effective value chain
- sustain a dividend policy with a 50-60 per cent pay-out ratio from net profit while maintaining an efficient balance sheet.

The board emphasises that uncertainty is faced in assessing the outlook.

Moss, 27 March 2019

THE BOARD OF DIRECTORS OF EUROPRIS ASA



Tom Vidar Rygh
Chair



Claus Juel-Jensen



Hege Bømark



Sverre R Kjær



Bente Sollid Storehaug



Tone Fintland



Pål Wibe
CEO

The seasonal store of Norway









CORPORATE GOVERNANCE

Europris ASA has made a strong commitment to ensuring trust in the company and to enhancing shareholder value through effective decision-making and improved communication between the management, the board of directors and the shareholders. The company's framework for corporate governance is intended to reduce business risk, maximise value and utilise the company's resources in an efficient, sustainable manner to the benefit of shareholders, employees and society.

1. Implementation and reporting on corporate governance

The board of Europris is conscious of its responsibility for the development and implementation of internal procedures and regulations to ensure that the group complies with applicable principles for corporate governance.

Europris is listed on Oslo Børs and subject to reporting requirements for corporate governance under the Norwegian Accounting Act as stock exchange regulations. Europris seeks to comply with the Norwegian Code of Practice for Corporate Governance (the code), last revised on 17 October 2018, which is available on the Norwegian Corporate Governance Committee's website at www.nues.no.



Application of the code is based on the "comply or explain" principle and any deviation from the code is explained under the relevant item. At 31 December 2018, Europris deviated from the recommendation in one section of the code in 2018 pertaining to the "establishment of separate guidelines regulating responses to takeover bids" (section 14).

The principles and implementation of the code are subject to annual reviews by the board and a statement is included in the annual report in accordance with the requirements of the continuing obligations for listed companies from Oslo Børs as well as the Norwegian code.

2. The business

Europris is Norway's largest discount variety retailer by sales. The group offers a broad range of quality own brand and branded merchandise across a wide range of product categories. The group's merchandise is sold through the Europris store chain, which consisted at 31 December 2018 of a network of 258 stores throughout Norway. Of these, 221 are directly owned by the group and 37 operate as franchise stores. The group's headquarters and storage facilities are located in Fredrikstad, Norway.

The company's business purpose, as presented in article 3 of the company's articles of association, is as follows: "The company's business is commercial activity in the European wholesale and retail market, or business in relation to this, including issuing loans, and collateral and issuing guarantees for group companies and direct or indirect involvement in business with similar or other company object, as well as other business in relation to the above mentioned".

The board has established clear objectives, strategies and risk profiles for the company's business activities, to create value for its shareholders and to ensure that its resources are utilised in an efficient, sustainable manner to the benefit of all its stakeholders. Europris, as a consumer company, actively seeks to reduce risk and the potential for negative business effects by integrating sustainability in its business strategy. This is an approach which also creates opportunities for growth and long-term value creation. Europris has developed various policies providing business practice guidance, including on sustainability, conduct, ethical trade, anti-corruption, data protection, trade sanctions and whistleblowing. These policies set the standards for the behaviour which can be expected internally and externally in order to build trust, loyalty and responsible behaviour internally, and to prevent violations and negative effects externally.

Europris' sustainability policy and supplier code of conduct are available from the company's website at www.europris.no/corporate. The company's objectives, strategies and risk profile are described on pages 10-17 of the 2018 annual report, while the company's sustainability efforts are described on pages 32-49.

Deviations from the code: None.

3. Equity and dividends

Capital structure

At 31 December 2018, the group's equity totalled NOK 1,789 million, which corresponded to an equity ratio of 37.6 per cent and a debt-to-equity ratio of 94.7 per cent. The board considers Europris' capital structure to be adequate in relation to the group's objectives, strategy and risk profile.

Dividend policy

Europris aims at a dividend payout ratio of 50-60 per cent of the group's net profit while maintaining an efficient balance sheet. The group intends to provide shareholders with a competitive return on invested capital, taking into account its risk profile. It plans to pay out surplus liquidity (funds not necessary for the group's day-to-day operations) in the form of a dividend or by means of a capital reduction through distribution to the shareholders. The group considers whether the available liquidity should be used for new investment or repayment of debt instead of being paid out as dividend. Subject to the approval of the AGM, the aim is to pay dividend annually. Dividend payments are subject to certain legal restrictions pursuant to the Norwegian Public Limited Companies Act and should also take account of the group's capital requirements and financial position as well as general business conditions.

Based on the financial results for 2018, the board will propose a dividend of NOK 1.85 per share. This corresponds to a dividend pay-out ratio of 72 per cent. Europris' leverage policy is to run the business with moderate leverage and to maintain an efficient balance sheet.

Board mandates

The general meeting of 23 May 2018 granted two separate mandates to the Europris board. Both mandates are valid until the next AGM in 2019, but in any event no longer than to 30 June 2019. A separate vote was held on each mandate. For supplementary information, reference is made to the minutes of the AGM in 2018.

- A mandate to increase the share capital of Europris ASA by a maximum of NOK 16,696,888. The mandate corresponds to 10 per cent of the shares and share capital of the company. It may be used for necessary strengthening of the company's equity and the issue of new shares as consideration for the acquisition of relevant businesses. As of 31 December 2018, the authorisation had not been used.
- A mandate to repurchase Europris ASA's own shares up to a total nominal value of NOK 16,696,888. The maximum amount that can be paid for each share is NOK 100 and the minimum is NOK 10. The mandate corresponds to 10 per cent of the shares and share capital. Shares acquired pursuant to the mandate may either be deleted in connection with a later reduction of the registered share capital or used as consideration shares with regard to the acquisition of businesses. As of 31 December 2018, the company has completed buy-back programmes totalling 5.5 million shares, 130,000 of which were registered in the Norwegian Central Securities Depository (VPS) in January 2019.

Deviations from the code: None.

4. Equal treatment of shareholders and transactions with close associates

Europris has one class of shares and all shares have equal rights. Each share has a nominal value of NOK 1.00 and carries one vote. Europris ASA owned 5,370,000 treasury shares at 31 December 2018.

The board has a mandate to increase the company's share capital which allows the board to waive the pre-emptive right of existing shareholders. In the event of such a capital increase, the reason for the transaction and the waiver will be provided in a public announcement. There were no such events in 2018.

Transactions involving treasury shares will be undertaken on the stock exchange or otherwise at the listed price and reported immediately.

The company will immediately make public any material transaction between the company and shareholders, directors, leading employees or any of their close relations, as well as with other companies in the group. In the event of such transactions, the board will evaluate whether it is necessary to seek a third-party valuation. An independent valuation is required for material transactions between companies in the same group where there are minority shareholders. There were no transactions with close associates in 2018.

Deviations from the code: None.



5. Shares and negotiability

The Europris share is freely transferable on Oslo Børs. No restrictions are set in the articles of association on owning, trading or voting for shares.

Deviations from the code: None.

6. General meetings

The general meeting is the highest authority in Europris ASA. It is open to all shareholders, and Europris encourages shareholders to participate and exercise their rights at the company's general meetings. In order to vote, the shareholder must be registered with the Norwegian Central Securities Depository (VPS) at the time of the general meeting.

Notification

The annual general meeting will be held each year before 30 June. The 2018 AGM is scheduled for 23 May 2019. Extraordinary general meetings may be called by the board at any time. The auditor or shareholders representing at least five per cent of the shares may call in writing for an extraordinary general meeting to discuss a specified matter.

Written notice of a general meeting, along with supporting documents, is sent to all shareholders with a known address at least 21 days prior to the date of the meeting. Pursuant to article 7 of the articles of association, the notification and supporting documents need not be sent to the shareholders if they are made available to them on the company's website at www.europris.no/corporate. Any shareholder may nevertheless request that the documents be sent by mail by contacting the investor relations department at Europris ASA or by e-mail to ir@europris.no.

Registration and proxies

The registration deadline is normally five days before the general meeting, pursuant to article 7 of the articles of association, and all the necessary registration information is provided in the notice.

Shareholders who are unable to attend may vote by proxy. The notice of the meeting will contain more detailed information about the procedure for appointing a proxy, including an authorisation form that permits separate votes for each item up for consideration at the general meeting. In addition, a person will be appointed who can act as proxy on behalf of shareholders.

The board may decide that shareholders can submit their votes in writing, including the use of electronic communication, during a period before the general meeting.

Agenda and execution

The agenda for the general meeting is determined by the board, and the main items it must contain for the AGM are specified in article 8 of the articles of association. The agenda will include detailed information on the resolutions to be considered and the recommendations from the nomination committee.

The board, the nomination committee, the CEO, the CFO and the company's auditor will be present at general meetings under normal circumstances and unless they have valid grounds to be absent. The meeting will normally be chaired by the chair of the board. In the event of any disagreement over individual agenda items where the chair of the board belongs to one of the factions, or for some other reason is not deemed to be impartial, a different person will be selected to chair the meeting in order to ensure independence with respect to the matters concerned.

Deviations from the code: None.

7. Nomination committee

The company's nomination committee is regulated by article 6 of the articles of association. It will comprise two to three members, and the majority will be independent of the board and the company management. The composition of the committee will ensure that the interests of the shareholders are safeguarded.

Instructions for the nomination committee were adopted at the general meeting on 13 May 2015. They include the main principles for the nomination committee's work, making and supporting proposals and general procedures. The instructions are subject to annual reviews, and any proposed changes will be submitted to the general meeting for approval.

The nomination committee makes recommendations to the general meeting regarding the election of shareholder-elected directors, remuneration of directors including relevant subcommittees, the election of members and the chair of the nomination committee and remuneration of members of the nomination committee. Each proposal is justified on an individual basis and presented with the notice documents to the AGM. Shareholders in Europris are encouraged to nominate candidates for the board. More information on this can be found on the company's website at www.europris.no/corporate.

At 31 December 2018, the nomination committee consisted of the following three members:

- Mai-Lill Ibsen (chair)
- Inger Johanne Solhaug
- Tom Rathke

The members are elected by the general meeting for a term of two years, and Rathke is up for election in 2019. All the members are considered to be independent of the board and executive management. Remuneration of the members of the nomination committee is determined by the general meeting.

Deviations from the code: None.

8. Board of directors: Composition and independence

Article 5 of the articles of association provides that the board will consist of a minimum of three and a maximum of 10 directors, as determined by the general meeting. The board had six members at 31 December 2018, including three women. All shareholder-elected directors are regarded as independent of senior executives and material business associates. No executives are members of the board.

The directors are elected for a term of two years and may be re-elected. The general meeting elects the chair of the board.

According to the instructions for the nomination committee, the board's composition will be broadly based to ensure that it has the necessary experience, qualifications and capacity to safeguard the common interests of the shareholders. Furthermore, the composition of the board should allow it to function effectively as a collegiate body and to act independently of special interests. A detailed presentation of the expertise and background of the directors is available on the company's website at www.europris.no/corporate.

Europris ASA has no direct employees and therefore no requirement to appoint employee representatives to the board. Three employees are represented on the board of the Europris AS subsidiary.

Members of the board are encouraged to hold shares in Europris. An overview of shareholdings in the company by directors can be found in note 19 to the 2018 annual report.

Deviations from the code: None

Name	Postion	Served since	Up for election
Tom Vidar Rygh	Chair	2012[1]	2019
Bente Sollid Storehaug	Director	2015	2019
Hege Bømark	Director	2015	2019
Tone Fintland	Director	2017	2019
Claus Juel-Jensen	Director	2017	2019
Sverre R Kjær	Director	2018	2020

[1] Served since 2012 in Europris AS and in Europris ASA since 2015.

9. The work of the board of directors

Board's responsibilities and tasks

The board is responsible for supervising the general and day-to-day management of the group's business, ensuring proper organisation, preparing plans and budgets for its activities, ensuring that the group's activities, accounts and asset management are subject to adequate controls, and undertaking investigations necessary to the performance of its duties. Furthermore, the board determines the group's overall objectives and strategy, in addition to appointing the CEO and determining the terms and conditions of his or her employment.

Instructions for the board of directors

The board has adopted instructions for the board which describe its responsibilities, duties and administrative procedures. The instructions also regulate the distribution of duties between the chair and the CEO. The current instructions were approved by the board in May 2015 and are subject to annual reviews.

Instructions for the chief executive officer (CEO)

The instructions for the CEO regulate the day-to-day management of the group's operations to ensure that the group pursues and seeks to reach the strategic targets set by the board. The CEO is also responsible for keeping the group's accounts in accordance with prevailing Norwegian legislation and regulations, and for managing the group's assets in a responsible manner. The CEO briefs the board about the group's activities, financial position and operating results at least once a month. The current instructions for the CEO were approved by the board in May 2015 and are subject to annual reviews.

Conflicts of interests and disqualification

Directors and members of the executive management must notify the board immediately if they have a direct or indirect material interest in an agreement or transaction entered into by the company. The board's consideration of material matters in which the chair of the board is, or has been, personally involved, will be chaired by some other director.

Financial reporting

The board receives financial reports and comments from the CEO at least once a month on the group's operations, economic position and financial status. The board will also be kept continuously informed of any material legal disputes, contract terminations, changes in management and material conflicts related to clients, suppliers and employees. The financial report forms the basis for enabling the board to maintain an informed view of the group's results, capital adequacy and financial position. Quarterly financial reports are reviewed at board meetings, and these are the basis for external financial reporting.

Work of the board

The board will meet at least five times a year. It held eight meetings in 2018, with one meeting conducted by telephone. The overall attendance rate at board meetings was 96 per cent.

Audit committee

The company's audit committee is governed by the Norwegian Public Limited Liability Companies Act and a separate instruction adopted by the board. The members of the audit committee are appointed by and from among the directors.

The audit committee's primary purpose is to act as a preparatory and advisory body for the board on matters concerning accounting, auditing and finance. The committee reports and makes recommendations to the board, but the latter retains responsibility for deciding on and implementing such recommendations. The audit committee held five meetings in 2018, with an overall attendance rate of 93 per cent. At 31 December 2018, the audit committee consisted of three directors who all were regarded as independent of the company:

- Hege Bømark (chair)
- Tom Vidar Rygh
- Sverre R Kjær

Remuneration committee

The company's remuneration committee is governed by a separate instruction adopted by the board. The members are appointed by and from among the directors. Its primary purpose is to assist the board in discharging its duties related to determining the compensation of the executive management. The committee reports and makes recommendations to the board, but the latter retains responsibility for implementing such recommen-



dations. The remuneration committee held four meetings in 2018, with an attendance rate of 100 per cent. At 31 December 2018, the remuneration committee consisted of three directors:

- Tom Vidar Rygh (chair)
- Bente Sollid Storehaug
- Tone Fintland

Board's evaluation of its own work

The board conducts an annual assessment of its own work and expertise, which is presented to the nomination committee. The assessment includes the work of the board, the work of its committees and the contribution made by the various directors. The board sets individual and collective targets to measure performance, in order to ensure that the evaluation is an effective tool. An evaluation of this kind was last conducted in December 2018.

Deviations from the code: None.

10. Risk management and internal control

The board is responsible for ensuring that the group's risk management and internal control systems are adequate in relation to the regulations governing the business. The board reviews the group's main areas of risk and internal control systems annually, including the group's guidelines and practices on sustainability and how consideration for its stakeholders is integrated into the company's value creation. The audit committee holds at least one meeting a year with the auditor, who presents the group's internal control routines, including identified weaknesses and areas subject to improvements, for review by the committee.

The board works to a plan that ensures all the various areas of the operations are subject to a more in-depth review at least once a year. Management follows a similar schedule in performing an evaluation of the same topics ahead of the board's review, in addition to a quarterly risk review.

Europris has established a treasury policy to define a framework for managing financial exposure and group treasury operations. The most recent update was approved by the board in January 2019. The policy takes account of the financial and commercial risks that Europris is exposed to, and details the allocation of responsibility for financial risk management between the board, the CEO and the CFO and within the Europris group. The policy further specifies the risks that Europris is exposed to, and how they should be managed, reported, measured and controlled. The content of the treasury policy is described in detail as working procedures in the Europris finance manual, where processes and procedures are established in the form of instructions that serve as a reference for compliance with the treasury policy. The policy is subject to annual reviews by the board.

Europris prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), which are intended to give a true and fair view of the company's and the group's assets, liabilities, financial position and results of operations. The board receives reports at least once a month on the group's business and financial results, providing a good overview of the group's strategic and operational performance as well as plans for the forthcoming period. In addition, quarterly reports are prepared in accordance with Oslo Børs' recommendations, which are reviewed by the audit committee before the board meeting and subsequent publication.

As a discount retailer, Europris is exposed to a range of market, operational and strategic risks that may adversely affect the group's business. Further information regarding such risk factors and how these are managed is disclosed in the directors' report and the notes to the annual accounts for 2018.

Europris furthermore monitors attendance by employees and promotes the health and wellbeing of its workforce. In addition, it devotes attention to the training and education of employees across all aspects of its business.

The company's legal and CSR director is responsible for conducting unbiased, complete audits of the group's compliance programme, including guidelines for anti-corruption, on a regular basis in light of the group's specific business areas, geographical location and legal obligations.

Deviations from the code: None.

11. Remuneration of the board of directors

The nomination committee is responsible for proposing the remuneration of directors in order to reflect the responsibilities, expertise and time spent as well as the complexity of the business. Members of the audit committee are entitled to additional remuneration, reflecting the extra workload. The proposal is approved by the company's general meeting. Directors' fees for 2018 will be proposed to the AGM in 2019 for approval.

Directors' fees at 31 December 2018 were not linked to performance, and the company does not grant share options to its directors. Additional information relating to directors' fees can be found in note 7 to the financial statements included in the 2018 annual report.

Directors and/or companies with which they are associated should not take on specific assignments for the company in addition to their board appointment. If they do, however, this must be disclosed to and approved by the full board.

Deviations from the code: None.

12. Remuneration of executive personnel

Europris has a policy of offering competitive remuneration for the executive management based on current market standards as well as on company and individual performance. The board has established guidelines for determining pay and other remuneration for members of the executive management.

Remuneration consists of a basic pay element combined with a performance-based bonus scheme linked to the company's financial and operational performance. The bonus scheme is limited to 11 months of gross base pay for the CEO and six months for the other executive managers. The management group participates in the company's insurances, and is entitled to certain fringe benefits, such as free newspaper, car and phone.

