

**Tallinna Kaubamaja AS**  
**Consolidated Annual Report**  
**2012**  
**(translation of the Estonian original)**



## TALLINNA KAUBAMAJA AS CONSOLIDATED ANNUAL REPORT 2012

The main areas of activity of Tallinna Kaubamaja Group are retail and wholesale trade. At the year-end 2012, Tallinna Kaubamaja Group employed more than 3,330 employees.

<i>Legal address:</i>	<i>Gonsiori 2 10143 Tallinn Republic of Estonia</i>
<i>Commercial Register no.:</i>	<i>10223439</i>
<i>Telephone:</i>	<i>372 667 3200</i>
<i>Fax:</i>	<i>372 667 3205</i>
<i>E-mail:</i>	<i>kaubamaja@kaubamaja.ee</i>
<i>Beginning of financial year:</i>	<i>1.01.2012</i>
<i>End of financial year:</i>	<i>31.12.2012</i>
<i>Auditor:</i>	<i>PricewaterhouseCoopers AS</i>
<i>Bank:</i>	<i>AS Swedbank AS SEB Pank Nordea Pank Finland Plc Estonian branch</i>
<i>Law office:</i>	<i>Tamme Otsmann Ruus Vabamets OÜ</i>
<i>Lawyer:</i>	<i>Helen Tulve</i>

<i>Subsidiaries and associates:</i>	<i>Share capital</i>	<i>Ownership interest</i>
<i>Kaubamaja AS</i>	<i>25,0 TEUR</i>	<i>100%</i>
<i>Selver AS</i>	<i>1405,8 TEUR</i>	<i>100%</i>
<i>Kulinaaria OÜ</i>	<i>2,5 TEUR</i>	<i>100%</i>
<i>Selver Latvia SIA</i>	<i>200,1 TLVL</i>	<i>100%</i>
<i>AS Tartu Kaubamaja</i>	<i>497,6 TEUR</i>	<i>100%</i>
<i>Topsec Turvateenused OÜ</i>	<i>2,5 TEUR</i>	<i>100%</i>
<i>Tartu Kaubamaja Kinnisvara OÜ</i>	<i>2,6 TEUR</i>	<i>100%</i>
<i>TKM Auto OÜ</i>	<i>2,6 TEUR</i>	<i>100%</i>
<i>TKM Beauty OÜ</i>	<i>2,6 TEUR</i>	<i>100%</i>
<i>TKM Beauty Eesti OÜ</i>	<i>2,6 TEUR</i>	<i>100%</i>
<i>KIA Auto AS</i>	<i>113,7 TEUR</i>	<i>100%</i>
<i>Ülemiste Autokeskus OÜ</i>	<i>41,2 TEUR</i>	<i>100%</i>
<i>AS Viking Motors</i>	<i>222,6 TEUR</i>	<i>100%</i>
<i>KIA Automobile SIA</i>	<i>8,0 TLVL</i>	<i>100%</i>
<i>KIA Auto UAB</i>	<i>465,0 TLTL</i>	<i>100%</i>
<i>Tallinna Kaubamaja Kinnisvara AS</i>	<i>28,0 TEUR</i>	<i>100%</i>
<i>SIA TKM Latvija</i>	<i>2,0 TLVL</i>	<i>100%</i>
<i>OÜ Suurtüki NK</i>	<i>5,1 TEUR</i>	<i>100%</i>
<i>SIA Suurtuki</i>	<i>2,0 TLVL</i>	<i>100%</i>
<i>AS ABC King</i>	<i>31,7 TEUR</i>	<i>100%</i>
<i>SIA ABC King</i>	<i>200,0 TLVL</i>	<i>100%</i>
<i>Rävala Parkla AS</i>	<i>639,0 TEUR</i>	<i>50%</i>

The subsidiaries and associates Kaubamaja AS, Selver AS, Kulinaaria OÜ, AS Tartu Kaubamaja, Topsec Turvateenused OÜ, Tartu Kaubamaja Kinnisvara OÜ, Tallinna Kaubamaja Kinnisvara AS, TKM Auto OÜ, TKM Beauty OÜ, TKM Beauty Eesti OÜ, Ülemiste Autokeskus OÜ, KIA Auto AS, Viking Motors AS, OÜ Suurtüki NK, AS ABC King and Rävala Parkla AS are registered in the Republic of Estonia. Selver Latvia SIA, SIA TKM Latvija, KIA Automobile SIA, SIA Suurtuki and SIA ABC King are registered in the Republic of Latvia and KIA Auto UAB, in the Republic of Lithuania.

This consolidated annual report consists of the management report, the consolidated financial statements, the independent auditor's report and the profit allocation proposal.

## Table of contents

<b>MANAGEMENT REPORT</b> .....	<b>4</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b> .....	<b>22</b>
MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS .....	22
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	23
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	24
CONSOLIDATED CASH FLOW STATEMENT.....	25
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	26
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b> .....	<b>27</b>
<i>Note 1 General information</i> .....	27
<i>Note 2 Accounting policies adopted in the preparation of the financial statements</i> .....	27
<i>Note 3 Critical accounting estimates and judgements</i> .....	35
<i>Note 4 Risk management and description of key risks</i> .....	36
<i>Note 5 Cash and bank</i> .....	40
<i>Note 6 Trade receivables and prepayments</i> .....	40
<i>Note 7 Trade receivables</i> .....	40
<i>Note 8 Inventories</i> .....	40
<i>Note 9 Subsidiaries</i> .....	41
<i>Note 10 Investments in associates</i> .....	42
<i>Note 11 Long-term prepayments and receivables</i> .....	43
<i>Note 12 Investment property</i> .....	43
<i>Note 13 Property, plant and equipment</i> .....	44
<i>Note 14 Intangible assets</i> .....	47
<i>Note 15 Interest bearing borrowings</i> .....	48
<i>Note 16 Finance and operating lease</i> .....	49
<i>Note 17 Trade payables and other liabilities</i> .....	50
<i>Note 18 Taxes</i> .....	50
<i>Note 19 Share capital</i> .....	50
<i>Note 20 Segment reporting</i> .....	51
<i>Note 21 Other operating expenses</i> .....	53
<i>Note 22 Staff costs</i> .....	53
<i>Note 23 Finance income and costs</i> .....	53
<i>Note 24 Earnings per share</i> .....	54
<i>Note 25 Loan collateral and pledged assets</i> .....	54
<i>Note 26 Related party transactions</i> .....	54
<i>Note 27 Interests of the members of the Management and Supervisory Board</i> .....	56
<i>Note 28 Shareholders with more than 5% of the shares of Tallinna Kaubamaja AS</i> .....	56
<i>Note 29 Contingent liabilities</i> .....	56
<i>Note 30 Financial information of the Parent</i> .....	58
INDEPENDENT AUDITOR'S REPORT .....	62
PROFIT ALLOCATION PROPOSAL.....	64
SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2012 .....	65
REVENUE ALLOCATION ACCORDING TO THE ESTONIAN CLASSIFICATION OF ECONOMIC ACTIVITIES (EMTAK) .....	66

## MANAGEMENT REPORT

In 2012, the Group focused on the development and promotion of all its business segments. It invested in the opening of new stores, the launch of new activities and concepts, the renovation of sales environments, the expansion of existing businesses, and the improvement of the efficiency of the technological base and operations. The total investments made in 2012 totalled to 31.1 million euros, which is five times more than in 2011. The Group's sales revenue increased throughout 2012. Comparing to the previous year, all segments were able to increase their revenue and meet the main objectives set for 2012. The Group was able to maintain pre-tax profitability by improving it in four out of five business segments.

In 2013, the Group intends to continue its active expansion and renovation process, furthermore renewal of inner operating processes and information technology solutions and better use of the loyalty programme in order to provide more convenient services for customers.

