
Annual Report
2010
Annual Report

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Tiimari Group in brief

Tiimari Group comprises two retail chain concepts, Tiimari and Gallerix. The Group's business operations cover Finland, Sweden, Estonia, Latvia and Lithuania. The total number of the Group's own retail outlets and franchising outlets is nearly 300.

tiimari Tiimari's primary markets are Finland and the Baltic states. The key product groups are arts and crafts items, seasonal products and school and office supplies. Festive seasons, particularly Christmas and Easter, play a significant role in both product selection and sales. The Tiimari chain's total annual turnover is approximately EUR 62 million.

Gallerix Gallerix operates in Sweden, with the majority of the shops operating under the franchising principle. The key product groups are picture frames, greeting cards, paper items, other wall decoration products and a framing service. The total sales of Gallerix shops, including those operated by franchisees, amount to approximately EUR 27 million, and the chain's turnover is approximately EUR 14 million.

TIIMARI

Tiimari has been a publicly listed company since 2006 and is presently listed on Nasdaq OMX Helsinki Oy.

THE GROUP'S KEY FIGURES

	2010	2009	2008
Revenue	75,797	80,623	85,644
Operating profit	-12,613	-8,198	-5,893
Operating profit -%	-16.6%	-10.2%	-6.9%
Operative EBITDA (excl. non-recurring items)	400	0	2,722
Non-recurring items	-2,950	-3,073	-5,000
Earnings per share	-0.89	-0.73	-0.94
Return on equity	-77.5%	-38.0%	-28.3%
Return on investment	-26.8%	-13.0%	-8.2%
Equity ratio	18.9%	34.7%	34.6%
Gearing	208.5%	85.6%	105.0%
Total assets	66,013	75,994	87,925
Employee benefits expense	20,544	22,085	19,876
Average number of employees	591	730	680


Out!
SING!
TO PLAY
Room Decorating Kit

CEO's review

A year of structural changes and developing basic infrastructure

Tiimari Group's strategy is to focus on our core concepts in our primary markets of Finland, Sweden and the Baltic states. We withdrew from the Russian and Norwegian markets in 2009 and also began closing down our operations in Poland. By the end of the first quarter of 2010 we had integrated Tiimari's Swedish operations to Gallerix and withdrew from the Tiimari shops in Sweden. In Finland our development efforts were focused on improving the Tiimari concept. We closed down the company-owned Gallerix shops in Finland and integrated part of the Gallerix product range into the Tiimari offering.

Tiimari Group has rationalised its operations and carried out an extensive earnings improvement programme. Inventory levels have been cut by over EUR 8 million and, among other things, back-of-store inventory was practically eliminated. Investments in the past year were very conservative, focused on improving operational efficiency through the modernisation of the goods flow control system, the launch of an inventory system, measures to improve payment traffic and the management of product groups and develop new product ranges. The company also implemented a significant change in its pricing strategy in response to the negative trend in sales volume that had continued for several years as a result of price increases. On 19 October 2010, we lowered the prices of 640 products in our basic product range as part of our new pricing structure based on permanently low-priced products.

These measures have allowed us to make our cost structure significantly lighter and nearly double our inventory turnover rate. Tiimari's operational EBITDA improved from last year but failed to meet our expectations due to Christmas sales being weaker than in 2009.

From the customer's perspective, the basic categories in Tiimari's product range are arts and crafts products, seasonal and festive products, office and school supplies, gift wrapping supplies, candles, cards, small home decoration items, paper napkins, disposable tableware and table setting sets and inexpensive small products for young children. Based on an extensive consumer panel carried out last year, the Tiimari brand is perceived as happy, colourful, playful, easy to approach and full of life. Tiimari is seen as fostering visual beauty, arts and crafts skills, trends, a high rate of change and the small things in life.

The key motive for shopping at Tiimari was perceived to be the fact that Tiimari has almost everything. Tiimari gives customers inspiration, a splash of colour in their daily life, small gifts, seasonal products for festive celebrations and everyday consumption experiences from brief visits to the shops. Products purchased in response to a previously identified need include those with an attractive price-quality ratio. Among Tiimari's products, particularly school supplies, notebooks, pens and pencils, candles and lanterns are perceived to represent good value for money.

Our active customers consider their bond with Tiimari to be strong. They feel that Tiimari offers a unique concept and state that there are no competitors with a comparable product range and price-quality ratio. Based on this, we are very confident that the results of the launch of our new product range and pricing strategy will, in time, be reflected in an increased number of customer visits and higher sales.

Tiimari Group's theme for 2011 is the improvement of operational profitability through organic growth. The primary focus in creating growth is on developing the product range. We aim to take our product offering closer to Tiimari's roots, offering our customers the fun, different and surprising products that they expect from Tiimari at an attractive price. We will focus significant efforts on the further development of the product ranges in our key product groups, such as arts and crafts products and the seasonal products segment. We will also renew our entire range of greeting cards.

In a change of strategy from last year, we will add previously successful inexpensive products for use in the home and for decorating the home. The aim of this change is to increase our customers' purchasing frequency. In the Gallerix segment, growth is primarily sought through focusing on increasing the sales of the largest shops, taking an active approach to sales work and launching new product categories.

As outlined in the Standstill agreement concluded between Tiimari and the financial institutions that have granted it financing, the company will begin exploring structural and financial alternatives in the early part of 2011 to strengthen the balance sheet.

Hannu Krook
CEO

Tiimari Group's strategy

Tiimari Group comprises two leading retail concepts, Tiimari and Gallerix. The company operates nearly 300 shops in five countries in the area around the Baltic Sea. The Group's two retail chains have different business concepts, both of which are at the forefront of their respective markets. The Tiimari business concept is based on controlling the entire value chain by operating company-owned shops. The Gallerix concept is based on a franchising model, resulting in significantly lower capital being tied to operations. For both concepts, our key challenge is to develop a unique targeted concept that provides us a sustainable competitive advantage on international retail markets.

Tiimari Group's purchasing and sales functions in the shops work in close co-operation. The focus is on consistently combining a broad product range with a high rate of inventory turnover. The purchasing function is steered by the principles of Category Management. Development of product categories is based on market research, benchmarking and customer feedback analyses. The combined sales volumes and partly overlapping product ranges of the Group's major shop concepts also provide synergy benefits.

Both of our concepts have built a good level of brand awareness and a top-of-mind position in several key product categories in their home markets in over 30 years of operations. Tiimari is known particularly for its arts and crafts supplies, gift-wrapping selection, school and office supplies and seasonal festive products. Tiimari also enjoys very high brand awareness in Estonia and Latvia. Gallerix is known especially for its extensive selection of greeting cards and wall decoration products. Both the Tiimari and Gallerix concepts are unique in their markets.

Tiimari Group's Market Areas

- Tiimari concept market area
- Gallerix concept market area

Tiimari

Tiimari specialises in celebrations, arts and crafts, gift-wrapping, cards, office and school supplies, small home decoration items and seasonal products. The core values of the concept are surprises, low prices and diversity. The business model is based on a broad product range comprising 20,000 different stock keeping units, low average prices, small shops, new products introduced on a weekly basis and high volume. Tiimari was established in Lahti, Finland in 1975. Tiimari's competitors include various types of retail operators depending on product category, ranging from specialty retailers to bookstores and from gift shops to supermarkets.

The Tiimari chain's home markets are Finland and the Baltic states. Tiimari operates nearly 200 shops in these markets. The chain's network of nearly 170 shops in Finland is geographically exceptionally extensive in specialty retail. In line with the Group's strategy, we have undertaken detailed analyses of efficiency and profitability at the shop level and adapted our cost structure to match sales. In Estonia, Tiimari has a network of 13 shops and enjoys a very high level of brand awareness in the primary markets of Tallinn (7 shops) and Tartu (2 shops). In Latvia, Tiimari has been a very profitable and well managed retail chain in the 2000s. Tiimari has four shops in the Riga area, all in leading shopping centres. The Lithuanian market is relatively new to Tiimari, as the company operates only two shops there. The newer of the two was opened a little over a year ago.

Throughout its 35-year history, Tiimari has created a very strong brand and built a strong position in the minds of Finnish consumers. A key change in our product range strategy has been to shift the emphasis of our home decoration category to seasonal and festive decoration. Our strategy for the coming years is to balance out seasonal variations in demand and increase purchasing frequency during the first nine months of the year. Traditionally, some 40% of Tiimari's sales have been made in the last quarter of the year.

Based on an extensive consumer panel carried out last year, the Tiimari brand is perceived as happy, colourful, playful, easy to approach and full of life. Tiimari is seen as fostering visual beauty, arts and crafts skills, trends, a high rate of change and the small things in life.

Tiimari's customers are interested in making things with their own hands: in doing arts and crafts, organising parties and decorating the home. Tiimari's customers are motivated by spending time with family and friends and the desire to see the results of their own handiwork in the abstract world that we live in. In line with our product strategy, we will develop our selection to offer our customers well thought-out products and sets of products with instructions and models. A key element of this strategy is to develop a sense of community on the Internet. For Tiimari, the online realm is, on one hand, a channel for receiving ideas and input for product development, and on the other hand, a forum for spreading ideas and inspiration.

Our objective is to maintain Tiimari's position as a brand that highlights happiness and joy in daily life and provides customers with an extensive and surprising selection of products characterised by good value for money. Good customer service is a key aspect of the Tiimari concept. Salespersons are considerate of customers, give them the freedom to browse, know the products and have the ability to give tips related to e.g. arts and crafts. We also aim to have examples and inspiration for arts and crafts, party planning and seasonal decorations in our shops. The products in our basic product range have fixed locations in the shops, making them easy to find, while seasonal products are displayed more prominently, creating a colourful and inspiring look for the retail environment.

Nearly all of the goods sold by Tiimari in Finland and the Baltic States travel through the company's logistics centre in Lahti. Our basic philosophy is to deliver simple and easy solutions to our shops by allowing centralised additional work on products at our distribution centre. As an example of our new logistics solutions, caster pallets to replace non-rolling pallets were adopted in 2010 in the chain's smaller stores. The change is designed to make shelving in stores faster and more flexible, which also contributes to the project to improve the efficiency of stores.

Tiimari has a highly stable IT infrastructure, with operations outsourced to service centres. The company has invested in a mobile system for taking inventory, which was implemented in the first quarter of 2010. The most important system project in 2010 was a flexible store logistics control system linked to the ERP system.


David Bowie
Scary Monsters
The Clash
LONDON
CALLING
Strømmen

Gallerix

Gallerix has nearly 90 shops in Sweden, 11 of which are owned by the company itself. The rest of the shops operate under the franchising principle. Gallerix specialises in framed artwork, framing services and frames, small home decoration items, gift-wrapping and cards. At the core of the concept are cosiness, attractiveness, humour and excitement. One of the key differentiation factors of the Gallerix concept is the framing service. Ramverkstad offers art gallery standard framing services and a diverse selection of wall decoration products at convenient locations in shopping centres. Gallerix was established in Uppsala in 1974.

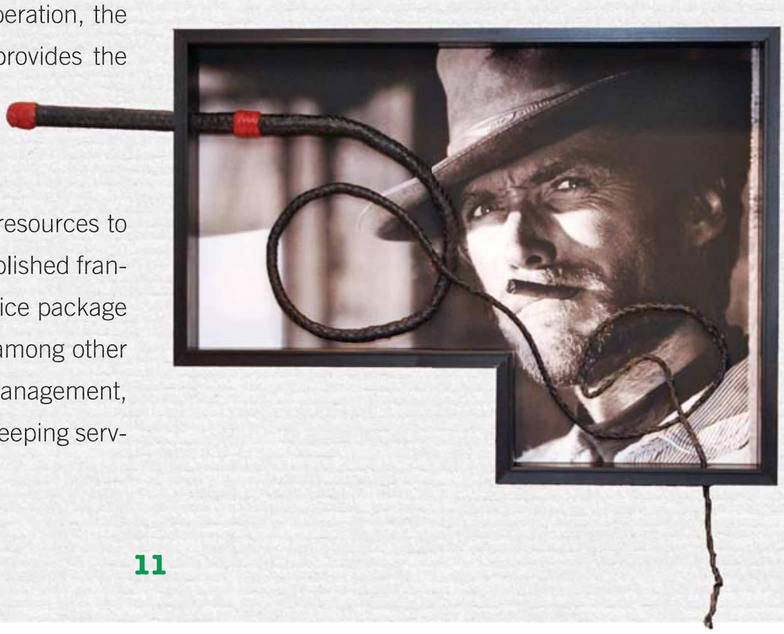
Gallerix has leveraged its unique business concept to build a strong market position and a high level of brand awareness on the highly competitive Swedish retail market. The Gallerix concept has been successful in both differentiation and brand building. In the first quarter of 2010, we discontinued the majority of Gallerix's heavily loss-making Finnish operations and decided to close down the shops gradually as lease obligations expire. Going forward, Gallerix resources will be directed to the chain's home market in Sweden.

Over the years the Gallerix franchising model has developed and assumed its current form. Gallerix manages all lease agreements to facilitate control of its tight franchising concept. All franchisees are committed to following the chain's policies and guidelines in order to ensure a consistent customer service experience across all stores and cities. In the initial stage of co-operation, the Gallerix agreement covers a package that provides the franchisee support in drafting a business plan, a financing plan and leasing agreements. Furthermore, prior to store opening Gallerix provides employee training and the resources to build and productise the business idea. Established franchisees are provided a chain operations service package on an annual basis. The package includes, among other things, chain marketing, product category management, POS system support, IT help desk and bookkeeping services.

Nearly 60% of Gallerix's SEK 250 million in consumer sales is comprised of products that go through the Uppsala distribution centre. Slightly over one quarter of consumer sales is made up of products that are directly delivered to or re-stocked into stores by suppliers, but our strategy involves gradually consolidating these product areas into the Gallerix distribution system and thereby increasing the sales margin of the entire Gallerix value chain. Service sales made up approximately 15% of the total turnover of Gallerix stores.

The most valuable part of the marketing mix is the retail store, as the outlets are mainly located on premium commercial real estate in leading local shopping centres. Our strategy is to develop our point-of-sales marketing by making more effective use of store windows and inspiring in-store displays. We will also increase our investment in media marketing in mass media and, in particular, social media.

The size of the network of Gallerix stores in Sweden has remained fairly stable for several years. In the coming years we will aim to strengthen our position particularly in large cities where the market potential for Gallerix is clearly the highest.



Timari Management team from left to right. Front row: Sirpa Kosonen, Tarja Nikkarikoski and Memme Ilmakunnas.
Back row: Veijo Heinonen, Mikko Saikko, Kai Järvikare and Hannu Krook

Management team

Hannu Krook b. 1965, has served as the Managing Director of Tiimari Plc from 7th April 2009. Mr. Krook has previously served as the vice president for the Otto Brand Group (2005–2009). Prior to this he has worked in various positions within the TeliaSonera group: Managing Director of Sonera Zed, SVP Consumer Products & Services Telia Sonera Finland, Marketing Director Sonera Corporation as well as Managin Director Sonera Plaza. Mr. Krook transferred to Sonera from the Managing Director position at Coca-Cola Juomat Ltd. Previously, he has served as a management consultant at The Boston Consulting Group in Stockholm and Helsinki as well as Brand Manager at Procter & Gamble Scandinavia in Stockholm. Mr. Krook also serves as board member at Veikon Kone Ltd. He holds an M.Sc. in Economics.

Daniel Crewe b. 1967, started at the Company in 2008 and has served as Managing Director at Gallerix Sweden Ltd. since 26th March 2009. Mr. Crewe has previously served in various sales and marketing positions, the latest being at DHL Express in Sweden and prior to this in various companies in Great Britain. He holds a B.Sc. Marketing.

Kai Järvikare b. 1964 was appointed CFO and Management Board member for Tiimari Plc 21st June 2010. Järvikare transfers from Tuokko Tilintarkastus Ltd. Prior to this he served as CFO of publicly listed company Talentum for many years. Järvikare has also served in various finance management positions at Fennia as well as Sonera Plaza.

Veijo Heinonen b. 1961, was appointed Commercial Director for Tiimari Retail Ltd. 16th March 2010. Previously, Mr. Heinonen served as Director Category Management as well as Director for the Siwa chain. Prior to this he served as Marketing Director at Valiojäätelö. Mr. Heinonen holds an M.Sc. in Economics.

Sirpa Kosunen b. 1969, was appointed to Tiimari Retail Ltd's Import Secretary in 1995 and thereafter has worked in various purchasing and logistics positions. Sirpa holds a degree in the hotel and restaurant sector. Kosunen completed in 2009 Management Specialist Qualification organized by Tiimari. Sirpa Kosunen has left Tiimari in March 2011. MSc eng. Juha Ruokamo started as the logistics manager in April 2011.

Tarja Nikkarikoski b. 1960, was appointed CIO for Tiimari in 2007. Previously Nikkarikoski served as Senior Consultant at A-Ware Ltd. Prior to this she has long experience in management positions of information management in sectors of finance, trade and logistics. Nikkarikoski holds a degree in Information Technology and Philosophy. Tarja Nikkarikoski has left Tiimari in April 2011. Sami Ylä-Jussila started as the CIO in March 2011. He holds a degree in information technology. Mikko Saikko has responsibility over ICT in the management team.

Memme Ilmakunnas b. 1955, was appointed Purchasing Director for Tiimari 17th August 2010. Ilmakunnas has served in various purchasing positions at Seppälä and the last four years as Purchasing Director for Seppälä Ltd.

Mikko Saikko b. 1971, was appointed to Tiimari Retail Ltd's Senior Vice President in ICT and Business Development in 2011. Saikko has previously worked at Suomen Lähikauppa Ltd in a variety of business management and development positions, most recently responsible for managing the pricing and product management processes. Saikko holds an M. Sc. in Social Sciences.

Tiimarin Board of Directors from left to right. Front row: Juha Mikkonen, Sissi Silván, Hannu Ryöppönen
Back row:
Alexander Rosenlew, Sven-Olof Kulldorff, Markku Pelkonen

Board of Directors

Hannu Ryöppönen b. 1952, was elected board member in 2009. The Board elected Mr. Ryöppönen as chairman of the board in October 2009. Hannu Ryöppönen holds an M.Sc. in Economics and serves as a board professional. He served as CFO at Stora Enso Plc 2005–2009 and as CFO at Royal Ahold NV 2003–2005. Prior to this, Mr. Ryöppönen has served in similar positions at international group companies like Industri Kapital and IKEA. Hannu Ryöppönen serves as the chairman of the board at Altor Private Equity Funds and as a member of the board at Amer Sports Plc, Neste Oil Plc, Novo Nordisk A/S, Rautaruukki Plc, Korsnäs Ltd. and Value Creation Investments Ltd.