The board has prepared a statement on the determination of salaries and other benefits payable to senior executives, which was presented to and adopted by the 2018 AGM. Further details relating to the pay and benefits payable to the CEO and other senior executives can be found in note 7 to the financial statements included in the 2018 annual report.

Deviations from the code: None.

13. Information and communications

Investor relations

Investor relation activities at Europris ASA aim to ensure that the information provided to financial markets gives market participants the best possible foundation for a correct valuation of the group. Europris will seek to communicate in an open, precise and transparent manner about the group's performance and market position in order to give financial markets a correct picture of its financial condition and other factors that may affect value creation. Europris seeks to comply with the Oslo Børs code of practice for IR, last updated in March 2017. The company has adopted an IR policy, which is available in a condensed form on the company's website at www.europris.no/corporate.

All market participants will have access to the same information published in English. All notices sent to the stock exchange are made available on the company's website at www.europris.no/corporate and at www.newsweb.no. The CEO, CFO and IR manager are responsible for communication with shareholders and analysts in the period between general meetings.

Financial information

Interim reports are published on a quarterly basis, in line with Oslo Børs' recommendations. In connection with the publication of its interim results, Europris holds open investor presentations to provide an overview of the group's operational and financial performance, market outlook and the group's own future prospects. These presentations are also made available through webcasts on the company's website.

Deviations from the code: None.

14. Take-overs

No defensive mechanisms against takeover bids are provided in Europris' articles of association. Nor are any other measures implemented specifically to hinder the acquisition of shares.

Deviations from the code: The board has not established written guidelines for how it should act in the event of a takeover bid. Since such circumstances are normally one-off by nature, drawing up general guidelines is challenging.

Were a takeover bid to be made, the board would consider the relevant recommendations in the code and whether the specific circumstances permit compliance with the recommendations in the code.

15. Auditor

The company's auditor, BDO AS, is appointed by the general meeting and is independent of Europris ASA. The board has received a written confirmation from the auditor that requirements for independence and objectivity have been met.

The board requires the auditor annually to present to the board and the audit committee a plan covering its main auditing activities and a review of the group's internal control systems including identified weaknesses and proposals for improvement. In addition, the board requires the auditor to attend the board meeting dealing with the company's annual accounts in order to highlight any material changes to accounting principles, comment on any material estimates, and report on any topics where a significant difference of opinion exists between auditor and management.

At least once a year, the auditor and the board hold a meeting without any representatives of the company's executive management being present.

The board has established guidelines for any work performed by the company's auditor. All material services, audit-related and otherwise, must be approved in advance by the audit committee. The audit committee's chair is authorised to approve such services on condition that (1) services approved by the chair are reported to the next meeting of the audit committee, (2) such services must need to be approved at short notice to protect the company's interests and (3) such services, following a case-specific evaluation, do not affect the independence of the auditor.

The board will inform the AGM about the remuneration payable to the auditor, broken down between auditing and other services. The AGM will approve the auditor's fees. For further information about remuneration of the auditor, see note 6 in the 2018 financial statements.

Deviations from the code: None.


The seasonal store of Norway

SUSTAINABILITY REPORT

Sustainability in all we do

Growth creates a larger environmental footprint and, in a world where the climate is rapidly changing and natural resources are increasingly put under pressure, remaining conscious of the common responsibility we all share for our planet is more important than ever. In 2015, the global community convened in Paris to sign a landmark climate agreement, joining forces to work towards a sustainable future. In the same year, the UN also adopted a set of sustainable development goals, dealing with a wider range of global issues, which include human rights, good governance, peace and stability. Achieving these requires a concerted effort from all businesses and markets.

At Europris, we share the vision of a sustainable future as embodied by these agreements and recognises that significant sustainability risks and opportunities are associated with our operations. Integrating this acknowledgement into the organisation, we authored a sustainability policy in 2018. This policy defines our path to sustainable growth for the years to come.

Our vision

Provide sustainability
for ordinary people

Our objective

Become the most sustainable
European discount variety
retailer by 2025

To realise the vision and objectives, we take a broad approach to sustainable development with the overall aim of ensuring long-term value creation. We integrate environmental, social and corporate governance (ESG) aspects in our value chain and operations, and in our engagements with customers and communities. These four aspects create the structure for our 2018 sustainability report, which is divided in four main chapters: sustainable value chain, resource-efficient business model, responsible employer, and empowering customers and communities.



Figure: Our main sustainability aspects

We focus on material aspects to turn climate and sustainability risk into opportunity

In keeping with our "pay less – save more" culture, we base our sustainability aspirations on finding and adopting simple and measurable solutions to meeting our responsibilities as effectively as possible.

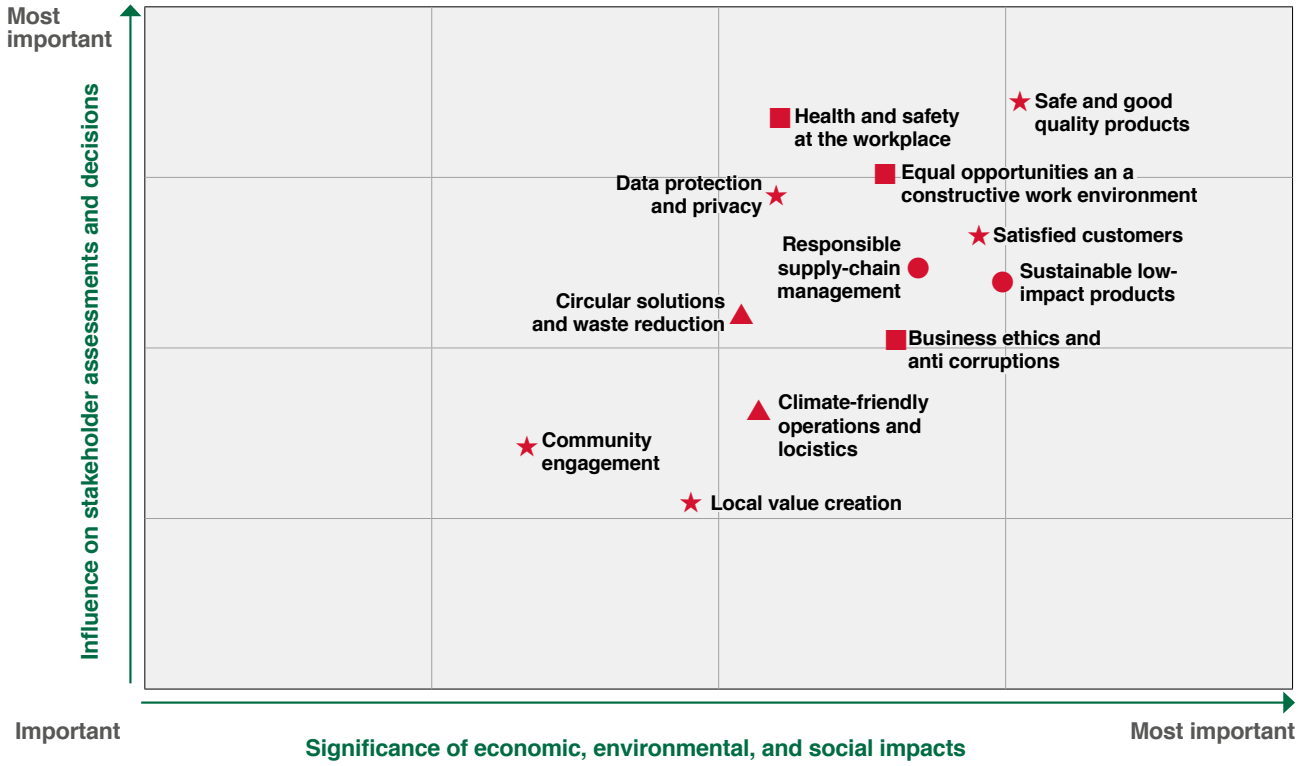
We further refined our approach to sustainability reporting during 2018 by basing content and structure on the principles of the GRI standards. To streamline sustainability work and reporting in accordance with the GRI principles, key sustainability impacts in our value chain are identified and mapped in the materiality matrix below. The position of each topic depends on its relevance to us and our stakeholders, with both employees and management having been consulted. The opinions and expectations of external stakeholders, such as customers, regulators and investors, have been investigated to learn what they believe are the most important ways in which we as a company can contribute to a more sustainable future.

The final matrix sets the direction for our sustainability strategy and is the foundation for this sustainability report, where the following were identified as the most material aspects for us:

- **sustainable value chain:** the majority of our impacts derive from the products we source
- **resource-efficient business model:** more efficient operations and logistics to reduce the environmental footprint
- **responsible employer:** being an ethical, inclusive and constructive workplace
- **constructive social player:** contributing to local communities in order to foster long-lasting relationships.

Through management and improvement of these major aspects, we can direct our efforts to where they carry the most weight and deliver on our vision of providing sustainability to ordinary people. By reducing our overall environmental footprint and ensuring equity and fairness to employees along the value chain, we will also reduce overall climate and sustainability risk and align ourselves with the UN sustainability goals and the low carbon future of the Paris agreement.

Materiality assessment



We make efforts to discuss sustainability issues with employees in their day-to-day work, and integrate sustainability in our company culture. Our sustainability report is part of our stakeholder engagement, since it promotes transparency, honesty and approachability. We want to professionalise our future approach to stakeholder engagement by updating the sustainability section on the website, becoming more active in sharing goals and results on social media, and being proactive in relevant fora and networks.

Sustainable value chain

We recognise that our main impacts on ESG issues derive from the products sourced for and sold in our stores. We therefore seek to improve the sustainability performance of private-label and branded merchandise. Our supplier code of conduct ensures that ESG issues are prioritised when engaging with suppliers.

Commitment: ensure that merchandise in all the stores is produced and sourced in a sustainable manner

Sustainable low-impact products

While retail does not directly use significant natural resources compared with other industries, product value chains certainly do. Both manufacturing processes and raw materials may negatively affect forests, water supplies and local ecosystems. We take a holistic view of sustainability and believes our environmental footprint should not be limited to our stores and logistics, but cover its product range as well. We therefore strive to limit the adverse effects products may have on the environment throughout their life cycle.

Policy

We believe in providing freedom of choice to customers, and work to offer sustainable quality alternatives wherever possible. We are committed to reducing the environmental footprint of all our merchandise, with our internal sourcing policy setting the path to a more sustainable product offering. Overall, we seek to increase the proportion of environmentally certified products, where product-specific sourcing policies apply to those product groups considered to have a higher environmental footprint.

Actions and results

Our system for product information management (PIM) was initially used for risk and safety. However, it will be further developed to include sustainability data. In 2019, we will start mapping all content in our wide-ranging product universe by sustainability impact, and identifying those which are or could be certified for sustainability against an independent standard. This will provide an overall measure for sustainability in our product range, while also identifying particularly high-impact products to follow up.



Naxos – one of the bestsellers in 2018

Sourcing for a better future

We have continued to pursue focused sourcing policies for some specific product materials. These groups are targeted because they make up a significant percentage of overall sales while having a higher environmental footprint.



Candle wax: The greenhouse effect is a growing source of concern in the world today. Both wax candles (biomass) and paraffin candles (fossil fuel) release CO2 when burning. The benefit of using wax candles is that they do not contribute additional CO_2 to the atmosphere (low carbon footprint), providing their biomass comes from sustainable sources. In 2018, candles made from sustainable wax material (not palm oil or soya) represented 13 per cent of our total candle sales. By 2025, 50 per cent of total candle sales will be sustainable varieties.



Single-use plastics: Single-use plastics received much attention in 2018, pushing companies to take urgent action. We provide alternatives to popular single-use plastic products, and launched a range of disposable plates in 2018 made of 100 per cent biodegradable material. By 2020, 50 per cent of sales of single-use products should be made of alternatives to plastics, reaching 100 per cent by 2021. In this way, we will comply with the EU curb on single-use plastics expected to be come into force in 2021.

Palm oil: We will not contribute to deforestation. In 2018, we continued to investigate ways of removing unsustainable palm oil from our portfolio, starting with gingerbread biscuits, noodles, popcorn and candles. By 2020, only palm oil certified for sustainability will be found in our range of private brands.



Table napkins: All our table napkins are manufactured in Europe and are Swan-labelled and made from FSC-certified materials. The Swan is the official Nordic ecolabel and its logo demonstrates that a product represents a good environmental choice. The Swan symbol means that products have met certain criteria using methods such as testing samples at independent laboratories, certification and inspection visits.



Tea and coffee: Tea and coffee products are known for complex supply chains, with the risk of labour and human rights violations and environmental degradation in the production stages. We have welcomed English Tea Shop, a brand with a significant focus on production standards, to our product portfolio. Moreover, two of the three coffee products we sell are Rainforest Alliance certified. We see this as a step in the right direction towards a more ethical coffee and tea selection, which will be fully certified for sustainability by 2020.

Targets and ambitions

We will work in 2019 to continue implementing our PIM system and its features for mapping information about the environmental performance and labelling of our products. With the first mapping due to be completed by 2020, the overall aim is to increase the proportion of products certified to at least one environmental standard.

We will continue to look for the materials and product groups which pose the greatest sustainability challenges and where our sourcing strategy may have a real impact. Where these groups are concerned, we will formulate specific sourcing policies, implement programmes and set targets. By targeting high-risk products, we can improve the sustainability performance of our product offering while ensuring low prices and good quality. By 2020, we will have developed a sourcing strategy which aims to provide sustainable alternatives for all major product categories and to implement appropriate practices for sustainable procurement of high-risk materials and products.

Responsible supply-chain management

The majority of our products are sourced from third-party suppliers with production sites across the world. The sheer number of suppliers increases the risk that some are in violation with our code of conduct, with poor labour conditions or operations which have a significantly negative impact on the environment. The corruption risk is also higher in our supply chain than in our immediate operations. Incidents may affect our ability to provide merchandise to customers, have a negative impact on the brand, and result in possible financial litigation.

Policy



Since our ability to affect supplier operations is limited, we work to improve supply chain transparency. Suppliers who can prove superior performance on ESG issues are preferred partners.

All suppliers are required to sign our supplier code of conduct. In addition to requiring excellent business ethics and anti-corruption standards, this states that all suppliers must minimise adverse impacts on human health and the environment throughout their value chains. National and international environmental legislation must be respected. The code requires all suppliers to comply with the eight basic International Labour Organisation (ILO) conventions protecting workers' rights. Should national legislation cover topics similar to those in the ILO conventions, the most stringent standards will apply.

We maintain separate packaging guidelines for all suppliers, specifying requirements for type, amount and method of packaging which are designed to minimise waste and permit more efficient transport. A new policy on sustainable materials has also been integrated in the procurement guidelines.

Actions and results

We continued our work to ensure social responsibility in the supply chain during 2018. At present, up to 40 per cent of merchandise is sourced from China. By taking a risk-based approach, most attention is directed at the issue of substantial purchases being made in a regulatory setting where ESG performance could be at stake. The remainder of the merchandise is sourced either from producers in Norway or are US or European household brands, which feature a proven focus on sustainability and operate in well-regulated environments – presenting us with a lower level of supply chain risk.

We have conducted our own oversight and auditing of selected suppliers. A total of 72 suppliers in China were selected to complete a self-assessment questionnaire, with 50 of these responding. Questions were based in part on the UN Global Compact guiding principles covering human rights, labour rights, environmental performance and anti-corruption. The survey revealed that we purchase from 20 countries, with Chinese suppliers representing the majority. All respondents reported that they had a system for following up the supply chain via either supplier self-assessments or on-site inspections.

A large proportion of our suppliers are covered by the risk assessment and audit methodology of the Business Social Compliance Initiative (BSCI) through our sourcing cooperation with Finland's Tokmanni. Based on turnover, all consolidated suppliers to both Tokmanni and ourselves were BSCI-certified. The BSCI approach screens companies on the basis of an extensive set of risk factors – including social issues, safety and the environment – to identify at-risk companies for auditing. This allows us to join forces with other companies using the BSCI approach to im-

prove oversight and accountability and to strengthen ethical safeguards in international sourcing operations. In 2018, 66 per cent of total products sourced through the Shanghai office came from BSCI-certified factories.

We have also taken action in our procurement process to encourage the development of sustainable supply chains in order to improve even further our capacity to deal with human rights in the supply chain.

Targets and ambitions

We will continue to raise environmental, labour and human-rights standards in our supply chain and to ensure that all suppliers are aligned with the code of conduct. However, we acknowledge that a better screening and auditing processes must be implemented to strengthen the prevention of social and environmental breaches.

We will work to continue improving our approach to sustainable supply management by increasing the proportion of factories certified to the BSCI or other standards in cooperation with Tokmanni, with a goal of increasing the percentage of products sourced from factories holding such certifications. ÖoB, a Swedish discount variety retailer, will also be included in the sourcing alliance from 2019.

Moreover, we will undertake a risk assessment of our supply chain to address challenges related to ensuring better selection and certification of suppliers and to eliminate negative social impacts in the supply chain. The first step in this respect will be to follow up the self-assessment questionnaires in cooperation with the Shanghai office. This is of interest since the self-assessment scores were remarkably positive on several points, and a more thorough audit of selected suppliers could be conducted to verify the results.

Resource-efficient business model

We acknowledge that our operations have an impact on the environment and strive to reduce our environmental footprint by promoting circular initiatives in our operations. We seek new and innovative solutions to ensure efficient logistics and facility management.

Commitment: limit the impact of the business through resource efficient operations and logistics

Climate-friendly operations and logistics

The growth of our retail operations has increased the responsibility which rests on us to limit the environmental footprint of these activities. Our direct environmental footprint relates mainly to running the many stores and warehouses in Norway, and to the transport of merchandise. A resource-efficient business model therefore depends on efficient energy use and on reducing greenhouse gas (GHG) emissions.