The key events of the Tallinna Kaubamaja Group in 2012 and until the publishing of this annual report were:

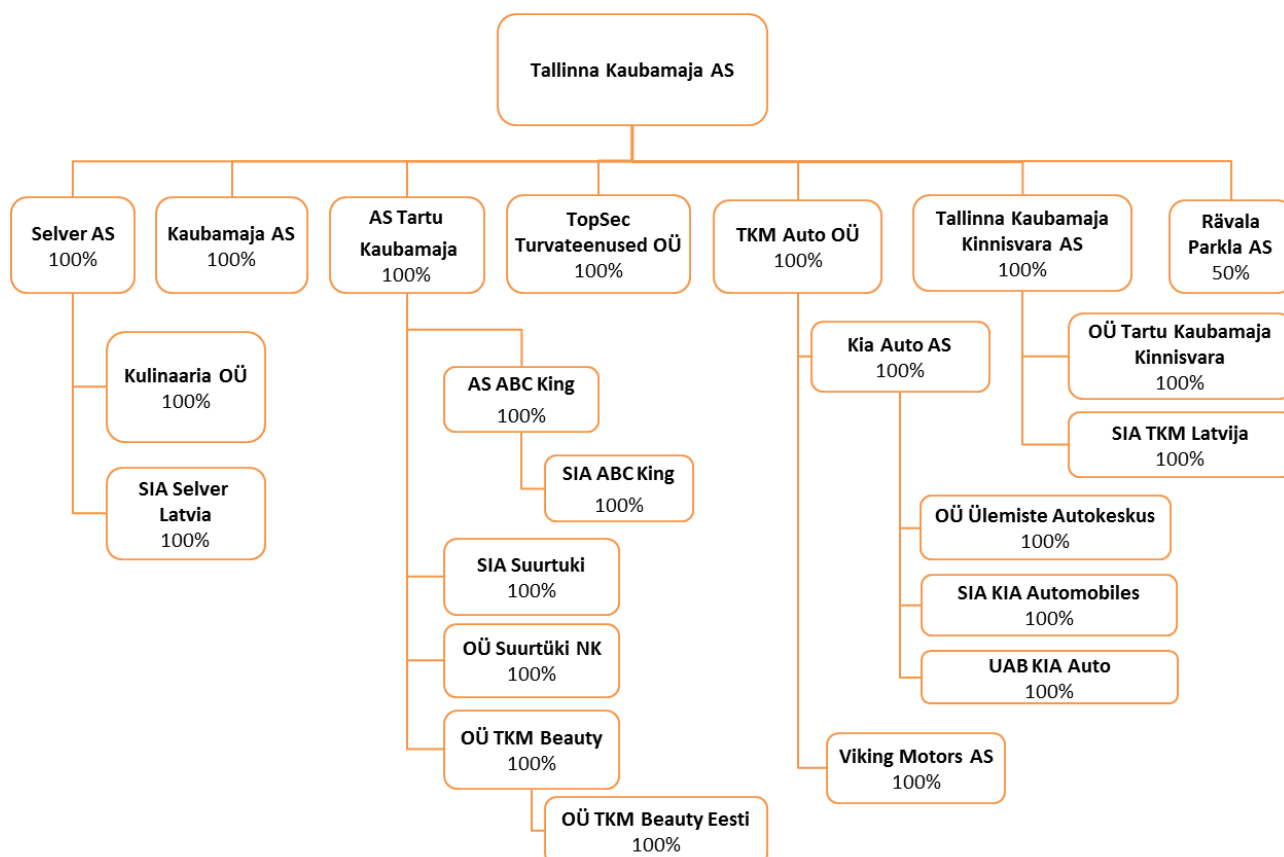
- Three new Selver supermarkets were opened: the Saku Selver in May, the Rapla Selver and the Tartu Vahi Selver in December.
- A new concept for gourmet stores was developed. New Selver gourmet stores were opened in the Gallery of Tallinna Kaubamaja in September and in the Solaris Centre in November.
- In December, the Group introduced the corner shop concept and the first innovative store was opened in Pääsküla, Tallinn.
- After several months of renovation, the Women's Department with an updated selection of brands and a new design was opened in two department stores that present the largest integrated shopping environment in the region. In addition, a new Children's Department on a commercial space two times as large as the previous one was opened in Tallinn.
- The shoe business was expanded by opening several new stores: Shu stores in Viljandi and; ABC King stores in the Port Artur Centre, in Pärnu, and in Lõunakeskus, in Tartu.
- Regarding Latvian footwear stores long-term unprofitability and lack of perspective in the near future, all three shoe stores in Latvia were closed.
- In May, the Group re-launched the Partner loyalty programme together with the popular bonus point system and introduced a credit card, which is linked to the loyalty programme and has been developed in cooperation with LHV Bank.
- In July, the Group acquired AS Viking Motors, which significantly strengthened the Group's position in car trade. Apart from KIA, additional strong brands were added to the portfolio, including the famous German vehicle brand Opel and the American Cadillac. A new car showroom with expanded servicing possibilities was opened in Tallinn.
- In July, I.L.U. reached an agreement with an external partner to import a beauty brand.
- For the purposes of improving the structure of the Group's parent company, new subsidiaries were established in June: Kaubamaja AS, which is engaged in the operation of the department stores (board member Erkki Laugus); Topsec Turvateenused OÜ, which operates the security business (board member Tannar Tiitsar) and Kulinaaria OÜ, which operates the central kitchen (board members Andres Heinver and Kristi Lomp). The division of business activities into the new subsidiaries took place on 1 October 2012 when the companies started active business.

## Structure of the Group and its changes

The main areas of activity of the entities of Tallinna Kaubamaja Group include retail and wholesale trade and rental activity. The following segments may be differentiated in the activities of the Group:

- Supermarkets
- Department stores
- Car trade
- Footwear trade
- Real estate

Legal structure of Tallinna Kaubamaja Group:



In 2012 the amendment was carried out in Tallinna Kaubamaja Group structure, which divided the department stores, central kitchen and security operations in new subsidiaries. The structural changes have been made in purpose of improving the structure and making the administration of the group of Tallinna Kaubamaja more transparent. In August 21, 2012 the extraordinary general meeting of shareholders approved the division agreement and the division concluded on 1 October 2012.

Three new subsidiaries have been established for the purpose of improving the structure.

Tallinna Kaubamaja AS has established two subsidiaries. First of them is the subsidiary Kaubamaja AS which is owned 100% by Tallinna Kaubamaja AS and has a share capital consisting of 250 ordinary shares with a nominal value EUR 100 comprising a share capital of EUR 25,000. Tallinna Kaubamaja AS separated and divided the company and transferred the business of the department stores in Tallinn and Tartu, that have been a part of the group up to that moment, into Kaubamaja AS on 1 October 2012. A second subsidiary of Tallinna Kaubamaja AS, Topsec Turvateenused OÜ, was established with a share capital of EUR 2,500 whereas Tallinna Kaubamaja AS has a 100% shareholding in the company. The purpose of establishing Topsec Turvateenused OÜ and handing over the security business in the course of the separation and division of Tartu Kaubamaja AS on 1 October 2012 is to highlight the fast growing and prospective security business of the group that has been part of the business of Tartu Kaubamaja AS up to the present moment.

Selver AS, a subsidiary of Tallinna Kaubamaja AS has established a subsidiary Kulinaaria OÜ with a share capital of EUR 2,500 whereas Selver AS has a 100% shareholding in the company. In the course of the division on 1 October 2012 Selver AS separated the business activities of the central kitchen and transferred it to Kulinaaria OÜ in order to continue the business in the new company. Kulinaaria OÜ will carry out the activities of the central kitchen of Selver AS, it plans to grow the share of export and subcontracting activities, it will develop the party catering and e-commerce lines, and it will continue to supply retail stores with prepared meals.

Tallinna Kaubamaja AS as the group's parent company will hereafter concentrate on managing the subsidiaries and investments and on arranging the group's support services.

### **Economic development**

The global economic situation has been unsteady in recent years. In the second half of 2012, the weakening of the world's economic cycle caught up with the main trade partners of Estonia, which makes it more difficult to continue boosting Estonian export in the future. Contrary to the surrounding environment, economic growth accelerated in the 4th quarter of 2012, increasing to 3.7% in the yearly comparison. In 2012, Estonian economic growth as a whole slowed down compared to the previous year, although it was still the fastest in the euro area. Due to the weakened environment around us, a stabilisation in the demand for workforce could be detected at the end of 2012; at the same time, the lack of qualified workforce is steadily becoming a greater problem, resulting in wage pressure in certain sectors. The consumer price index in Estonia grew by 3.9% in 2012, mainly due to the growing prices of food and petroleum in the world market. The prices of food and non-alcoholic beverages went up by 3.8%, while the prices of clothing and footwear increased by 5.2%. Inflation caused by internal economic factors remained modest. According to analysts, once the growth of basic product prices in the world market stops in the second half of 2013, the inflation pressure of external factors should decrease; however, in 2013, the main factors creating inflation pressure in 2013 will be domestic.