Juha Mikkonen b. 1962, was elected board member in 2008. Juha Mikkonen holds an M.Sc. in Economics. Mr. Mikkonen is the founder and chairman of the board at Vicus Ltd. Prior to his current post, Mr. Mikkonen served as the Managing Director of Conventum Corporate Finance Ltd. Before this he served as an Investment Manager at Kansallis-Osake-Pankki Bank and as a Stock Analyst at the Midland Montagu banking corporation. He is also a founder of Coventum Ltd and the Prospectus Ltd. investment bank. He is the chairman of the board at Assetman Ltd.

Sven-Olof Kulldorff b. 1954, was elected board member in 2009. Sven-Olof Kulldorff holds an M.Sc. in Industrial Engineering and serves as a board professional and management consultant. Mr. Kulldorff served as Executive Vice President, Supply Chain 2004–2007, responsible for purchase and logistics operations at ICA Group and served at IKEA Group 1978–2004, his latest position being Senior Vice President, Global Sourcing/CPO, responsible for purchasing operations. Sven-Olof Kulldorff serves as the chairman of the board at BUFAB Group and Byredo Ltd. and as board member at Boxon Ltd., Rusta Ltd., IDesign A/S, Sonat Ltd., Grädde Ltd. and Fjällbrynt Ltd., Market on Line Ltd. and BergendahlGruppen Ltd. Mr. Kulldorff holds a Swedish citizenship.

Markku Pelkonen b. 1962, was elected board member in the autumun of 2009. Mr. Pelkonen currently serves as the Vice President at Picnic Yhtiöt Ltd and Managing Director at Picnic Finland Ltd, a subsidiary of Picnic Yhtiöt Ltd. Previously, Mr. Pelkonen has served in various executive sales and marketing positions at Rautakirja Ltd. During the last eight years he served as the Senior Vice President, Kiosk Operations at Rautakirja Ltd. Mr. Pelkonen serves as a board member at Tammer-Tukku Ltd. Markku Pelkonen has completed a Vocational Qualification in Business and Administration.

Alexander Rosenlew b. 1971, was elected board member in 2008. Alexander Rosenlew holds an M.Sc. in Economics and an M.Sc. in Management. From April 2010 Mr. Rosenlew has served as the Managing Director of Orthex Ltd. Between 2002 – March 2010 Mr. Rosenlew served as the Managing Director at Colgate-Palmolive Finland and as a member of the Executive Management Team of Colgate-Palmolive Nordic A/S. Prior to this, he served in various executive sales and marketing positions at Nestlé in Switzerland, Finland, Sweden and Norway between 1997–2002. Mr. Rosenlew currently serves as member of the board of Lagerblad Foods Ltd. and the chairman of the board of Rosaco Ltd.

Sissi Silván b. 1958, was elected board member in the spring of 2010. Mrs. Silván holds an M.Sc. in Economics and an eMBA. In 2010 Ms. Silván started in Finpro as the Head of Finland's Scandinavian Trade Center. 2003-2010 she served as the Managing Director of Lollipop Management Consulting Ltd. Between 1997–2003 Mrs. Silván served as Country Manager for Hennes & Mauritz and between 1994–1997 she served as the Managing Director for Womena McCann. Prior to this, Mrs. Silván served Director, Northern Europe at Heinz Goldmann International Foundation and in various director and management roles at Mercuri International in Finland and Singapore. Mrs. Silván currently serves as a member of the board of Friitala Fashion Ltd. and Reima Ltd.

Corporate Governance Statement 2010

Tiimari Plc complies with the Company's Articles of Association, Finland's Companies Act and the rules and regulations concerning listed companies, set by Nasdaq OMX Helsinki Plc. Tiimari also complies with the Corporate Governance Code for Finnish listed companies published by the Securities Market Association.

The ultimate decision-making power in the Tiimari Group ("The Company" or "The Group")) lies with the shareholders at the Annual General Meeting ("The Meeting"). The board of directors ("The Board") of Tiimari Plc is responsible for the governance and proper arrangements of operations of the Company. The Managing Director is responsible for the operational management in accordance to instructions and orders given by the Board.

ANNUAL GENERAL MEETING

The General Meeting is held annually in Helsinki by the end of June at the latest. The Annual General Meeting decides on matters stipulated by the Companies Act and Articles of Association, such as approval of financial statements, distribution of dividends, discharging Board members and Managing Director from liability and election of the Company Auditor and their remuneration.

The notice to summon the Annual General Meeting must in accordance to the Articles of Association be published in one general newspaper chosen by the Board. Tiimari also publishes the notice on its website.

ANNUAL GENERAL MEETING 2010

The Annual General Meeting of Tiimari Plc held 30th March 2010 approved the financial statements for 2009 and discharged the Board members and the Managing Director from liability. The Annual General Meeting also decided on the distribution of dividends. The Meeting decided on the number of board members and their remuneration as well as elected the board members for the term of office ending at the Annual General Meeting 2011.

The Annual General Meeting elected the company's auditor and decided on the auditor's fees in the Annual General Meeting.

The Annual General Meeting authorized the Board of Directors to decide on a share issue and on rights enitling to shares and to sell treasury shares with specified conditions.

BOARD OF DIRECTORS

Under the Article of Association the Board of Directors consists of a minimum of 3 and a maximum of 8 members. The terms of office of the members will run from their election to the end of the following Annual General Meeting. The Board elects a Chairman and a Vice Chairman among its members. The Vice Chairman acts as a deputy for the Chairman should he be otherwise engaged.

RESPONSIBILITIES AND CHARTERS OF THE BOARD

The responsibility of the Board is to govern the Company in accordance to the Finnish Companies Act, other legislation and official regulations, the Articles of Association and decision taken by the Annual General Meeting.

Under the charter approved by the Board of Directors, the Board is responsible for the governance and appropriate arrangement of operations in the Company, confirming the Company's business strategy and annual budget. The Board oversees the Company's solidity, profitability, liquidity and operational management. The Board approves the Company's principles for risk management, is responsible for preparing the financial statements, confirms the financial policy and decides on measures within the operative environment of the Company that are exceptional or especially significant, taking into consideration the quality and scope of the operations, unless these measures come within the responsibilities of the Annual General Meeting.

The Board appoints the Managing Director and a sufficient number of Management Group members and approves their terms of employment. The Board approves and decides on the general and management related remuneration principles as well as other far-reaching personnel matters. The Board also decides on Board committees and their duties. In addition, the Board regularly assesses its own operations and cooperation with the management.

BOARD OF DIRECTORS IN 2010

The Annual General Meeting elected 6 members to the Board of Directors in 30th March 2010.

The Chairman of the Board during the end of the financial year was Hannu Ryöppönen, the Vice Chairman was Juha Mikkonen and the members were Sven-Olof Kulldorff, Sissi Silvan, Markku Pelkonen and Alexander Rosenlew. None of the board members are employed by the Company.

Information on the board members is presented on the Company's web site.

The Board convened 20 times during 2010. The members participated in all meetings with some exceptions.

All board members are independent from the company. All board members apart from Juha Mikkonen are independent from the biggest shareholders.

BOARD COMMITTEES

The Board of Directors has nominated two committees during the year 2010: Audit Committee and Nomination and Compensation committee.

1. The responsibility of the Audit Committee is to monitor the reporting process applicable to the Company's financial statements, supervising the Group reporting process and the statutory audit of the Company and Group, assess the independence of the auditor and the additional services provided by the latter and prepare the nomination and remuneration proposal to the Annual General Meeting. Additionally, the Audit Committee monitors the efficacy of the Company's internal control and risk management, reviews the description of the main principles relating to internal control and risk management associated with the financial reporting process provided by the Company's administration and control system. The Chairman of the Audit Committee at the end of the financial year was Juha Mikkonen and the members were Hannu Ryöppönen and Sissi Silvan. The Audit Committee convened five times during 2010. The members attended all meetings held.
2. The responsibility of the Nomination and Compensation committee is the prepare proposals to the Annual General Meeting relating to board composition after consulting major shareholders as well as preparing proposals to the General Meeting relating to board member remuneration. The Committee prepares proposals to the Board relating to sub- committee composition, appointment of the Managing Director and employment benefit and management remuneration related matters. The Chairman of the Nomination and Compensation committee is Hannu Ryöppönen and the members are Alexander Rosenlew and Juha Mikkonen. The Committee convened 3 times during 2010.

MANAGING DIRECTOR

The Board appoints and when necessary dismisses the Company's Managing Director. The Managing Director is responsible for the operative management of the business operations in accordance to the Articles of Association, legislation, official regulations and instructions and orders given by the Board. The Managing Director is responsible for the legality of the company accounting and the reliable management of assets. The Managing Director is supported by the Management Group. The Managing Director of Tiimari is Hannu Krook. The Managing Director does not have deputy. The personal details of the Managing Director are presented on the Group web site.

OTHER MANAGEMENT

MANAGEMENT GROUP

The Management Group consists of the managers responsible for the different operations in the Company and the Managing Director of Gallerix International AB. The Management Group convenes under the leadership of the Managing Director to prepare board presentations and review financing, financial issues, IT as well as matters concerning the coordination and development of cross segment issues, marketing, shop operations, purchasing and logistics.

Information on Management Group composition is presented on the Group web site.

SUBSIDIARY MANAGEMENT

The subsidiaries have boards, which monitor the operations of the respective companies, report to the Board, that operations comply with rules and regulations as well as Group level principles. Significant issues related to the subsidiaries are also dealt with by the Management Group and/or Board meetings.

The Managing Directors of the subsidiaries are responsible for the appropriate allocation of company resources, development of personnel and ensuring that activities comply with the agreed quality requirements. The Managing Directors of the subsidiaries are also responsible for ensuring that operations occur in accordance with local legislation and other regulations.

REMUNERATION

The Annual General Meeting decides on board member remuneration. During 2010 the Meeting decided to remunerate 2,400 euros per month to the Chairman of the Board, 1,800 euros per month to the Vice Chairman and 1,200 euros per month to other members. In addition, the Meeting decided to remunerate board committee members 100 euro per committee meeting. The board members are compensated for travel and other expenses, which arise from them managing company business. Of the board members, Hannu Ryöppönen and Sven-Olof Kulldorff have according to the decision taken by the Meeting been granted options, which first exercise period has started 1st June 2009.

The Managing Director's compensation includes in addition to a basic salary an annual bonus, which corresponds to a maximum of twelve months salary. The bonus reward is determined based on the targets set by the Board. The Managing Director is also included in the Company's share option scheme, of which the exercise period of the first series is starts 1st May 2011 and the second 1st May 2012 at the earliest. The Managing Director and the Company have a mutual six month notice period. No additional remuneration on dismissal has been agreed on.

The salary including fringe benefits and bonuses for Managing Director Hannu Krook during 2010 was 231,120.00 euros. The share of the bonus was 0 euros.

The Management Group members can be remunerated via incentive schemes in addition to their basic salary. The rewards are partly based on achieving the financial targets set by the Company and partly based on personal targets. The Board decided annually on the terms of the bonus rewards. During 2010 the Management Group member compensation including fringe benefits and bonuses were a total of 547,998.93 euros. During 2010 no bonuses were paid and a cut was applied due to the negative result. In addition to the statutory pension the Managing Director and Management Group members have an additional pension arrangement scheme.

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

The Board is responsible for the governance and appropriate organization of operations. In practice, the responsibility of the Managing Director in cooperation with the Management Group is to organise the accounting and implementation of control mechanisms.

The Group's financial development is monitored on a monthly basis via a Group wide reporting system. The system included an income statement, balance sheet, cash flow and the most important ratios.

The business operations are managed via the Management Group, business operation Management Groups and in Gallerix also via the responsible Managing Director. The responsibility for the management of daily business operation related risks fall on the subsidiaries utilizing Group level expertise.

The aim of risk management is to identify, asses and manage risk that threaten the achievement of business operation related targets. The principles and aims of risk management as well as the most significant risks and uncertainty factors are presented below.

The company does not have its own internal audit function. The Board and Audit Committee assess the effectiveness of internal control and risk management regularly and decide on potential measures according to this assessment.

INSIDER ADMINISTRATION

The Company applies the insider regulations of Nasdaq OMX Helsinki that came into force 9th October 2009. The Company also has its own insider regulations. The Company's public insiders include based on their position the board members, Managing Director and auditors. In addition to this, other public insiders include the Management Group members.

The Company also has a company specific insider register. A separate register is held for projects, which could have an impact on the company share price should they go ahead.

The Company's insider register is maintained by the parent company finance department based on the information given by the insiders. The holdings of public insiders are available at Euroclear Finland Ltd, Urho Kekkosenkatu 5 C, 00100 Helsinki, tel. 020 770 6000 and the Group web site.

AUDIT

The Group Auditor is KPMG Ltd with Sixten Nyman APA, as auditor with main responsibility.

A total of 115 thousand euros for audit services and 16 thousand euros for non-audit services were paid to the auditors employed by Group companies in 2010.

COMMUNICATIONS

The aim of Tiimari is that all market parties as provided with accurate, up-to-date and adequate information about the Company. On Tiimari's investor pages (tiimari.com) the Company publishes governance related information, stock exchange releases immediately after announcement and other key investor material.

MAIN PRINCIPLES FOR INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO THE FINANCIAL REPORTING PROCESS

By financial reporting process reference is made to activities that produce financial information utilised in company management as well as published financial information published in accordance to legislation, standards and other regulations related to the Company.

INTERNAL CONTROL RELATED TO FINANCIAL REPORTING

The aim of internal control is to ensure that the company reporting produces up-to-date, adequate and essential information for the use of management and that the financial reports published by the Company provide essentially accurate information about the Company's financial position.

STRUCTURE OF FINANCIAL MANAGEMENT

Tiimari has two segments and these had several subsidiaries. The financial management of the Finnish companies is executed by the parent company finance department after the in-sourcing of the financial management completed in 2008. Gallerix has its own finance department in Sweden and it is also responsible for the financial management of Tiimari Sweden Ltd. The accounting in the other subsidiaries has been outsourced to local accounting companies. The Group has a controller that is responsible for the management and monitoring of the reporting from the subsidiaries. The companies are responsible for the organization of their financial management under the guidance of the Group administration in order for them to comply with local legislation and simultaneously produce reports according to the international accounting standards (IFRS) used by the Group. The management of financing and related risks are centralised under the responsibilities of the Group's Chief Financial Officer.

The Group does not have its own internal control mechanism. The Audit Committee and Group management shall buy internal control services based on their assessment.

MANAGEMENT

Target setting and their monitoring are part of Tiimari's management process. Short-term financial targets are defined annually as part of the plan and the progress is monitored on a monthly basis. The group companies report monthly actuals in terms of income statement and balance sheet as well as the most significant events relating to the financial developments.

The group level finance department consolidates and verifies the information received from the group companies. Monthly reports are produced to the Management Group and the Board. The report includes income statement and balance sheet by segment and group level. The full year monthly operative cash flow is reported and forecasted on group level on a monthly basis. The Board, Management Group and segment management monitor the development of the financial position and targets on a monthly basis.

FINANCIAL MANAGEMENT IT SYSTEMS

The Finnish companies utilise a common financial management system and account chart. The other companies utilise different systems. For management and statutory reporting, the Company utilises one, centrally maintained system with a common chart of accounts. The group level finance department advises and schedules the reporting process and monitors that the reporting conforms to the instructions.

The financial reporting instructions are based on the EU accepted international IFRS accounting standards, which are applied in the Group. The group level finance department instructs the group companies and their finance departments on the contents of the financial reporting and its schedule.

RISK MANAGEMENT RELATING TO FINANCIAL REPORTING PROCESS

The aim of risk management is to identify threats related to the financial reporting process, which could lead, should they occur, to a situation where the management would not have up-to-date, adequate and essentially correct information to manage the company or that the financial reports published would not provide essentially correct information about the financial position of the company.

Tiimari manages its financial reporting related risks by purposeful organization, guidance and sufficient resourcing of the financial management. Individual work descriptions are limited to reduce risk, software accesses are limited and managed appropriately. In addition, the common chart of accounts in the group reporting, utilisation of information technology and continuous guidance support the risk management.

DEVELOPMENT OF FINANCIAL REPORTING

Tiimari continuously develops its financial management. The financial reporting is developed via simplification, improving group reporting systems and the forecasting process.

RISKS AND RISK MANAGEMENT

The goal of Tiimaris risk management is to identify, assess and manage the risk threatening the achievement of set targets by the business. The aim of the risk management is to support the achievement of financial targets as well as secure the continuity of the business operations. The Audit Committee monitors and oversees the effectiveness of risk management and the Managing Director and Management Group are responsible for the daily monitoring, management and identification of business risks.

Tiimari has taken out extensive insurance against vital property, closure, transport and liability damage. The management of insurance contracts has mainly been concentrated at group level management apart from local personal insurance.

The group level financial management governs financing risks according to principles approved by the Board. A description of financing risks is presented in the annual report as part of the financial statements.

BUSINESS RELATED UNCERTAINTIES AND RISKS

Tiimari sells products through its own retail shop chains and franchising shops. The decline in the general economic environment and the reduction in the demand on Tiimari's markets: In Finland, Sweden and the Baltics might have a negative effect on the Company's revenue stream and profitability. The main markets are in Finland and Sweden. The Company does not have any individual large customers.

The franchising shops are bound to the principal, but the decline in demand and the related reduction in profitability might cause a credit loss in the Gallerix segment.

The Company focuses on developing its core business operations and reducing non-profitable operations. A major part of this development is the development of the product offering – removing old products and introducing new product categories in the shops to balance out the seasonality. The improvement in profitability is subject to a quick eradication of non-profitable operations and a successful development of the product offering.

The seasonal business cash flow and result gathers during the last quarter. The Company has a credit limit for working capital financing during the beginning of the financial year and it includes a so called clean down requirement at the end of the financial year. The breach of loan covenants might affect the sufficiency of funding and have a deteriorating effect on the Company's financial position.