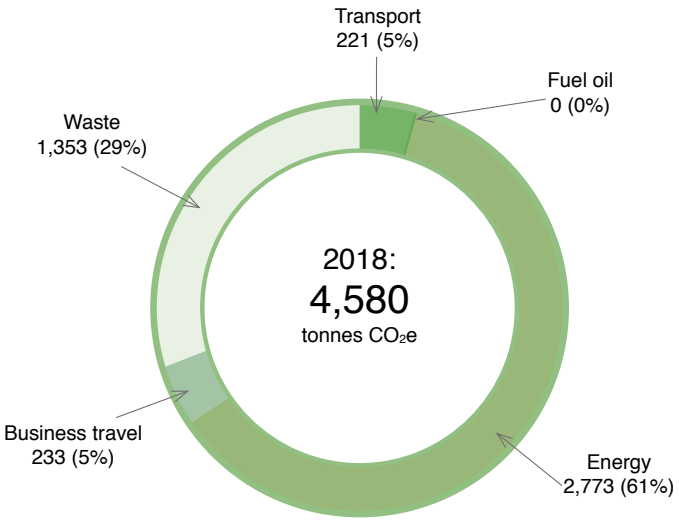
Policy

Our internal energy and environmental strategy for 2016-20 applies to all the stores. This covers measurable, specific activities to promote sustainable operation, technical solutions and optimised energy use.

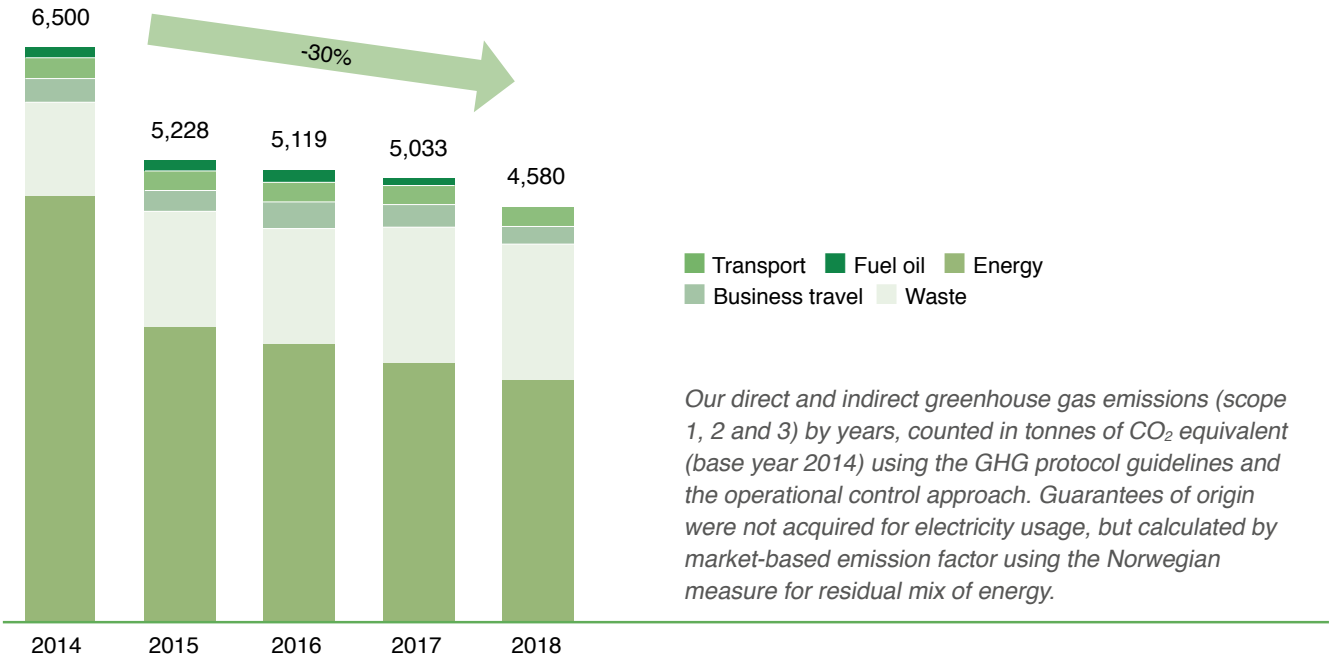
We aim to improve energy efficiency and maintain state-of-the-art technical systems for monitoring energy consumption. Our head office in Fredrikstad and our logistic centre have both achieved Eco-Lighthouse certification and thereby set a standard for sustainable operation which should be achieved by all stores and warehouses.

Actions and results

We measure and assess emissions and energy use to achieve the objectives of our environmental strategy. Our main sources of carbon emissions are energy use and waste, while business travel and transport by company-owned vehicles represent a smaller proportion (see the figure below)



Our overall carbon footprint for 2018 was 221 tonnes of direct emissions from our own goods vehicles, 2,773 tonnes of indirect emissions from energy and 1,586 tonnes of indirect emissions from waste and business travel. Business travel includes air travel and mileage allowances for travel in private cars.



Our direct and indirect greenhouse gas emissions (scope 1, 2 and 3) by years, counted in tonnes of CO_2 equivalent (base year 2014) using the GHG protocol guidelines and the operational control approach. Guarantees of origin were not acquired for electricity usage, but calculated by market-based emission factor using the Norwegian measure for residual mix of energy.

Over the past five years (2014-18), we have reduced our total CO_2 emissions by 30 per cent, despite opening 38 additional stores in the same period. During this period, total emissions from energy usage declined by 42 per cent as a result of targeted reduction activities as well as smaller quantities of fossil fuels in the energy mix. Moreover, energy reduction activities in stores resulted in a 13.8 per cent decrease in kWh per square metre (temperature-corrected). Transport emissions increased slightly from 2017 to 2018, and rose by 9.5 per cent from 2014 as a result of our growth strategy.

Targets and ambitions

We are satisfied with the reduction in energy consumption at the stores. Given the great improvements made over the past five years, further reductions could prove challenging since they would require significant investment. However, we remain dedicated to reducing in-store energy use per square metre by 10 per cent for the coming three years from 2018 levels. We will therefore work to find efficient solutions for energy saving, such as incorporating this in all new tenancy agreements. In addition, we will move towards achieving a significant share of renewables in our total energy consumption.

We will complete our move to a new head office in Fredrikstad during 2019 and open a new main warehouse in Moss. The head office has the largest facility for in-house electricity generation in Fredrikstad, while the warehouse permits more efficient logistics. Both initiatives are expected to reduce our energy consumption and GHG emissions.

To cut transport emissions, we will continue to investigate prospects for using rail and electric road vehicles as alternative domestic transport methods. This is particularly important since several domestic ports were closed in 2018, disrupting our strategy of carriage by sea where possible.

Circular solutions and waste reduction

An expanding number of stores and warehouses puts pressure on us to decouple business growth and environmental impact. Waste management and circular solutions thus become important areas of work.

Policy

We are committed to reducing waste from our own operations, and encourage suppliers and customers to do the same. We fulfil our legal obligations by financing



The new head office in Fredrikstad

recycling schemes for packaging and electrical and electronic (EE) products. All stores and warehouses have waste handling and separation routines to limit excessive waste and promote recycling in day-to-day operations.

Actions and results

During 2018, we started to prepare for moving to our new warehouse in Moss. We therefore expect total waste to increase in 2019 and the current recycling rate of 67 per cent to decrease, since the move may impact our overall ability to recycle leftover materials. Emptying the old premises has meant more waste generation than usual as well as poorer recycling routines. Compared with 2017, we improved our recycling rate in stores by four percentage points in 2018 to reach 68 per cent. This result partly reflected the roll-out of new waste policies and routines.

Food and plastic waste were put on the agenda in 2018. Where food waste is concerned, we implemented new policies and routines to discount products which are about to expire. However, food waste is not a pressing issue because the majority of our food offerings consist of dry or canned products with long expiry dates.

Plastic waste, on the other hand, is highly relevant. In 2018, we improved our plastic recycling routines by focusing on transport packaging and pick-and-mix sweet containers in the shops. Moreover, as a member of the Norwegian Retailers' Environment Fund, we donate NOK 0.50 per plastic bag sold. We joined this initiative in September 2018 and had contributed NOK 2.1 million by 31 December. The fund's proceeds are invested in local and global initiatives to reduce plastic waste.

Targets and ambitions

We will work to reduce waste from store operations with the aim of ensuring that at least 75 per cent of all store waste is recycled by 2020. To reach this goal, efforts in 2019 will be devoted to continued implementation of the new waste policies and routines.

The contribution to the Norwegian Retailers' Environment Fund is expected to reach NOK 7.9 million in 2019. However, the overall goal is to reduce the number of plastic bags sold. We are also looking for ways to promote circular solutions in our operations.

Responsible employer

The employees are part of our Europris family. We therefore work for an inclusive, safe and constructive work space. Our core values and business ethics are communicated to employees so that they can use them as guidelines in their working day. We promote diversity and ensure the health and wellbeing of employees, providing them with opportunities to develop long and meaningful careers. The policies and guidelines now in place apply to all employees, whether they are full-time or part-time, permanent or temporary.

Commitment: be an ethical and responsible business which develops and cares for its employees

Equal opportunities and a constructive work environment

Dedicated employees are our most important asset. By fostering inclusive, safe and constructive workplaces, we aim to be a place where personnel thrive.

Policy

We believe in the equality of all people, regardless of gender, sex, religion, ethnicity, nationality or political affiliation. We promote diversity through a transparent and open recruitment policy. Jobs are also offered to those on social welfare schemes in close cooperation with the Norwegian Labour and Welfare Service (NAV) and other labour-market organisations.

In addition, we have a policy on internal recruitment which allows employees to grow within our system by taking on new and important responsibilities for successful careers with our group.

Actions and results

Our belief in people is reflected in our hiring and pay practices, and in the development programmes offered to employees. In line with our values, all employees should thrive and feel good about their work.

We welcomed 681 new employees to our group in 2018. Personnel turnover was 17.9 per cent. Although the rate differs between store employees and management owing to the nature of work, we deal with workforce changes by offering employees opportunities for learning and constructive long-term careers. We depend on a predictable workforce, and dedicated employees depend on stable employment relationships. One of the ways we manage personnel turnover is by working to minimise the number of temporary contracts.

	Men	Women	Total
Permanent	262	408	670
Temporary	792	1,183	1,975
Total	**1,054**	**1,591**	**2,645**

We have a zero discrimination policy and work to improve our gender balance in both the workforce and the pay ratio. An employee gender gap exists both in central management, which employs more men than women, and for store employees, with more women than men. However, the gender ratio of store managers is almost 1:1, a result we are pleased with.

	Men	Women
Executive management	80%	20%
Central management	76%	24%
Store managers	48%	52%
Store employees	34%	66%

Group employees at 31 December 2018.

When comparing the remuneration of male and female store managers, the gender pay gap is only three per cent. However, women in central management positions earn 20 per cent less than their male counterparts. We acknowledge our responsibility to close this gap.

To follow up the zero discrimination policy, we monitor our whistleblower mechanisms. We had four whistleblowing cases in 2018 – one concerning sexual harassment and three on management practices. These incidents were handled by the human resources (HR) and legal departments. Interviews and surveys were also conducted where relevant. All four incidents had been resolved by the end of 2018. Although we are satisfied with the way the incidents were handled, we also recognise the importance of maintaining our efforts to prevent further discrimination of all kinds in order to maintain the good working environment we value.

The employee survey conducted in 2018 showed that employees are dedicated to their work. When asked if they were willing to “go the extra mile” to improve the performance of their team, employee responses reached 6.6 (administration) and 6.4 (logistics and warehouse), in both cases out of seven points. Responses to the question about their general work satisfaction scored 6.7 (administration) and 6.2 (logistics and warehouse) out of seven points. The results show that devoting continuous attention to employee satisfaction pays off.

Our employees are offered several courses to develop their skills, which should contribute to a long and meaningful career. In 2018, we launched a new simulation-based training programme designed specifically to boost the skills and expertise of store managers, and 50 employees completed this. Moreover, all middle managers completed leadership training in 2018. During the year, 22 store managers were appointed through internal recruitment

processes. This shows that professional training for employees is an important driver for retaining talented people. Employees familiar with our culture and values are important contributors to value creation.

We also have programmes in place for the unemployed, and welcomed 123 recruits through our collaboration with social welfare schemes such as the NAV. This is an important partnership for us, since it permits our group to contribute to a broader aspect of value creation by providing people with the opportunity to gain job experience and return to the workforce.

Targets and ambitions

We will continue to work towards our ideal of an inclusive and constructive workplace. To prove our dedication to equal opportunities, non-discrimination and equitable pay ratios, our group will work to increase the proportion of women employed in leading management positions.

A new whistleblower system will be made available to all stakeholders via our website in 2019 to ensure that important matters are reported anonymously. We thereby hope to get better at identifying and managing any potential problems related to breaches of our ethical guidelines.

Internal recruitment will continue to be a prioritised area in 2019. Short-term goals are to increase the number of employees completing the talent programme even further, and to enhance the proportion of internally recruited store managers.



Health and safety in the workplace

The majority of our employees work in the stores and warehouses. Ensuring that the stores are welcoming and stocked with the merchandise customers want requires physical work, and our employees are therefore prone to work-related injuries and illness. As a result, health, safety and environmental (HSE) work is of key importance to us in preventing accidents and ensuring employee safety.

Policy

Several tools are in place to ensure employee health and safety. These include training for store staff, running in-house HSE courses and providing specialised courses for safety delegates. The annual HSE cycle is implemented in the general employee management system, which ensures that training and internal audits are completed on a regular basis.

Actions and results

Our HSE director was elevated to the leader group in 2018, signalling the importance of this issue. Attention was devoted in 2018 to sickness absence, since its rate has remained above the desired level for several years. Among other moves, employees who have faced health issues were offered individual follow-up and tailored solutions. We recorded the following statistics for sickness absence in 2018: 5.2 per cent for administration employees, eight per cent for logistics employees and 7.7 per cent for store employees. A slightly higher result for logistics and store employees primarily reflects the nature of their work.

The Norwegian Labour Inspection Authority conducts site visits at companies across Norway to ensure compliance with national HSE legislation. It found four cases at our stores in 2018, in Svinesundparken, Moelv, Stange and Stranda. We took immediate action to rectify the issues, thereby avoiding potential orders or fines.

Targets and ambitions

We work continuously to improve work attendance and promote employee health. A significant ambition for 2020 is to reduce sickness absence among employees to around five per cent. To contribute to this aim, a new module on HSE will be included in employee training in 2019.

Business ethics and anticorruption

Compliance with regulations on the environment, socioeconomic considerations and business ethics is fundamental to maintaining our strong brand position. Breaches of such issues may also damage our ability to attract and retain people with the right talents.

Policy

Stakeholders should feel confident that we comply with all relevant legislation and statutory regulations, and that no ethical breaches take place in our group. Our code of conduct is communicated to all employees to ensure a shared understanding of our ethics.

Actions and results

To reduce the risk of corruption in the organisation, our anti-corruption policy and guidelines are communicated to and signed by all procurement staff as well as by personnel in high-risk positions. Anti-corruption and business ethics also form part of the standard training programme offered to all employees.

A whistleblower portal is available to all employees. One corruption incident was reported in 2018. The incident was investigated, but no legal action needed to be taken. From 2019, the whistleblower portal will also be available to such external stakeholders as customers and suppliers.

No other incidents were reported in 2018 concerning compliance with anti-competitive, socioeconomic or marketing legislation.

Targets and ambitions

We will continue to devote attention to internal routines for ethical business conduct in 2019, and to implementing the new training module on business ethics for employees. Guidelines and policies on business ethics are continuously reviewed, and improvements made on the basis of corruption risk assessments.

Empowering customers and communities

We care about our customers and the local communities where we operate. Our group therefore works to enable customers to make greener, safer

and better-quality choices, and to engage with local communities through sponsorships, partnerships and other community-building activities.

Commitment: ensure the wellbeing and satisfaction of our customers and give back to our local communities

Satisfied customers

Our core strategy is to solidify our position as a leading discount variety retailer in the Norwegian market. It goes without saying that, to achieve this, Europris is dependent on a strong customer base and therefore strives to provide customers with a positive and welcoming shopping experience.

Policy

Our slogan "pay less – save more" promises to help customers save both time and money. When visiting one of our stores, customers will enjoy a good shopping experience with helpful staff and the opportunity to choose between a wide range of products.

Actions and results

The number of customer complaints in 2018 declined by 40 per cent from the year before. This significant decrease was mainly attributable to the high level of attention paid to ensuring appropriate standards for all products while retaining a focus on preserving low prices and affordability, and to providing customers with good-quality products at affordable prices.

We work to maintain a close dialogue with our customers, using an extensive Brandtracker survey to help map their satisfaction and expectations. Since 2013, our customer impression score has shown the greatest progress of all survey participants. Customers increasingly appreciate our product range and seasonal merchandise, and associate us with a positive shopping experience. Our "perceived product quality" is also improving, although at a slower pace and with a lower overall score than in other areas, while the "low prices" score has stagnated. Both product quality and low prices are important trademarks for us, and we will concentrate attention in the time to come on these aspects of customer satisfaction.

Targets and ambitions

Part of our value proposition is to make quality products accessible to everyone. Moreover, achieving our sustainability ambition by 2025 requires us to devote greater attention to creating a sustainability profile and encouraging employees to serve customers better by giving them what they want in order to create longer-lasting relationships.

Safe and good-quality products

We take our responsibility for customer safety seriously, and work diligently to avoid hazardous substances in products and to continue meeting high standards of quality, transparency and safety. This is particularly important because we source merchandise from a multitude of suppliers across the globe, which increases the risk of certain products failing to meet national requirements.

Policy and management approach

To ensure safe and good-quality products, we have a dedicated product quality and safety department. All imported products are tested to ensure that they comply with international and national legislation. Producers who fall within the Reach regulation must sign a statement confirming compliance. We also request full documentation from all producers and suppliers in the form of a Bill of Materials (BOM) – an exhaustive list of product components. On that basis, we are better able to ascertain the need for further safety testing beyond the relevant standard for the product category.

Our merchandise is carefully tested in our own laboratory to provide a guarantee for the safety and quality of the products we sell. These extensive checks cover factors such as product labelling, contents, net weight, microscopic measurements and refractometric analyses, where results are compared with our own requirements and product standard. The same procedure is carried out for all new products, which should also be covered by additional documentation for all ingredients, origins and analysis certificates in order to demonstrate zero content of genetically modified organisms (GMOs), mycotoxins, histamine and other undesirable substances.

Actions and results

The PIM system monitors product risk and safety. This permits more targeted testing and provides increased consumer protection while reducing the total number of tests conducted. Testing takes the approach adopted by the British Retail Consortium (BRC) to monitoring risks in different product groups. To reduce risk even further, we require additional safety testing for toys and electronics. SGS, a Shanghai-based inspection, testing and certification company, conducted 1,319 product tests on our behalf in 2018. These failed 146 products, a higher number than expected. However, the majority of the rejections related to labelling issues and did not necessarily reflect product quality. We conducted 1,783 product tests in Norway, identifying 48 which were not in compliance with our requirements.