During 2012, the pace of growth in retail became slower and slower from month to month. In 2012 as a whole, the total volume of retail turnover increased by 12.1% in current prices, while retail business, excluding motor vehicles and motorcycles, increased by 11.6%. In the summary of the year, the greatest leap occurred in the wholesale and retail sale and repairs of motor vehicles and motorcycles (19.9%).

Several plans have been disclosed for 2013 concerning the retail trade real-estate developments, especially in the Tallinn area. If a major part of the development should be realized, the pace of expansion is quicker than the growth of the population's income; this will mean greater competition in the trade sector. Analysts say that the sales volumes of smaller food stores are falling, but growth is still quite considerable in bigger stores, indicating the better competitive strength of larger chains.

### **Financial performance**

#### **FINANCIAL RATIOS 2008-2012**

<i>In million euros</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Revenue	468	436	413	418	425
Sales growth	7%	6%	-1 %	-2%	11%
Gross profit	121	115	108	91	102
EBITDA	38	36	29	17	24
Operating profit	26	26	19	-10	9
Profit before tax	25	25	17	-12	7
Net profit	21	22	17	-13	5
<i>Change in net profit</i>	-3%	29%	232%	-337%	-80%
Sales revenue per employee	0.140	0.143	0.130	0.113	0.115
Gross margin	26%	26%	26%	22%	24%
EBITDA margin	8%	8%	7%	4%	6%
Operating margin	6%	6%	5%	-2%	2%
Profit before tax margin	5%	6%	4%	-3%	2%
Net margin	5%	5%	4%	-3%	1%
Equity ratio	51%	53%	50%	41%	42%
Return on equity (ROE)	14%	16%	14%	-11%	4%
Return on assets (ROA)	8%	8%	6%	-5%	2%
Current ratio	1.0	1.1	1.0	0.9	0.9
Debt ratio	0.5	0.5	0.5	0.6	0.6
Inventory turnover	9.7	10.4	10.5	10.6	8.5
Average number of employees	3,335	3,059	3,184	3,695	3,703

---

Gross profit	= revenue – materials and consumables used
Gross margin	= gross profit / revenue
EBITDA	= profit before finance income/costs and depreciation
EBITDA margin	= EBITDA / revenue * 100%
Operating margin	= operating profit / revenue * 100%
Profit before tax margin	= Profit before tax / revenue * 100%
Net margin	= net profit / revenue * 100%
Revenue per employee	= revenue / average number of employees
Equity ratio	= equity/ balance sheet total * 100%
Return on equity (ROE)	= net profit / average equity * 100%
Return on assets (ROA)	= net profit / average assets * 100%
Inventory turnover (ratio)	= revenue / inventories
Current ratio	= current assets / current liabilities
Debt ratio	= total liabilities / balance sheet total

---

The consolidated sales revenue of the Tallinna Kaubamaja Group in 2012 was 467.8 million euros, having grown by 7.3% compared to the result of 2011. The Group's consolidated net profit of 2012 was 20.9 million euros, which is 3.1% less than the net profit of the previous year (21.5 million euros). The pre-tax profit of 2012 was 24.6 million euros, having grown by 0.2% in a year.

The 2012 financial year of Tallinna Kaubamaja Group was characterised by an increase in the sales revenue in all segments of the Group, which relied upon the overall stability of the economy. The expansion of the Group's retail premises is slower than the market average, which is the result of focusing on profitability for two consecutive years already. This caused a loss of market share, which fell to 9.7% in 2012 (in 2011, the market share was 10.3%). The Group's pre-tax profit remained unchanged compared to the previous financial year. The main factors influencing the growth of profit were the one-time opening costs of new stores as well as the 14% increase in heating and energy expenditure, which is reflected in various operating costs. Wage costs grew due to the increased number of employees resulting from the expansion of business, as well as the performance pay, which depends on sales results. In the 2012 summary, net profit was also influenced by the decision to introduce modern commercial software in the supermarkets and, therefore, software that had lost its usefulness was written off in the amount of 0.9 million euros, which is reflected in the depreciation of fixed assets.

The keywords for the entire year of 2012 were the large-scale launch of new concepts and the renovation of sales environments, as well as the opening of new stores at the end of the year. In December, Selver opened two new supermarkets, entered the market with the Selver corner shop concept, and opened two new Selver gourmet stores. In November 2012, the footwear chain opened new Shu stores in Viljandi and Pärnu, and an ABC King store in Lõunakeskus in Tartu. As a result of re-launch of the Partner Card loyalty programme and the introduction of the new bonus point system, the Group gained more than 50,000 new loyal customers during the year, which proves that the changes made were expected and attractive to the customers. Also, the bonus system which was launched during the last months of the year gave the Group an opportunity to begin group-wide analytical marketing campaigns by using the purchase potential of loyal customers more efficiently and finding synergy between different segments. The Group also intends to devote considerable attention to analytical marketing in 2013.

The volume of the assets of the Tallinna Kaubamaja Group as of 31 December 2012 was 287.8 million euros, increasing by 25.4 million euros compared to the end of 2011, i.e. 9.7%.

At the end of the accounting period, the Group had more than 554.7 thousand loyal customers – a figure that had increased by 13.8% in a year. The share of purchases made by loyal customers from the 2012 sales revenue of the Group was 80.0%.

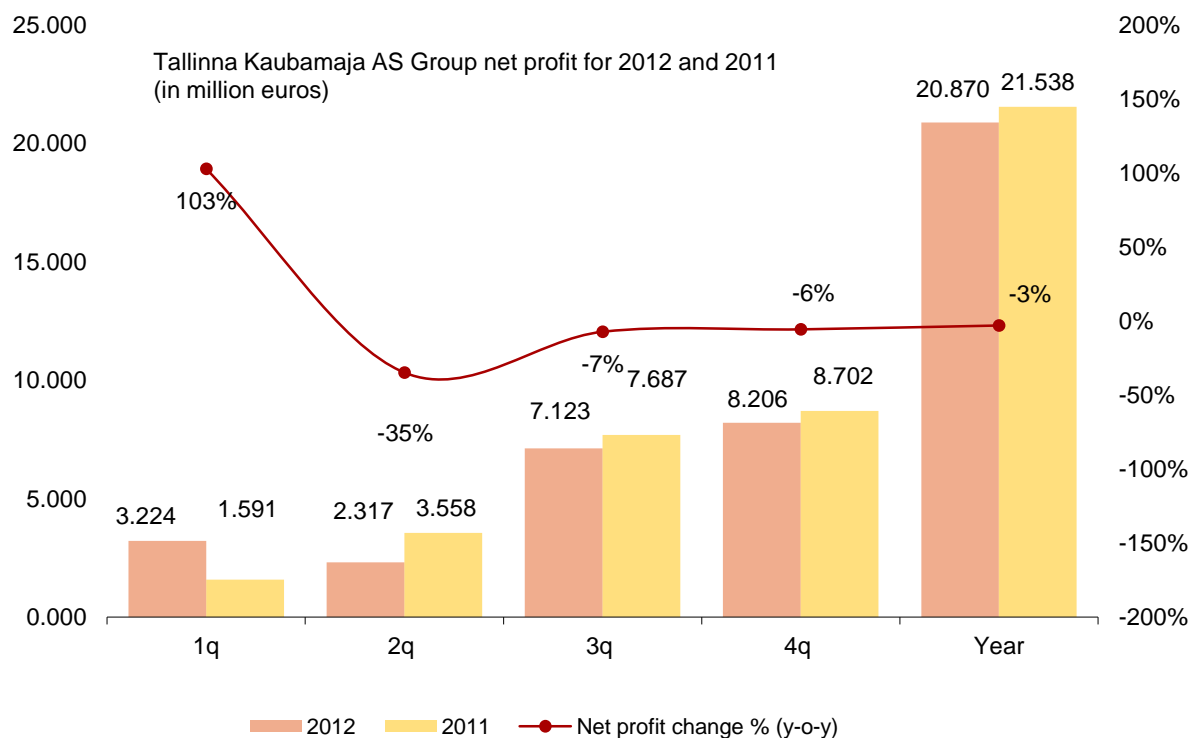
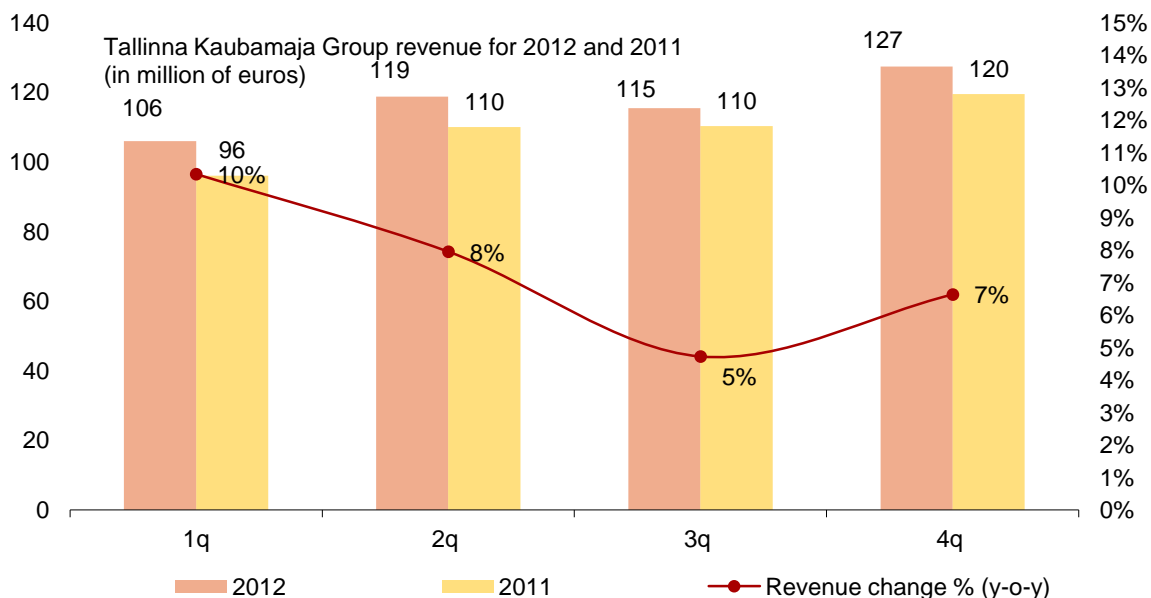
## **Investments**