The development of exchange rates affects the purchases price of products bought outside of the euro currency region and the gross margins attached to these products. About 40% of Tiimari's purchases come from the Far East and these purchases are performed in US dollar currency. Because the pricing is set during the ordering process and the delivery periods are several months, an exchange rate change might have a negative effect on the gross margin.

Rental contracts for new shop locations are initially agreed already during the building of the shopping centres and the rental agreements are usually long – term contracts. The of a new shopping centre affects the customer flows of the entire shopping centre as well as Tiimari's. Changes in the cities and urban centres affect the traffic and the customer flows of old shops. For Tiimari, reductions in customer flows might have a negative effect on revenue and profitability in the long run.

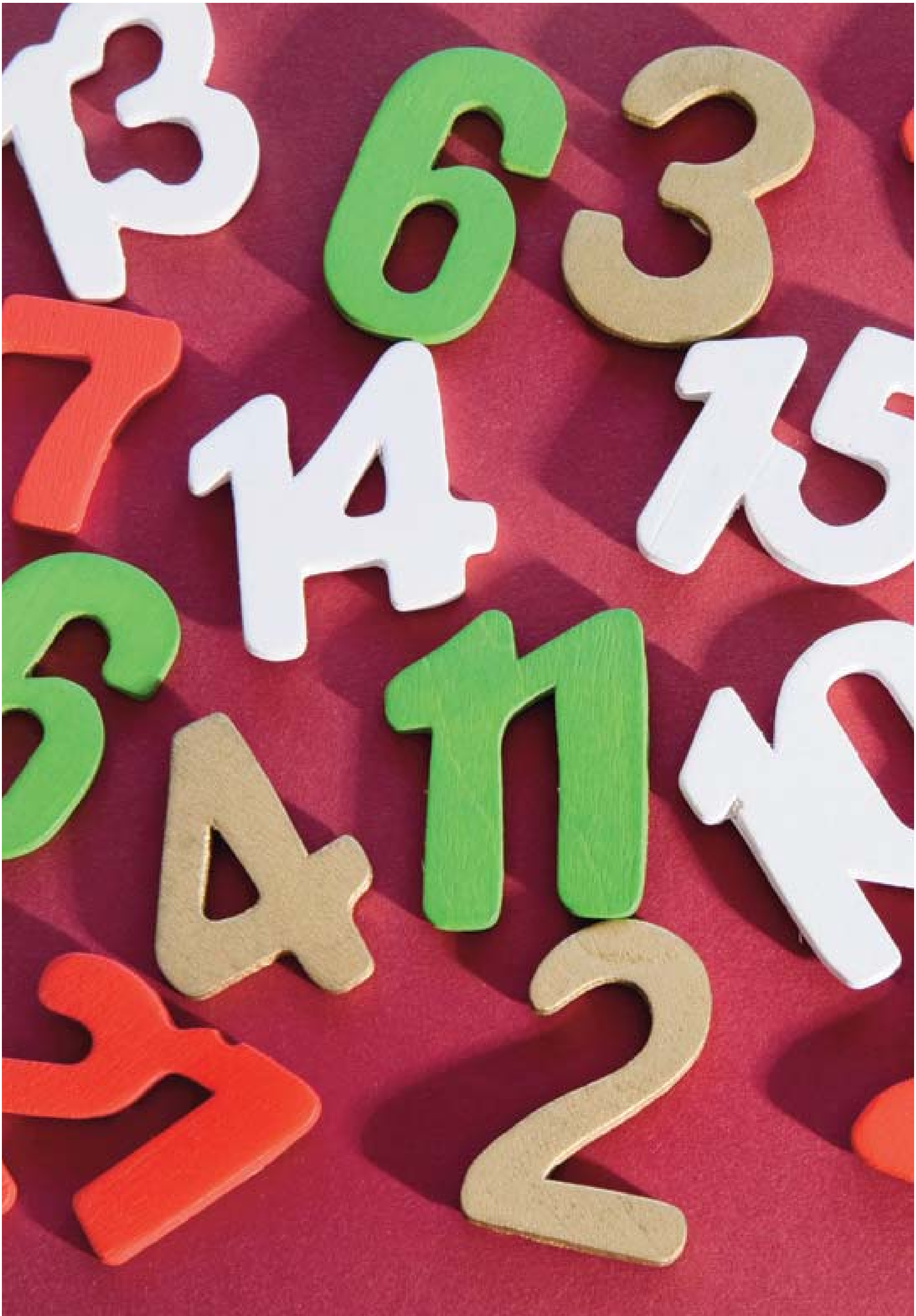
A major part of Tiimari's revenue comes from seasonal products, for example products related to Christmas and Easter are seasonal products sold once a year. Problems concerning the availability and proper working of the delivery chain may result in the product arriving too late in relation to the season sale. The operations of the chain may be affected by conflicts in the transport industry, supplier production issues or maritime transportation. Products arriving late could also stay in the inventory until the next season. The threats could, if occurring, have a negative effect on both revenue and thereby on profitability and financial position.

The Company has made significant corporate acquisitions between 2006–2008, which has resulted in significant values of goodwill and intangible assets being booked on the company balance sheet. Development of intragroup synergies and efficiency as well as improving profitability of the acquired concepts do affect the valuation of balance sheet items. A decline in profitability might result in impairment needs for these items thereby negatively affecting the company's profitability and financial position.

40% of Tiimari's purchases come from the Far East. In parts of these deals payment terms are followed where one part (20–30%) on the total purchase price is paid in advance. Based on the financial position of the supplier and the development of the aforementioned these prepayments might include a credit risk should the supplier not be able to fulfill the order of which the prepayment has been made.

The biggest expense items apart from purchases are personnel benefit related, rents and freights. The general increases in salaries, rent adjustments and changes in transport expenses may have a significant effect on Tiimari's profitability.

The interest paid on Tiimari's loans are based on 1–6 month euribor rate and loan specific margins. Changes in the level of reference rates will reflect in the company's interest expenses in accordance with loan specific interest periods. A rise in the reference rate will have a negative effect on the company's profitability.



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Report by the Board of Directors 2010

THE FINANCIAL PERIOD IN BRIEF

Tiimari's turnover declined along with the decline in the number of customers and was EUR 75.8 million (80.6). The profitability of the company did not reach its goals as a result of the decline in turnover. The decreased turnover lowered the margin in particular. The actual decline in sales decreased the intended impact of the actual cost cuts on the operating margin.

Gross margin without non-recurring items improved to EUR 0.4 million (0.0) and the operating profit before amortizations(EBITA) was EUR -5.7 million (-6.7). The operating profit (EBIT) totaled EUR -12.6 million (-8.2).

Adjusted operating cash flow from the business operations was EUR 2.3 million.

The financing situation of the Group was strengthened by a convertible capital loan of EUR 3.0 million issued on 30th December 2010.

THE GROUP'S KEY FIGURES

	2010	2009	2008
Revenue	75,797	80,623	85,644
Operating profit	-12,613	-8,198	-5,893
Operating profit -%	-16.6%	-10.2%	-6.9%
Operative EBITDA (excl. non-recurring items)	400	0	2,722
Non-recurring items	-2,950	-3,073	-5,000
Earnings per share	-0.89	-0.73	-0.94
Return on equity	-77.5%	-38.0%	-28.3%
Return on investment	-26.8%	-13.0%	-8.2%
Equity ratio	18.9%	34.7%	34.6%
Gearing	208.5%	85.6%	105.0%
Total assets	66,013	75,994	87,925
Employee benefits expense	20,544	22,085	19,876
Average number of employees	591	730	680

More about the key figures are available in the notes to the Financial Statement.

REVENUE DEVELOPMENT OF THE GROUP

Tiimari's revenue fell by 6% to EUR 75.8 million (80.6). Gross operating margin before non-recurring times was EUR 0.4 million (0.0). The operating profit of EUR -2.6 million (-3.1) contained non-recurring expenses of EUR 3.0 million (3.1). (Refer to the breakdown in the key figures of the Group.)

Net financing expenses were EUR 2.2 million (3.1). The actual strengthening of the equity structure and the decline in the general interest rate at the end of 2009 decreased the interest expenses, but additional costs were incurred due to the reorganization of financing during the financial period.

Taxes for the financial period were EUR 0.2 million (0.5), mainly due to the reduction of deferred tax liabilities related to purchasing price allocations.

The results for the financial period were EUR -14.7 million (-10.8)

Earnings per share in the financial period was EUR -0.89 (-0.73).

PROFIT IMPROVEMENT PROGRAM

Discontinuing unprofitable business activities with negative cash flows played a pivotal role in the profit improvement program in 2010. The focus of the operational development was on improving the efficiency of shop activities and cost structures.

On the basis of the earnings improvement program and the rationalization of activities we have slimmed down our cost structure quite significantly and nearly doubled the turnover of our inventory. The cost savings from the earnings improvement program were carried out in accordance with our plans and the level of inventory was lower than year before.

Tiimari's annual profit improved from previous year, but was lower than we expected due to weaker Christmas sales than in the previous year. Some 60% of the decline in the last quarter decreased the margin, weakened the operating profit correspondingly and significantly cut down on the positive effect which we had gleaned from making the cost structure more efficient.

Another important factor in setting growth on the right track is the development of our product range. We will endeavor to return our product offering closer to Tiimari's roots. Tiimari brand has continued in parallel with effecting the changes We strongly believe that the results of the launch of the new product range will soon become evident in the development of customer visits and sales growth.

SEGMENTS

ORGANIZATION STRUCTURE

The Group is comprised of two business segments: Tiimari and Gallerix. The Tiimari segment consists of shops in line with the Tiimari retail shop concept with purchasing, logistics and marketing support functions in Finland and the Baltic states. The Gallerix segment consists of franchising operations in line with the Gallerix retail shop concept and its own shops in Sweden. The figures reported from the business segments also include income statement and balance sheet items caused by the purchase of the companies, that is to say, the depreciation related to historical cost conventions, intangible assets and goodwill.

TIIMARI

The revenue for the Tiimari segment fell by 7.4% to EUR 61.9 million (66.9). Revenue development deteriorated especially in Finland and the Baltic states. Tiimari completed its withdrawal from markets outside Finland and the Baltic states. The gross margin was EUR -1.3 million (-0.4). The gross margin was weakened by the sales campaigns aimed at cutting down the product range. Tiimari has focused on a renewal of its product offering. An impairment of EUR 6.9 million was recorded in Tiimari's goodwill in the last quarter of 2010.

Like for like sales of Tiimari's operations in Finland in 2010 was EUR 58.3 million EUR (59.6) and index was 97.9.

At the close of the financial period, Tiimari had 186 shops (209) and the average number during the financial period was 187 (207).

NUMBER OF SHOPS DURING THE FINANCIAL PERIOD

	12/2010	12/2009
Finland	167	171
Estonia	13	16
Latvia	4	4
Lithuania	2	2
Norway	0	0
Poland	0	10
Russia	0	0
Sweden	0	6
Total shops (own)	186	209

Investments during the financial period were EUR 0.6 million (1.1). The investments were mainly focused on the inventory system and logistics development.

The average number of employees in the segment during the financial period was 553 (648). The figure is calculated on the basis of normal working hours.

GALLERIX

Gallerix's turnover totaled EUR 13.9 million (13.4). With unchanged currency rates Gallerix's revenue declined 0.4%. The gross margin grew to EUR 0.1 million (-0.5).

The average number of employees in the segment during the financial period was 36 (61).

OTHERS

The other segment comprises Group Management. The segment revenue was EUR 0.4 million (1.0) and the operating profit EUR -1.5 million (-2.5). The number of staff at the end of the period under review was 2 (2), the average number during the financial period was 2 (10). The capital expenditure of the segment was EUR 0.0 million (0.0).

FINANCING

The Group's net working capital decreased to EUR -1.6 million (0.3).

The inventory level declined by EUR 0.6 million to EUR 14.4 million (15.0). Short-term receivables totaled EUR 4.1 million (3.4) up by EUR 0.7 million.

Short-term non-interest bearing liabilities totaled EUR 20.1 million (18.1). Long-term assets totaled EUR 45.8 million (54.5). The decline in long-term assets is accounted for by an impairment of EUR 6.9 million in the Tiimari goodwill.

STANDSTILL AGREEMENT

In accordance with the Standstill agreement, checking account limits amounting to EUR 7.5 million were in use at the end of the year, as opposed to the previous year. In the Financial Statement, these would amount to EUR 3.4 million gross in assets and in short-term loans to EUR 7.5 million. These items are expressed in net sums in the Financial Statement so that the liquid assets show zero and the short-term loans, EUR 4.1 million.

In accordance with the Standstill agreement, EUR 2.5 million of the EUR 3.0 million capital loan would be assigned to the long-term interest-bearing outside capital and the rest EUR 0.5 million imputed to the equity. In the Financial Statement, the items are not entered in the balance sheet. These items have been recorded as an event after the financial year.

FINANCING SITUATION

The long-term interest-bearing outside capital decreased by EUR 6.3 million to EUR 15.9 million (22.2).

The equity ratio was 18.9% (34.7) and the net gearing, 208.5% (85.6%).

The amount of interest bearing liabilities at the end of the financial period was EUR 26.0 million (22.6). Of these, EUR 15.9 million (22.2) were long-term. The total amount of capital loans was EUR 4.7 million (4.7). Cash and bank totaled EUR 1.6 million (3.0) at the end of the financial period. The decrease in cash and bank is accounted for by the fact the total available checking account limit in accordance with the Standstill agreement is not entered in them. The cash available amounts to EUR 3.4 million more than recorded in the balance sheet.

The net operating cash flow was EUR -2.5 million (3.8) and cash flow from investment activities was EUR -0.9 million (-0.8). Investments in tangible assets were EUR 0.8 million (1.3) and business acquisitions were EUR 0.0 million (0.0). Sales of fixed assets totaled EUR 0.1 million (0.5).

The debt financing includes loan covenants governing the company's financial position, cash flow, EBITDA, and capital expenditure levels. EBITDA requirements are monitored on a quarterly basis. Those financing the interest-bearing outside capital and the company concluded a so-called Standstill agreement on the 30th of December 2010 which is in force until the 30th of December 2011, during which time the covenants of the loan do not apply.

The Group operations are characterized by seasonality and the first quarters of the financial period have usually been non-profitable, with the results and cash flow accumulating mostly during the last quarter. Therefore, the financial position is still strained and to balance this, a significant increase in operational profitability compared to 2010 is required.

Considering the financing situation and the company's financial position, the Board decided to propose to the Annual General Meeting that no dividend be paid for 2010.

PERSONNEL

The average number of personnel in the Group during the period under review was 591 (730) and, at the end of the period under review, 667 (894). Of these 556 (704) were in Finland. The Group employs, as is typical of its operations, a large number of part-time employees. In addition to its permanent employees, in Finland temporary employees have been used due to the seasonality of operations and during holiday periods.

CHANGES IN MANAGEMENT

Veijo Heinonen, MSc in Economics, was nominated as the Business Manager for Tiimari on 16th March.

Kai Järvikare, PhD in Economics, took up the position of Tiimari's CFO on 26th July 2010.

Memme Ilmakunnas began work as Tiimari's Purchasing Director 23rd August 2010.

Markku Breider, the Director for Shop Operations, and Anne Söderholm, Director for Marketing, and Jaakko Syrjänen, Director for Development, terminated their employment with the company during the reorganization of the Group management.

Maija Elenius, Financial Manager, left to pursue her own business interests and Anna Seppälä, Director of Logistics, started her maternity leave.

CORPORATE GOVERNANCE

Tiimari complies with the Corporate Governance Code for Finnish listed companies of the Securities Market Association. A separate report on the Corporate Governance is available at the Group web site www.tiimari.com.

Tiimari also complies with the guidelines on insiders published by Nasdaq OMX Helsinki Plc and the standards of the Financial Supervisory Authority.

BUSINESS RELATED RISKS AND UNCERTAINTIES

The Group's revenue and results development is affected by several uncertainties related to the business operations. The main risks relate to the following factors:

- the financial situation is tight, which may give rise to business continuity risks
- there might be costs associated with the acquisition of financing that are difficult to predict
- measures are taken to increase financial flexibility as announced on 30 December 2010
- the success of the management in the measures taken to develop operations and to improve profitability: renewal of the product offering and elimination of non-profitable operations
- the actual sales can greatly differ from the forecast as can the periodization of the seasonal operative cash flow accrual and their impact on the company's financial position, on loan terms and on the predictability of both cash flow and results
- the impact of the development of foreign exchange rates on goods purchased outside the euro zone and on the gross margin received from the sales of these goods
- the choice of business premises in the long term
- the availability of seasonal products and the functionality of the supply chain
- the general development of salaries, rents and transport expenses
- the valuation of goodwill and the value of the Tiimari and Gallerix brands
- general changes in interest rates.

The Company is involved as a defendant and a plaintiff in certain ongoing property and rental agreement-related disputes as well as in one other contract termination related dispute. The Financial Statement does not include any significant reservations for these because according to the management's assessment the Company does not have any compensation liabilities. Nor have the claims presented by the Company have been recognized in the Financial Statement.

THE ENVIRONMENT

The Tiimari Group does not have any manufacturing operations hence the operations are not subject to any significant environmental risks or impacts. The environmental impact of the supply chain is minimized by optimizing delivery rates from external suppliers as well as to the company's own shops. The costs related to managing and minimizing environmental risks are related to standard business operations and are therefore not monitored separately.

SHARES

Tiimari's share capital at the end of the review period was EUR 7,686,200. The number of shares and votes assigned to them was 16,474,755. Further information on shares and share ownership is reported in the notes of the parent company's Financial Statement.

The Extraordinary General Meeting 19th October 2009 authorized the Board to decide on a maximum issue of a 4,000,000 shares and/or releasing special rights entitled to shares in accordance with Chapter 10 §1 of the Finnish Companies Act in one or several installments. The authorization is valid until 30th April 2013. The Board used the authorization 30th December 2010 after issuing a convertible capital loan of three million whereby the number of company shares can, as a result of the conversion of loan installments, increase with a maximum of 3,125,000 new shares.