No cases where products did not comply with standards for health and safety or for product and service information labelling were registered in 2018. As a result, no product recalls took place during the year. This great result confirms our dedication to maintaining high quality standards for our merchandise.

Targets and ambitions

Our ambition is to guarantee that all our merchandise conforms with relevant laws and requirements, and to strengthen our reputation as a trustworthy and dependable retailer of discount variety merchandise. We will use the PIM system to track the performance record of different product groups with the aim of ensuring continuous quality and safety improvements in the overall product catalogue.

Development of the testing and assurance system will also continue, with even more products being tested by SGS in Shanghai to ensure optimal quality. We will improve our risk-based approach to product testing in the future. Supplier dialogue and clearly communicated requirements will be among the steps taken to ensure better sourcing practices and fewer compliance issues.

Data protection and privacy

The digital age poses new challenges for consumer rights in terms of responsible treatment of their data. Consumers are also increasingly aware of and informed about their rights, putting greater demands on retailers to ensure that these are respected. We wish to help uphold the trust of our customers in order to build long-lasting relationships and mutual value.

Policy

Our data privacy and protection policy is publicly available on the website and reviewed on an annual basis. It provides information on the type of information collected and for what purpose. Stakeholders may contact the data privacy manager directly. Contact information for the manager is included in the policy.

Actions and results

When the EU's general data protection regulation (GDPR) was implemented on 20 July 2018, we updated our data privacy policy and practices. This included obtaining consents from all the people registered in our database to continue collecting information. Those who did not consent were immediately deleted from the database, pursuant to the GDPR's requirements. We received zero complaints in 2018 concerning customer privacy and loss of customer data.

Targets and ambitions

We will always work to safeguard the integrity and security of customer data and to be up to date with the latest GDPR requirements.

Local value creation

Our stores are located across Norway, many of them in smaller communities. As a local goods provider and value creator, we emphasise the importance of good relationships with these communities. Such relationships are fundamental to our licence to operate.

Policy

To make quality products at low prices accessible to everyone, a key part of our strategy is to establish stores in locations where such outlets do not already exist. This means we are present nationwide, often outside the urban centres. We recognise our role as a local value creator, and will always comply with local tax regulations and strive to create value through local job creation.



Store openings in 2018:

- Lillehammer North
- Digernes (near Ålesund)
- Rykkinn
- Stokke
- Ørnes (near Bodø)
- Kjørbekk
- Lura (near Sandnes)
- Nannestad
- Rjukan

Actions and results

We added nine new stores to our map in 2018, making a total of 258 in all parts of Norway. Several of the openings were in areas where people have had to travel a long way to do their shopping. By establishing stores closer to where people live, we hope to make peoples' lives more convenient and contribute to regional economies and value creation. This can be seen on the map, which shows the regional distribution of our stores across Norway.

Targets and ambitions

We will continue to strengthen our local presence by establishing stores in new locations throughout Norway. In this way, people can access products where they live, making their lives more convenient and providing sustainability for ordinary people.

Community engagement

Policy

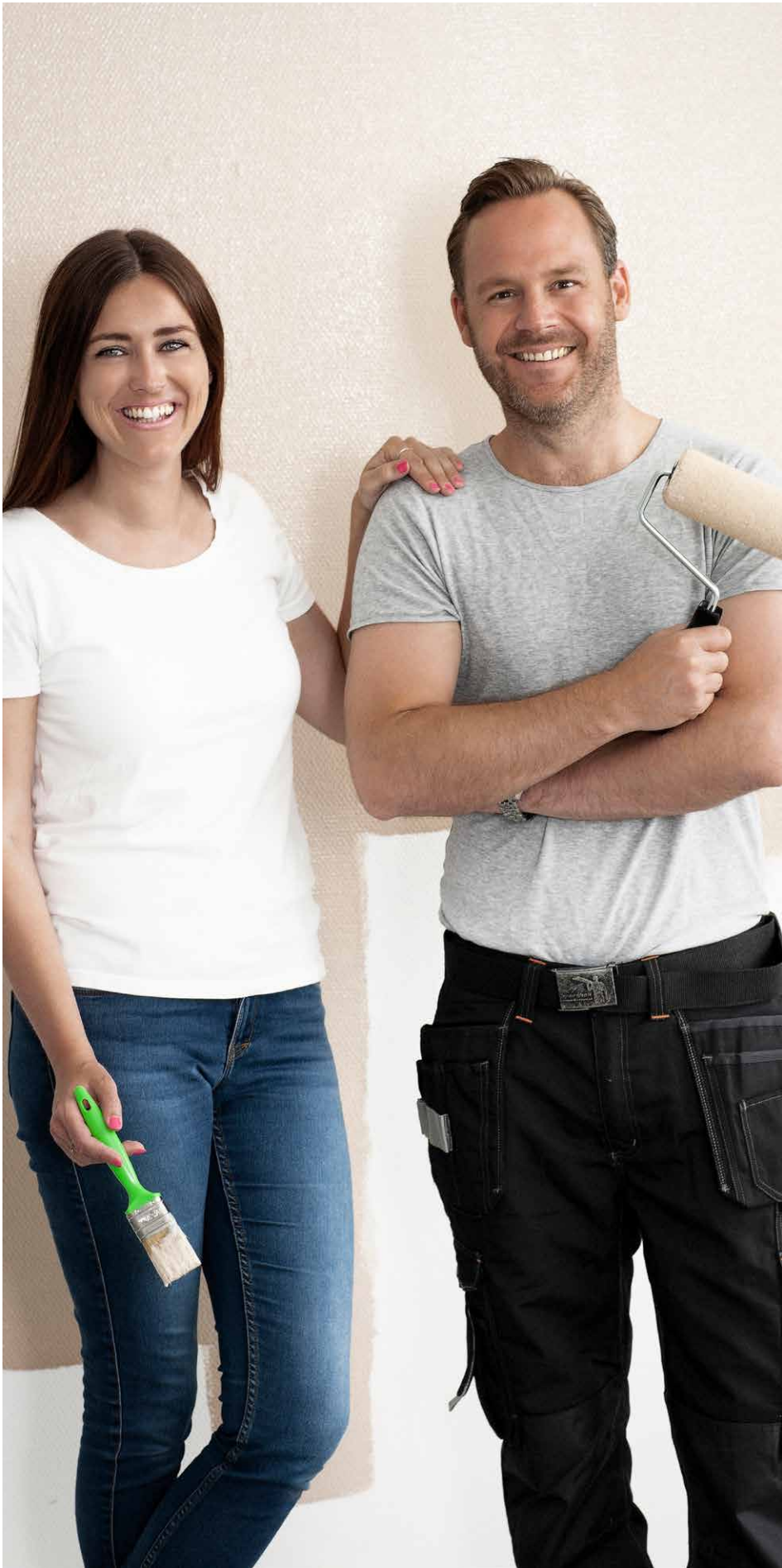
Moreover, we contribute to indirect value creation by supporting local activities and organisations such as sports clubs, humanitarian and charitable organisations, cultural festivals and other events which take place in the areas where we have a presence.

Actions and results

We have continued our close partnership with the City Mission of the Church of Norway, where we make significant annual financial contributions to the work of improving conditions for those in need. These funds are primarily devoted to social and humanitarian initiatives in Bergen, Fredrikstad, Oslo and Stavanger.

Targets and ambitions

We will continue to foster strategic partnerships with local initiatives and in this way encourage social and environmental value creation beyond our immediate operations.



Europris GRI index 2018

The Global Reporting Initiative (GRI) is a independent international standards organisation which has developed the world's most widely used framework for sustainability reporting. These guidelines consist of reporting principles, aspects and indicators which organisations can use to disclose information related to their financial, environmental and social performance. This report has been prepared in accordance with the GRI standards: core option.
The table below shows Europris reporting relative to the guidelines in the GRI standards.

General disclosures

GRI section	Description	Source
Organisational profile		
102-1	Name of the organisation	Europris ASA
102-2	Activities, brands, products and services	In the directors' report
102-3	Location of headquarters	Hjalmar Bjørges vei 105, NO-1604 Fredrikstad, Norway
102-4	Location of operations	In the sustainability report
102-5	Ownership and legal form	In the directors' report
102-6	Markets served	In the directors' report
102-7	Scale of the organisation	In the directors' report
102-8	Information on employees and other workers	In the sustainability report
102-9	Supply chain	In the directors' report and sustainability report
102-10	Significant changes to the organisation and its supply chain	In the directors' report
102-11	Precautionary principle or approach	The precautionary principle is applied
102-12	External initiatives	In the sustainability report
102-13	Membership of associations	In the sustainability report
Strategy		
102-14	Statement from senior decision-maker	In the CEO letter
Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour	In the sustainability report
Governance		
102-18	Governance structure	In the corporate governance report
Stakeholder engagement		
102-40	List of stakeholder groups	In the sustainability report
102-41	Collective bargaining agreements	In the sustainability report
102-42	Identifying and selecting stakeholders	In the sustainability report
102-43	Approach to stakeholder engagement	In the sustainability report
102-44	Key topics and concerns raised	In the sustainability report
Reporting practice		
102-45	Entities included in the consolidated financial statements	In the consolidated financial statements, note 1.3
102-46	Defining report content and topic boundaries	In the sustainability report
102-47	List of material topics	In the sustainability report and GRI index
102-48	Restatements of information	N/A - first year of reporting
102-49	Changes in reporting	N/A - first year of reporting
102-50	Reporting period	1 January-31 December 2018
102-51	Date of most recent report	N/A - first year of reporting
102-52	Reporting cycle	Annually
102-53	Contact point for questions regarding the report	Petter Wilskow – pw@europris.no
102-54	Claims of reporting in accordance with the GRI standards	Europris GRI index – 2018
102-55	GRI content index	Europris GRI index – 2018

Material topics

GRI section	Description	Source	Explanation
Sustainable value chain			
Sustainable low-impact products			
GRI 103 - Management approach *G4 FP1- Procurement/sourcing practices*			
FP1	Percentage of purchased volume from suppliers compliant with company's sourcing policy	In the sustainability report	Data not available. A reporting system will be established in 2019 to repair this omission
G4 FP2 - Procurement/sourcing practices			
FP2	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognised responsible production standards, broken down by standard	In the sustainability report	Data only available for some product groups
Responsible supply-chain management			
GRI 103 - Management approach *GRI 308 - Supplier environmental assessment*			
308-1	New suppliers which were screened using environmental criteria	In the sustainability report	Europris has indicative data but will work on establishing more reliable figures
GRI 414 - Supplier social assessment			
414-1	New suppliers which were screened using social criteria	In the sustainability report	Europris has indicative data, but will work on establishing more reliable figures
Resource-efficient business model			
Climate-friendly operations and logistics			
GRI 103 - Management approach *GRI 302 - Energy*			
302-1	Energy consumption within the organisation	In the sustainability report	
302-2	Energy consumption outside the organisation	In the sustainability report	
302-3	Energy intensity	In the sustainability report	
302-4	Reduction of energy consumption	In the sustainability report	
GRI 305 - Emissions			
305-1	Direct (scope 1) GHG emissions	In the sustainability report	
305-2	Energy indirect (scope 2) GHG emissions	In the sustainability report	
305-3	Other indirect (scope 3) GHG emissions	In the sustainability report	
305-5	Reduction of GHG emissions	In the sustainability report	
Circular solutions and waste reduction			
GRI 103 - Management approach *GRI 306 - Effluents and waste*			
306-2	Waste by type and disposal method	In the sustainability report	

Note: GRI report not subject to third-party verification in accordance with the GRI principles

GRI section	Description	Source	Explanation
Responsible employer			
Equal opportunities and a constructive work environment			
GRI 103 - Management approach *GRI 401 - Employment*			
401-1	New employee hires and employee turnover	In the sustainability report	No reporting of age group, gender or region
GRI 404 - Training and education			
404-2	Programmes available for upgrading employee skills and transition assistance programmes	In the sustainability report	Not an exhaustive list of all programmes. No information about programmes to facilitate continued employability
GRI 405 - Diversity and equal opportunity			
405-1	Diversity of governance bodies and employees	In the sustainability report	Diversity in governance bodies or other minority cartegories. No reporting by region or age group
405-2	Ratio of basic pay and remuneration of women to men	In the sustainability report	Norway is the significant location of operations
GRI 406 - Non-discrimination			
406-1	Incidents of discrimination and corrective actions taken	In the sustainability report	
Health and safety in the workplace			
GRI 103 - Management approach *GRI 403 - Occupational health and safety*			
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	In the sustainability report	No reporting on rates of lost days or occupational disease. Not broken down by region or gender
Business ethics and anti-corruption			
GRI 103 - Management approach *GRI 205 - Anti-corruption*			
205-2	Communication and training about anti-corruption policies and procedures	In the sustainability report	Only indicative data available. Europris will work to provide more reliable data
205-3	Confirmed incidents of corruption and actions taken	In the sustainability report	
GRI 206 - Anti-competitive behavior			
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	In the sustainability report	
GRI 417 - Marketing and labelling			
417-3	Incidents of non-compliance concerning marketing communications	In the sustainability report	
GRI 419 - Socioeconomic compliance			
419-1	Non-compliance with laws and regulations in the social and economic area	In the sustainability report	
Empowering customers and communities			
Satisfied customers			
GRI 103 - Management approach *Europris - Own indicator*			
	Brandtracker survey	In the sustainability report	
Safe and good-quality products			
GRI 103 - Management approach *GRI 416 - Customer health and safety*			
416-1	Assessment of the health and safety impacts of product and service categories	In the sustainability report	Only information for certain products is provided. Europris will work to provide a more exhaustive overview
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	In the sustainability report	
GRI 417 - Marketing and labelling			
417-2	Incidents of non-compliance concerning product and service information labelling	In the sustainability report	
Data protection and privacy			
GRI 103 - Management approach *GRI 418 - Customer privacy*			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	In the sustainability report	
Local value creation			
GRI 103 - Management approach *GRI 201 - Economic performance*			
201-1	Direct economic value generated and distributed	In the sustainability report	
Community engagement			
GRI 103 - Management approach			



CONTENT

Europris Awards 2018 5
Key figures 6
Letter from the CEO 8
Directors' report 10
Corporate governance 22
Sustainability report 32

Consolidated financial statements 53
» Income statement 54
» Balance sheet 55
» Statement of changes in equity 57
» Statement of cash flows 58
» Notes 59

Europris ASA financial statements 89
» Income statement 90
» Balance sheet 91
» Statement of changes in equity 93
» Statement of cash flows 94
» Notes 95

Decleration to the annual report 103
Alternative performance measures 104
Auditor's report 106
Shareholder information 109

EUROPRIS ASA GROUP 2018

CONSOLIDATED INCOME STATEMENT

Figures are stated in NOK 1,000	Note	2018	2017
Revenue	5	5,738,144	5,329,467
Other income	5	78,840	93,063
Total operating income	5	**5,816,984**	**5,422,530**
Cost of goods sold (COGS)	17	3,298,296	3,118,345
Employee benefit expensees	6, 7, 8	898,504	826,847
Depreciation	12, 13	90,743	82 690
Other operating expenses	6, 9, 13	942,369	842,641
Total operating expenses		**5,229,911**	**4,870,523**
Operating profit		**587,073**	**552,007**
Interest income	10	2,643	4,080
Other financial income	10	3,485	53
Total financial income		**6,129**	**4,133**
Interest expense	10	38,755	37,880
Other financial expense	10	8,316	7,935
Total financial expense		**47,070**	**45,815**
Net financial income (expense)		**(40,942)**	**(41,682)**
Profit/(loss) from associated companies	14	6,400	-
Profit before tax		**552,531**	**510,325**
Income tax expense	11	123,400	120,526
Profit for the year	15	**429,132**	**389,799**
Earnings per share (basic and diluted)	15	**2.59**	**2.33**
Consolidated statement of comprehensive income			
Profit for the year		429,132	389,799
Other income and expense		-	-
Total comprehensive income for the year		**429,132**	**389,799**

Notes 1 to 26 are an integral part of the consolidated financial statements

CONSOLIDATED BALANCE SHEET

Figures are stated in NOK 1,000	Note	31-12-2018	31-12-2017
ASSETS			
Non-current assets			
Intangible assets			
Software	12	47,167	42,617
Trademark	12	387,573	387,573
Goodwill	12	1,605,947	1,599,106
Total intangible assets		**2,040,688**	**2,029,297**
Fixed assets			
Land	13	23,739	20,481
Fixtures and fittings	13	238,324	252,060
Total fixed assets		**262,063**	**272,540**
Financial assets			
Investment in associated companies	14	142,268	-
Other investments		374	374
Other receivables	16, 22	24,073	24,008
Derivatives	16, 21, 22	237	794
Total financial assets		**166,952**	**25,175**
Total non-current assets		**2,469,702**	**2,327,012**
Current assets			
Inventories	17	1,573,233	1,368,361
Trade and other receivables			
Trade receivables	16, 22	185,712	207,755
Other receivables	16, 22	87,893	61,343
Derivatives	16, 21, 22	13,829	2,243
Total trade and other receivables		**287,435**	**271,342**
Cash	18, 22	426,967	581,663
Total current assets		**2,287,634**	**2,221,366**
Total assets		**4,757,337**	**4,548,378**

Notes 1 to 26 are an integral part of the consolidated financial statements

CONSOLIDATED BALANCE SHEET

Figures are stated in NOK 1,000	Note	31-12-2018	31-12-2017
EQUITY AND LIABILITIES			
Equity			
Paid-in capital			
Share capital	19	166,969	166,969
Treasury shares	19	(5,370)	-
Share premium	19	51,652	335,499
Total paid-in capital		**213,251**	**502,468**
Retained equity			
Other equity		1,575,677	1,261,765
Total retained equity		**1,575,677**	**1,261,765**
Total shareholders' equity		**1,788,928**	**1,764,233**
Liabilities			
Non-current liabilities			
Provisions			
Deferred tax liability	11	45,146	48,250
Total provisions		**45,146**	**48,250**
Other non-current liabilities			
Borrowings	20, 22	1,649,428	1,648,567
Derivatives	21, 22	-	2,213
Total other non-current liabilities		**1,649,428**	**1,650,780**
Total non-current liabilities		**1,694,574**	**1,699,030**
Current liabilities			
Borrowings	20, 22	-	-
Accounts payable	22, 23	553,643	580,795
Tax payable	11	124,140	116,767
Public duties payable	23	251,540	205 279
Other current liabilities	14, 22, 23	344,512	179,563
Derivatives	21, 22	-	2,712
Total current liabilities		**1,273,835**	**1,085,116**
Total liabilities		**2,968,409**	**2,784,145**
Total equity and liabilities		**4,757,337**	**4,548,378**

Moss, 27 March 2019

THE BOARD OF DIRECTORS OF EUROPRIS ASA

Tom Vidar Rygh
Chair

Bente Sollid Storehaug

Claus Juel-Jensen

Hege Bømark

Tone Fintland

Sverre R Kjær

Pål Wibe
CEO

Notes 1 to 26 are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Figures are stated in NOK 1,000	Share capital	Treasury shares	Share premium	Retained earnings	Total
Equity 01.01.2018	**166,969**	**-**	**335,499**	**1,261,765**	**1,764,233**
Profit for the period	-	-	-	429,132	429,132
Dividend	-	-	(283,847)	-	(283,847)
Net purchase of treasury shares	-	(5,370)	-	(115,220)	(120,590)
Other comprehensive income	-	-	-	-	-
Equity 31.12.2018	**166,969**	**(5,370)**	**51,652**	**1,575,677**	**1,788,928**
Equity 01.01.2017	**166,969**	**-**	**669,437**	**871,966**	**1,708,372**
Profit for the period	-	-	-	389,799	389,799
Dividend	-	-	(333,938)	-	(333,938)
Other comprehensive income	-	-	-	-	-
Equity 31.12.2017	**166,969**	**-**	**335,499**	**1,261,765**	**1,764,233**

In accordance with sections 9-4 and 9-5 of the Norwegian Public Limited Liability Companies Act, the board is mandated to acquire the company's own shares on specific conditions. See note 19 for details of treasury shares.