In 2012, the Group invested 31.1 million euros (5.8 million euros in 2011), whereas 29.1 million euros were invested in tangible fixed assets and 2.0 million euros in intangible fixed assets. In the supermarket segment, investments were made in the amount of 4.5 million euros in 2012 (4.1 million euros in 2011). 2.9 million euros were invested in the sales environment, interior fittings and equipment of new stores. Supermarkets invested 1.5 million euros in information technology, whereas 0.5 million euros were invested in new SelfScan tills. In the department store segment, investments were made in the amount of 3.0 million euros (0.8 million euros in 2011). During the financial year, extensive renovations of showrooms were carried out in the amount of 2.5 million euros in the department store. New computational technologies and equipment were acquired for 0.5 million euros. In the car segment, the cost of investments made

during the accounting period was 1.9 million euros (0.2 million euros in 2011), whereas 0.033 million euros were invested in machinery and equipment gained as a result of the acquisition of the new company AS Viking Motors, and 1.6 million euros were invested in the brand acquired in the transaction (see note 14). The footwear trade segment invested 0.5 million euros in the opening of new stores (0.2 million euros in 2011). In the real estate segment, the cost of investments was 20.8 million (0.5 million euros in 2011). The Group purchased the registered immovables of Merimetsa and Torupilli Selver in Tallinn, Vesivärava 37 in Tallinn, Piiri 14 in Keila and AS Viking Motors at Tammsaare tee 51 in Tallinn. In November, a registered immovable was purchased near Riga. The Saku Selver was completed during the accounting period.

### Seasonality of business

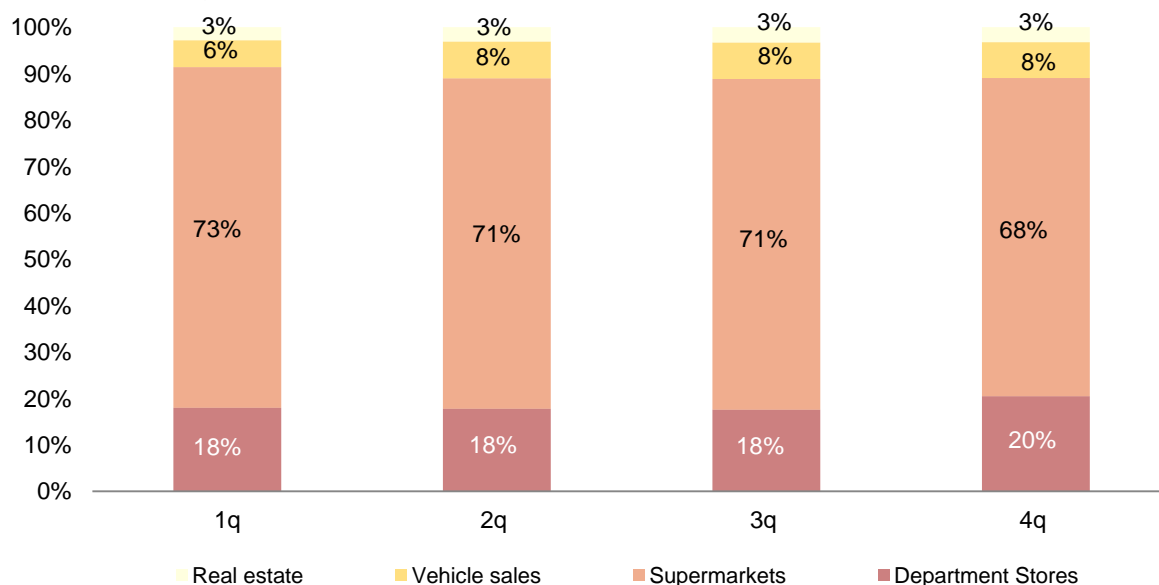
The operations of Tallinna Kaubamaja Group are not exposed to major seasonal fluctuations. As is common for retail trade, the sales revenue is about 10% lower in the first quarter and about 10% higher in the fourth quarter compared to the average sales revenue of quarters.





It is possible to identify a certain structural change in the group entities' contribution to the results of operations by quarter.

Tallinna Kaubamaja Group revenue distribution for 2012



The share of the real estate business segment is around 1% in all quarters and is not shown separately in the chart.

## Business segments

In million euros	Supermarkets			Department stores			Car Trade			Footwear Trade			Real Estate			Group total		
	2012	2011	%	2012	2011	%	2012	2011	%	2012	2011	%	2012	2011	%	2012	2011	%
<b>External revenue</b>	330.0	317.9	3.8	86.3	80.5	7.1	34.2	20.8	64.8	14.4	14.0	3.1	2.9	2.8	2.7	467.8	436.0	7.3
<b>EBITDA</b>	17.1	18.6	-8.3	4.9	3.9	25.0	2.2	1.7	32.7	0.9	0.8	12.4	12.4	11.0	12.5	37.5	36.0	4.0
<i>EBITDA margin</i>	5.2	5.9		5.6	4.8		6.5	8.1		6.4	5.9		431.0	393.5		8.0	8.3	
<b>Operating profit</b>	11.6	13.9	-16.5	3.1	2.5	26.7	2.0	1.5	30.1	0.1	0.1	145.6	9.1	8.1	12.8	26.0	26.1	-0.2
<i>Operating profit margin</i>	3.5	4.4		3.6	3.1		5.8	7.4		1.0	0.4		318.0	289.5		5.6	6.0	
<i>Finance income and costs</i>	0.2	0.1		0.3	0.3		-0.2	-0.2		-0.2	-0.2		-1.5	-1.5		-1.4	-1.5	
<i>Corporate income tax</i>	-2.8	-3.0		0.0	0.0		0.0	0.0		0.0	0.0		-1.0	0.0		-3.8	-3.0	
<b>Net profit/loss</b>	9.0	11.0	-18.0	3.4	2.8	24.1	1.8	1.3	37.9	-0.1	-0.2	-46.2	6.7	6.6	1.2	20.9	21.5	-3.1
<i>Net profit margin</i>	2.7	3.5		4.0	3.4		5.2	6.2		-0.7	-1.3		233.7	237.2		4.5	4.9	