CONVERTIBLE CAPITAL LOAN 2009

In accordance with the decision taken by the Extraordinary General Meeting 19th October 2009, the Company issued a convertible capital loan. The loan amount was EUR 4,980,000. The loan was divided into EUR 60,000 loan obligations, its issue price was 100%, interest rate 8% per annum and the loan is convertible at an approximate conversion rate of EUR 1.4746. The number of company shares can, as a result of the conversion of the loan obligations, increase by a maximum of 3,377,173 new shares.

The conversion rate is the weighted average price of the share traded on Nasdaq OMX Helsinki Plc during between 22nd September and 7th October 2009, increased by five percent. The year-end accumulated interest of the loan will be paid from the distributable funds of Tiimari Plc after the confirmation of the Financial Statement on 31st March. No part of the loan has been converted into shares during the financial period.

CONVERTIBLE CAPITAL LOAN 2011

Tiimari's Board of Directors decided, on account of the authorization granted by the Extraordinary General Meeting 30th December 2010, to launch a three-million convertible capital loan. The amount of the loan is EUR 3,000,000 and the entire sum has a subscription guarantee. The loan was divided into EUR 25,000 obligations, its issue price was 100%, interest rate 9% and the loan is convertible at an approximate conversion rate of EUR 0.96. The number of company shares can, as a result of the conversion of the loan obligations, increase by a maximum of 3,125,000 new shares.

The original exchange rate corresponds to the company's volume weighted average share price at Nasdaq OMX Helsinki in the period from 14–28 December 2010 with an increase of approximately 6%.

OPTION ARRANGEMENTS

On 24th April 2009, the Board issued the total of 480,000 option rights to the new Board members chosen at the Annual General Meeting and the newly appointed Managing Director to commit them to the company and as incentives. The option rights are divided into five series and their exercise period is split between 1st June 2009 and 30th April 2014. The issue prices are series-specific and range from EUR 1.35 to 1.84. No options were exercised during the financial period.

OWN SHARES

The Board has the authority to purchase own shares (authorization given in 30 March 2010 Annual General Meeting, 500.000 shares) and the right to sell its own shares (authorization given in 19 October 2009 Extraordinary General Meeting).

SHARE PRICES

Tiimari's share is listed on Nasdaq OMX Helsinki Ltd small cap list. Tiimari's share price at the end of the financial period was EUR 0.88 (on 31st December 2009 it was EUR 1.29). The market value was EUR 14.5 million (on 31st December 2009 it was 21.3). The number of shareholders at the end of the financial period was 2,780 (2,818). Other information related to shares, shareholders and share ownership can be found in the notes to the parent company's Financial Statement.

CHANGES IN OWNERSHIP

During the financial period the Company was informed of the following changes in the share ownership of share holders:

– Virala Ltd (group, theoretical maximum number) 3/10 and (may exceed the limit should Virala Ltd be allocated loan installments from the convertible capital loan issued 30th December 2010 to the maximum number in accordance with the subscription commitments and if Virala Ltd later convert all the loan installments from the capital loans issued by Tiimari Plc.).

ANNUAL GENERAL MEETING 30TH MARCH 2010 (STOCK EXCHANGE RELEASE 30TH MARCH 2010,WWW.TIIMARI.COM)

The Annual General Meeting of Tiimari Plc, held today, confirmed the Financial Statement for 2009 and discharged the Board and the CEO from liability. In accordance with the Board's proposal, the General Meeting decided that the loss for the period of EUR -12,565,636.92 be recorded in retained earnings and that no dividend be paid.

It was decided that the Board include six members. Hannu Ryöppönen, Sven-Olof Kulldorff, Juha Mikkonen, Markku Pelkonen, Alexander Rosenlew and Sissi Silvàn, as a new member, were elected to the Board.

It was decided that the members of the Board shall receive the following remunerations:

– the chairman of the Board will receive EUR 2,400 a month
– the vice chairman of the Board will receive EUR 1,800 a month
– other members of the Board will receive EUR 1,200 a month
– for the meetings of the Board committees, a separate sum of EUR 100 per meeting shall be paid.

Travel and accommodation costs are paid in accordance with the Company's expenses remuneration policies.

KPMG Ltd was elected as the Group Auditor, who named Sixten Nyman, APA, as the auditor with the primary responsibility. It was decided that the auditor's remuneration be paid against his reasonable invoice.

The General Meeting authorized the Board to decide on the acquisition of a maximum of 500,000 own shares. The shares can be acquired using free equity in a proportion other than the share holders' proportion of ownership in a public trading arranged by NASDAQ OMX Helsinki Ltd at a market price. Shares can be acquired for the purpose of developing the Company's capital structure, for financing acquisitions or other arrangements needed to develop the Company's business activities, for financing investments, for executing commitment and incentive systems of the personnel, or for otherwise retaining, transferring on or canceling them in a manner and to the extent to be determined by the Board.

The General Meeting, in accordance with the Board's proposal, decided to change section 9 in the company's Articles of Association so that it would comply with requirements of the Finnish Companies Act on the schedule for sending invitations to a General Meeting. The invitation to a General Meeting must be sent at least three weeks prior to the meeting and nine days prior to the date of record of the General Meeting.

THE BOARD AND BOARD COMMITTEES (STOCK EXCHANGE RELEASE 30TH MARCH 2010,WWW.TIIMARI.COM)

The Board elected Hannu Ryöppönen as its chairman and Juha Mikkonen as vice chairman. Hannu Ryöppönen was elected chairman of the Appointment and Remuneration Committee of the Board and Alexander Rosenlew and Juha Mikkonen were elected members of this committee. Juha Mikkonen was elected chairman of the Audit Committee and Hannu Ryöppönen and Sissi Silvàn were elected members.

EVENTS AFTER THE PERIOD UNDER REVIEW

The convertible capital loan of three million, issued by Tiimari Plc on 30th December 2010, was oversubscribed during the subscription period which ended on 31st January 2011. As a result of the oversubscription, the subscription of Virala Oy Ab, which had given a subscription guarantee to the Company, was cut according to the subscription guarantee terms so that in the final allocation, Virala Oy Ab was allocated the total of EUR 1.9 million of the loan, others who had given subscription guarantees, a total of EUR 0.85 million, and other subscribers, EUR 0.25 million.

THE ANNUAL GENERAL MEETING 2011

Tiimari Plc's Annual General Meeting will be held at the Radisson Blue Seaside Hotel, Ruoholahdenranta 3, Helsinki, on the 30th of March 2011 starting at 1.00 pm.

BOARD'S PROPOSAL TO THE ANNUAL GENERAL MEETING

At the end of the financial period the parent company distributable shareholder's equity was EUR 4,502,066.86 (15,480,231.76).

The Board proposes to the Annual General Meeting that the loss for the period 2010 of EUR -10,978,164.90 be left as retained earnings and that no dividend be paid.

OUTLOOK

We estimate that the growth in national economies will support moderate growth for the whole retail sector in 2011, particularly in Sweden, but, with some delay, also in Finland and later on in the Baltic states. The customer activity of Gallerix in Sweden grew in the course of the year 2010 in particular.

We estimate that during 2011, the declining trend in Tiimari's turnover, reported on a monthly basis, will cease and that Tiimari's operating profit for the entire year 2011 will be positive. The turnover of Gallerix is estimated to grow and its operating profit is anticipated to be positive and better than in 2010.

As announced in release on December 2010 about the Standstill Agreement the company identifies during the first half of 2011 structural and financial options to strengthen its balance sheet, and these solutions may have a significant impact on performance throughout the year.

Tiimari Plc

The Board of Directors

Consolidated Income Statement

eur 1,000	note	2010	2009
REVENUE	2	**75,797**	**80,623**
Material and services		-31,963	-35,083
Gross margin		**43,834**	**45,540**
Gross margin-%		**57.8%**	**56.5%**
Other operating income	3	961	1,833
Employee benefits expense	4	-20,544	-22,085
Depreciation and amortisation	5	-3,124	-3,635
Impairment, non-current assets	5		-614
Impairment loss on goodwill	5/9	-6,918	-882
Other operating expenses	3	-26,822	-28,354
OPERATING PROFIT		-12,613	-8,198
Financing income	6	266	50
Financing expenses	6	-2,499	-3,186
PROFIT/LOSS BEFORE TAX		-14,845	-11,334
Tax on income from operations	7	192	544
PROFIT/LOSS FOR THE PERIOD		-14,653	-10,790
Profit / loss for the period attributable to:			
Shareholders' of the parent		-14,653	-10,790
Earnings per share calculated on profit attributable to equity holders			
of the parent:			
EPS undiluted and diluted (EUR)	8	-0.89	-0.73
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
NET INCOME FOR THE PERIOD		-14,653	-10,790
Translation diffrences		656	282
Comprehensive income for the period net of tax		-13,997	-10,508
Comprehensive income for the period attributable to:			
Equity holders of the parent company		-13,997	-10,508

The notes are an integral part of these consolidated financial statements

Consolidated Balance Sheet

eur 1,000	note	31 Dec 2010	31 Dec 2009
ASSETS			
Intangible assets	9	15,496	16,876
Goodwill	9	25,877	32,525
Property, plan, equipment	10	4,275	4,904
Financial assets			
Available-for-sale investments	11	104	104
Long-term Receivables	12	5	5
Non-current trade and other receivables	12		30
Deferred tax asset	13	29	29
NON-CURRENT ASSETS		**45,785**	**54,472**
CURRENT ASSETS			
Inventories	14	14,435	15,044
Trade receivables and other recivables	15	4,133	3,395
Tax Receivable, income tax	15	35	59
Cash and bank	16	1,626	3,024
CURRENT ASSETS		**20,229**	**21,523**
		0	
ASSETS		**66,013**	**75,994**
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	17	7,686	7,686
Fair value reserve and other reserves	17	23,011	23,011
Translation differences		-7	-663
Retained earnings		-18,229	-3,667
Equity attributable to equity holders of the parent		**12,461**	**26,366**
LONG-TERM LIABILITIES			
Deferred tax liability	13	5,740	5,834
Long-term liabilities, interest-bearing	19	15,859	22,203
Non-current provisions	20	31	31
NON-CURRENT LIABILITIES		**21,630**	**28,067**
CURRENT LIABILITIES			
Short-term interest-bearing liabilities	19	11,743	3,398
Trade Payables and Other Liabilities	21	20,119	18,103
Tax liability, income tax	21	61	60
CURRENT LIABILITIES		**31,923**	**21,561**
TOTAL EQUITY AND LIABILITIES		**66,013**	**75,994**

The notes are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

eur 1,000	note	2010	2009
Cash flow from operations			
Profit/loss for financial period		-14,653	-10,790
Adjustments:			
Depreciation and impairment		10,043	5,131
Gain (+) and loss (-) on sale of fixed assets		7	-542
Financial income and expenses		2,247	3,135
Taxes		-192	-544
Other adjustments		77	-86
Change in working capital:			
Change in inventories		834	8,476
Change in short-term receivables		472	772
Change in short term liabilities		501	1,002
Interest paid		-1,018	-2,191
Interest income received		13	22
Other financing expenses paid		-782	-706
Taxes paid		-8	85
Net cash flow from operations		**-2,459**	**3,764**
Cash flow from investment activities			
Investments in tangible and intangible assets		-665	-1,251
Capital gains from tangible and intangible assets		2	520
Repayment of loan receivables		-202	-52
Income on sale of investments		1	1
Net cash flow from investments		**-864**	**-782**
Cash flow from financing activities			
Proceeds from share issue			6,089
Long-term loans, increase			8,480
Long-term loans, decrease			-1,000
Short-term loans, net change		2,133	-15,342
Payment of lease liabilities		-241	-421
Net cash flow from financing		**1,892**	**-2,193**
Change in liquid assets		**-1,431**	**789**
Liquid assets 1 Jan		3,024	2,188
Effect of exchange rate changes on liquid assets		34	48
Liquid assets 31 Dec	16	1,626	3,024

The notes are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity, IFRS

	Attributable to the equity holders of the company					
eur 1,000	**Share capital**	**Distributable equity fund**	**Own shares**	**Translation differences**	**Retained earnings**	**Total**
Shareholders' equity 1 Jan 2009	**7,686**	**16,921**	**-55**	**-945**	**6,836**	**30,443**
Comprehensive income for the period				282	-10,790	-10,508
Annulment of own shares			55		-55	0
Share based payments					41	41
Share issue		6,089				6,089
Equity portion of convertible capital loan					292	292
Other items					9	9
Equity on 31 Dec 2009	**7,686**	**23,011**	**0**	**-663**	**-3,667**	**26,366**
Shareholders' equity 1 Jan 2010	**7,686**	**23,011**	**0**	**-663**	**-3,667**	**26,366**
Comprehensive income for the period				656	-14,653	-13,997
Share based payments					41	41
Other items					50	50
Equity on 31 Dec 2010	**7,686**	**23,011**	**0**	**-7**	**-18,229**	**12,461**

The notes are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements (IFRS)

1. PRINCIPAL ACCOUNTING POLICIES

GENERAL INFORMATION ON THE COMPANY

Tiimari Oyj Group ("Group") is a company specialising in the retail trade of gift and home decoration items and arts and crafts supplies. The Group has stores in Finland, Sweden and Baltic countries. The Group's parent company Tiimari Plc is a Finnish public limited company operating under the laws of Finland. The company's domicile is Helsinki and the registrant address is Tasetie 8, FI-01510 VANTAA, Finland.

A copy of the Consolidated Financial Statements can be obtained from the parent company's head office at the address mentioned above or at the company's website at www.tiimari.com.

At the meeting held on 7 March 2011, the Tiimari Plc Board of Directors approved the financial statements for publication. According to the Finnish Companies Act, the shareholders are entitled to approve or reject the financial statements at the Annual General Meeting following the publication.

BASIS OF PREPARATION

The Consolidated Financial Statements of Tiimari Plc have been prepared in accordance with International Financial Reporting Standards (IFRS).

Observing the IAS and IFRS standards as well as the SIC and IFRIC interpretations in force as of 31 December 2010. In the Finnish Accounting Act and the provisions laid down pursuant to the Act, International Financial Reporting Standards refer to the standards approved for use in the EU in accordance with the procedures laid down in the IAS Regulation (Regulation (EC) No 1606/2002 and the interpretations of these standards. The notes to the Consolidated Financial Statements also conform to the Finnish Accounting and Company legislation supplementing the IFRS standards.

Financial statement data are presented in thousands of euros and based on original acquisition costs unless otherwise stated in the accounting principles outlined below. All figures presented in the report are rounded up. That is why the sums of individual figures may deviate from what they really are.

As of 1st January 2010, the Group has applied the following new and revised standards and interpretations:

REVISED IFRS 3 BUSINESS COMBINATIONS

The revised standards affect the amount of goodwill recognized on an acquisition, as well as the gains on disposal of businesses. Expenses from acquisitions, e.g., expert fees, are classified in the profits and losses in accordance with the IFRS 3 standard as an item having an impact on the results. The conditional purchase price is recognized at its market value and its later change is recorded as an item with an impact on the results. The share of owners with no voting rights can be recognized per acquisition either at their market value or as a relative share of the net assets of the acquisition.

AMENDED IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The amended standards impact the accounting of progressive acquisitions and progressive divestments. If the parent company retains the control of a subsidiary, changes in the ownership interest in a subsidiary are recognized directly within Group's equity, and no goodwill or gains or losses to be recorded in the results are generated. If the control of the subsidiary is lost, the possible remaining investment is recognized at its market value with an impact on the result.

AMENDED IFRS 2 SHARE-BASED PAYMENT

The amendment clarifies the scope of IFRS 2 application: An entity which receives products or services must abide by the IFRS 2 standard even if the company did not have an obligation to make necessary cash-settled share-based payment transactions.

IMPROVEMENTS MADE TO THE IFRS STANDARDS - COLLECTION OF STANDARD AMENDMENTS (APRIL 2009)

The standards amendment collection in Improvements Made to the Standards (April 2009) has had an impact on the segment reports so that the segments' assets are not reported in the notes. Additionally, the amendments specify further how the additional purchase price of an acquisition executed during the validity of the old IFRS 3 standard is to be treated, according to which the Group has entered the additional purchase price against the goodwill.

The other new or revised standards or amended interpretations thereof were not deemed relevant as far as the Group is concerned.

DISCONTINUED OPERATIONS

There were no discontinued operations in the Tiimari Group during the financial year 2010. The comparative figures of financial year 2009 include discontinued operations.

ACCOUNTING PRINCIPLES REQUIRING MANAGEMENT DISCRETION AND MAIN UNCERTAINTY FACTORS RELATING TO ESTIMATES

The preparation of financial statements requires the use estimates and assumptions, and the actual outcomes may differ from the estimates and assumptions made. In addition, discretion must be exercised in applying the accounting principles of the financial statements. The estimates made are based on management's best current judgement. Changes in estimates and assumptions are recognised in the period in which the changes occur as well as in all subsequent periods.

In the Tiimari Plc Group, key future assumptions and such critical uncertainties relating to estimates of the closing date pertain to the determination of the fair value of assets and liabilities of entities acquired through mergers, the acquisition cost allocation for assets not recognised in the balance sheet as well as to the impairment testing of intangible assets with indefinite useful lives. Valuation of inventories requires estimations and discretion particularly with respect to obsolescence. Due to the related uncertainties, no deferred tax assets were recognised for tax losses carried forward.

GOING CONCERN

The Group's Financial Statement was prepared according to the going concern principle with the assumption that the operations of the company will continue for 12 months. Furthermore, the principle presupposes that the company is able to execute the realization of assets and the payment of loans through its ordinary business activities. Tiimari's economic situation is challenging. The going concern principle is based on the business operations plan approved by the Board of Directors and on the new financing plan. The company has adopted measures to identify structural and financing options to strengthen its balance sheet on an accelerated schedule as was announced in connection of the publication of the Standstill agreement on the 30th of December 2010.

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of the parent company and all its subsidiaries.

Subsidiaries are companies over which the parent company exercises control. The ability to exercise control will arise when the parent company has direct or indirect right to determine the financial and operating principles of the undertaking in order to benefit from its operations. Acquired subsidiaries are consolidated from the date of acquisition until the date said control expires. Acquired companies are included in the financial statements using the acquisition cost method.

Intra-Group transactions, internal receivables and liabilities, unrealised margins on internal deliveries as well as the Group's internal distribution of profit are eliminated.