Notes 1 to 26 are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Figures are stated in NOK 1,000	Note	2018	2017
Cash flows from operating activities			
Profit before income tax		552,531	510,326
Adjusted for:			
– Depreciation fixed assets	13	72,850	66,062
– Depreciation intangible assets	12	17,893	16,628
– Unrealised (gain) and loss on derivatives	10, 17	1,218	(1,186)
– Net interest expense exclusive of change in fair value derivatives	10	31,433	33,252
– Profit from associated companies	14	(6,400)	-
Changes in net working capital (exclusive effect of acquistions):			
– Inventory		(168,516)	4,076
– Accounts receivable and other current receivables		(38,908)	(43,304)
– Accounts payable and other current debt		38,017	68,755
Cash generated from operations		**500,118**	**654,608**
Interest paid	10	(35,295)	(36,146)
Income tax paid	11	(117,069)	(145,832)
Net cash generated from operating activities		**347,755**	**472,630**
Cash flows from investing activities			
Purchases of fixed assets	13	(56,709)	(83,880)
Purchases of intangible assets	12	(22,443)	(19,316)
Acquisition		(12,875)	(28,403)
Interest received	10	2,643	4,080
Net cash used in investing activities		**(89,384)**	**(127,519)**
Cash flows from financing activities			
Repayment of debt to financial institutions		(8,629)	(6,475)
Dividend		(283,847)	(333,938)
Buy-back of treasury shares		(120,590)	-
Net cash from financing activities		**(413,067)**	**(340,413)**
Net decrease/increase in cash		**(154,696)**	**4,699**
Cash at beginning of year (01.01)		**581,663**	**576,964**
Cash at end of year (31.12)		**426 967**	**581 663**

Notes 1 to 26 are an integral part of the consolidated financial statements

NOTE 1 ACCOUNTING PRINCIPLES

1.1 Basis of preparation

The consolidated financial statements for Europris ASA ("the group") have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as Norwegian disclosure requirements pursuant to section 3-9 of the Norwegian Accounting Act at 31 December 2018.

The board approved the consolidated financial statements on 27 March 2019.

The consolidated financial statements have been prepared on a historical cost basis with the following exceptions:

- derivative instruments are recognised at fair value through profit and loss.

The group has applied the going concern assumption in preparing its consolidated financial statements. When assessing this assumption, management has assessed all available information regarding future expectations.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where the assumptions and estimates are significant for the consolidated financial statements are disclosed in note 3.

1.2 Changes in accounting principles

The accounting policies adopted are consistent with those of the previous financial year, except for the amendments to the IFRS which have been implemented by the group during the current financial year. The following new standards have been implemented for the first time in 2018.

IFRS 15 Revenue from contracts with customers

IFRS 15 supersedes IAS 11 Construction contracts and IAS 18 Revenue and related interpretations, and applies with limited exceptions to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount which reflects the consideration which an entity expects to be entitled to in exchange for transferring goods or services to a customer.

No changes have been made to the consolidated financial statements when adopting IFRS 15.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial instruments: recognition and measurement for annual periods beginning on or after 1 January 2018. The adoption of IFRS 9 had no effect on the consolidated financial statements.

1.3 Consolidation

The consolidated financial statements include the parent company Europris ASA and all its subsidiaries.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in profit or loss. A contingent consideration which is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate consideration transferred and the amount of non-controlling interest over the net

identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit and loss.

Intercompany transactions, balances, revenue and expenses arising from transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The consolidated financial statements include Europris ASA and its subsidiaries:

Company	Ownership/voting share
Europris ASA	parent company
Europris Holding AS	100%
Europris AS	100%
Europris Butikkdrift AS	100%
Bardufoss Lavpris AS	100%
Skien Lavpris AS	100%
Grenland Lavpris AS	100%
Stord Lavpris AS	100%

The Hillevåg Lavpris AS, Ålgård Lavpris AS, Sandnes Lavpris AS, Bogafjell Lavpris AS, Kleppelundsveien Lavpris AS and Førde Lavpris AS companies were all acquired in 2017 and merged at 1 January 2018.

The Dokka Lavpris AS, Ofoten Lavpris AS, Sjøkanten Lavpris AS and Raufoss Lavpris AS companies were acquired and merged with effect from 1 January 2018. All mergers have been accounted for as business combinations.

Bardufoss Lavpris AS, Skien Lavpris AS, Grenland Lavpris AS and Stord Lavpris AS were acquired in 2018 and will be merged with effect from 1 January 2019.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases. When the group ceases to have control, any remaining interest in the entity is re-measured to its fair value at the date when control ceases, with the change in carrying amount recognised in profit and loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the remaining interest as an associate, joint venture or financial asset.

IFRS 10 Consolidated financial statements is based on the principle of using the control term as the decisive criterion to decide whether a company should be included in the consolidated financial statements. The application guidance to the standard provides guidance when determining whether an entity has control over a franchisee. Based on the guidance in IFRS 10, the group has determined that it does not control its franchisees and the franchises are therefore not consolidated. This is based on a judgement of the criteria in IFRS 10 as to whether or not Europris controls the franchises.

1.4 Investment in associates

The group has investments in associates. Associates are entities over which the group has significant influence, but not control over financial and operating management.

The considerations made in determining whether the group has significant influence over an entity are similar to those necessary to determine control over subsidiaries.

Associates are accounted for using the equity method from the date when significant influence is achieved until such influence ceases.

Investments in an associate are initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the group's share of the net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects the group's share of the results of operations of the associate. In addition, when there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

If there are indications that the investment in the associate is impaired, the group will perform an impairment test of the carrying amount of the investment. Any impairment losses are recognised as share of profit of an associate in the statement of profit or loss.

If the group's share of the loss surpasses the carrying amount of the associate, the carrying amount is set to zero and further loss is not recognised unless the group has an obligation to make up for the loss.

Upon loss of significant influence over the associate, such that the equity method ceases to apply, the group measures and recognises any retained investment at its fair value. A new measurement of remaining ownership interests will not be performed if the equity method is still applicable.

1.5 Segment reporting

The Europris group as a whole is defined and identified as one operating segment. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the group management. Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker.

1.6 Foreign currency translation

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the income statement. Non-monetary items are not re-translated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Non-monetary items which are measured at fair value in foreign currency are translated into the functional currency at the reporting date. Changes in exchange rates are recognised continuously in operating profit.

The consolidated financial statements are presented in NOK, which is the group's presentation and functional currency.

1.7 Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount which reflects the consideration which the group expects to be entitled to in exchange for those goods or services. The group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Revenue from the sale of goods

The group operates a chain of stores in the discount variety retail sector which sells consumer goods, including sales to franchise stores. The group recognises revenue from the sale of goods at the point in time when control of the goods is transferred to the customer. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, and the ability to prevent others from directing the use of and receiving the benefits from the asset. Revenue is generally recognised on delivery of the goods.

Retail sales are usually in cash or by debit or credit cards. Internet sales are immaterial for the group and account for around 0.5 per cent of total sales. Most of these sales are conducted as "click and collect" transactions and paid for by cash or cards in the stores. The group also sells gift cards, but these sales have declined and make up an even smaller share of total sales. The fees received from franchises are recorded as "other income". Certain contracts provide a customer with a right to return the goods within a specified period. The group uses the expected value method to estimate the goods which will not be returned, because this method best predicts the amount of variable consideration to which the group will be entitled.

1.8 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income

statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Norway, where the company and its subsidiaries operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised with regard to goodwill arising from business combinations. Deferred income tax is determined using tax rates (and laws) which have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for the deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the group is unable to control the reversal of the temporary difference for associates.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

1.9 Property, plant and equipment

Property, plant and equipment are recorded at historical cost less depreciation. Historical cost includes expenditure which is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of replaced parts is derecognised when replaced. All other repairs and maintenance expenditures are recognised in profit and loss in the period the expense is incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to depreciate their cost to their residual value over the estimated useful lives, as follows:

technical and electrical installations	5-15 years
fixture and fittings	7-10 years
vehicles	5 years
machinery and equipment	3 years
IT equipment	3 years
land	not depreciated

The residual values and useful lives of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

1.10 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as financial leases. Financial leases are capitalised at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

This applies to the group as a lessee.

1.11 Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value at the acquisition date of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total consideration transferred, non-controlling interest recognised and previously held interest measured at fair value are less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash generating unit (CGU) which is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are performed annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Trademarks and contractual rights

Separately acquired trademarks and contractual rights are shown at historical cost. Trademarks and contractual rights acquired in a business combination are recognised at fair value at the acquisition date. Trademarks (the brand name “Europris”) are deemed to have an indefinite lifetime and are not amortised as a consequence, but tested for impairment annually. Contractual rights and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contractual rights over their estimated useful life of four years.

Contractual rights have been written down to nil at 31 December 2014.

Software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs which are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use
- management intends to complete the software product and use or sell it
- there is an ability to use or sell the software product
- it can be demonstrated how the software product will generate probable future economic benefits

- adequate technical, financial and other resources to complete the development and to use or sell the software product are available
- the expenditure attributable to the software product during its development can be reliably measured.

Computer software development costs recognised as assets are amortised over their estimated useful lives of four-five years.

1.12 Financial instruments

A financial instrument is any contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The group´s financial assets are derivatives, trade receivables and cash.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the group's business model for managing them. With the exception of trade receivables which do not contain a significant financing component, the group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through other comprehensive income, transaction costs.

The group classifies its financial assets in these categories:

- financial assets at amortised cost
- derivatives at fair value designated as hedging instruments.

The group does not apply hedge accounting.

Financial assets at amortised cost

The group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- the contractual terms of the financial asset give rise on specified dates to cash flows which are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The group's financial assets at amortised cost include trade receivables and other current deposits. Trade receivables which do not contain a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

Derivatives at fair value designated as hedging instruments

Derivatives at fair value are carried in the statement of financial position at fair value with net changes in fair value in profit or loss.

The category includes foreign exchange contracts and interest rate swaps.

Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is primarily derecognised (in other words, removed from the group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either

a. the group has transferred substantially all the risks and rewards of the asset, or
b. the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or derivatives designated as hedging instruments in an effective hedge, as appropriate. Derivatives are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Derivatives are financial liabilities when the fair value is negative, accounted for in the same way as derivatives as assets.

Loans, borrowings and payables

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs which are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. Payables are measured at their nominal amount when the effect of discounting is not material.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

1.13 Inventories and cost of goods sold

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated sales price less the estimated transaction costs. Historical cost is calculated using a weighted average historical cost and includes expenditures directly linked to getting the goods to their final location and condition. Foreseeable obsolescence is assessed continuously. The group's inventories consist solely of goods purchased for resale.

Goods for sale are often purchased in currencies other than Norwegian kroner, and the purchase price in Norwegian kroner is locked in through the use of foreign currency derivative contracts. Both unrealised and realised gains or losses on the foreign currency derivatives which are economic hedges for inventory purchases are included as part of cost of goods sold (COGS). Similarly, unrealised foreign currency exchange gains and losses on inventory trade payables and realised foreign currency exchange gains or losses at the time of payment are also included as part of COGS.

1.14 Cash

Cash includes cash in hand and bank deposits. Bank overdrafts are presented in the statement of cash flows less cash.

1.15 Treasury shares

When treasury shares are repurchased, the purchase price including directly attributable costs is recognised in equity. Treasury shares are presented as a reduction in equity. Losses or gains on transactions involving treasury shares are not recognised in the statement of comprehensive income.

1.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current unless the group has an unconditional right to delay the payment of the debt for more than 12 months from the reporting date.

1.17 Post-employment benefits

The group has two post-employment schemes: one defined contribution and one contractual retirement scheme. The contractual retirement scheme is effective from 1 January 2011 and is deemed to be a defined benefit collective arrangement, but recognised as a defined contribution agreement since insufficient reliable information is available to estimate the group's proportionate share of pension expense, liability and funds in the collective scheme.

In a defined contribution arrangement, the group contributes to a public or private insurance plan. The group has no remaining liabilities after the contribution to the insurance plan has been made. The contributions are recognised as a personnel expense when they are paid.

1.18 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the group has an existing legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are recognised when the group has an existing obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that an outflow of economic resources will be required from the group, and the amount can be estimated reliably. The timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the existing obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the existing obligation.

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and an assessment of all possible outcomes and the accompanying probabilities.

1.19 Contingent liabilities and assets

Contingent liabilities are not recognised in the financial statements. In cases where the possible outflow of economic resources as a result of existing obligations is considered improbable or remote, no liability is recognised.

A contingent asset is not recognised in the financial statements, but disclosed if it is probable that the benefit will flow to the group.

1.20 Subsequent events

New information after the reporting date regarding the group's financial position at the reporting date is taken into consideration in the consolidated financial statements. Events after the reporting date which do not affect the group's financial position at the reporting date, but which will affect the financial position of the group in the future, are noted if they are considered significant.

1.21 New standards, amendments and interpretations not yet adopted by the group

Relevant standards and interpretations which are issued up to the date of issuance of the consolidated financial statements, but not yet effective, are disclosed below. The group's intention is to adopt the relevant new and amended standards and interpretations when they become effective.

IFRS 16 Leases

IFRS 16 Leases specifies how to recognise, measure, present and disclose leases. The new standard is effective for annual reporting periods beginning on or after 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC 15 and SIC 27. IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, since the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rent are recognised. The only exceptions are short-term and low-value leases.

The group expects to implement the standard by applying the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption.

The Europris group holds a significant number of

leases and IFRS 16 is expected to have a significant effect on the consolidated financial statements, with a negative effect on the equity ratio, which will decrease from 37.6 per cent to 26.5 per cent.

IFRS 16 is expected to have the following effects:

	Implementation effect 01.01.2019	2019 estimated effect
Assets		
Right-of-use assets	+1,989 million	+191 million
Total assets	**+1,989 million**	**+191 million**
Equity and liabilities		
Equity		-10 million
Provisions		-3 million
Non-current financial liabilities	+1,595 million	+220 million
Current liabilities	+394 million	-16 million
Total equity and liabilities	**+1,989 million**	**+191 million**

The 2019 estimate includes the new warehouse, the head office and other additions net of depreciation for the year. Potential franchise takeovers and adjustments to the current lease portfolio are not included in 2019 estimate.

At the date of implementation, 1 January 2019, lease obligations are measured at the present value of future lease payments. Lease payments should be discounted using the implicit interest rate of the lease if this interest rate can be easily determined. If the interest rate cannot be easily determined, the lessee will use the marginal borrowing rate. Since the implicit interest rates in the contracts cannot be specified, the group has chosen a practical approach for determining the market-based interest rate based on the remaining term of the contracts. Interest rates used when calculating the implementation effect are as follows.

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

Preliminary estimated effects on consolidated income statement in 2019.

Depreciation	Increased by 400-420 million
Other operating expenses	Reduced by 430-450 million
Net financial expense	Increased 40-60 million
Income tax expense	Reduced by some 3 million
Net profit	Reduced by some 10 million

- Significantly reduced rental expense
- More than offset by higher depreciation and finance expenses
- Net negative impact expected on net profit
- IFRS 16 implementation has no cash effects but, in the consolidated statement of cash flows, the part of the lease payment which is classified as repayment of loans will be reclassified from operating to financing activities.

Note that these estimates include rented and leased properties, vehicles, trucks, machinery and equipment. Shorter and immaterial leases have been excluded. Estimated figures for 2019 could be subject to change owing to group operations and interest rate levels.

No other IFRSs or IFRIC interpretations which are not yet effective would be expected to have a material impact on the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Financial risk management

The group's core business is discount variety retail. This exposes the group to a variety of financial risks: market (including currency, fair value interest-rate and price), credit and liquidity risk. The goal of the group's overall risk management programme is to minimise potential adverse financial performance effects of these risks, which result from unpredictable changes in capital markets. The group uses financial derivatives to hedge against certain risks. Hedge accounting is not applied.

The financial risk management programme for the group is carried out by its central treasury department under policies approved and monitored by the board. The treasury department identifies, evaluates, hedges and reports financial risks in cooperation with the various operating units within the group. The board approves the principles of overall risk management as well as policies covering specific areas, such as currency exchange risk, interest-rate risk, credit risk, the use of financial derivatives and liquidity management.

2.1 Market risk

2.1.a Currency exchange risk

The group is exposed to currency exchange risk arising from the import of goods for sale. These transactions are mainly settled in USD and EUR. The group aims to achieve predictable cash outflows in NOK by using forward contracts as a hedging strategy for its exposure to USD and EUR. The hedging strategy is based on an assessment of the possibilities and estimated time period required to adjust the business to the changes in foreign exchange rates.