## Supermarkets

The consolidated sales revenue of the supermarket business segment and the sales revenue earned in Estonia in 2012 was 330.0 million euros, having increased by 3.8% compared to the previous year. The sales revenue of Selver stores per one square metre of selling space in 2012 was an average of 0.38 thousand euros a month, which is 1.1% more than the previous year. The sales revenue of goods of comparable stores per one square metre of selling space was an average of 0.38 thousand euros in 2012, indicating a growth of 1.5%. 32.7 million purchases were made from Selver stores in 2012, which is 1.9% lower than the number of purchases made in 2011. The consolidated pre-tax profit of supermarkets in 2012 was 11.9 million euros, having decreased by 15.5% in relation to the comparable period. The net profit was 9.0 million euros, having decreased by 18.0% in relation to the comparable period. The pre-tax profit earned in Estonia in 2012 was 14.2 million euros. The profit decreased compared to the period of a year before 13.4%. The net profit earned in Estonia in 2012 was 11.4 million euros, having decreased by 14.8% in relation to the comparable reference period. No sales revenue was generated in Latvia in 2012. The pre-tax loss and net loss earned in Latvia in 2012 was 2.3 million euros. The loss remained on the level of the year earlier, decreasing 0.6%. Business activities in Latvia are frozen.

Selver's profit in Estonia has been positively influenced by increased labour efficiency, which was achieved by reviewing the employees' work processes and introducing a multifunctional job management. In addition, the income tax paid on dividends was 7.6% lower 2012 than the year before. Compared to the year before, 2012 profit was influenced by the increase in depreciation costs and operating costs, which were caused by the renovation of four stores carried out during last year; the opening of four new Selver stores and two Selver gourmet stores; the

introduction of the novel SelveEkspress shopping system in three stores in 2012; the creation of the Selver Bakeries concept, which was completed in the 1st quarter of 2012 and resulted in taking over the baking stalls of stores. Pursuant to the above, the amount spent on investments and operating costs in 2011 and 2012 was higher comparing previous years. In addition, results were influenced by the launching costs of the loyalty programme, which was renewed in May 2012, and the volume of marketing campaigns, which had increased compared to the previous year. In June 2012 it was decided to replace IT software, which resulted in the write-off of software investments in the amount of 0.9 million euros.

Compared to 2011, the Selver chain grew by six new stores. One supermarket was opened in May in Saku, one gourmet store was opened in October in Tallinna Kaubamaja and in November, another gourmet store was opened in the Solaris Centre in Tallinn. Furthermore, another three Selver stores were added to the Selver chain in the end of the year 2012. In December took place the opening of two supermarkets – the Vahi Selver in Tartu and a Selver in Rapla – and one corner shop in Tallinn. Opening new stores in the end of 2012 did not have a significant impact on the sales results of the entire Selver chain as of yet. The larger proportion of campaigns, including campaigns directed at loyal customers, has had a positive effect on the increase of an average purchase. In addition, the turnover seen during the Christmas and end-of-the-year period was greater than the average increase in turnover in 2011. The renewed loyalty programme and the efforts made to improve service quality made further contributions to the increase of the sales revenue. The peculiarities of the renewed loyalty programme have an impact on sales revenue, since the bonus points awarded to customers decrease the sales revenue in accounting terms. Compared to the previous year, the growth of the sales revenue has been influenced by increasing competition in the retail trade market, where competitors opened more new stores in both 2011 and 2012. New stores inevitably bring about the division of customers among stores. The plans for 2013 foresee continued active expansion. Lease contracts have been entered into for four new stores, which are to be opened in 2013. It is likely that more new stores will be added. As at the end of December 2012 the chain of Selver stores included 38 Selver stores and two gourmet stores. The selling space of the stores as at the end of 2012 was 73.1 thousand square meters.

### **Department stores**

The sales revenue of the department store business segment in 2012 was 86.3 million euros, having grown by 7.1% compared to the previous year. In 2012, the month's average sales revenue of department stores per one square metre of selling space was 0.29 thousand euros, which is 8.9% more than in 2011. The net-profit of department stores in the 2012 was 3.4 million euros, exceeding the result of the year before by 24.1%. The operating profit of the department store segment was 3.1 million euros, having grown by 26.7% compared to the previous year. The summarised sales revenue of 2012 was negatively impacted by extensive renovation works carried out in the Women's and Children's Departments of Tallinna Kaubamaja since mid-January to March and the renovation works done in the Women's, Beauty and Shoe Departments of Tartu Kaubamaja in the 3rd quarter. On the other hand, the thorough reorganisation of sales spaces has in conclusion increased the sales efficiency of the department stores and obtained a favourable acceptance by the customers. The updated selections of brands in the Women's Department as well as ongoing marketing activities have considerably (by 11%) increased the number of young (below 35) loyal customers. The improved inclusion of young customers was also one of the main goals of updating our visual identity during 2012 and the introduction of a new advertising language. The launch of the new internal training system and constant focus on the improvement of service quality during the year have increased the average purchase amount by 7.1%, and also improved service indicators.

The sales revenue of OÜ TKM Beauty Eesti, which operates the I.L.U. beauty stores, was 4.1 million euros in 2012, having increased by 28.3% compared to 2011. The net loss of the I.L.U. chain in the 2012 was 0.4 million euros, which is 0.1 million euros smaller than the loss of 2011. As at the end of 2012 the I.L.U. chain included 6 I.L.U. stores.

The goals for 2013 are the development of the renovated commercial spaces and the renovation and expansion of the Home and Children's Department on the third floor of the department store in Tartu. The Home Department in Tallinn is planning to update the communication solution. Work continues on improving the quality of services and meeting the customers' expectations by adjusting the brand portfolio on an ongoing basis. The keywords characterising the marketing activities of the Group are the modernisation of the website and its better integration with social media, the launch of the digital version of Hooaeg (Season), a magazine for regular customers, the renewal of the concept of traditional campaigns such as SAH and Osturalli, and the continuation of analytical marketing campaigns. The Group is planning to organise a training programme in order to develop the display skills of employees.

### **Car Trade**

As a whole, 2012 was a year of significant growth in terms of the vehicle trade. The sales revenue of the previous year was exceeded by 64.8%, mainly due to a range of new models, which were very well received by the clients. The sales revenue of the car trade segment earned in the 2012 without inter-segment transactions was 34.2 million euros. The reason for the increased turnover is the addition of the new KIA cee'd Sportwagon into the model range. The vehicle has been warmly welcomed by customers. The sales of the crossover SUV KIA Sportage are still active and at the end of 2012, the model range grew by the new generation of the SUV KIA Sorento. The sales growth of KIA in the Baltic

states in 2012 was remarkable. By countries, it was 102% in Estonia, 66% in Latvia and 38% in Lithuania, which makes the average increase in sales 69%. In 2012, a total of 1,898 vehicles were sold in the vehicle segment, i.e. 770 vehicles more than the year before. The sales revenue of the Opel and Cadillac models sold by Viking Motors AS, reached 3.0 million euros in 2012. The segment earned a profit 1.8 million euros in 2012. The respective profit of 2011 was 1.3 million euros.

### **Footwear trade**

The turnover of the footwear segment in 2012 was 14.4 million euros, having increased by 3.1% by the end of the year. The loss of 2012 was 0.1 million euros, which has decreased by approximately 0.1 million euros compared to the previous reporting period. A reduction in the scale of losses was supported by the suspension of the unprofitable business activities in Latvia and the closure of three stores in the first half of 2012. Three new stores were opened in the end of 2012 – the Viljandi Shu and the Port Artur Shu in Pärnu in November and the Lõunakeskus ABC King in Tartu in December. As of the end of December, Suurtüki NK OÜ owns 16 stores and ABC King AS owns 10 stores. Plans for February 2013 include opening a Shu store in the shopping centre Tsentraal in Jõhvi.