Consolidated Financial Statement data are presented in euros, the functional and presentation currency of the parent company.

FOREIGN-CURRENCY DENOMINATED TRANSACTIONS

Transactions in foreign currencies are recognised at the rates of the exchange at the date of transaction. Financial assets and liabilities in foreign currency are converted to euros using exchange rates at the closing date. Non-financial assets and liabilities in foreign currency valued at original acquisition cost are translated using the exchange rates at the date of transaction. Exchange rate profits and losses are recognised in the Profit and Loss Account.

The foreign-currency denominated balance sheets of subsidiaries are converted to euros using the exchange rate at the closing date and the Profit and Loss Accounts using the mid-market rate for the financial period. Exchange rate differences resulting from the translation of Profit and Loss Account and Balance Sheet items using different exchange rates are recognised as a separate item in shareholders' equity. When a subsidiary is sold, the accumulated translation difference from net investments is recognised in the Profit and Loss Account as part of the gain or loss on the sale. Goodwill and fair value adjustment of assets and liabilities arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entity and translated into euros at the closing rate.

FINANCIAL ASSETS AND LIABILITIES

Pursuant to IAS 39, the Group's financial assets are classified into the following categories: investments available for sale and liabilities and other receivables. The categorisation of financial assets takes place in connection with the original acquisition and is made on the basis of the purpose for which the financial assets were acquired. All purchases and sales of financial assets are recognised on the trade date.

Derecognition of financial assets takes place when the Group has lost a contractual right to receive the cash flows or when it has substantially transferred all the risks and rewards of ownership of the asset outside the Group.

Financial assets booked at fair value are assets, which have been acquired to be held for trading or that are classified at the initial booking to be booked at fair value. Tiimari did not have these kind of assets during the financial periods of 2010 and 2009.

LIABILITIES AND OTHER RECEIVABLES

Liabilities and other receivables are financial assets not belonging to derivative assets which have arisen through the transfer of money, goods or services to debtors. Liabilities and other receivables are not quoted on an active market and their payments are fixed or quantifiable. Tiimari Group classifies e.g. trade receivables, other receivables and bank receivables in this group. Liabilities and other receivables are valued at amortised cost. An impairment loss is recognised on receivables when there is objective evidence that the counterparty is unable to fulfil its obligations. Depending on their maturity, liabilities and other receivables are included in current or non-current assets.

AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise a category which includes unquoted shares and other interest-bearing current investments. Unquoted shares are valued at fair value. If the fair value cannot be reliably determined, unquoted shares are recognised at acquisition cost or the lower attributable value. Unrealised profits and losses resulting from variations in the fair value are recognised directly in the shareholders' equity in the fair value reserve net of the related tax effect. Fair value changes are transferred from shareholders' equity to the Profit and Loss Account when investments are sold or when the impairment of the investment leads to the recognition of an impairment loss. Available-for-sale investments are included in non-current assets, except if the intent is to keep them for less than 12 months from the closing date.

LIQUID ASSETS

Liquid assets consist of cash in hand, bank deposits and other highly liquid current investments. Other liquid assets comprise short-term deposits, to which no value changing risk is attached and which time to maturity is no more than three months from the end of the financial period.

FINANCIAL LIABILITIES

In accordance with IAS 39, the Group's financial liabilities fall under financial liabilities to be valued at amortised cost and they consist of financial institution loans, accounts payable and other financial liabilities. Financial liabilities are initially recognised at fair value on the basis of the original consideration received. Transaction costs are included in the original carrying value of the financial liabilities and valued at the settlement date using the effective interest rate method. Depending on their maturity, financial liabilities are recognised as current or non-current items. In addition, any loan conditions and their impact shall be taken into account in classifying the liabilities as current or non-current items.

DERIVATIVE CONTRACTS AND HEDGING ACTIVITIES

The Group did not use any derivative instruments at the end of financial year of 2010 or 2009. During fiscal year 2010 has been in use for hedging existing forward contracts.

NON-CURRENT ASSETS AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets available for sale, groups of assets being disposed of as well as liabilities related to the available-for-sale assets are classified as available for sale and measured at carrying value or at the lower of their fair value less costs to sell if the amount corresponding to the carrying value will be recovered mostly through disposal instead of continuous use. In this case the sale must be very probable and the asset must be available for immediate sale. Depreciation of these assets is discontinued upon classification. The Group did not have any non-current assets available for sale at the end of financial periods of 2010 and 2009.

A discontinued operation is a component of an entity that represents a separate major line of business or geographical area of operations which is planned to dispose of, or a subsidiary acquired exclusively with a view to resale. The earnings of a discontinued operation are presented as a separate line item in the Consolidated Financial Statement. The Group did not have discontinued operations during the financial period of 2010. The comparative figures of financial period 2009 include discontinued operations.

PRINCIPLES OF REVENUE RECOGNITION

Revenue from the sale of goods is recognised when the transfer of goods takes place. The ownership of the goods is then transferred to the buyer and the goods are no longer controlled by the Group. The significant risks and rewards of owning the goods have thus also been transferred to the customer. The net sales include trading revenue adjusted with indirect taxes, discounts and exchange rate differences on sales in foreign currency, as well as franchise payments from franchise retailers that is proportional to the respective net sales and e.g. lease payments charged of the tenants.

INCOME TAXES

The Group's tax expenses for the period are based on the taxable income for the period and deferred tax. The income tax includes the Group companies' taxes for the period in accordance with the tax rate valid in each country, adjusted by any taxes associated with previous periods. Tax effects of items recorded directly in shareholders' equity are also allocated directly to equity.

Deferred taxes are calculated using enacted tax rates. Deferred tax assets and liabilities are calculated on all temporary differences between the carrying value and the taxable value. Deferred tax assets are recognised up to the probable amount of taxable income in the future against which the temporary difference can be utilised.

TANGIBLE FIXED ASSETS

Tangible fixed assets are valued at original acquisition cost less accumulated depreciation and impairment. Tangible fixed assets are depreciated over their estimated useful lives. Estimated useful lives of various assets are:

Buildings and structures	10–40 years
Machinery and equipment	4–10 years
Other tangible assets	4–10 years

The tangible assets of Tiimari Group consist mainly of store equipment and investment in store premises. The Group does not usually own the business premises used.

The useful life and residual value of assets are reviewed upon each closing of the accounts and adjusted if necessary to reflect changes in the expected economic benefit. Gains and losses on disposals and transfers of assets are entered in the Profit and Loss Account under other operating income or other operating expenses.

INTANGIBLE ASSETS

GOODWILL

Business combinations are entered in the financial statements using the acquisition cost method. Accordingly, the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired company at the time of acquisition is recognised in the balance sheet. The net identifiable assets include the acquired assets, liabilities and contingent liabilities.

The acquisition cost consists of the purchase price measured at fair value plus any costs directly attributable to the business combination. Goodwill is valued at acquisition cost less possible impairments.

The relief permitted by the IFRS 1 standard has been applied to business combinations that took place before the IFRS transition date. According to the relief, acquisitions made before the IFRS transition date are not adjusted and the carrying amount compliant with the earlier accounting standards is used as deemed cost of acquisition.

OTHER INTANGIBLE ASSETS

Other intangible assets include the Tiimari trademark, Gallerix trademark, supplier relations, franchise agreements, patents, copyrights, licences and software.

In accordance with the effective practice in some countries, the previous owner or previous lessee of business premises leased out for retail purposes is compensated for abandoning and transferring certain rights to the Tiimari Plc Group. The compensation is recognised in intangible assets at cost, less accumulated depreciation and impairment. The useful life of assets is based on the term of the lease agreement or on management's estimate on the period of utilisation of the tenancy right.

Because the estimated economic useful life of the trademarks entered in the Consolidated Balance Sheet is indefinite, no scheduled depreciation or amortisation is charged on them but they are tested annually for impairment.

Other intangible assets are recognised at acquisition cost less depreciation and impairment. Other intangible assets are depreciated over their estimated economic useful life. Estimated useful lives of various assets are:

Franchising agreements	8 years
Supplier relations	4 years
Intangible rights	5 years
Other intangible assets	5–10 years

LEASE AGREEMENTS

The Group as the lessee

The Group leases out machines and equipment as well as software under various finance lease agreements and other lease agreements. Lease agreements where substantially all the risks and rewards of ownership are transferred to the Group are classified as finance lease agreements.

Assets related to finance lease agreements are entered into the balance sheet at fair value or at a lower estimated present value of minimum lease payments. Lease payments are allocated between the principal component and the interest expense so as to achieve a constant interest rate on the finance balance outstanding. Lease obligations are included in interest-bearing non-current and current liabilities. The assets acquired under a finance lease agreement are depreciated over the assets' economic useful life or the shorter lease term.

Leases payable under other lease agreements are expensed in the Profit and Loss Account on a straight-line basis over the lease period.

The Group as the lessor

Leases of Group assets where a significant part of the risks and rewards of ownership have been transferred to the lessee are classified as finance lease agreements. If the risks and rewards have not been transferred, the agreements are treated as other lease agreements. Lease agreements where the Group is the lessor are treated as other leases and the respective assets are included in tangible fixed assets in the balance sheet. Lease income is recognised in the Profit and Loss Account on a straight-line basis over the lease term.

IMPAIRMENT

The Group reviews the asset items for any indication of impairment losses on every closing date. If there are such indications, the amount recoverable from the said asset item is assessed. The recoverable amount is also assessed annually for goodwill and intangible assets with an indefinite useful life. Impairment is reviewed at the level of cash generating units of the Group, which are Tiimari and Gallerix.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. The impairment loss is reversed if there is a positive change in the circumstances that were used for estimating the recoverable amount of an asset item or a cash-generating unit. The impairment loss is not reversed by more than the carrying amount of the asset would be without the recognition of the impairment loss. Impairment losses recognised for goodwill are not reversed under any circumstances.

INVENTORIES

Inventories are valued at acquisition cost or a lower net realisable value. The acquisition of cost of inventories is determined by the first-in first-out basis (FIFO). The acquisition cost of finished and unfinished products comprises raw materials, direct expenses due to work performed, other direct expenses as well as an appropriate proportion of the variable and fixed production overheads at the normal utilised capacity.

Net realisable value refers to estimated sales price available through normal business operations, deducted by estimated indispensable costs of realising the sale.

The Group applies a staggered amortisation practice, whereby 25% of the acquisition cost of products older than 30 months, another 25% of products that are 36 months old and the remaining 50% of the original acquisition cost of products that are 42 months old are recognised as impairment losses.

TRADE RECEIVABLES

Trade receivables are valued at acquisition cost and impairment losses are recognised as an expense for doubtful receivables. The management of the company assesses the customer's ability to meet its financial obligations as well as the credit loss if it seems likely that the receivables cannot be collected in full.

PROVISIONS

Provisions are recognised when the Group has, due to a past event, a legal or constructive obligation and it is probable that a payment will be required to settle the obligation or the settlement will result in a financial loss, and when a reliable estimate of the amount can be made. Provisions relate to the restructuring of business operations, loss-making agreements, legal proceedings and tax risks.

EMPLOYEE BENEFITS

Defined contribution pension schemes

The pension schemes of the Group companies are classified as defined contribution pension schemes. Payments for these schemes are expensed in the Profit and Loss Account in the period in which the contribution is payable. In a defined contribution scheme, the Group makes fixed payments into the scheme. The Group has no legal or factual obligation to additional contributions should the pension scheme provider fail to pay the pension insurance benefits.

Share-based payments

The Group's stock option scheme grants options to key persons in accordance with the terms and conditions of the option scheme if certain performance criteria are met. The Group has one equity-settled option scheme. The options are measured at fair value at the grant date and expensed in the Profit and Loss Account on a straight-line basis over the vesting period, which equals to a qualifying period of three years of continuous employment for the scheme. The expense determined at the moment of granting the options is based on the Group's estimate of the number of options that is expected to vest at the end of the vesting period. The fair value is determined on the basis of the Black-Scholes pricing model for options. Changes in the estimates are recognised in the Profit and Loss Account. When the company pays dividend, the amount is deducted from the market price of the options.

TREASURY SHARES

Own shares are presented as deduction from equity. The company annulled all treasury shares during 2009.

DISTRIBUTION OF DIVIDEND

The dividend proposed by the Board of Directors to the Annual General Meeting is not recognised in the financial statements but recorded upon approval by the Annual General Meeting.

GROSS MARGIN

Gross margin is a net sum that is formed by deducting total purchases from the revenue adjusted by the change in inventory. The total purchases comprise the purchase price of goods to be sold including freight and haulage expenses, distribution expenses to shops, the rent expenses invoiced from the franchisees (included in the revenue), the adjustments for purchases and the change in inventory. The company management monitors gross margin and it is deemed an informative key figure.

OPERATING PROFIT

Operating profit is the net sum of operating income plus net sales less the purchase costs adjusted with the change in inventories less employee benefit costs, depreciation, impairment loss and other operating costs. Exchange differences are included in the operating profit provided that they originate in items related to normal business operations. Exchange differences related to financing activities are entered under financial income and expenses.

2. SEGMENT INFORMATION

The Group applies IFRS 8 Operating Segments standard from 1st January 2008. The Group has compliant to the standard defined business units, that will be reported as operating segments in the Group. The reported segments are Tiimari, Gallerix and Others. The Others group mainly comprises income and expenses for group management. The business units provide various services and are managed as separate units:

- Tiimari is a retail shop chain, which offers among others arts & crafts, interior design, school & office supplies; operation’s product offering is very seasonal
- Gallerix is a retail shop chain specialising in frames, paintings and posters as well as gift wrapping and operates by the franchising principle. Gallerix also operates a few own shops.

The result assessment for the segments occurs via operating profit and EBITDA margin. In addition, gross margin is monitored. The assessment for the operating segments and resource allocation falls to the Board, as the highest operative decisionmaker and the Managing Director supported by the Management Board.

The assets and liabilities of the segments are items that are utilised by the segments in their business operations or that can within reason be allocated to the former. Unallocated items are financing expenses, income tax as well as joint expenses for the Group. The pricing of goods and services between the segments is based on fair market value.

The Group’s accounting policies are complied within the segment’s financial management and reporting and in the valuation of assets and liabilities the valuation and accounting policies referred to in the notes to the financial statements are complied with.

Operating segments 2010

	Tiimari	Gallerix	Other	Eliminations	Group
External revenue	61,889	13,904	5		75,797
Internal revenue	35	10	371	-416	
Revenue	61,924	13,914	376	-416	75,797
Gross margin	38,319	5,501	14		43,834
Depreciation	-2,239	-806	-79		-3,124
Impairments (goodwill)	-6,866	-52			-6,918
Operating profit	-10,435	-724	-1,455		-12,614
Financial expenses (net)			-2,233		-2,233
Profit before tax					-14,845
Capital expenditure	622	33	10		665
Total assets	54,667	9,421	300	1,626	66,013
Total liabilities	16,511	2,656	1,013		20,180
Financial liabilities				27,602	27,602
Other non-allocated liabilities				5,771	5,771
Total liabilities					53,553

Unallocated assets comprise mainly liquid assets

Operating segments 2009

	Tiimari	Gallerix	Other	Eliminations	Group
External revenue	66,880	13,233	510		80,623
Internal revenue	23	163	462	-648	
Revenue	66,902	13,396	972	-648	80,623
Gross margin	40,602	4,867		71	45,540
Depreciation	-2,616	-808	-211		-3,635
Impairments	-614				-614
Impairments (goodwill)	-882				-882
Operating profit	-4,544	-756	-2,897		-8,198
Financial expenses (net)			-3,136		-3,136
Profit before tax					-11,334
Capital expenditure	1,076	161	14		1,251
Total assets	63,119	8,842	1,010	3,023	75,994
Total liabilities	15,827	1,941	395		18,163
Financial liabilities				25,601	25,601
Other non-allocated liabilities				5,865	5,865
Total liabilities					49,628

Unallocated assets comprise mainly liquid assets

3. OTHER OPERATING INCOME AND EXPENSES

	2010	2009
Other operating income		
Lease income		55
Gain on the sale of tangible assets	2	501
Other	960	1,277
Total	**962**	**1833**
Other operating expenses		
Lease expenses	-14,974	-16,106
Marketing expenses	-3,320	-3,645
Data communication expenses	-1,429	-1,505
Real estate expenses	-2,827	-2,676
Temporary staff recruitment	-1,112	-1,055
Administration expenses	-3,160	-3,367
Total	**-26,822**	**-28,354**
Auditors' fees		
KPMG Oy Ab		
Auditing fees	-123	-139
Advisory services	-16	-26
Tax councelling	0	0
Total	**-140**	**-165**

4. EMPLOYEE BENEFIT COSTS

	2010	2009
Wages	-16,429	-17,608
Pension expenses – defined contribution schemes	-2,436	-2,632
Options granted and payable in shares		-77
	-41	-41
Other indirect employee costs	-1,638	-1,727
Total	**-20,544**	**-22,085**

Management's employee benefits are presented in the Note 27 Related party transactions.

	2010	2009
The Group's average number of employees during the financial period		
Tiimari concept	553	651
Gallerix concept	36	66
Tiimari Plc	2	10
Total	**591**	**727**

5. DEPRECIATION AND IMPAIRMENT

	2010	2009
Depreciation by asset group:		
Intangible assets	-1,961	-2,341
Total	**-1,961**	**-2,341**
Tangible fixed assets		
Buildings	0	-9
Machinery and equipment	-1,163	-1,284
Total	**-1,163**	**-1,293**
Impairment by asset group:		
Goodwill	-6918	-882
Total	**-6,918**	**-882**
Impairment loss on intangible assets		-427
Impairment loss on tangible fixed assets		-186
Total		**-614**

6. FINANCIAL INCOME AND EXPENSES

	2010	2009
Financial income		
Interest and other financial income from loans and other receivables	13	22
Exchange rate profits	253	28
Total	**266**	**50**
Financial expenses		
Interest expenses from financial liabilities valued at amortised cost	-2,109	-2,557
Exchange rate losses	-218	-113
Other financial expenses	-172	-516
Total	**-2,499**	**-3,186**

Exchange rate profits and losses are mainly attributable to internal Group financing.