The following table illustrates the sensitivity of the group to potential currency changes.

Figures are stated in NOK 1,000

Foreign currency sensitivity	Changes in currency	Effect on post-tax profit	
		2018	2017
USD/NOK	+/-10%	+/-28,32	+/-30,12
EUR/NOK	+/-10%	+/-8,76	+/-8,59

Hedge accounting is not applied.

2.1.b Price risk

The group has limited exposure to price risk.

2.1.c Interest-rate risk

The group's exposure to interest-rate risk arises from its non-current borrowings. The group's financial policy includes a detailed descripton of hedging and 25 per cent of the group's long-term loans are presently hedged. Management monitors developments in the market, and regularly assesses the exposure to interest-rate risk. The interest-rate risk which arises from loans with a floating interest rate is managed by using interest-rate swaps.

The following table illustrates the sensitivity of the group to potential interest-rate changes.

Figures are stated in NOK 1,000

Interest-rate sensitivity	Changes in interest rate	Effect on post-tax profit
2018	+/-1%	+/-9,711
2017	+/-1%	+/-6,224

2.2 Credit risk

The group has limited exposure to credit risk, since most of its revenue transactions are settled by cash or debit cards. However, a small share of its revenue comes from franchise agreements, where each franchisee is granted credit. As a franchisor, the group monitors its franchisees closely to mitigate the credit risk. Losses on trade receivables have historically been limited.

2.3 Liquidity risk

The treasury department prepares and monitors cash flow forecasts of the groups's liquidity requirements to ensure that the group has sufficient cash to meet operational commitments, and to maintain sufficient flexibility to meet unused credit facilitiy requirements (see note 20) without breaching financial covenants.

The following table sets out the contractual maturities (representing undiscounted cash flows) of financial liabilities:

Figures are stated in NOK 1,000

At 31.12.2018	Up to 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years
Trade and other payables	898,155	-	-	-
Borrowings including interest	16,894	16,894	1,666,894	-
Leasing	1,166	1,166	2,332	-
Total	**916,215**	**18,060**	**1,669,225**	**-**

At 31.12.2017	Up to 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years
Trade and other payables	760,358	-	-	-
Borrowings including interest	15,000	15,000	30,000	1,665,000
Leasing	1,210	1,210	2,420	2,420
Derivatives	2,712	-	-	2,213
Total	**779,280**	**16,210**	**32,420**	**1,669,633**

2.4 Capital management risk

The group's objectives when managing capital are to ensure the ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital, including compliance with covenants in the loan agreements (see note 20 for further information).

At 31 December 2018, the group's equity totalled NOK 1,789 million, which corresponded to an equity ratio of 37.6 per cent and a debt-to-equity ratio of 94.7 per cent. The board considers Europris' capital structure to be adequate in relation to the group's objectives, strategy and risk profile.

3 Critical accounting estimates and judgements

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events which are believed to be reasonable.

3.1 Critical accounting estimates and assumptions

The group prepares estimates and assumptions regarding future expectations. The resulting accounting estimates will by definition seldom equal the related actual results. Estimates and assumptions which represent a significant risk of causing material adjustments to the book value of assets and liabilities within the next financial year are discussed below.

3.1.a Provision for obsolescence

The group makes provision for obsolescence. These provisions are based on a detailed assessment of the age distribution of inventory items and whether the goods are part of an active or expired product range. Write-down for obsolenscence is made when the cost of the goods is higher than the expected net sales value. These provisions are estimate-based and require in-depth knowledge about goods and market.

3.2. Judgements in applying the group's accounting principles

IFRS 10 (Consolidated financial statements) requires entities to consolidate entities they control.

The standard provides extended guidance to determine whether control is present. Franchising is explicitly mentioned in the standard. The franchises are not included in the consolidated financial statements of Europris ASA. This is based on a judgement of the criteria in IFRS 10 of whether Europris controls the franchises. Through the franchise agreements, Europris essentially has control and rights related to protection of the brand name and the concept. Such rights are not sufficient to gain control under the provisions of IFRS 10. The decision-making rights which affect variable returns are primarily held by the franchisee. Based on an assessment of these criteria in IFRS 10, it is not clear that Europris controls the franchises, and they are thus not consolidated.

The group confirms that there have not been any other judgements which are deemed to have a significant impact on the consolidated financial statements.

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 which forms the basis for the group management's assessment of profitability at a strategic level. The group as a whole is therefore defined and identified as one segment.

5 Total operating income

The group's business area is discount variety retail in the Norwegian market.

Figures are stated in NOK 1,000	2018	2017
Revenue	**5,738,144**	**5,329,467**
Income from franchise fees	78,334	89,344
Other income	507	3,719
Total other income	**78,840**	**93,063**
Total operating income	**5,816,984**	**5,422,530**

6 Employee benefit expenses

Figures are stated in NOK 1,000	2018	2017
Pay expenses	771,810	708,766
Social security costs	100,741	92,954
Pension expenses	16,795	15,643
Other benefits	9,157	9,484
Total	**898,504**	**826,847**
Number of employees	2,645	2,636
Full-time employees	1,773	1,634

The group is required by Norwegian law to have a mandatory occupational pension plan. The group has a pension plan which fulfills the legal requirements, which covers all employees and is a defined contribution plan.

Figures are stated in NOK 1,000	2018	2017
Auditor fees		
Audit services	1,110	1,288
Technical services related to financial reporting	78	20
Total	**1,188**	**1,308**

Auditor fees are presented exclusive of VAT. No auditor fees have been recorded in equity in connection with equity transactions.

7 Management remuneration

Remuneration of chief executive officer (CEO) and chief financial officer (CFO)

Figures are stated in NOK 1,000	Title	Salary	Bonus	Pension	Other	Total
Pål Wibe	CEO	4,131	622	100	236	5,089
Espen Eldal	CFO	1,907	98	76	111	2,192

Remuneration of the executive management group (10 individuals)

Figures are stated in NOK 1,000	2018	2017
Pay expenses, including bonuses	20,834	17,240
Social security costs	2,938	2,437
Pension expenses	796	748
Other benefits	21	136
Total	**24,588**	**20,560**

NOK 2,782 in accrued bonus is recognised in the financial statements for the executive management group for 2018 (NOK 0 in 2017).

Remuneration statement

The board will provide a statement on salary and other remuneration for senior executives to the annual general meeting on 23 May 2019.

Remuneration guidelines

The board has established guidelines for the remuneration of the members of the executive management. The company's policy is to offer the executive management competitive remuneration based on current market standards as well as group and individual performance. The remuneration consists of a basic salary element combined with a performance-based bonus programme as set out below. The executive management participates in the company's insurance policies and is entitled to certain fringe benefits, such as free newspaper, car and phone. The remuneration committee is a sub-committee of the board which acts as a preparatory and advisory body in relation to the group's remuneration of the executive management and ensures thorough and independent preparation of matters relating to the compensation of executive personnel.

Bonus programme

Europris has established a bonus scheme for the executive management, which is based on financial and operational perfomance. The maximum bonus under this scheme is 11 months of gross base salary for the CEO and six months of gross base salary for the other executive managers.

The executive management group is employed by the Europris Holding AS subsidiary.

The CEO and the director of marketing have severance packages of 12 and six months respectively. Apart from these, no members of the executive management group have severance packages.

No loans or issued guarantees have been provided to the executive management group, the chair of the board or other related parties.

Remuneration of the board of directors

Annual fees in 2018 for the board of directors, determined by the AGM in May 2018:

Board of directors			
Chair	NOK	525,000	per year
Director	NOK	265,000	per year
Audit committee			
Chair	NOK	70,000	per year
Member	NOK	45,000	per year
Remuneration committee			
Chair	NOK	32,000	per year
Member	NOK	21,500	per year

8 Pension liabilities

Figures are stated in NOK 1,000

The group has a contractual retirement pension scheme (AFP). This is a multi-employer plan, and accounted for as a defined contribution plan. The yearly premium is expensed. The entity pays a premium currently set at 2.5 per cent of the employee's salary. Future premiums may increase. Pension cost (premium) in 2018 was NOK 4,895 (2017: NOK 5,184).

In addition, the group has a pension agreement with DNB Forsikring which fullfills the legal requirement under Norwegian law and covers all employees. The scheme is a defined contribution plan. Pension costs in 2018 were NOK 11,900 (2017: NOK 10,459).

Both schemes had 1,773 members in 2018 (2017: 1,634).

9 Other operating expenses

Figures are stated in NOK 1,000	2018	2017
Leasing and other cost of premises	478,017	436,969
Transport/distribution	161,030	134,142
Marketing and other expenses	303,322	271,530
Total	**942,369**	**842,641**

10 Financial income and expenses

Figures are stated in NOK 1,000	2018	2017
Financial income:		
– Interest income on cash	1,992	2,688
– Other interest income	651	1,392
Other financial income	1,829	53
Gain in fair value of financial instruments:		
– Unrealised interest-rate swap income	1,656	-
Total	**6,129**	**4,133**
Financial expenses:		
– Interest to financial institutions	34,171	35,529
– Financial leasing	445	194
– Other interest expense	679	423
Amortised interest on bank loan	3,460	1,734
Other financial expenses	8,316	7,737
Loss in fair value of financial instruments:		
– Unrealised interest-rate swap loss	-	198
Total	**47,070**	**45,815**
Net financial income (expense)	**(40,942)**	**(41,682)**

11 Income tax expense

Figures are stated in NOK 1,000	2018	2017
Tax payable		
Current tax on profits for the year	124,140	116,767
Total tax payable in the balance sheet	**124,140**	**116,767**
Deferred tax		
Change in temporary differences	(1,186)	4,773
Change in temporary differences related to mergers and acquisitions	2,364	1,084
Effect of change in Norwegian tax rate	(1,918)	(2,098)
Total deferred tax	**(740)**	**3,759**
Total income tax expense	**123,400**	**120,526**

The tax on the group's pre-tax profit differs from the theoretical amount which would arise from using the weighted average tax rate applicable to profits of the consolidated entities as follows.

Figures are stated in NOK 1,000	2018	2017
Profit before tax	**552,531**	**510,325**
Tax calculated at domestic tax rates applicable to profits (23/24%)	127,082	122,478
Tax effects from:		
- Non-taxable income	(7,429)	(692)
- Non-deductible expenses	2,429	838
- Other directly recognised differences	3,235	-
Effect on valuation of temporary differences from a change in the Norwegian tax rate	(1,918)	(2,098)
Tax expense recognised in the income statement	**123,400**	**120,526**
Effective tax rate	22.3%	23.6%

Figures are stated in NOK 1,000	2018	2017
The analysis of deferred tax assets and deferred tax liabilities is as follows.		
Deferred tax assets		
- Deferred tax assets to be recovered later than 12 months	(4,821)	(3,947)
- Deferred tax assets to be recovered within 12 months	(61,736)	(60,446)
Deferred tax assets	**(66,557)**	**(64,394)**
Deferred tax liabilities		
- Deferred tax liabilities to be recovered later than 12 months	108,492	112,657
- Deferred tax liabilities to be recovered within 12 months	-	-
Deferred tax liabilities	**108,492**	**112,657**
Loss carried forward	(12)	(13)
Deferred tax related to directly recognised differences	3,094	-
Unrecognised deferred tax asset	128	-
Deferred tax liabilities (net)	**45,146**	**48,250**
Deferred tax asset/liability rates	22%	23%
Change in deferred tax liabilities recognised in the balance sheet:		
Balance at 01.01	48,250	45,575
Change during the year recognised in the income statement	(3,104)	2,675
Balance at 31.12	**45,146**	**48,250**

Specification of change in deferred tax liabilities/tax assets

Figures are stated in NOK 1,000	Tangible fixed assets	Non-current debt	Total
Deferred tax liabilities			
Balance at 01.01.2017	111,892	2,503	114,395
Recognised deferred tax in profit for the period	(1,235)	(503)	(1,738)
Balance at 31.12.2017	**110,657**	**2,000**	**112,657**
Balance at 01.01.2018	110,657	2,000	112,657
Recognised deferred tax in profit for the period	(3,316)	(848)	(4,164)
Balance at 31.12.2018	**107,341**	**1,152**	**108,492**

Figures are stated in NOK 1,000	Inventories	Receivables	Financial instruments	Provision for other liabilities	Loss carried forward	Total
Deferred tax assets						
Balance at 01.01.2017	(64,181)	(773)	1,432	(5,285)	(14)	(68,820)
Recognised deferred tax in profit for the period	4,893	50	(1,866)	1,337	-	4,413
Balance at 31.12.2017	**(59,289)**	**(723)**	**(434)**	**(3,947)**	**(13)**	**(64,407)**
Balance at 01.01.2018	(59,289)	(723)	(434)	(3,947)	(13)	(64,407)
Recognised deferred tax in profit for the period	(1,786)	62	434	(874)	1	(2,162)
Balance at 31.12.2018	**(61,074)**	**(662)**	**-**	**(4,821)**	**(12)**	**(66,569)**

12 Intangible assets

Figures are stated in NOK 1,000	Software	Trademark	Contractual rights	Goodwill	Total
Financial year 2017					
Carrying amount at 01.01.2017	39,929	387,573	-	1,589,402	2,016,904
Additions	19,316	-	-	9,704	29,020
Sales/disposals	-	-	-	-	-
Amortisation	16,628	-	-	-	16,628
Impairment	-	-	-	-	-
Carrying amount at 31.12.2017	**42,617**	**387,573**	**-**	**1,599,106**	**2,029,297**
At 31.12.2017					
Acquisition cost	147,067	411,352	250,700	1,599,106	2,408,225
Disposals at cost	1,250	-	-	-	1,250
Disposals accumulated amortisation	1,250	-	-	-	1,250
Accumulated amortisation	104,450	23,779	172,356	-	300,584
Accumulated impairment	-	-	78 344	-	78,344
Net carrying amount 31.12.2017	**42,617**	**387,573**	**-**	**1,599,106**	**2,029,297**
Financial year 2018					
Carrying amount at 01.01.2018	42,617	387,573	-	1,599,106	2,029,297
Additions	22,443	-	-	6,841	29,284
Sales/disposals	-	-	-	-	-
Amortisation	17,893	-	-	-	17,893
Impairment	-	-	-	-	-
Carrying amount at 31.12.2018	**47,167**	**387,573**	**-**	**1,605,947**	**2,040,688**
At 31.12.2018					
Acquisition cost	168,260	411,352	250,700	1,605,947	2,436,259
Disposals at cost	3,770	-	-	-	3,770
Disposals accumulated amortisation	3,770	-	-	-	3,770
Accumulated amortisation	121,093	23,779	172,356	-	317,228
Accumulated impairment	-	-	78,344	-	78,344
Net carrying amount 31.12.2018	**47,167**	**387,573**	**-**	**1,605,947**	**2,040,688**

The group's trademark is linked to the brand name "Europris". This name has existed for a long time and has shown a healthy development since its origination. There are clear intentions to retain and further develop the Europris brand name for the forseeable future. As a consequence, the brand name is not depreciated, but tested for impairment annually.

Goodwill comprises a number of elements which individually cannot be quantified. Most significant is the well positioned business and the established reputation in the market. Europris' skilled workforce, as well as its supplier and customer relations (non-contractual), are also important elements.

Impairment testing of goodwill and trademark

Goodwill and the trademark are annually tested for impairment by comparing their carrying amount and recoverable amount (greater of fair value less costs to sell and value in use). Goodwill is allocated to the groups of cash-generating units which are expected to benefit from the synergies of the combination. The group has one operating segment and goodwill is tested for impairment at this level, which represents the lowest level in the entity at which goodwill is monitored for internal management purposes.

The recoverable amount of a cash-generating unit is calculated on the basis of the value which the asset will provide to the business (value in use). In this calculation, the forecasts of future cash flows are based on budgets and long-term plans approved by the management covering a five-year period (2019-2023). The gross margin is stable in the period. EBITDA percentages of sales are also stable in the 2019-2023 period. Cash flows beyond the five-year period are calculated using the expected inflation rate as a long-term growth rate. A market-based rate of return of 9.3% (8.5% in 2017) before tax is derived using the weighted average cost of capital (WACC) model.

The recoverable amount is significantly above the carrying amount of the group's goodwill and trademark.

13 Fixed assets

Figures are stated in NOK 1,000	Land	Fixtures and fittings	Total
Financial year 2017			
Carrying amount at 01.01.2017	-	246,377	246,377
Additions	20,481	67,465	87,946
Additions through the acquisition of subsidiaries	-	4,680	4,680
Disposals	-	402	402
Depreciation charge for the year	-	66,062	66,062
Carrying amount at 31.12.2017	**20,481**	**252,059**	**272,540**
At 31.12.2017			
Cost	20,481	651,839	672,320
Disposals at cost	-	54,992	54,992
Disposals accumulated amortisation	-	54,592	54,592
Accumulated depreciation	-	399,378	399,378
Net carrying amount 31.12.2017	**20,481**	**252,059**	**272,540**
Financial year 2018			
Carrying amount at 01.01.2018	**20,481**	252,059	272,540
Additions	3,258	53,644	56,902
Additions through the acquisition of subsidiaries	-	5,470	5,470
Disposals	-	-	-
Depreciation charge for the year	-	72,850	72,850
Carrying amount at 31.12.2018	**23,739**	**238,323**	**262,063**
At 31.12.2018			
Cost	23,739	655,960	679,700
Disposals at cost	-	5,201	5,201
Disposals accumulated amortisation	-	5,201	5,201
Accumulated depreciation	-	417,636	417,636
Net carrying amount 31.12.2018	**23,739**	**238,323**	**262,063**

The group has financial leases. These agreements relate to stores and warehouse computer systems. The carrying amount of leased fixed assets is NOK 6,412 (2017: NOK 6,424).

The corresponding leasing debt is presented as non-current debt. Store computer systems are leased to franchisees. Lease costs are expensed by the respective companies. The leased fixed assets are depreciated over four years, which is consistent with the leasing period.

Figures are stated in NOK 1,000	Leasing period	2018	2017
Operating lease payments			
Fixtures	Ongoing agreements	15,612	16,228
Offices, shops and warehouses	Ongoing agreements	473,620	436,313

The group leases offices, shops and warehouses under irrevocable operating leases. The rental period is between one and 12 years.