### **Real Estate**

The external sales revenue of the real estate business segment earned in 2012 was 2.9 million euros, having grown by 2.7% compared to the previous year. The increase in revenue that occurred in the beginning of the year was mainly caused by the reorganisation of the tenants and leased spaces of Tartu Kaubamaja Kinnisvara OÜ in the first half of 2012. In the second half of 2012, the group needed to start using some spaces that were previously rented out for its own purposes; this caused a slight decrease in the external sales revenue in the end of the year. The pre-tax profit of the segment of real estate of 2012 was 7.7 million euros. This result exceeded the pre-tax profit of 2011 by 1.0 million euros, which is based on an increase in sales revenues. The segment's net profit of 2012 was 6.7 million euros, which is 0.1 million euros less than the net profit earned year earlier.

### **Personnel**

The success of the enterprises belonging to the Tallinna Kaubamaja Group can be attributed to its loyal, committed and result-oriented employees. The well-designed recruitment and selection process, which is followed by goal-oriented development, and creating a working environment that supports it, is the main objective of personnel management. Various training and evaluation programmes and a range of other motivational tools stimulate the employees' readiness to serve, focus on achieving results and commit themselves to our enterprises. The Group inspires our employees to follow a healthy lifestyle by increasing their awareness of the need to take care of their health, creating a secure and healthy working environment, giving them opportunities to participate in sports, relax and have healthy lunch and rest breaks in a comfortable environment (resting rooms).

The Group highly appreciates the experience of its employees by upholding their long steady careers (vertical as well as horizontal) within the Group. The employees are offered professional in-service training opportunities in Estonia as well as abroad. Internal training sessions organised by professional specialists offered in the enterprise are considered important and we have once again increased the amount of these sessions in 2012. Kaubamaja's internal training offers high-level customer service and teamwork training. Systematic service management, where training, assessment and feedback form a coherent whole, enabled Kaubamaja to achieve an excellent level of service quality in 2012. The customer-oriented and playful nature of service in the new Children's Department has been warmly welcomed by all guests. At Selver AS, training courses are conducted by store managers and professionals from various fields. Internal trainers contribute to the induction process of new employees and the knowledge updates for skilled workers.

In order to raise a next generation of employees, the Tallinna Kaubamaja Group has offered students various practical training opportunities. The Group's enterprises work closely together with vocational schools and other educational institutions all over Estonia, serving as their base where to carry out practical training and as a cooperation partner in conducting training courses. We also want to assist our employees who are still studying in writing their course and final papers by suggesting the Group as their research subject. This helps to develop a body of next-generation employees who are ambitious and want to grow. In 2012, active cooperation with the Estonian Unemployment Insurance Fund continued in order to offer traineeships and recruit job seekers. In cooperation with the Unemployment Insurance Fund, the Tallinna Kaubamaja Group has contributed to facilitating the employment of disabled persons and has offered jobs to people that have difficulties competing on the current employment market.

More attention being is paid to the development of management competences. Kaubamaja began with a leadership programme, which aims to share and update the leaders' knowledge of management in a changing environment in order to develop a shared understanding of the management culture which is consistent with the core values of Kaubamaja. In order to raise the next generation of leaders, the Young Leaders' Programme was developed in Selver in 2012. In 2013, potential young graduates will be recruited to participate in the programme.

In order to train new employees and to improve the efficiency of introduction period, the Group has created a training programme, which is implemented by different specialists whose experience gained during their long service ensure the

high quality of training and effective learning. New managers are assigned a mentor for their induction period and the well-designed system also functions in instructing new employees in the units. The continued development and motivation of employees are ensured via a system of evaluation and competence levels that is in compliance with the enterprise's main values and the competence models of the positions.

So as to ensure a safe working environment and good occupational health, the Tallinna Kaubamaja Group has established a system of measures that includes medical examinations, regular training as regards occupational safety requirements, conducting risk analyses, and the availability of protection equipment. There are examples from the Group's enterprises where a system has been established for the active inclusion of work environment representatives to fend for a healthy working environment. The habits developed in a particular structural unit determine that the employees can, if they wish, use massage services for a lower price at the workplace.

The joint events that teams often participate in together help to create a favourable atmosphere and strengthen team work. The employees of Kaubamaja together with their families went to see the joyful new musical Cabaret in theatre Vanemuine. An event called Oma Töötaja Päev (Employee's Day) was held in Selver in 2012 – this was a unique opportunity for employees to get together and experience a sense of belonging to the team of one of the largest companies in Estonia. In 2012, thorough preliminary work was done to provide many different opportunities for the Group's employees to practice individual and team sports under more favourable conditions starting from 2013. Teams continue to participate in different amateur sports events.

In 2012, the Group paid more attention to motivating employees through both monetary and non-monetary incentives. With the renewed motivation system, the Group wishes to ensure the coherence of objectives and that in addition to business objectives, customer satisfaction and the efficiency and development of work processes are also taken into account. The motivation system carries with it need to recognise the importance of behaviour which is in compliance with the Group's core values. Kaubamaja's People of the Year set an example for everyone in the observance of core values. Employees' benefits are related to family and health care. In order to motivate the employees of support services and connect labour input more effectively with performance, Selver improved the remuneration system in the second quarter with greater emphasis on performance-based pay.

The average number of employees in the Tallinna Kaubamaja Group in 2012 increased by 1.1% in relation to the development of the group, reaching the number of 3,335. Labour costs (wage costs and social tax costs) increased by 6.5% and were 36.4 million euros in 2012. The average monthly labour costs per employee in 2012 increased by 5.4% compared to the average labour costs of 2011. Since the beginning of the second half of the year, the amount of average labour costs has, in addition to the implementation of sales result-based performance pay, also been influenced by changes in the wage system, which now also takes into account the employees' competence and the quality of their work.

## **Social responsibility**

The Tallinna Kaubamaja Group acknowledges its role and responsibility in the society, which is reflected in the following principles held throughout the organisation:

1. To offer the customers quality products and goods from small producers of Estonian origin. The goal of the Kaubamaja Group is to differentiate itself through the selection of goods – that is made possible thanks to the Group's long-term cooperation with small Estonian producers.
2. To promote a healthy lifestyle among the Tallinna Kaubamaja Group employees, supporting sports and other healthy habits, offering healthy lunches and enabling family physician services as well as an opportunity to use blood pressure manometers and massage chairs and massage services.
3. To participate in the society with several charity projects throughout decades:
  - a. Tallinna Kaubamaja has been a godparent for white-tailed eagles in Tallinn Zoo since 1994.
  - b. Tallinna Kaubamaja has supported the Male Choir of Tallinn University for the last ten years.
  - c. In cooperation with Uuskasutuskeskus (Reuse Centre) and during the campaign Heategu annab sooja (An Act of Kindness Gives Warmth), clothes and footwear are collected each year to be distributed to shelters and large families. In 2012, toys and household items were collected in addition to clothes.
  - d. Over the last seven years, we have held campaigns in collaboration with several charity organisations to collect money for animal shelters, large families with several children, etc. From 2012 onwards, support activities focus on projects related to children: various cooperation projects with MTÜ Clinic Clowns (sale of Doktor Kloun badges), Charity Piritall OÜ (a charity concert Heli puudutus (Touch of Sound)), the Pelgulinna Maternity Hospital (sale of fans' items of the show *Kättemaksukontor* together with TV3) and the Estonian Support Association of Children with Movement Disabilities (sale of charity Christmas cards). The development of Estonian fashion design is also considered important – Kaubamaja sponsored the 2012 Tallinn Fashion Week and the Golden Needle Award for fashion designers.