7. INCOME TAXES

	2010	2009
In the Profit and Loss Account, the taxes are distributed as follows:		
Tax based on the taxable income for the period	35	44
Tax for the previous financial year		-21
Change in deferred taxes	-227	-567
Total	**-192**	**-544**

Reconciliation between the tax expenses in the Profit and Loss Account and taxes calculated in accordance with the tax rate in the Tiimari Group's country of domicile

	2010	2009
Profit/loss for the financial period from continuing operations	-14,653	-10,790
Taxes in the Profit and Loss Account	-192	-544
Earnings before taxes	-14,845	-11,334
Taxes calculated at the Finnish tax rate	-3,860	-2,947
Unrecognised deferred tax assets from tax losses	1,850	2,717
Different tax rates of foreign subsidiaries	16	22
Taxes booked against unrecognised tax assets	-15	-411
Non-deductible expenses	1,799	26
Effect of change in tax rate	0	0
Other items	18	49
Tax-exempt earnings	0	0
Taxes in the Profit and Loss Account	**-192**	**-544**

8. EARNINGS PER SHARE

	2010	2009
Profit for the financial year (EUR 1,000) distributable to parent company shareholders, continued operations	-14,653	-10,790
Weighted average number of shares during the period (1,000 pcs)	16,475	14,749
Effect of stock options (1,000 pcs)		
Weighted average number of shares during the period for the calculation of earnings per share adjusted for dilution (1,000 pcs)	16,475	14,749
Diluted earnings per share (EUR)	**-0.89**	**-0.73**
Undiluted earnings per share (EUR)	**-0.89**	**-0.73**

9. INTANGIBLE ASSETS

	Group goodwill	Goodwill	Other intangible assets	Construction in progress	Total
2010					
Original acquisition cost, 1 Jan	51,511	10,982	26,614	98	89,205
Translation difference	267	7	275	0	549
Increase	0	0	183	109	292
Decrease	0	0	0	-111	-111
Transfers between items	0	0	96	-96	0
Original acquisition cost, 31 Dec	51,778	10,989	27,167	0	89,934
Accumulated depreciation and impairment, 1 Jan	-23,857	-6,111	-9,835	0	-39,803
Translation difference	0	-4	126	0	122
Depreciation	0	0	-1,961	0	-1,961
Impairment	-6,866	-52	0	0	-6,918
Accumulated depreciation and impairment, 31 Dec	-30,723	-6,167	-11,671	0	-48,561
Book value, 1 Jan 2010	**27,654**	**4,871**	**16,779**	**98**	**49,402**
Book value, 31 Dec 2010	**21,055**	**4,822**	**15,496**	**0**	**41,373**

	Group goodwill	Goodwill	Other intangible assets	Construction in progress	Total
2009					
Original acquisition cost, 1 Jan	51,406	10,913	26,065	221	88,605
Translation difference	106	69	212	0	387
Increase	0	0	355	143	498
Decrease	0	0	-284	0	-284
Transfers between items	0	0	266	-266	0
Original acquisition cost, 31 Dec	51,511	10,982	26,614	98	89,205
Accumulated depreciation and impairment, 1 Jan	-23,857	-5,175	-7,336	0	-36,368
Translation difference	0	-54	270	0	216
Depreciation	0	0	-2,341	0	-2,341
Impairment	0	-882	-427	0	-1,309
Accumulated depreciation and impairment, 31 Dec	-23,857	-6,111	-9,835	0	-39,803
Book value, 1 Jan 2009	**27,549**	**5,738**	**18,729**	**221**	**52,237**
Book value, 31 Dec 2009	**27,654**	**4,871**	**16,779**	**98**	**49,402**

Impairment testing

Goodwill as well as brands with assigned indefinite lives have been allocated to the operative segments for impairment testing as follows:

	31 Dec 2010	31 Dec 2009
Tiimari-segment		
Goodwill	23,752	30,618
Tiimari brand	12,289	12,289
Gallerix segment		
Goodwill	2,124	1,907
Gallerix brand	1,341	1,341

An impairment test is performed annually for goodwill and brands. Impairment tests are performed also in instances where changes can be identified that could potentially result in impairment due to external or internal factors. Book values on balance sheet items are compared to the fair value of the pre-defined cash generating unit ("CGU") to which the goodwill and brands are allocated to.

Impairment is booked where the book value of the assets allocated to the CGU is higher than the fair value of the asset. The fair value in the segment is defined by discounting the estimated cash flows for the unit using the DCF-method (Discounted Cash Flow-method). If impairment is to be booked based on the impairment calculation, an assessment is additionally made in order to establish whether the recoverable amount is bigger than the value on the balance sheet. Impairment is booked when both the fair value and the recoverable amount are below the value on the balance sheet.

The impairment test calculations are based on estimated cash flows included in a five year plan (next year's budget, four strategy years of which the last one is the target average of the economic cycle), approved by the board of directors.

Calculations utilising the DCF-model require estimates and assumptions, the most important relating to revenue growth, expense development, investment levels and changes in interest levels. It is plausible that predicted cash flows are not realised resulting in a significant unfavourable effect on the company's result and financial position during the current or future review periods due to recognised impairment bookings.

The estimated five year cash flows are based on the cash flow capacity of the CGU existing during the testing period. Cash flow estimates do not include considerations on expansion investments. Both CGUs in the Group conduct retail sale operations, which is characterised by an active shop location strategy. Openings and closures of shops within one geographical market are part of normal business activities and are included in the calculations. Business expansions to new geographical areas are considered capacity expansion and related investments or income are thereby not included in the calculations.

The units which contain Goodwill are tested annually for potential impairment. The reporting structure used in the monitoring of the Group's business operations did not change during 2010. Units generating cash flow, which have a Goodwill value, are: Tiimari and Gallerix

On the basis of the calculations, an impairment of EUR 6.9 million was recorded in Tiimari's goodwill in the last quarter of 2010. After this Tiimari's goodwill equates to EUR 23.8 million. On the basis of the calculations, there is no need to record a goodwill impairment regarding Gallerix. Gallerix's goodwill in its business operations is EUR 2.1 million.

In the Impairment testing, the Goodwill of a unit, carrying amount, is compared with the recoverable amount. The discretion and estimates of the company management play a pivotal role in preparing goodwill impairment calculations. If the recoverable amount is lower than the carrying amount entered as a book value in the balance sheet, the difference is recognized as an impairment which decreases the profit. The recoverable amount of is either the fair value less cost to sell or the value-in-use, whichever is the higher of the two. The recoverable amount used in the Impairment testing is the value-in-use which is calculated using the discounted present value of the future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life.

The cash flow estimate for Tiimari is based on budgeted one percent growth for 2011. The nominal turnover in 2008 of EUR 71.1 million (which had the margin of 63.8%) would be reached in 2014 (turnover EUR 71.4 million). This would mean an annual growth of 4.5% in 2012, 2013, and 2014. The terminal growth assumption is 3%. In 2010 the margin was 63.6%, in 2011 the expectation is 63.0%, in 2012 the expectation is 63.0%, in 2013 the expectation is 62.4%, in 2014 the expectation is 62.0% with the terminal expectation at 61.6%. The growth of fixed costs is expected to be an average of 2% per annum. The pre-tax discount rate used was 10.51% (10.51%).

The cash flow estimate for Gallerix is based on budgeted 0.7% growth for the year 2011. In 2011, 2012, and 2014 the annual growth is assumed to be 5.5%. The terminal growth expectation is 1.4%. The margin was 35.8% in 2010, with an expectation of 36.0%. On average, the growth in fixed costs is expected to be 2% per annum. The pre-tax discount rate used was 10.51% (9.08%). The increase of Gallerix pre-tax discount rate is due to the fact of using the same discount rate as for Tiimari.

In the sensitivity analysis for Tiimari, a pre-tax discount rate of 11.51% would lead to the goodwill impairment being EUR 3.6 million higher. The corresponding growth percentages of 0.5%, 4%, 4%, 4% and the terminal growth of 2.5% would lead to a goodwill impairment of a EUR 8.5 million. In the sensitivity analysis for Gallerix, a pre-tax discount rate of 11.51% would not lead to goodwill impairment. The discount rate value of 16.56% would lead to discounted cash flow equivalent to book value. The corresponding growth percentages 0.2%, 5%, 5%, 5% and terminal growth of 0.9% would not lead to goodwill impairment. The discounted cash flow would equal book value with corresponding growth rates of -0.77%, 3.99%, 3.99%, 3.99%, and the terminal of -0.15%.

10. TANGIBLE FIXED ASSETS

	Land	Buildings	Machinery and equipment	Construction in progress	Total
2010					
Acquisition cost, 1 Jan	0	0	10,905	85	10,991
Translation difference			871	0	871
Increase			481	105	586
Decrease			-241	0	-241
Transfers between items			190	-190	0
Original acquisition cost, 31 Dec	0	0	12,206	0	12,206
Accumulated depreciation and impairment, 1 Jan	0	0	-6,086	0	-6,086
Translation difference			-715		-715
Depreciation			-1,163		-1,163
Impairment					
Accumulated depreciation on decrease			32		32
Accumulated depreciation and impairment, 31 Dec	0	0	-7,931	0	-7,931
Book value, 1 Jan 2010	**0**	**0**	**4,819**	**85**	**4,904**
Book value, 31 Dec 2010	**0**	**0**	**4,275**	**0**	**4,275**

	Land	Buildings	Machinery and equipment	Construction in progress	Total
2009					
Acquisition cost, 1 Jan	61	1,332	11,795	22	13,211
Translation difference	0	0	90	0	90
Increase	0	0	760	172	932
Decrease	-61	-1,332	-1,850	0	-3,243
Transfers between items			110	-110	0
Original acquisition cost, 31 Dec	0	0	10,905	85	10,990
Accumulated depreciation and impairment, 1 Jan	0	-1,310	-6,284	0	-7,594
Translation difference			-87	0	-87
Depreciation		-9	-1,284	0	-1,293
Impairment			-187		-187
Accumulated depreciation on decrease		1,319	1,756	0	3,075
Accumulated depreciation and impairment, 31 Dec	0	0	-6,086	0	-6,086
Book value, 1 Jan 2009	**61**	**22**	**5,511**	**22**	**5,616**
Book value, 31 Dec 2009	**0**	**0**	**4,819**	**85**	**4,904**

Assets acquired on finance leases

	Intangible assets	Machinery and equipment	Total
2010			
Original acquisition cost, 1 Jan	0	1,851	1,851
Translation difference		55	55
Increase		0	0
Decrease		0	0
Accumulated depreciation		-1,721	-1,721
Book value, 31 Dec	**0**	**185**	**185**

	Intangible assets	Machinery and equipment	Total
2009			
Original acquisition cost, 1 Jan	472	3,099	3,571
Translation difference		31	31
Increase	0	130	130
Decrease	-45	-1,409	-1,454
Accumulated depreciation	-427	-1,487	-1,914
Book value, 31 Dec	**0**	**364**	**364**

11. NON-CURRENT FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2010	2009
Total available-for-sale non-current investments, 1 Jan	104	105
Unquoted shares		-1
Total available-for-sale non-current investments	**104**	**104**

12. NON-CURRENT RECEIVABLES

	2010	2009
Liabilities and other receivables:		
Receivables from customers	5	5
Other receivables and non-current deposits		30
Total	**5**	**35**

Other receivables consist mainly of deposits lodged as lease guarantees and their fair value equals the carrying value.

13. DEFERRED TAX ASSETS AND LIABILITIES

Changes in deferred taxes during 2010

	1 Jan 2010	Translation differences	Acquired businesses	Recognised in Profit and Loss Account	31 Dec 2010
Deferred tax assets:					
Internal margin of inventories	1				1
Finance leasing	4				4
Employee benefits	14				14
Other items	9				9
Total	**29**	**0**	**0**	**0**	**29**
Deferred tax liabilities:					
Reversal of goodwill depreciation	1,214			78	1,292
Accumulated depreciation difference and tax reserves	519			-172	347
Valuation of tangible and intangible assets at fair value in business combinations	4,101				4,101
Total	**5,834**	**0**	**0**	**-94**	**5,740**
Net deferred tax liabilities	**5,805**	**0**	**0**	**-94**	**5,711**

Changes in deferred taxes during 2009

	1 Jan 2009	Translation differences	Acquired businesses	Recognised in Profit and Loss Account	31 Dec 2009
Deferred tax assets:					
Internal margin of inventories	1				1
Finance leasing	4				4
Employee benefits	1			13	14
Other items	-5			14	9
Total	**2**	**0**	**0**	**27**	**29**
Deferred tax liabilities:					
Reversal of goodwill depreciation	1,132			82	1,214
Accumulated depreciation difference and tax reserves	834	9		-324	519
Valuation of tangible and intangible assets at fair value in business combinations	4,365	34		-298	4,101
Total	**6,330**	**43**	**0**	**-540**	**5,834**
Net deferred tax liabilities	**6,329**	**43**	**0**	**-567**	**5,805**

On 31 December 2010, the Group had a total of MEUR 27.0 in consolidated losses relating to the Finnish and Swedish companies and in unused shareholders' tax credit (approx. MEUR 17.6 in 2009), for which no tax assets were recognised due to the uncertainty of the usage of losses. The Finnish losses will expire between 2014 and 2019. The future utilisation of the tax losses confirmed in Sweden depends on the development of the financial performance.

14. INVENTORIES

	2010	2009
Materials and supplies	2	60
Finished products	14,260	14537
Advance payments	173	447
Total	**14,435**	**15,044**

In the financial period 2009, MEUR 4.4 were expensed to reduce the carrying value of inventories to correspond to the net realisable value of inventories.

15. TRADE AND OTHER RECEIVABLES

	2010	2009
Current		
Loans and other receivables:		
Trade receivables	1,772	1739
Other receivables	831	859
Tax receivables	35	59
Accrued income	1,529	797
Total	**4,168**	**3,454**

Accrued income consists mainly of accrued rents, insurance premiums and other expenses.

The carrying value of trade receivables best corresponds to the maximum credit risk without taking account of the fair value of guarantees in case the other parties to the financial instrument fail to discharge their obligations. No material credit risk concentrations are associated with receivables. The carrying value of trade and other current receivables is considered an approximation of the fair value.

Age distribution of trade receivables

	2010	2009
Not due	920	902
Due		
Less than 30 days	633	615
31–60 days	40	14
61–90 days	64	60
91–180 days	61	71
181–360 days	26	39
More than 360 days	28	38
Total	**1,772**	**1,739**

16. LIQUID ASSETS

	2010	2009
Deposits		1,000
Cash in hand and at bank	1,626	2,024
Balance sheet liquid assets	1,626	2,024

17. SHAREHOLDERS' EQUITY

	Number of shares (1,000 pcs)	Share capital (Eur 1,000)	Distributable equity fund (Eur 1,000)
Reconciliation of the number of shares: (shares outstanding)			
31 Dec 2008	**11,299**	**7,686**	**16,921**
Directed share issue	5,177		6,089
31 Dec 2009	**16,475**	**7,686**	**23,010**
31 Dec 2010	**16,475**	**7,686**	**23,010**
(own shares)			
31 Dec 2008	**12**		**-55**
Anullment of own shares	-12		55
31 Dec 2009	**0**		**0**
31 Dec 2010	**0**		**0**

Shares

The number of shares on 31 Dec 2010 was 16,474,755 (16,474,755 at 31 Dec 2009) Share capital was EUR 7,686,200.00, which is fully paid. The shares have no nominal value.

Distributable equity fund

The distributable equity fund include other shareholder's equity related investments and the share subscription price to the extent where it to a particular decision is not booked as share capital.

18. SHARE BASED PAYMENTS

The Group has an option scheme, which was designed for the Managing Director and two new board members.

No shares were subscribed during the financial year using the granted options The share subscription times have been divided by the option series.

Series	Share subscription time	Exercise price/share
2009A	1 June 2009–30 April 2010	EUR 1.35
2009B	1 May 2010–30 April 2011	EUR 1.46
2009C	1 May 2011–30 April 2012	EUR 1.57
2009D	1 May 2012–30 April 2013	EUR 1.70
2009E	1 May 2013–30 April 2014	EUR 1.84

The share price on grant date was EUR 1.25.

Execution	in shares	in shares
Share subscription time	1.5.2010– 31 Dec 2010	1.6.2009– 31 Dec 2009
Expected volatility	47%	47%
Risk free rate	1.80%	1.80%
Expected dividend growth/year	5%	5%
Valuation model	Black-Scholes	Black-Scholes

Changes in options during financial year

	2010 No. of options	2009 No. of options
Beginning of year	480,000	150,000
New options granted		480,000
Lost options		150,000
Utilised options		
Expired options	100,000	
At the end of year	380,000	480,000
Executable options at end of year	170,000	100,000

19. INTEREST BEARING LIABILITIES

	2010	2009
Long-term		
Financial liabilities at fair value:		
Convertible capital loan	4,781	4,692
Loans to financial institutions	11,000	17,333
Other long-term liabilities	7	8
Financial lease loans	72	169
Total	**15,859**	**22,203**
Short-term		
Financial liabilities at fair value:		
Loans to financial institutions (short-term)	7,500	3,167
Bank overdraft limit (net)	4,133	0
Financial lease loans (short-term)	110	232
Total	**11,743**	**3,398**

Long-term liabilities are divided per currency as follows:

	2010	2009
EUR	15,815	22,107
Other	44	95

Short-term liabilities are divided per currency as follows:

	2010	2009
EUR	11,678	3,269
Other	65	129

Weighted average of effective interest rates on long-term liabilities

	2010	2009
Loans to financial institutions	5.2%	4.9%
Financial lease loans	6.0%	6.0%
Convertible capital loan	9.0%	9.0%

Financial lease loans

	2010	2009
Total of minimum lease payments		
Due in less than one year	117	246
Due in one year–five years	81	189
Total	**197**	**435**

	2010	2009
Present value of minimum lease payment		
Due in less than one year	110	232
Due in one year - five years	72	169
Due in over years		
Total	**182**	**401**
Financing expenses accruing in the future	15	34
Total financial lease loans	**197**	**435**

20. ACCRUALS

	2010	2009
Unemployment pensions accruals	31	31

21. TRADE PAYABLES AND OTHER LIABILITIES

	2010	2009
Short-term		
Financial liabilities at fair value:		
Trade payables	11,278	8,328
Other short-term liabilities	2,603	3,324
Deferred tax liabilities	61	60
Accrued expenses	6,237	6,451
Total	**20,178**	**18,163**

Accrued expenses include accruals of salary related social expenses EUR 4.652 thousand (EUR 5.006 thousand in 2009) and other expense accruals.