Commitment to operating leases at 31 December 2018	
Within 1 year	428,665
1 to 5 years	1,703,992
After 5 years	777,872

14 Investments in associated companies

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

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

Based on equity value, using a fixed multiple of 7.7 on adjusted EBITDA for ÖoB in 2018, the purchase price is calculated to be NOK 134 million. NOK 2 million in transaction expenses has also been recognised as part of the acquisition cost, bringing the total investment to NOK 136 million.

In addition, the group recorded an estimated profit of NOK 6.4 million from its 20 per cent stake in 2018. All calculations and estimates are based on preliminary and unaudited figures from ÖoB.

A summary of the financial information from Runsvengruppen AB, based on 100 per cent figures (unaudited):

Figures are stated in SEK 1,000	2018
Total operating income	3,973,960
Profit for the year	25,697
Current assets	1,012,565
Non-current assets	154,829
Current liabilities	515,496
Non-current liabilities	229,691
Equity	422,207

A vendor note was issued when closing the deal. This will be converted to Europris shares following agreement on the adjusted 2018 EBITDA for ÖoB.

Europris holds an option to acquire the remaining 80 per cent of the shares in Runsvengruppen AB. Whether the option is to be exercised will be decided in 2020. The potential value of the option is not recognised in the balance sheet.

15 Earnings per share

Earnings per share are calculated by dividing profit attributable to ordinary shareholders by a weighted average of ordinary shares outstanding during the period. The average number of shares outstanding was adjusted to take account of the holdings of treasury shares.

Figures are stated in NOK 1,000, except per share amounts	2018	2017
Profit for the period	429,132	389,799
Profit available to holders of ordinary shares	429,132	389,799
Number of ordinary shares	166,969	166,969
Weighted average of ordinary shares outstanding	165,757	166,969
Earnings per ordinary share (basic)	**2.59**	**2.33**
Earnings per ordinary share (diluted)	**2.59**	**2.33**
Calculation of weighted average of ordinary shares outstanding		
Number of ordinary shares opening	166,969	166,969
Estimated effect of treasury shares	1,212	-
Number of shares closing	**165,757**	**166,969**

16 Trade receivables and other receivables

Figures are stated in NOK 1,000	2018	2017
Trade receivables		
Trade receivables	187,552	209,595
Provision for impairment	(1,840)	(1,840)
Net trade receivables	**185,712**	**207,755**
Other receivables		
Accrued revenue	48,762	23,157
Prepaid expenses	33,912	35,318
Other receivables	5,219	2,868
Other receivables	**87,893**	**61,344**
Forward exchange contracts	13,829	2,243
Derivatives	**13,829**	**2,243**
Total	**287,435**	**271,342**
Non-current receivables		
Deposits and loans to franchisees	24,073	24,008
Other receivables	**24,073**	**24,008**
Interest-rate swap agreement	237	794
Derivatives	**237**	**794**
Total	**24,310**	**24,801**
Total current and non-current receivables	**311,744**	**296,143**

The carrying amount of trade receivables, prepayments and other receivables is assessed as not differing materially from fair value.

Figures are stated in NOK 1,000	2018	2017
Provision for impairment of trade receivables		
At 01.01	1,840	1,840
Change in provision	-	-
At 31.12	**1,840**	**1,840**
Ageing of trade receivables		
Not due	177,971	198,533
Due	7,741	9,222
Total	**185,712**	**207,755**

Accounts receivable older than 90 days constituted an insignificant portion of overdue items at 31.12. This applies to both years.

17 Inventories and cost of goods sold

Figures are stated in NOK 1,000	2018	2017
Inventories	1,606,755	1,402,095
- Provision for obsolescence	(33,522)	(33,734)
Booked value	**1,573,233**	**1,368,361**
Provision for obsolescence		
At 01.01	(33,734)	(25,289)
Change in accruals	212	(8,445)
Provision for impairment at 31.12	**(33,522)**	**(33,734)**
Carrying amount of inventory which has been impaired	**447,587**	**422,804**

The group makes provisions for impairment of inventory. These provisions are estimated and require in-depth knowledge of the goods and market conditions. See more details in note 3.1.a.

Figures are stated in NOK 1,000	2018	2017
Cost of goods sold	3,309,289	3,112,352
Foreign exchange currency effects	(10,994)	5,993
Net cost of goods sold	**3,298,296**	**3,118,345**

Unrealised gains and losses are classified as part of the cost of goods sold (COGS) in the profit or loss statement. Similarly, unrealised foreign currency exchange gains and losses on inventory trade payables are also included as part of COGS. All gains and losses, both realised and unrealised, related to the acquisition of inventory are included as part of COGS.

18 Cash

Figures are stated in NOK 1,000	2018	2017
Cash	426,967	581,663
Total	**426,967**	**581,663**

Net cash in the consolidated statement of cash flows includes the following

Cash	399,947	556,809
Bank deposits restricted for employee tax witholdings	27,021	24,855
Net cash	**426,967**	**581,663**

The group has overdraft facilities of NOK 450 million in all. See note 20 for further information.

19 Share capital and shareholder information

The share capital of Europris is NOK 166,968,888, consisting of 166,968,888 shares with a par value of NOK 1. The company's share capital consists of one class of shares, where all shares have the same voting rights.

Major shareholders at 31 December 2018		Number of shares	% of capital
EUROPRIS ASA		5,370,000	3.2%
ARCTIC FUNDS PLC		5,126,610	3.1%
FOLKETRYGDFONDET		4,678,488	2.8%
VERDIPAPIRFONDET PARETO INVESTMENT		3,862,504	2.3%
KLP AKSJENORGE		3,805,052	2.3%
HOLBERG NORGE		3,650,000	2.2%
STOREBRAND NORGE I VERDIPAPIRFOND		3,590,118	2.2%
EUROCLEAR BANK	Nominee	3,046,636	1.8%
THE BANK OF NEW YORK	Nominee	2,608,709	1.6%
SEB PRIME SOLUTIONS SISSENER		2,500,000	1.5%
STATE STREET BANK AND TRUST COMPANY	Nominee	2,495,472	1.5%
CITIBANK N.A	Nominee	2,413,000	1.4%
DANSKE INVEST NORSKE INST.		2,346,950	1.4%
BNP PARIBAS SECURITIES SERVICES	Nominee	2,326,022	1.4%
HOLBERG NORDEN		2,325,000	1.4%
FONDITA NORDIC MICRO CAP INVESTMENT		2,280,494	1.4%
VARMA MUTUAL PENSION INSURANCE CO.		2,185,431	1.3%
KOMMUNAL LANDSPENSJONSKASSE		2,172,767	1.3%
NORDKRONEN II AS		2,008,572	1.2%
VPF NORDEA NORGE VERDI		1,900,000	1.1%
OTHER SHAREHOLDERS		106,277,063	63.7%
Total shares		**166,968,888**	**100.0%**

Shares held by directors, CEO and CFO	Title	Number of shares
Tom Vidar Rygh (Retiro AS)	Chair	600,000
Tone Fintland	Director	2,780
Pål Wibe (Nordkronen II AS)	CEO	2,008,572
Espen Eldal (Knipen AS)	CFO	600,000

Treasury shares at 31 December 2018	Nominal value	Number of shares	Fair value (NOK)
Shares owned by Europris ASA	5,370,000	5,370,000	123,375,750

Treasury shares have been deducted from equity at cost. The nominal value of the shares has been deducted from paid-in capital.

Change in number of treasury shares	
Treasury shares 1 January 2018	-
Buy-back of treasury shares	5,370,000
Sale of shares	-
Treasury shares 31 December 2018	**5,370,000**

The average cost price for treasury shares is NOK 22.46.

Europris ASA completed share buy-back programmes totalling 5.5 million shares in 2018, of which 130,000 shares were registered in the Norwegian Central Securities Depository (VPS) in January 2019.

20 Bank borrowings

Refinancing of the group's bank debt was completed in June 2015 with a five-year term loan facility. The loan is syndicated through two credit institutions: Skandinaviska Enskilda Banken AB and DNB Bank ASA.

	2018		2017	
Figures are stated in NOK 1,000	Amortised cost	Nominal value	Amortised cost	Nominal value
Non-current liabilities				
Debt to financial institutions	1,644,766	1,650,000	1,641,306	1,650,000
Sub-total	**1,644,766**	**1,650,000**	**1,641,306**	**1,650,000**
Other non-current liabilities				
Leasing	4,663	4,663	7,261	7,261
Sub-total	**4,663**	**4,663**	**7,261**	**7,261**
Total	**1,649,428**	**1,654,663**	**1,648,567**	**1,657,261**

The amortised cost of the bank debt is assessed as not differing materially from fair value. The term loan will be refinanced in 2020, and negotiations with the banks have started. There are no indications from these discussions that the risk premium and the interest-rate margin would materially change if the bank agreement had been entered into today. Fair value is therefore assumed to be approximately equal to the carrying amount at the balance sheet date. The group's business risk and credit risk have not changed significantly in the period.

Figures are stated in NOK 1,000	2018	2017
Current liabilities		
First-year instalment non-current debt	-	-
Overdraft facilities - off-balance sheet		
The loan facility includes an overdraft facility, which consists of		
Overdraft and multi-currency group account	140,000	140,000
Revolving facility loan	225,000	225,000
Guarantees	85,000	85,000
Total	**450,000**	**450,000**
Drawn guarantees	21,000	22,900
Undrawn overdraft facilities	429,000	427,100

Convenants related to bank agreement	**At 31.12.2018**
Leverage ratio - net debt / EBITDA (covenant level in the bank agreement)	3.50
Europris leverage ratio - net debt / EBITDA	1.85

Covenants are measured and reported quarterly. In the bank agreement, the covenant (leverage ratio) will be at 3.50 for the next two quarters. Any test date falling thereafter will be at covenant level 3.25.

The group was in compliance with financial convenants in 2018.

Maturity structure including interest	**2018**	**2017**
Within 1 year	33,788	30,000
1 to 2 years	1,666,894	30,000
2 to 5 years	-	1,665,000
After 5 years	-	-

See note 2.3 for the maturity structure of all financial liabilities.

Effective interest rate at 31.12	**2018**	**2017**
Term loan	2.02%	2.09%

No assets are currently pledged under the loan agreement.

21 Derivatives

Figures are stated in NOK 1,000	2018	2017
Forward exchange contracts – expiring within one year	13,829	2,243
Interest-rate swaps – expiring between one and five years	237	794
Total derivatives - asset	**14,066**	**3,037**
Forward exchange contracts – expiring within one year	-	2,712
Interest-rate swaps – expiring between one and five years	-	2,213
Total derivatives - liability	**-**	**4,925**
Net derivative asset (liability)	**14,066**	**(1,888)**

Forward exchange contracts

The group faces currency risk arising from purchases in foreign currencies. The group hedges currency fluctuations by entering into forward exchange contracts. The group does not use hedge accounting. Forward exchange contracts are measured at fair value through profit and loss.

	Amount in NOK 1,000	Average exchange rate
Nominal principal forward contracts to purchase (USD)	195,905	8.16
Nominal principal forward contracts to purchase (EUR)	52,953	9.63

Interest rate swaps

The group has entered into interest-rate swap agreements to hedge part of its interest-rate risk fluctuations. The group does not use hedge accounting. The interest-rate swaps are measured at fair value through profit and loss.

	2018	2017
Lowest fixed interest rate in interest-rate swap agreement	1.090%	1.090%
Highest fixed interest rate in interest-rate swap agreement	1.288%	1.288%
Nominal principal in interest-rate swaps	412,500	825,000

22 Financial instruments by category

Figures are stated in NOK 1,000	2018	2017
Financial assets measured at amortised cost		
Non-current receivables	24,073	24,008
Trade receivables and other receivables	273,605	269,098
Cash	426,967	581,663
Financial liabilities measured at amortised cost		
Non-current debt	(1,649,428)	(1,648,567)
Other non-current debt	-	-
Current debt (first year instalment)	-	-
Accounts payable and other current payables	(898,155)	(763,069)
Assets/liabilities measured at fair value through profit and loss		
Derivatives - asset	14,066	3,037
Derivatives - liability	-	4,925
Net financial instruments	**(1,808,872)**	**(1,538,754)**

All the group's financial instruments which are measured at fair value are classified as level 2. Level 2 consists of financial instruments with no quoted prices in active markets for identical assets or liabilities which are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Level 2 assets and liabilities are measured by using valuation methods. These valuation methods utilise observed data and the group's own estimates. If all significant data required to measure the fair value of an instrument is observable data, then the instrument is classified as level 2.

Special valuation methods which are 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 the observable yield curve
- fair value of forward exchange contracts is measured as 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.

23 Accounts payable and other current debt

Figures are stated in NOK 1,000	2018	2017
Accounts payable	553,643	580,795
Social security taxes and VAT	251,540	205,279
Other current debt	344,512	179,563
Total	**1,149,695**	**965,637**

24 Related parties

The group's related parties include its associates, key management personnel, directors and major shareholders.

All subsidaries included in note 1.3 are related parties of Europris ASA.

For management remuneration, refer to note 7 – Management remuneration.

No significant transactions were conducted with related parties in 2018.

25 Contingent liabilities

There are no significant contingent liabilities at 31.12.2018.

26 Events after the balance-sheet date

The board has proposed the distribution of an ordinary dividend of NOK 1.85 per share for fiscal 2018.

No other events have occured after the balance-sheet date and before the date when the financial statements were approved which provide new information about conditions which existed at the balance sheet date (which are not currently reflected in the financial statements), nor have any significant events occurred after the balance sheet date which require further disclosures.

EUROPRIS ASA PARENT COMPANY 2018

INCOME STATEMENT

Figures are stated in NOK 1,000	Note	2018	2017
Total operating income		**-**	**-**
Employee benefit expenses	2	2,177	2,037
Other operating expenses	2	3,161	1,644
Total operating expenses		**5,339**	**3,681**
Operating income		**(5,339)**	**(3,681)**
Group contribution from subsidiary	5	392,614	288,008
Other interest income		44	1
Other financial income		43,500	65,000
Total financial income		**436,158**	**353,008**
Other interest expenses		198	325
Other financial expenses		121	2
Total financial expense		**319**	**327**
Net financial income (expenses)		**435,839**	**352,681**
Profit/(loss) from associated company	4	6,400	-
Profit before income tax		**436,900**	**349,000**
Income tax expense	6	-	-
Profit for the year		**436,900**	**349,000**
Statement of comprehensive income			
Profit for the year		436,900	349,000
Other comprehensive income		-	-
Total comprehensive income for the year		**436,900**	**349,000**

Notes 1 to 10 are an integral part of the financial statements.

BALANCE SHEET

Figures are stated in NOK 1,000	Note	31-12-2018	31-12-2017
ASSETS			
Non-current assets			
Financial assets			
Investments in subsidiaries	3	925,500	925,500
Investment in associated companies	4	142,268	-
Total financial assets		**1,067,768**	**925,500**
Total non-current assets		**1,067,768**	**925,500**
Current assets			
Trade and other receivables			
Receivables from group companies	5, 9	392,635	292,245
Other receivables	9	340	18
Total trade and other receivables		**392,974**	**292,263**
Cash	9	1	1
Total current assets		**392,975**	**292,264**
Total assets		**1,460,743**	**1,217,764**

Notes 1 to 10 are an integral part of the financial statements.

BALANCE SHEET

Figures are stated in NOK 1,000	Note	31-12-2018	31-12-2017
EQUITY AND LIABILITIES			
Equity			
Paid-in capital			
Share capital	7	166,969	166,969
Treasury shares	7	(5,370)	-
Share premium	7	51,652	335,499
Total paid-in capital		**213,251**	**502,468**
Retained equity			
Other equity		1,035,781	714,101
Total retained equity		**1,035,781**	**714,101**
Total shareholders' equity		**1,249,032**	**1,216,569**
Liabilities			
Current liabilities			
Accounts payable	9	1,294	18
Tax payable	6	-	-
Current debt to group companies	5,9	75,280	-
Other current liabilities	4,9	135,138	1,176
Total current liabilities		**211,711**	**1,194**
Total liabilities		**211,711**	**1,194**
Total equity and liabilities		**1,460,743**	**1,217,764**

Moss, 27 March 2019

THE BOARD OF DIRECTORS OF EUROPRIS ASA

Tom Vidar Rygh
Chair

Bente Sollid Storehaug

Claus Juel-Jensen

Hege Bømark

Tone Fintland

Sverre R Kjær

Pål Wibe
CEO

Notes 1 to 10 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Figures are stated in NOK 1,000	Share capital	Treasury shares	Share premium	Retained earnings	Total
Equity 01.01.2018	**166,969**	**-**	**335,499**	**714,101**	**1,216,569**
Profit for the period	-	-	-	436,900	436,900
Dividend	-	-	(283,847)	-	(283,847)
Net purchase of treasury shares	-	(5,370)	-	(115,220)	(120,590)
Other comprehensive income	-	-	-	-	-
Equity 31.12.2018	**166,969**	**(5,370)**	**51,652**	**1,035,781**	**1,249,032**
Equity 01.01.2017	**166,969**	**-**	**669,437**	**365,101**	**1,201,507**
Profit for the period	-	-	-	349,000	349,000
Dividend	-	-	(333,938)	-	(333,938)
Other comprehensive income	-	-	-	-	-
Equity 31.12.2017	**166,969**	**-**	**335,499**	**714,101**	**1,216,569**

In accordance with sections 9-4 and 9-5 of the Norwegian Public Limited Liability Companies Act, the board is mandated to acquire the company's own shares on specific conditions. See note 7 for details of treasury shares.

Notes 1 to 10 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Figures are stated in NOK 1,000	2018	2017
Cash flows from operating activities		
Profit before income tax	436,900	349,000
Share of the (profit)/loss of associates	(6,400)	-
Change in accounts payable	1,276	(179)
Change in other working capital	(104,866)	(8,103)
Net cash from operating activities	**326,910**	**340,718**
Cash flows from investing activities		
Payments received from loans to group companies	-	26
Payments to group companies	(12)	-
Net purchase and proceeds from other investments	(1,968)	-
Net cash used in investing activities	**(1,980)**	**26**
Cash flows from financing activities		
Change in group cash pool deposits	79,508	(6,805)
Dividend	(283,847)	(333,938)
Buy-back of treasury shares	(120,590)	-
Net cash from financing activities	**(324,930)**	**(340,743)**
Net increase in cash	**-**	**1**
Cash at beginning of year (01.01)	**1**	**-**
Cash at end of year (31.12)	**1**	**1**

Notes 1 to 10 are an integral part of the financial statements.