- e. In 2012, Kaubamaja joined the Diversity Charter, which commits us to follow the principles of equal treatment and opportunities and contribute to the development of diversity in the company. A company in which the diversity of employees is valued (whether concerning age, ethnicity, disabled people) has more knowledge, skills, experiences, perspectives, and a more tolerant atmosphere at work. We believe that this way we will be able to provide better service to our customers.
- f. For the tenth year, Selver has organised the charity project Koos on kergem (It's Easier Together) during which, money is raised to support children's hospitals and the maternity wards of hospitals located in the same towns as Selver supermarkets. In 2012, 88,733 euros were raised (76,791 euros in 2011).
- g. For the past three and a half years, Selver has worked together with the non-profit organisation Shalom Aid Centre, donating food products approaching their best before dates to families in need.
- h. In 2012, Selver supported animal shelters and animal parks in Elistvere and Alaveski.
- i. Selver continues to support youth sports and is the main sponsor of Selver Tallinn volleyball club. The objective of the club is to promote volleyball in Estonia as well as to enhance youth work and professional sports. The club activity is reflected through the following:
  - Representing team: Selver Tallinn;
  - Farm club to raise the next generation: Selver / Audentes;
  - Promoting youth sports: Audentese Võrkpallikool (Audentes Volleyball School);
  - Amateur beach ball: Caparoli Rannavolle Keskus (Caparol Beach Ball Centre).
- j. Selver supports smaller and larger cultural projects, mostly outside major cities. In 2012, for example, Selver contributed to the organisation of Saaremaa Opera Days, church concerts in Hiiumaa, Viljandi Folk Music Festival, Järvi Festival, Hiiu Folk and the theatre bus tour.

## **The share**

### Security information

ISIN	EE0000001105
Ticker	TKM1T
Nominal value	0.60 EUR
Total number of securities	40,729,200
Number of listed securities	40,729,200
Listing date	06.09.1996

The shares of Tallinna Kaubamaja AS are listed on the Tallinn Stock Exchange from 6 September 1996 and in the Main List, from 19 August 1997. Tallinna Kaubamaja AS has issued 40,729.2 thousand registered shares of the same class, each with the nominal value of 0.60 euros. Common shareholders are entitled to receive dividends when the Company distributes them. Each ordinary share gives one vote at the General Meeting of Shareholders of Tallinna Kaubamaja AS. The shares are freely transferable, there are no restrictions imposed on them by the articles of association, likewise, there are no restrictions imposed on the transfer of securities concluded between the Company and its shareholders. There are no known restrictions imposed on the transfer of securities laid down in the contracts between the shareholders. NG Investeeringud OÜ has direct majority ownership. Shares granting special rights to their owners have not been issued.

The members of the Management Board of Tallinna Kaubamaja AS have no right to issue or buy back shares of Tallinna Kaubamaja AS. In addition, there are no commitments between the Company and its employees providing for compensation in case of mergers and acquisitions under section 19' of Securities Market Trade Act.

### **Dividend policy**

In recent years the Group has consistently paid dividends to shareholders. According to the notice of the general meeting of the shareholders published on 16 March 2012, the Management Board proposed to pay 14.3 million euros as dividends that is 0.35 euros per share. The general meeting of shareholders approved the proposal. The amount of a dividend distribution has been determined by reference to:

- The dividend expectations of the majority shareholders;
- The overall rate of return on the local securities market ;
- The optimal structure capital that is required for the Group's sustainable development.

At the end of the 2012 the Group had 3,070 shareholders and division of shares is following:

Ownership structure	Number of shares	Shareholders%	Shares%	Votes%
Private persons	2,535	82.6%	6.0%	6.0%
Companies (Estonian)	483	15.7%	3.9%	3.9%
Financial institutions (other countries)	34	1.1%	14.6%	14.6%
Companies (other countries)	12	0.4%	0.8%	0.8%
Financial institutions (Estonian)	4	0.1%	0.7%	0.7%
ING LUXEMBOURG S.A.	1	0.0%	6.9%	6.9%
OÜ NG INVESTEERINGUD	1	0.0%	67.0%	67.0%
<b>Total</b>	<b>3,070</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Number of shares	Number of shareholders	Shareholders%	Shares%	Votes%
1–100	639	20.8%	0.1%	0.1%
101–1 000	1,578	51.4%	1.7%	1.7%
100 001–1 000 000	14	0.5%	8.6%	8.6%
10 001–100 000	57	1.9%	3.6%	3.6%
1 001–10 000	778	25.3%	4.8%	4.8%
1 000 001–	4	0.1%	81.2%	81.2%
<b>Total</b>	<b>3,070</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

#### Share price and trading statistics in Tallinn Stock Exchange during 01.01.2008-31.12.2012

In euros





## Share trading history

In euros

	2012	2011	2010	2009	2008
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (1000 pcs)	1,907,270	3,136,128	4,207,617	5,558,846	9,888,854
Dividend / net profit	68%*	66%	69%	-13%	19%
P/E	10.7	9.1	15.2	-11,7	15,9
P/BV	1.5	1.4	2.0	3.9	0.7
Opening price	4.845	6.370	3.620	2.080	7.820
Share price, highest	6.13	7.19	6.98	5.88	8.03
Share price, lowest	4.845	4.350	3.620	1.500	1.490
Share price, at the year-end	5.48	4.813	6.21	3.61	2.08
Share price, yearly average	5.59	5.77	5.13	2.95	5.44
Turnover (million)	10.70	17.96	21.00	18.58	56.27
Capitalisation (million)	223.20	196.03	252.93	147.03	84.72
Earnings per share	0.5	0.5	0.4	-0.3	0.1
Dividend per share	0.35*	0.35	0.28	0.04	0.03
Equity per share	3.6	3.4	3.2	2.5	2.9

\* according to profit allocation proposal

P/E = share price at the year-end / earnings per share

P/BV = share price at the year-end / equity per share

## **Corporate Governance Report**

The Corporate Governance (CG) is a set of guidelines and recommended rules, which is intended to be observed mainly by publicly traded companies. Tallinna Kaubamaja Group follows largely the Corporate Governance Code despite their indicative nature. Below is a description of the management principles of Tallinna Kaubamaja Group and general meetings held in 2012 and justification is given in the events when some clauses of the Code are not followed.

### **General meeting**

#### *Exercise of shareholders' rights*

The general meeting of shareholders is the highest governing body of Tallinna Kaubamaja. The annual general meeting is held once a year and extraordinary general meetings may be convened by the Management Board in the events prescribed by law. The articles of association do not provide for any rights to shares of a different class which would bring about unequal treatment of shareholders in voting. The general meeting is competent to change the articles of association, elect members of the Supervisory Board and decide on their remuneration, appoint an auditor, approve the annual report and allocate profit, as well as decide on other matters stipulated by the articles of association and laws.

#### *Convening the general meeting and disclosures*

Tallinna Kaubamaja published a notice convening the general meeting through information system of the NASDAQ OMX Tallinn Stock Exchange as well as on its website on 16 March 2012 and through a daily newspaper Eesti Päevaleht on 17 March 2012. The company enabled its shareholders to ask questions on the topics specified in the agenda by using the e-mail address and phone specified in the notice, and examines the annual report on its website and in its office at Gonsiori 2, Tallinn, starting from 16 March 2012.

The general meeting of shareholders of Tallinna Kaubamaja was held in the conference centre of Radisson Blu Hotel Olümpia, Liivalaia 33, Tallinn, on 12 April 2012 beginning at 15.00 p.m. The resolutions made at the general meeting are published in the press releases on the website of NASDAQ OMX Tallinn Stock Exchange and on the website of Tallinna Kaubamaja.

At the choice of a member of the Supervisory Board, data of a candidate with regard to his or her participation in the work of the Supervisory Boards, Management Boards or executive managements of other companies have been disclosed.

An extraordinary general meeting of shareholders was also held in 2012 for resolving the division of Tallinna Kaubamaja AS. The purpose of the division was to improve the structure of Tallinna Kaubamaja AS group and make its management more transparent. Three subsidiaries were established in course of restructuring of the group – Kaubamaja AS, Topsec Turvateenused OÜ and Kulinaaria OÜ. Tallinna Kaubamaja published a notice convening the extraordinary general meeting through information system of the NASDAQ OMX Tallinn Stock Exchange as well as on its website on 16 July 2012 and through a daily newspaper Eesti Päevaleht on 17 July 2012. The company enabled its shareholders to ask questions on the topics specified in the agenda by using the e-mail address and phone specified in the notice, and examines the annual report on its website and in its office at Gonsiori 2, Tallinn, starting from 16 July 2012.

The general meeting of shareholders of Tallinna Kaubamaja was held in the conference centre of Radisson Blu Hotel Olümpia, Liivalaia 33, Tallinn, on 21 August 2012 beginning at 11.00 p.m. The resolutions made at the general meeting are published in the press releases on the website of NASDAQ OMX Tallinn Stock Exchange and on the website of Tallinna Kaubamaja.