22. FINANCIAL RISK MANAGEMENT

The Group is subject various financial risks in its normal business operations. The goal of the Group's risk management is to minimize the effects of changes in the financial markets on the Group's result. The overarching risk management policies are approved by the Board and the Finance department is responsible for the practical execution. The Group's finance department identifies and assesses risks and executes the hedging measures by financial instruments allowed by the policies. The main financial risks are currency risks, interest risk, credit risk and liquidity risk. The Group has compiled risk management policies, according to which the management of financial risk is developed and hedging transactions are executed. The Group has the opportunity to utilise currency forwards, currency loans and swaps.

Liquidity and refinancing risk

By liquidity and refinancing risk one is referring to the risk and impact on result and cash flow that occurs from the company not being able to secure sufficient financing for its operations. The Group strives to continuously asses and manages the financing requirements of the business in order for the Group to obtain liquid assets to finance the business and repay expired loans.

The financial position of the Group is tight and requires profitability improvements, execution of management plans and preparation for reorganisation of of short-term financing or additional financing.

Covenants

To the Group long-term financing recorded in the consolidated balance sheet does not include any loan covenants. The Group short-term financing recorded in the consolidated balance sheet included cashflow, gross margin and capital expenditure related loan covenants. The gross margin requirements are monitored on a quarterly basis. On the 30th of December 2010, the company concluded a so-called Stand-still agreement with the financial institutions which had granted Tiimari financing on the terms of interest-bearing outside capital for the period ending on the 30th of December 2011. The continuation of financing while the Standstill agreement is in force is not tied to the realization of the covenants related to the realization of the key economic figures agreed upon in financing agreements.

Currency risk

The Group operates apart from Finland in Sweden and the Baltic States, which means that the Group is subject to balance sheet translation risks in relation to investements in subsidiaries located outside the euro currency area. The balance sheet risk currency positions are in Swedish and Estonian krona as well as Latvian lati. The company has not during 2010 and 2009 hedged the net investments in the foreign subsidiaries.

The company's long-term financing is organized in euro denominated currency in full, hence the company is not subject to currency risk in relation to the aforementioned. Currency differences affecting the result were booked in relation to intra-group financing. Internal financing is organised in the entity's domestic currency because the possibility for the subsidiaries to hedge against exchange rate fluctuations is minor and thereby all exchange rate differences occur in the parent company.

The Group's international purchase operations results in the Group being subject to transaction risk related to different currencies. The most significant risk is related to the US dollar, which is mainly used as the currency for purchases from the Far East. On the other hand, the Group can affect sales prices, which limits the transaction risk. During the financial year 2010 has been in place to protect forward contracts related to purchases. The Group did not use any derivative instruments at the end of financial year of 2010.

Of the purchasing operations 60% occurs in euros and 40% in US dollars.

Of the external sales of the Group 77.0% (75.9) occurs in euros, 18.8% (18.2) in Swedish kronas and 2.2% (2.5) in Estonian kronas. The company has not during the 2010 and 2009 financial periods hedged against currency risks.

Interest rate risk

The Group is subject to interest rate risk via changes in balance sheet valuations or price risk on the one hand and changes in the interest rates affecting interest income and expenses on the other. The Group's finance department is responsible for management of interest rate risk to the extent defined in the risk management documentation with the goal to balance out the interest position and minimising interest expenses.

To manage the interest rate risk caused by the Group's financing liabilities, the aim is to spread the liabilities into fixed rate and variable rate credits. The dependency period of interests for the interest rate position is adjusted by choices of interest periods of loans and available interest derivative instruments.

At the end of the financial year the Group had interest-bearing liabilities totaling EUR 27.6 million (25.6) of which EUR 22.6 (20.5) million were variable rate. The book value of the variable rate loans is almost equal to the fair value of the same. The Group has not hedged against rises in interest rates via interest derivatives. A one percent change in the interest rate has a +/- EUR 0.4 million (+/- 0.3) effect on the income statement after tax.

At the end of the financial period the Group did not have any open interest swap contracts or interest rate derivative contracts.

Credit and counterparty risk

In the Group's credit and counterparty risk management policies the credit worthiness requirements and investment principles of customers, investment transactions and derivative contract counterparties are defined. The management of credit risk and credit management is centralised to the Group's finance department. The credit management of Gallerix is governed by the Gallerix finance department in Sweden.

The Group's credit risk comprises trade receivables and long-term receivables from partners of the Group. The sales in the Group comprises mainly retail sales in form of cash sales in which the counterparty risk is small apart from sales to franchisees in Gallerix. The Group's book value of financial assets is equal to the maximum amount of credit risk at end of the financial period.

During the financial period result affecting credit losses of EUR 12 thousand have been booked.

To reduce the counterparty risk of the prepayments made in the purchasing operations, the Group strives to operate with long-standing suppliers. For the purchases from the Far East part of the purchase price will have to be paid in advance.

In accordance with the Group's financing policies derivative contracts and investments transactions can only be executed with counterparties with separately defined counterparty limits expressed in the governance principles for credit and counterparty risks. At the end of the financial period the Group did not have significant investment related credit risk nor open derivative contracts.

Group loans and cash flows

eur 1,000	Book value	Cash flow total	2011	2012	2013	2014	2015 and maturities after that
31 Dec 2010							
Loans from financial institutions	18,500	21,124	4,790	4,073	630	11,630	-
Convertible capital loan	4,781	6,174	398	398	5,378		-
Financinal leasing loan	182	197	117	66	14	-	-
Available credit limits at banks	4,133	4,133	4,133				
Trade payables	11,278	11,278	11,278				
Total	38,874	42,906					

eur 1,000	Book value	Cash flow total	2010	2011	2012	2013	2014 and maturities after that
31 Dec 2009							
Loans from financial institutions	20,500	24,526	4,235	4,088	3,944	629	11,629
Convertible capital loan	4,692	6,574	398	398	398	5,378	
Financinal leasing loan	401	435	246	112	64	13	
Available credit limits at banks	0	0	0				
Trade payables	8,328	8,328	8,328				
Total	33,921	39,862					

23. MANAGEMENT OF CAPITAL STRUCTURE

The Group's capital structure is not governed by any official and external capital structure requirements. (In other countries, the company legislation might include requirements relating to equity, its levels and structure, which affect Tiimari's subsidiaries in these countries).

The goals of Tiimari's capital structure management are:

– securing the capability for continuing the business of the Group by the going concern principle and the ability to offer a return to shareholder investments and managing its liabilities against other stakeholders
– offering the shareholders sufficient return on investment by developing and managing a balanced business and investment entity, which is profitable in the short-term as well as in the long-term
– manage the capabilities for utilizing growth opportunities.

The capital structure is managed and governed by taking consideration of the business related risks and the economic climate. The capital structure can be affected by the level of dividends distributed to shareholders, by limiting the level of capital expenditure, by selling assets and by issuing additional shares.

The Group's capital structure development is monitored via the gearing and equity ratios. The total shareholder's equity is included in the capital structure.

The Group's capital structure fluctuates during the calendar year due to the seasonality of the sales.

eur 1,000	2010	2009
Shareholders' equity	12,461	26,366
Long-term liabilities, interest-bearing	15,859	22,203
Short-term interest-bearing liabilities	11,743	3,398
Cash and bank	1,626	3,024
Interest-bearing liabilities, net	25,976	22,577
Equity ratio	18.9%	34.7%
Gearing	208.5%	85.6%

24. RELATED PARTY TRANSACTIONS

The Group's insiders include the parent company Tiimari Plc and the subsidiaries.

In addition, the insiders include shareholders who exercise significant influence in the Group, the members of the Board, the Managing Director and their family members and companies they manage.

The Management or Board have not been granted loans by the company nor have any guarantees been given on their behalf.

As announced 30 Dec 2010 Tiimari launched a three-million convertible capital loan. Of the insiders, Virala Ltd. EUR 1.9 million, Assetman Ltd. (Juha Mikkonen) EUR 0.3 million, and Pecun Inc./ Hannu Ryöppönen EUR 0.1 million subscribed to the capital loan.

Virala Ltd. gave subscription guarantees and was paid guarantee provision totaling EUR 113.500.

In addition to the salaries and other remuneration presented below the financial statements include a EUR 41 thousand IFRS 2 compliant expense related to option rights by Hannu Ryöppönen, Hannu Krook and Sven-Olof Kulldorff.

Management remuneration

eur 1,000	2010	2009
Managing Directors		
Hannu Krook, starting 7 Apr 2009	231	162
Kristiina Illi (incl. severance pay)		282
Board Members 2010/2009		
Ryöppönen Hannu	28	18
Seligson Peter	6	26
Kulldorff Sven-Olof	14	11
Pelkonen Markku	14	3
Hautanen Arja		15
Kauppila Teppo		4
Lindberg-Repo Kirsti		4
Mikkonen Juha	20	14
Rosenlew Alexander	14	15
Helin Erik		2
Silván Sissi	11	
Management Group remuneration	**548**	**537**

25. EVENTS AFTER THE PERIOD UNDER REVIEW

The convertible capital loan of three million, issued by Tiimari Plc on 30th December 2010, was oversubscribed during the subscription period which ended on 31st January 2011. As a result of the oversubscription, the subscription of Virala Oy Ab, which had given a subscription guarantee to the Company, was cut according to the subscription guarantee terms so that in the final allocation, Virala Oy Ab was allocated the total of EUR 1.9 million of the loan, others who had given subscription guarantees, a total of EUR 0.85 million, and other subscribers, EUR 0.25 million.

26. CONTINGENT LIABILITIES

	2010	2009
Loans from financial institutions against the following securities	11,632	8,333
Real estate mortgages		
Corporate mortgages	31,137	31,137
Pledged shares	1,476	1,476
Leasing liabilities:		
Current lease liabilities	80	133
Lease liabilities maturing in 1–5 years	48	115
	128	248
Other rental liabilities:		
Current rental liabilities	15,534	12,147
Rental liabilities maturing in 1–5 years	24,423	13,687
Subsequent rental liabilities	1,759	
	41,716	25,834
Sucurity for own debts		
Guarantees	2,891	2,821
Redeveloping contractor's liability	5	5

27. GROUP COMPANIES, 31 DEC 2010

	Domicile	Share of ownership
TiiMore Promotion Oy	Finland	10%
Kiinteistö Oy Osuuskunnantie 30	Finland	100%
Tuotesampo Oy	Finland	100%
Maritii Oy	Finland	100%
Tiimari Retail Oyj	Finland	100%
Tiimari Baltic AS	Estonia	100%
Tiimari Latvia SIA	Latvia	100%
Timari Lietuva UAB	Lithuania	100%
Tiimari Poland SP Z.O.O	Poland	100%
OOO Tiimari Moscow	Russia	100%
OOO Tiimari	Russia	100%
Tiimari Norway AS	Norway	100%
Tiimari Sweden AB	Sweden	100%
Gallerix International AB	Sweden	100%
Gallerix Sweden AB	Sweden	100%
Gallerix Finland Oy Ab	Finland	100%
Fröken Väs AB	Sweden	100%

Key figures

	2010 IFRS	2009 IFRS	2008 IFRS
INCOME STATEMENT AND BALANCE SHEET			
Revenue total, EUR thousand	75,797	80,623	85,644
Operating profit excl. non-recurring items, EUR thousand	-12,613	-8,198	-5,893
% of revenue	-16.6%	-10.2%	-6.9%
Profit before tax and minority interest, EUR thousand	-14,845	-11,334	-10,009
% of revenue	-19.6%	-14.1%	-11.7%
Profit/loss for the period, EUR thousand	-14,653	-10,790	-9,929
% of revenue	-19.3%	-13.4%	-11.6%
Return on equity (ROE), %	-75.5%	-38.0%	-28.3%
Return on investment (ROI),'%	-26.3%	-13.0%	-8.2%
Equity ratio, %	18.9%	34.7%	34.6%
Gearing%	208.5%	85.6%	105.0%
Quick ratio	0.18	0.30	0.17
Total equity and liabilities, EUR million	66.0	76.0	87.9
Capital expenditure, EUR thousand	665	1,251	5,241
% of revenue	0.9%	1.6%	6.1%
Average personnel	591	724	674

	2010	2009	2008
INFORMATION PER SHARE			
Earnings per share (EPS), EUR	-0.89	-0.73	-0.94
Earnings per share (EPS), EUR diluted	-0.89	-0.73	-0.94
Shareholder's equity per share, EUR	0.76	1.60	2.69
Dividend per share, EUR adjusted for emission	0	0	0
Dividend per share, EUR not adjusted for emission	0	0	0
Number of shares, not adjusted for emission	16,475	14,749	11,311
Divided per earnings, adjusted for emission, %	0	0	0
Price/Earnins ratio (P/E)	neg.	neg.	neg.
Effective dividend yield, %	0	0	0

	2010	2009	2008
SHARE INFORMATION			
Price development of A-shares			
- highest price, EUR	1.35	1.70	4.84
- lowest price, EUR	0.88	1.10	1.40
- average price, EUR	1.18	1.39	3.27
- closing price, EUR	0.88	1.29	1.41
Markets capitalisation, EUR million	14.5	21.3	15.9
Trading volume, pcs thousand	4,445	3,290	1,150
Trade volume development, %	26.4%	22.0%	10.2%
Number of shareholders	2,780	2,818	2,560
Average number of shares, pcs thousand	16,475	14,749	10,549
Number of shares at the end of financial year, pcs thousand	16,475	16,475	11,311

Calculation of Key Financial Figures

EBITDA	Operating profit + depreciation and amortisation
Operative EBITDA	EBITDA excl. non-recurring items
Gross margin	Revenue - materials and supplies
Operative cash flow	EBITDA – increase in net working capital – capital expenditure
Capital expenditure	Cash flow utilised for capital expenditure
Profit/loss for the period	Profit/loss before tax and financial items
Return on equity% (ROE)	$\frac{\text{Profit/loss for the period}}{\text{Shareholder's equity (average)}} \times 100$
Return on investment% (ROI)	$\frac{\text{Profit before tax + interest and other financial expenses}}{\text{Total equity and liabilities - non-interest bearing liabilities (average)}} \times 100$
Equity ratio%	$\frac{\text{Shareholders' equity}}{\text{Total assets – prepayments received}} \times 100$
Gearing%	$\frac{\text{Interest-bearing liabilities – cash and cash equivalents}}{\text{Shareholders' equity}} \times 100$
Earnings per share (EPS), EUR	$\frac{\text{Earnings before tax – income taxes}}{\text{average number of shares for the fiscal year, emission adjusted}}$
Shareholder's equity per share, EUR	$\frac{\text{equity attributable to the equity holders of the parent company}}{\text{number of shares at the end of the fiscal year, emission adjusted}}$
Dividend per share	$\frac{\text{Dividend confirmed by AGM}}{\text{Number of shares}}$
Price/earnings ratio (P/E)	$\frac{\text{Share price at end of financial period, emission adjusted}}{\text{Earnings per shares attributable to shareholders of parent company}}$
Effective dividend yield%	$\frac{\text{Dividend per share, emission adjusted}}{\text{Closing share price, emission adjusted}} \times 100$
Market capitalisation	Number of shares x closing price of share
Quick ratio	$\frac{\text{Short-term receivables + liquid assets}}{\text{Short-term liabilities}}$

Parent company income statement (FAS)

Eur	note	2010	2009
REVENUE	1.1.	**0.00**	**400,000.00**
Other operating income		1,038.78	0.00
Personnel expenses	1.2	-549,330.64	-1,278,806.52
Depreciation and impairments	1.3	-89,996.52	-83,931.00
Other operating expenses	1.4	-674,533.47	-1,191,472.65
Operating profit		-1,312,821.85	-2,154,210.17
Financing income and expenses	1.5	319,736.98	20,526.87
PROFIT/LOSS BEFORE NON-RECURRING ITEMS AND TAX		-993,084.87	-2,133,683.30
Impairment of shares in subsidiary	1.6	-10,000,000.00	-10,430,000.00
PROFIT BEFORE TAX		-10,993,084.87	-12,563,683.30
Appropriations	1.7	14,919.97	-1,953.62
PROFIT/LOSS FOR THE PERIOD		-10,978,164.90	-12,565,636.92

Parent Company Balance Sheet (FAS)

Eur	note	31 Dec 2010	31 Dec 2009
ASSETS			
FIXED ASSETS			
Intangible assets	2.1.	140,534.46	201,863.30
Tangible assets	2.2.	11,486.21	30,153.89
Shares in Group companies	2.3.	5,653,634.15	15,653,634.15
Other investments	2.3.	4,512.97	4,512.97
TOTAL FIXED ASSETS		5,810,167.79	15,890,164.31
CURRENT ASSETS			
Inventory	2.4.	0.00	80,275.47
Non-current receivables	2.5.	31,807,025.79	27,136,590.35
Current receivables	2.6.	3,837,585.47	6,515,873.38
Cash in hand and at bank	2.7.	11,535.78	1,302,470.57
TOTAL CURRENT ASSETS		35,656,147.04	35,035,209.77
TOTAL ASSETS		41,466,314.83	50,925,374.08
LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2.8.	7,686,200.00	7,686,200.00
Distributable equity fund		23,397,918.21	23,397,918.21
Profit for the previous financial year		-7,917,686.45	4,647,950.47
Profit/loss for the period		-10,978,164.90	-12,565,636.92
TOTAL SHAREHOLDERS' EQUITY		12,188,266.86	23,166,431.76
ACCUMULATED APPROPRIATIONS	2.9.	27,053.03	41,973.00
LIABILITIES			
Convertible capital loan	2.10.	4,980,000.00	4,980,000.00
Non-current liabilities	2.10.	11,008,489.98	13,341,823.31
Current liabilities, interest bearing	2.11.	11,052,157.25	8,117,486.37
Current liabilities, non-interest bearing	2.11.	2,210,347.71	1,277,659.64
TOTAL LIABILITIES		29,250,994.94	27,716,969.32
TOTAL EQUITY AND LIABILITIES		41,466,314.83	50,925,374.08

Parent company cash flow statement (FAS)

EUR	note	2010	2009
Cash flows from operations			
Profit/loss for the financial period		-10,978,164.90	-12,565,636.92
Adjustments:			
Depreciation and impairment	1.3 / 1.6	10,089,996.52	10,513,931.00
Gain (-) and loss (+) on the realisation of fixed assets			9,004.80
Financial income and expenses	1.5	-319,736.98	-20,526.87
Taxes			
Other adjustments		-14,919.97	1,953.62
Cas flow before change in working capital		-1,222,825.33	-2,061,274.37
Change in working capital:			
Change in inventories		80,275.47	-80,275.47
Change in current receivables, non-interest bearing		-27,743.12	407,625.31
Change in current liabilities, non-interest bearing		110,521.30	-380,582.24
Operative cash flow before financing items and taxes		-1,059,771.68	-2,114,506.77
Interests paid		-259,806.69	-998,690.45
Interest income received			16,222.45
Other financing expenses paid		-562,693.97	-149,752.00
Taxes paid			
Cash flow before non-recurring items		-1,882,272.34	-3,246,726.77
Net cash flow from operations		**-1,882,272.34**	**-3,246,726.77**
Cash flows from investment activities			
Investments in tangible and intangible fixed assets		-10,000.00	-13,825.15
Loand granted			
Intra-group loans, increase (net)			-1,517,190.02
Net cash flow from investments		**-10,000.00**	**-1,531,015.17**
Cash flows from financing activities			
Share issue			6,469,418.75
Short-term loans, increase		711,351.54	
Short-term loans, decrease		-110,013.99	-7,549,132.78
Change in short-term loans			-335,000.00
Long-term loans, increase			8,480,000.00
Long-term loans, decrease			-1,000,000.00
Dividends paid			
Net cash flow from financing		**601,337.55**	**6,065,285.96**
Change in liquid assets		**-1,290,934.79**	**1,287,544.02**
Liquid assets, 1 Jan		1,302,470.57	14,926.55
Change in liquid assets		-1,290,934.79	1,287,544.02
Liquid assets, 31 Dec	2.7	11,535.78	1,302,470.57

Notes to the Parent Company's Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Valuation of fixed assets

Tangible assets subject to wear and tear are recognised at acquisition cost less planned depreciation. The depreciation according to plan has been calculated as straight-line depreciation of the original acquisition cost on the basis of the useful life of the tangible asset.