NOTE 1 ACCOUNTING PRINCIPLES

Europris ASA is the parent company of the Europris group, consisting of Europris Holding AS and subsidiaries.

The financial statements of Europris ASA have been prepared in accordance with the simplified IFRS pursuant to section 3-9 of the Norwegian Accounting Act and the directive on simplified IFRS issued by the Norwegian Ministry of Finance on 21 January 2008.

The board approved the financial statements on 27 March 2019.

1.1 Simplified IFRS

The company has applied the following simplifications to the IFRS recognition and measurement principles:

- IFRS 1 First-time adoption of IFRS no 7 regarding use of continuity of historical acquisition cost of investments in subsidiaries
- dividends and group contributions are recognised as income in the same year as the dividend or group contribution is recognised in the financial statements of the group company which pays the dividend or group contribution, in accordance with Norwegian generally accepted accounting principles.

1.2 Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention. The company has applied the going concern assumption when preparing its financial statements.

1.3 Investment in associates

The group has investments in associates. Associates are entities over which the group has significant influence, but not exercise control over the financial and operating management.

The considerations made in determining whether the group has significant influence over an entity are similar to those necessary to determine control over subsidiaries.

Associates are accounted for using the equity method from the date when significant influence is achieved until such influence ceases.

Investments in an associate are initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the group's share of the net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects the group's share of the results of operations of the associate. In addition, when there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

If indication exist that the investment in the associate is impaired, the group will perform an impairment test of the carrying amount of the investment. Any impairment losses are recognised as share of profit of an associate in the statement of profit or loss.

If the group's share of the loss surpasses the carrying amount of the associate, the carrying amount is set to zero and further loss is not recognised unless the group has an obligation to make up for the loss.

Upon loss of significant influence over the associate, such that the equity method ceases to apply, the group measures and recognises any retained investment at its fair value. No new measurement of remaining ownership interests will be performed if the equity method is still applicable.

1.4 Revenue recognition

Group contributions and dividends received from subsidiaries are recognised as income if the amount is within the net income of the subsidiary after the acquisition date. Group contributions and dividends which exceed the net income of the subsidiary after the acquisition date are recognised as a reduction of the carrying value of the subsidiary. When recognising income, the gross group contribution (before tax) is presented on a separate line in the income statement.

Group contributions to subsidiaries from the company increase the carrying value of the investment. Group contributions to subsidiaries are recognised net, after tax.

1.5 Current and deferred income tax

Tax expense for the period comprises current and deferred tax. Deferred tax/deferred tax asset is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The company recognises previously deferred tax assets to the extent that it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce deferred tax assets to the extent that the company no longer considers it probable that it can utilise the deferred tax asset.

Deferred tax liabilities and deferred tax assets are measured on the basis of the anticipated future tax rate relating to items where the temporary difference has arisen.

Deferred tax liabilities and deferred tax assets are recognised at nominal value and are classified as fixed assets (non-current liabilities) in the balance sheet.

Current tax and deferred tax are recognised directly in equity to the extent that the tax items relate to equity transactions or changes in accounting principles.

1.6 Cash

Cash includes cash in hand and bank deposits.

1.7 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that an outflow of economic resources will be required from the company, and amounts can be estimated reliably. If the effect is material, provisions are calculated by discounting the expected future cash flows at a pre-tax discount rate which reflects current market assessments of the time value of money and, if relevant, the risks specific to the liability.

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and an assessment of all possible outcomes and the accompanying probabilities.

1.8 Contingent liabilities and assets

A contingent liability is recorded in the books of accounts only if the contingency is probable and the amount of the liability can be estimated. In cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is disclosed.

A contingent asset is not recognised in the financial statements, but disclosed if it is probable that the benefit will flow to the company.

1.9 Subsequent events

New information after the reporting date regarding the company's financial position at the reporting date is taken into consideration in the financial statements. Events after the reporting date which do not affect the company's financial position at the reporting date, but which will affect the financial position of the company in the future, are disclosed if they are considered to be significant.

NOTES TO THE FINANCIAL STATEMENTS

2 Employees, pensions and auditor's fees

The company has no employees. As a result, it has no obligation to have a pension scheme pursuant to the Norwegian Act on Mandatory Occupational Pensions.

No salary or other remuneration have been paid to the CEO.

Compensation for directors is stipulated at NOK 2,177 in 2018.

There are no obligations to pay the directors a settlement in the event of termination of service.

No loans or guarantees have been provided for any related parties.

Figures are stated in NOK 1,000	2018	2017
Audit fees, divided by type of service (exclusive of VAT)		
Statutory audit	123	151
Technical services related to financial reporting	8	20
Total audit fees	**131**	**171**

3 Investments in subsidiaries

Investments in subsidiaries are stated at acquisition cost and accounted for using the cost method.

Figures are stated in NOK 1,000	Registered office	Ownership share	Equity 31.12.2018	Net income 2018	Carrying value
Subsidiary					
Europris Holding AS	Fredrikstad	100%	1,354,491	43,060	925,500

4 Investments in associated companies

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

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

Based on equity value, using a fixed multiple of 7.7 on adjusted EBITDA for ÖoB in 2018, the purchase price is calculated to be NOK 134 million. NOK 2 million in transaction expenses has also been recognised as part of the acquisition cost, bringing the total investment to NOK 136 million.

In addition, the group recorded an estimated profit of NOK 6.4 million from its 20 per cent stake in 2018. All calculations and estimates are based on preliminary and unaudited figures from ÖoB.

A summary of the financial information from Runsvengruppen AB, based on 100 per cent figures (unaudited):

Figures are stated in SEK 1,000	**2018**
Total operating income	3,973,960
Profit for the year	25,697
Current assets	1,012,565
Non-current assets	154,829
Current liabilities	515,496
Non-current liabilities	229,691
Equity	422,207

A vendor note was issued when closing the deal. This will be converted to Europris shares following agreement on the adjusted 2018 EBITDA for ÖoB.

Europris holds an option to acquire the remaining 80 per cent of the shares in Runsvengruppen AB. Whether the option is to be exercised will be decided in 2020. The potential value of the option is not recognised in the balance sheet.

5 Non-current liabilities and receivables to group companies

Liabilities and receivables to group companies are included with the following amounts

Figures are stated in NOK 1,000	2018	2017
Liabilities		
Debt in the group's cash pool agreement	75,280	-
Total liabilities	**75 280**	**-**
Receivables		
Group contribution	392,614	288,008
Deposits in the group's cash pool agreement	-	4,228
Other current receivables from subsidiaries	21	9
Total receivables	**392,635**	**292,245**

6 Income tax expense

Figures are stated in NOK 1,000	2018	2017
Basis for income tax expense and tax payable		
Profit before tax	436,900	349,000
Non-deductible expenses	(436,900)	(349,000)
Basis for the tax expense	**-**	**-**
Reconciliation of the income tax expense		
Tax payable (23%/24% of the basis for tax payable in the income statement)	100,487	83,760
Income tax expense	-	-
Difference	**(100,487)**	**(83,760)**
Difference consists of:		
23%/24% of non-deductible expenses	(100,487)	(83,760)
Total explained difference	**(100,487)**	**(83,760)**
Tax payable in the balance sheet		
Tax payable in income tax expense	-	-
Tax payable in balance sheet	**-**	**-**

7 Share capital and shareholder information

The share capital of Europris ASA is NOK 166,968,888, consisting of 166,968,888 shares with a par value of NOK 1. The company's share capital consists of one class of shares, whereby all shares have the same voting rights.

Major shareholders at 31 December 2018		Number of shares	% of capital
EUROPRIS ASA		5,370,000	3.2%
ARCTIC FUNDS PLC		5,126,610	3.1%
FOLKETRYGDFONDET		4,678,488	2.8%
VERDIPAPIRFONDET PARETO INVESTMENT		3,862,504	2.3%
KLP AKSJENORGE		3,805,052	2.3%
HOLBERG NORGE		3,650,000	2.2%
STOREBRAND NORGE I VERDIPAPIRFOND		3,590,118	2.2%
EUROCLEAR BANK	Nominee	3,046,636	1.8%
THE BANK OF NEW YORK	Nominee	2,608,709	1.6%
SEB PRIME SOLUTIONS SISSENER		2,500,000	1.5%
STATE STREET BANK AND TRUST COMPANY	Nominee	2,495,472	1.5%
CITIBANK N.A	Nominee	2,413,000	1.4%
DANSKE INVEST NORSKE INST.		2,346,950	1.4%
BNP PARIBAS SECURITIES SERVICES	Nominee	2,326,022	1.4%
HOLBERG NORDEN		2,325,000	1.4%
FONDITA NORDIC MICRO CAP INVESTMENT		2,280,494	1.4%
VARMA MUTUAL PENSION INSURANCE CO.		2,185,431	1.3%
KOMMUNAL LANDSPENSJONSKASSE		2,172,767	1.3%
NORDKRONEN II AS		2,008,572	1.2%
VPF NORDEA NORGE VERDI		1,900,000	1.1%
OTHER SHAREHOLDERS		106,277,063	63.7%
Total shares		**166,968,888**	**100.0%**

Shares held by directors, CEO and CFO	Title	Number of shares
Tom Vidar Rygh (Retiro AS)	Chair	600,000
Tone Fintland	Director	2,780
Pål Wibe (Nordkronen II AS)	CEO	2,008,572
Espen Eldal (Knipen AS)	CFO	600,000

Treasury shares at 31 December 2018	Nominal value	Number of shares	Fair value (NOK)
Shares owned by Europris ASA	5,370,000	5,370,000	123,375,750

Treasury shares have been deducted from equity at cost. The nominal value of the shares has been deducted from paid-in capital.

Change in number of treasury shares	
Treasury shares 1 January 2018	-
Buy-back of treasury shares	5,370,000
Sale of shares	-
Treasury shares 31 December 2018	**5,370,000**

Average cost price for treasury shares are NOK 22.46.

Europris ASA completed share buy-back programmes totalling 5.5 million shares in 2018, of which 130,000 shares were registered in the Norwegian Central Securities Depository (VPS) in January 2019.

8 Transactions with related parties

Information on the salaries of senior executives is disclosed in note 1. Information on intercompany receivables and liabilities is disclosed in note 5. No material transactions were conducted with related parties in 2018 other than the information included in the notes.

9 Financial instruments by category

Figures are stated in NOK 1,000	2018	2017
Financial assets measured at amortised cost		
Accounts receivables and other current receivables	392,974	292,263
Cash	1	1
Financial liabilities measured at amortised cost		
Other current liabilities	(210,417)	(1,176)
Accounts payable	(1,294)	(18)
Net financial instruments	**181,264**	**291,070**

10 Subsequent events

The board has proposed the distribution of an ordinary dividend of NOK 1.85 per share for fiscal 2018.

There were no subsequent events after the balance sheet date and before the date of the approval of the financial statements which provide new information about conditions which existed at the balance sheet date (which are not currently reflected in the financial statements), or significant events after the balance sheet date which require further disclosures.



DECLERATION TO THE ANNUAL REPORT 2018

Responsibility statement

We confirm, to the best of our knowledge, that the financial statements for the period 1 january to 31 December 2018 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit and loss of the entity and the group taken as a whole. We also confirm that the directors' report includes a true and fair view of the development and performance of the business and the position of the entity and the group, togehter with a description of the principal risks and uncertainties facing the entity and the group.

Moss, 27 March 2019

THE BOARD OF DIRECTORS OF EUROPRIS ASA



Tom Vidar Rygh
Chair



Claus Juel-Jensen



Hege Bømark



Sverre R Kjær



Bente Sollid Storehaug



Tone Fintland



Pål Wibe
CEO

ALTERNATIVE PERFORMANCE MEASURES

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

- **Gross profit** represents group revenue less the cost of goods sold excluding unrealised foreign currency effects.
- **Opex** is the sum of employee benefit expense and other operating expenses.
- **EBITDA** (earnings before interest, tax, depreciation and amortisation) represents gross profit less Opex.
- **Nonrecurring item** is a gain or loss that is not expected to occur regularly.
- **Adjusted EBITDA** is EBITDA adjusted for nonrecurring expenses.
- **Adjusted profit before tax** is net profit before tax adjusted for nonrecurring items.
- **Adjusted net profit** is net profit adjusted for nonrecurring items.
- **Adjusted earnings per share** is adjusted net profit divided by the current number of shares, adjusted by the monthly average of treasury shares.
- **Working capital** is the sum of inventories, trade receivables and other receivables less the sum of accounts payable and other current liabilities.
- **Capital expenditure** is the sum of purchases of fixed assets and intangible assets.
- **Net debt** is the sum of term loans and financial leases less bank deposits and cash.

Other definitions

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

ALTERNATIVE PERFORMANCE MEASURES

Amounts in NOK 1,000	FY 2018	FY 2017
Group revenue	**5,817.0**	**5,422.5**
Cost of goods sold (COGS)	3,298.3	3,118.3
Unrealised foreign exchange effects	***11.4***	***(6.3)***
Gross profit	**2,507.3**	**2,310.5**
% margin	43.1%	42.6%
Employee benefits expense	898.5	826.8
Other operating expenses	942.4	842.6
Opex	**1,840.9**	**1,669.5**
Nonrecurring items	-	-
Opex excluding nonrecurring items	**1,840.9**	**1,669.5**
% of group revenue	31.6%	30.8%
Adjusted EBITDA	**666.4**	**641.0**
Depreciation	90.7	82.7
Adjusted EBIT	**575.6**	**558.3**
Net financial income (expense)	(40.9)	(41.7)
Unrealised foreign exchange effects	***11.4***	(***6.3***)
Profit/loss from associated companies	6.4	-
Adjusted profit before tax	**552.5**	**510.3**
Adjusted net profit	**429.1**	**389.8**
Adjusted earnings per share	**2.59**	**2.33**
Dividend per share	**1.85**	**1.70**
GROUP KEY CASH FLOW AND BALANCE SHEET FIGURES		
Net change in working capital	(169.4)	29.5
Purchases of fixed assets	59.1	83.9
Purchases of intangible assets	20.1	19.3
Capital expenditure	**79.2**	**103.2**
Financial debt	1,649.4	1,650.8

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

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Independent Auditor's Report

To the General Meeting in Europris ASA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Europris ASA.

The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2018, income statement, statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2018, and income statement, statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of Europris ASA as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act.
- The accompanying financial statements give a true and fair view of the financial position of the group Europris ASA as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

BDO AS, et norsk aksjeselskap, er deltaker i BDO International Limited, et engelsk selskap med begrenset ansvar, og er en del av det internasjonale BDO-nettverket, som består av uavhengige selskaper i de enkelte land. Foretaksregisteret: NO 993 606 650 MVA.

Valuation of inventory	
Inventory amounts to NOK 1 573 million in the Financial Statements of 2018 and is a material amount. We refer to note 17 for more information on inventory and provisions. When determining the inventory provision, judgements are used to assess the items which may be ultimately destroyed or lost or sold below cost due to reduced customer demand. The judgement is based on historical and statistical sales data to categorize specific items. Different categories are assessed individually and subjected to specific provisions. These assessments are also based on management's expectations for future sales. The complexity and judgement involved has led us to define this as a high-risk area for the audit.	Our audit procedures include observing the stocktaking in a sample of stores and reviewing internal controls and procedures as well as performing re-counts. We have also tested internal controls and procedures related to stocktaking at the central warehouse. In addition, we have tested the calculation of cost of goods sold.
Valuation of intangible assets	
Intangible assets include goodwill and trademark, amounting to NOK 1 606 million and NOK 387 million respectively. We refer to note 12 for more information. Both items are material to the financial statements. Under IFRS, the Group is required to test the amount of intangible assets for impairment annually. The impairment test is based on a value in use calculation for defined cash generating units. Value in use is calculated based on a pre-tax free cash flow and discounted with a pre-tax WACC. The impairment test was significant to our audit due to the complexity of the assessment process and the significant judgements and assumptions involved and consequently defined as a key audit area.	Our audit procedures include, among others, reviewing management's documentation of the group's impairment assessment for intangible assets. We have reviewed the methodology used and assessed the WACC against relevant criteria in IAS 36. We have involved our internal valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility and other information in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements for the parent company in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act, and for the preparation of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to:
https://revisorforeningen.no/revisjonsberetninger

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 27 March 2019
BDO AS

Roger Telle-Hansen
State Authorised Public Accountant

SHAREHOLDER INFORMATION

Europris ASA was listed on the Oslo Stock Exchange in 2015.

The share price closed year-end 2018 at NOK 23.15, which implies a market value of NOK 3,865 million. The highest share price was NOK 34.50 and the lowest was NOK 19.94 in 2018. An ordinary dividend of NOK 1.70 per share was paid out in June 2018.

Europris ASA had 6,576 registered shareholders in the Norwegian Central Securities Depository (VPS) at 31 December 2018. The company's shareholders are located in 23 different countries together with Norway. About 96 per cent of the company's shareholders are based in Norway, while 42 per cent of the shares are registered to foreign shareholders.

Financial calendar

Europris publishes its quarterly result 07:00 am CET. The report and presentation will be available at the company's web page and at Oslo Børs' Newsweb.

25 April 2019	First quarter 2019
23 May 2019	Annual General Meeting
12 July 2019	Second quarter 2019
1 November 2019	Third quarter 2019

Analyst coverage

Twelve equity analysts have covered Europris ASA in 2018:

ABG Sundal Collier	petter.nystrom@abgsc.no andreas.lundberg@abgsc.no
Arctic Securities	cfb@arctic.com
Carnegie	preras@carnegie.no
Danske Bank	msten@danskebank.com
DNB Markets	ole.martin.westgaard@dnb.no erik.lundby@dnb.no
Goldman Sachs	tushar.jain@gs.com
Handelsbanken Capital Markets	nisk03@handelsbanken.se
Kepler Cheuvreux	cnordby@keplercheuvreux.com
Nordea	oliver.pisani@nordea.com
Pareto Securities	gard.aarvik@paretosec.no
SEB	markus.bjerke@seb.no stefan.nelson@seb.se
Sparebank 1 Markets	oyvind.mossige@sb1markets.no

Share information

Number of shares	166,968,888
Nominal value per share	NOK 1.00
Ticker at Oslo Børs	EPR

EPR share price development 2018



NOTES

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