The planned depreciation times are:

Intangible assets	5 years
Licenses and other intangible rights	in its useful life
Machinery and equipment	5–7 years
Other long-term expense items	3–5 years

Assets with a useful life less than three years and small acquisitions are recognized in expenses in the period during which they were acquired.

Pensions

The company has arranged its employees' pension cover through an external pension insurance company. Pension contributions and expenses allocated for the financial period are based on actuarial calculations. Pension expenses are expensed for the year during which they emerge.

Items in foreign currency

Receivables and liabilities denominated in foreign currency are converted into euros using the exchange rates quoted by the European Central Bank at the balance sheet date. All exchange rate differences are recognised in profit or loss.

1. NOTES TO THE PARENT COMPANY PROFIT AND LOSS ACCOUNT

1.1 NET SALES AND OPERATING PROFIT BY SEGMENT

	2010	2009
Segments:		
Administrative services	0.00	400,000.00

1.2 NOTES TO PERSONNEL AND MEMBERS OF CORPORATE BODIES

	2010	2009
Personnel expenses		
Wages and salaries	-455,406.67	-1,058,471.37
Pension costs	-82,469.46	-186,064.52
Other indirect employee costs	-11,454.51	-34,270.63
Total	-549,330.64	-1,278,806.52
Management wages and salaries		
CEO	-231,120.00	-446,326.10
Board members	-107,400.00	-110,647.62
Total	-338,520.00	-556,973.72

Average number of employees for the financial year

	2010	2009
Administrative personnel	2	10
Total	2	10

Loans to related parties

Loans have not been granted to members of the parent company's Board of Directors.

1.3 DEPRECIATION

	2010	2009
Depreciation for intangible assets	-71,328.84	-64,749.36
Depreciation for machinery and equipment	-18,667.68	-19,181.64
Total	-89,996.52	-83,931.00

1.4 OTHER OPERATING COSTS

	2010	2009
Rents	-114,958.69	-116,247.29
Marketing costs	-10,072.75	-124.98
External services	-153,849.59	-722,848.30
Administrative costs	-395,652.44	-352,252.08
Total	-674,533.47	-1,191,472.65

	2010	2009
Auditors' fees		
Auditing	-76,218.25	-83,862.14
Other services	-1,381.50	-22,336.08
Total	-77,599.75	-106,198.22

1.5 FINANCIAL INCOME AND EXPENSES

	2010	2009
Interest income from non-current investments		
Group companies	1,953,022.82	1,629,005.18
Others	6,113.94	4,706.23
Total	1,959,136.76	1,633,711.41
Interest and other financial expenses		
Group companies	-370,776.75	-384,003.90
Interest and other financial expenses to others	-1,158,911.96	-1,176,449.71
Others	-109,711.07	-52,730.93
Total	-1,639,399.78	-1,613,184.54
Total financial income and expenses	319,736.98	20,526.87

1.6 EXTRAORDINARY ITEMS

	2010	2009
Impairment of Maritii Ltd. Shares	-10,000,000.00	-10,430,000.00

1.7 APPROPRIATIONS

	2010	2009
Difference between planned and taxed depreciation	14,919.97	-1,953.62
Change in tax liabilities and receivables	3,879.19	-507.94

2. NOTES TO THE PARENT COMPANY BALANCE SHEET FIXED ASSETS

2.1 INTANGIBLE ASSETS

	Intangible assets	Total
Acquisition cost, 1 Jan	362,425.23	362,425.23
Increase	10,000.00	10,000.00
Decrease	0.00	0.00
Acquisition cost, 31 Dec	372,425.23	372,425.23
Accumulated depreciation and impairment, 1 Jan	-160,561.93	-160,561.93
Depreciation for the financial year	-71,328.84	-71,328.84
Accumulated depreciation, 31 Dec	-231,890.77	-231,890.77
Carrying value, 31 Dec 2010	140,534.46	140,534.46
Carrying value, 31 Dec 2009	201,863.30	201,863.30

2.2 TANGIBLE ASSETS

	Machinery and equipment	Total
Acquisition cost, 1 Jan	289,324.25	289,324.25
Increase	0.00	0.00
Decrease	0.00	0.00
Acquisition cost, 31 Dec	289,324.25	289,324.25
Accumulated depreciation and impairment, 1 Jan	-259,170.36	-259,170.36
Depreciation for the financial year	-18,667.68	-18,667.68
Accumulated depreciation, 31 Dec	-277,838.04	-277,838.04
Carrying value, 31 Dec 2010	11,486.21	11,486.21
Carrying value, 31 Dec 2009	30,153.89	30,153.89

2.3 INVESTMENTS

	Shares Group companies	Shares Other	Total
Acquisition cost, 1 Jan	15,653,634.15	4,512.97	15,658,147.12
Increase			
Impairments	10,000,000.00		10,000,000.00
Decrease			
Acquisition cost, 31 Dec 2010	5,653,634.15	4,512.97	5,658,147.12
Carrying value, 31 Dec 2010	5,653,634.15	4,512.97	5,658,147.12

Shares in Group companies

	Parent company share%
Group companies	
Kiinteistö Oy Osuuskunnantie 30, property, Helsinki	10
Tuotesampo Oy (formerly Tiimore Oy), Helsinki	100
Maritii Oy, Vantaa	100

2.4 CURRENT ASSETS

	2010	2009
Prepayment for inventory	0.00	80,275.47

2.5 NON-CURRENT RECEIVABLES

	2010	2009
Receivables from Group companies		
Loan receivables	31,807,025.79	27,136,590.35

2.6 CURRENT RECEIVABLES

	2010	2009
Receivables from Group companies		
Trade receivables	182,065.41	35,836.21
Tax receivables	55,992.72	11,381.59
Loan receivables	1,550,000.00	1,550,000.00
Other receivables	1,908,421.58	4,670,445.33
	3,696,479.71	6,267,663.13
Other receivables	15,307.40	71,491.48
Loan receivables	3,306.42	
Accrued income	125,798.36	173,412.35
Total current receivables	3,837,585.47	6,515,873.38
Itemisation of accrued income:		
Statutory insurance	9,871.84	0.00
Accrued interest income	115,926.52	167,527.96
Other accrued income	0.00	5,884.39
Total	125,798.36	173,412.35

2.7 CASH IN HAND AND AT BANK

	2010	2009
Short-term deposits		1,000,000.00
Current accounts	11,535.78	302,470.57
	11,535.78	1,302,470.57

2.8 SHAREHOLDERS' EQUITY

	2010	2009
Share capital, 1 Jan	**7,686,200.00**	**7,686,200.00**
Share capital, 31 Dec	7,686,200.00	7,686,200.00
Distributable equity fund, 1 Jan	**23,397,918.21**	**16,928,499.46**
Share issue 2009		6,469,418.75
Distributable equity fund, 31 Dec	23,397,918.21	23,397,918.21
Treasury shares, 1 Jan		**-55,084.18**
Annullment of treasury shares		55,084.18
Treasury shares, 31 Dec		0.00
Retained earnings, 1 Jan	-7,917,686.45	4,703,034.65
Annullment of treasury shares		-55,084.18
Profit/loss for the period	-10,978,164.90	-12,565,636.92
Retained earnings, 31 Dec	-18,895,851.35	-7,917,686.45
Shareholder's equity, total	**12,188,266.86**	**23,166,431.76**
Restricted shareholder's equity	7,686,200.00	7,686,200.00
Distributable shareholder's equity	4,502,066.86	15,480,231.76
Calculation of distributable funds: distributable equity fund and retained earnings		
Distributable funds, 31 Dec	4,502,066.86	15,480,231.76
Total	4,502,066.86	15,480,231.76

2.9 ACCUMULATED APPROPRIATIONS

	2010	2009
Depreciation difference, intangible assets	26,668.23	38,328.91
Depreciation difference, other long-term expense items		2,409.40
Depreciation difference, machinery and equipment	384.80	1,234.69
Total accumulated appropriations	27,053.03	41,973.00
Tax liabilities	7,033.79	10,912.98
Liability has not been booked in balance sheet	7,033.79	10,912.98

2.10 NON-CURRENT LIABILITIES

	2010	2009
Convertible capital loan	4,980,000.00	4,980,000.00
Varma	11,000,000.00	11,000,000.00
Aktia	0.00	2,333,333.33
State Provincial Office, Southern Finland, 20 Dec 2012	8,489.98	8,489.98
Total non-current liabilities	11,008,489.98	13,341,823.31

None of the liabilities due in more than five years.

Main coventants of convertible capital loan

The company released a convertible capital loan totalling EUR 4,980,000. The loan has been divided into EUR 60,000 loan obligations. The interest rate is 8% and effective interest rate 9.3%. The due date for the interest payments are always on the 31st March of the next financial year. The loanholder can convert the loan into shares, conversion rate being about EUR 1.4746. The capital loan is compliant with a capital loan referred to in the 12th chapter of the Companies Act

2.11 CURRENT LIABILITIES

	2010	2009
Loans from financial institutions	3,500,000.00	1,166,666.67
Bank overdraft limit	703,140.52	0.00
Accounts payable	43,267.30	43,972.72
Other liabilities	23,542.58	19,409.41
Accruals and deferred income	905,868.31	347,438.40
Total	5,175,818.71	1,577,487.20

	2010	2009
Liabilities to Group companies		
Loans	6,849,016.73	6,950,819.70
Accounts payable	53.66	0.00
Accruals and deferred income	1,237,615.86	866,839.11
Total	8,086,686.25	7,817,658.81
Short-term, interest bearing	11,052,157.25	8,117,486.37
Short-term, non-interest bearing	2,210,347.71	1,277,659.64
Total current liabilities	13,262,504.96	9,395,146.01

Itemisation of accruals and deferred income:

	2010	2009
Wages and social security contributions	130,271.02	235,562.53
Interest	532,265.89	80,875.87
Other accruals and deferred income	243,331.40	31,000.00
Total accruals and deferred income	905,868.31	347,438.40

3. CONTINGENT LIABILITIES AND OTHER LIABILITIES

	2010	2009
Loans from financial institutions with guarantees	4,203,140.52	3,500,000.00
Pledges guarantees as collateral for own liabilities:		
Subsidiary shares in Maritii Oy and Tuotesampo Oy		
as well as the 10% share in Tiimore Promotion Oy		
Pledged intra group loan receivables	550,000.00	550,000.00
Bank guarantees	36,189.00	36,189.00
Leasing liabilities		
Due within one year	12,407.88	49,587.01
Due later	18,611.82	69,281.98
Total	31,019.70	118,868.99
Other own liabilities		
Lease guarantees		92,928.96
Redeveloping contractor's liability	5,000.00	5,000.00
Total	5,000.00	97,928.96

Parent company has given 10 June 2006 a general guarantee on behalf of Tiimari Retail Ltd to Nordea Bank Finland Plc.

Distribution of Holdings and Shareholder Information

DISTRIBUTION OF HOLDINGS AT THE END OF THE FINANCIAL YEAR

	Number of holders	Of shares	Of votes
Private enterprises	118	9,062,757	55.01%
Financial and insurance institutions	5	719,031	4.36%
Public corporations	5	1,839,683	11.17%
Households	2,631	4,268,688	25.91%
Non-profit organisations	7	9,456	0.06%
Foreign countries	9	17,838	0.11%
Nominee-registered	5	554,149	3.36%
In joint account	0	3,153	0.02%
Total	2,780	16,474,755	100.00%

TYPE AND NUMBER OF SHARES

Type	pcs	Votes	Total votes
A-share	16,474,755	1	16,474,755
Total	16,474,755		16,474,755

DISTRIBUTION OF HOLDINGS, 31 DEC 2010

	Holders pcs	Of total, %	Number of shares	Of book entries, %
1–100	373	13.42	23,205	0.14
101–500	931	33.49	284,620	1.73
501–1,000	589	21.19	468,216	2.84
1,001–5,000	714	25.68	1,614,182	9.80
5,001–10,000	92	3.31	667,908	4.05
10,001–50,000	55	1.98	1,074,478	6.52
50,001–100,000	7	0.25	511,277	3.10
100,001–500,000	10	0.36	1,918,739	11.65
500,001–	9	0.32	9,908,977	60.15
Total	2780	100.00	16,471,602	99.98
of which nominee-registered	5		554,149	3.36
In joint account			3,153	0.02
Issued number			16,474,755	100.00

INFORMATION ABOUT BIGGEST SHAREHOLDERS AT THE END OF THE FINANCIAL PERIOD

Biggest shareholders at the end of 2010 financial period

	A-share	Of shares and votes, %
1. Atine Group Ltd.	3,293,000	19.99
2. Assetman Ltd.	1,740,645	10.57
3. Varma Mutual Pension Insurance Company	828,912	5.03
4. Primate Ltd.	825,000	5.01
5. Mutual Pension Insurance Company Ilmarinen	789,221	4.79
6. Baltiska Handels A.B.	716,483	4.35
7. Investment Fund Aktia Capital	600,000	3.64
8. Kargol Ltd.	570,985	3.47
9. Vessilä Ltd.	544,731	3.31
10. Cumasa Ltd.	407,625	2.47
11. Etera Mutual Pension Insurance Company	210,000	1.27
12. Suomen Bestand Ltd.	178,253	1.08
13. Ryöppönen Hannu Ragnvald	160,000	0.97
14. Krook Hannu Juhani	160,000	0.97
15. Sijoitusrahasto Garp	129,015	0.78
16. Finnfoam Ltd.	115,000	0.70
17. Nieminen Jorma Juhani	103,045	0.63
18. Pohjola Insurance Ltd	95,000	0.58
19. Moneda Consulting Ltd.	87,500	0.53
20. Rosaco Ltd.	60,000	0.36
21. Kimmo Haapaniemi	58,637	0.36
22. Turpeinen Urho Taneli	58,000	0.35
23. KW-Invest Ltd.	55,000	0.33
24. Potrykus Yvonne	45,000	0.27
25. Temonen Antti	39,533	0.24
26. Sirviö Kari Simo Tapani	37,880	0.23
27. Illi Marja Kristina	35,787	0.22
28. Jyväsjärvi Juha Olavi	35,000	0.21
29. Pallas-Agentuuri Ltd.	32,590	0.20
30. Mezera Ltd.	31,250	0.19
Total	12,043,092	73.10

MANAGEMENT SHARE HOLDINGS

The Managing Director Hannu Krook held 31st December 2010 160,000 company shares, which equals 0.97% of total shares and votes. The board members including spouses, underaged children and companies where they exercise control held 31st December 2010 2,677,128 shares, which equals 16.2% of the company shares.

The Board of Directors' Proposal to the Annual General Meeting

At the end of the financial period the parent company's distributable shareholders' equity was EUR 4,502,066.86 (15,480,231.76).

The Board proposed to the Annual General Meeting that the loss for the period EUR 10,978,164.90 will be left as retained earnings and that no dividend is paid.

Board Member Signatures and Auditor's Note

Approval of annual report and financial statements.

Helsinki March 7, 2011

Hannu Ryöppönen
Chairman of the Board

Juha Mikkonen
Vice Chairman of the Board

Sven-Olof Kulldorf

Markku Pelkonen

Alexander Rosenlew

Sissi Silván

Hannu Krook
Managing Director

AUDITOR'S NOTE

Our auditor’s report has been issued today

Helsinki, March 9, 2011

KPMG Oy Ab
Authorized Public Accountants

Sixten Nyman
Authorized Public Accountant

Auditor's Report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

TO THE ANNUAL GENERAL MEETING OF TIIMARI PLC

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Tiimari Plc for the year ended on 31 December, 2010. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

THE RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

We want to draw attention to the business related risks and uncertainties section in the report of the Board of Directors and going concern section in the notes to the financial statements. The finance situation of the Company is tight and requires significant improvement in the profitability, restructuring of financing and additional financing. There is uncertainty whether all foregoing requirements will be met and which may affect Company's ability to continue as a going concern. We also want to draw attention to the impairment testing section in the notes to the financial statements in which it can be noted that the testing result is very sensitive to any change of the parameters.

Helsinki, March 9, 2011
KPMG OY AB

Sixten Nyman
Authorized Public Accountant

tiimari

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