#### *Holding of the general meeting*

A general meeting can adopt resolutions if over one-half of the votes represented by shares are present. A resolution of general meeting is adopted if over one-half of the votes represented at the meeting are in favour unless a larger majority is required by law.

The language of the general meeting held in 2012 was Estonian and the meeting was chaired by the attorney Villu Otsmann from Tallinna Kaubamaja law office Tamme Otsmann Ruus Vabamets OÜ. The meeting was also attended by the chairman of the Supervisory Board Jüri Kõo and member of the Management Board Raul Puusepp. 73.92% of the votes represented by shares were present at the general meeting. At the general meeting, allocation of profit was discussed as a separate theme and a separate resolution was adopted with regard to it.

The language of the extraordinary general meeting held in 2012 was also Estonian and the meeting was chaired by the attorney Karl J. Paadam from law office PricewaterhouseCoopers Legal OÜ. The meeting was also attended by the member of the Supervisory Board Andres Järving and member of the Management Board Raul Puusepp. 69.15% of the votes represented by shares were present at the general meeting.

Tallinna Kaubamaja did not consider it expedient to use the Internet to organise its monitoring and participation in the general meeting due to the lack of the necessary technical resources.

Considering the aforementioned descriptions of general meetings held in 2012, the Company has largely complied with



the Corporate Governance Code in informing the shareholders, convening and holding the general meeting.

### **Management Board**

The Management Board is a governing body of Tallinna Kaubamaja that represents and directs the Company on a daily basis. In accordance with the articles of association, the Management Board may have one to six members. Members of the Management Board are elected by the Supervisory Board for three years.

For the daily management of the Company, the Supervisory Board appoints member(s) of the Management Board of the Tallinna Kaubamaja AS in accordance with the Commercial Code. In order to elect a member of the Management Board, his or her consent is required. According to the articles of association, a member of the Management Board shall be elected for a specified term of up to three years. Extension of the term of office of a member of the Management Board shall not be decided earlier than one year before the planned date of expiry of the term of office, and not for a period longer than the maximum term of office prescribed by the articles of association. Currently, the Management Board of Tallinna Kaubamaja AS has one member. The term of office of the Management Board member Raul Puusepp was extended on 23 February 2011 and his term of office will expire on 6 March 2014.

The duties and remuneration of the Chairman of the Management Board Raul Puusepp are specified in the board member contract concluded with the Chairman. In accordance with the contract, the Chairman of the Management Board is paid a membership fee and he may receive performance pay according to the results of operations of the Group. The remuneration, including social security taxes, paid for 2012 to the Chairman of the Management Board amounted to 58 thousand euros (in 2011, 38 thousand euros) and the calculated fees, including social security taxes, amounted to 35 thousand euros (for 2011 the performance pay in amount of 32 thousand euros was paid).

Unlike clause 2.2.1 of the Corporate Governance Code, the Management Board of Tallinna Kaubamaja AS consists of one member. It is a historical tradition, but at the same time the management team of the Parent has three members. All resolutions are adopted by the Management Board in collaboration with the parent's company management Supervisory Board. Under the direction of the parent company, close cooperation is carried out with the leaders of subsidiaries and the people responsible for respective areas. The Group believes that such a division protects the best the interests of all shareholders and ensures sustainability of the company.

### **Supervisory Board**

The Supervisory Board plans the activities of Tallinna Kaubamaja, organises its management and supervises the activities of the Management Board in the period between the meetings of shareholders. The Supervisory Board notifies the general meeting of the result of such supervision. The Supervisory Board decides on the development strategy and investment policy of the Company, conclusion of real estate transactions, adoption of the investment budget and annual budget prepared by the Management Board. The meetings of the Supervisory Board are regularly held. In 2012, 12 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2011, 12 scheduled meetings and 2 extraordinary meetings were held.

The Supervisory Board has three to six members according to the resolution of the general meeting and the member is elected for up to three years. The work of the Supervisory Board is organised by the Chairman of the Supervisory Board. The meetings of the Supervisory Board are held as necessary, but not less frequently than once every three months.

By the resolution of the general meeting held on 12 April 2012, Andres Järving, Jüri Kõo, Enn Kunila, Meelis Milder and Gunnar Kraft were elected as the members of the Supervisory Board. Authorities of the current members of the Supervisory Board: Andres Järving, Jüri Kõo, Enn Kunila, Meelis Milder and Gunnar Kraft will expire on 19 May 2015. At the meeting of 21 May 2012, the Supervisory Board elected Jüri Kõo as the Chairman of the Supervisory Board, he has been a member of the Supervisory Board of Tallinna Kaubamaja from 1997 and has been a Chairman of the Supervisory Board in 2000-2001 and 2009-2012.

In accordance with the resolution of the annual general meeting held on 12 April 2012, the remuneration of a member of the Supervisory Board of Tallinna Kaubamaja AS is 1,000 euros a month, the remuneration of the Chairman of the Supervisory Board is 1,200 euros a month. In 2012, the total remuneration calculated for the members of the Supervisory Board of Tallinna Kaubamaja totalled 82 thousand euros, (in 2011 80 thousand euros), including 19 thousand euros (in 2011 18 thousand euros) for the Chairman of the Supervisory Board.

### **Cooperation between the Management Board and Supervisory Board**

The Management Board and Supervisory Board closely collaborate to achieve the purpose of better protection of the interests of Tallinna Kaubamaja Group. The Management Board, management and the Supervisory Board jointly participate in development of the strategy of the Company. In making management decisions, the Management Board and management are guided by the strategic instructions supplied by the Supervisory Board.

The Management Board regularly notifies the Supervisory Board of any important circumstances concerning the planning and business activities of the Company's activities, and separately draws attention to any important changes in the business activities of Tallinna Kaubamaja. The Management Board submits the information, including financial statements to the Supervisory Board, in advance before the holding of a meeting of the Supervisory Board.

Management of the Company shall be based on the legislation, articles of association, resolutions of meetings of shareholders and Supervisory Board, and the set objectives. Amendments to the articles of association shall be made in accordance with the Commercial Code, under which a resolution on amending the articles of association is adopted if at least 2/3 of the votes represented at a general meeting of shareholders are in favour. A resolution on amending the articles of association shall enter into force as of the making of a respective entry in the commercial register. The articles of association of Tallinna Kaubamaja AS do not provide for a larger majority requirement.

#### **Disclosure of information**

Tallinna Kaubamaja treats all shareholders equally and notifies all shareholders of important circumstances equally, by using its own website as well as the information system of the Tallinn Stock Exchange.

Tallinna Kaubamaja's website [www.kaubamaja.ee](http://www.kaubamaja.ee) contains general introduction of the Company and key employees, press releases and reports. The annual and interim reports include information on the strategy and financial results of the Company as well as the Corporate Governance Report. In the subsection of press releases, information is disclosed with regard to the membership of the Supervisory Board and auditor, resolutions of the general meeting, and other important information.

#### **Financial reporting and auditing**

The Management Board of Tallinna Kaubamaja publishes the annual report once each year and interim reports during the financial year. A meeting of the Supervisory Board, where the annual report is reviewed, is also attended by the auditor of the Company at the invitation of the Supervisory Board. The annual report, which is signed by the members of the Management Board and Supervisory Board, is submitted to shareholders for examination.

## **Audit Committee**

The Audit Committee of Kaubamaja AS Group was established in March 2010, its statutes were approved at the meeting of the Supervisory Board of Tallinna Kaubamaja AS held at 21.05.2010.

The Audit Committee is a body established by the Supervisory Board, the task of which is advising the Supervisory Board in supervision issues. For this purpose, the Audit Committee exercises supervision in the following areas:

- (i) adherence to accounting principles;
- (ii) preparation and approval of the financial budget and reporting;
- (iii) sufficiency and effectiveness of performing an external audit;
- (iv) development and functioning of an internal control system (incl. risk management);
- (v) monitoring of the legality of the Company's operations. The Audit Committee separately participates in guaranteeing the independence of the process and activities of an external audit, and planning and assessment of an internal audit.

In performing its tasks, the Audit Committee collaborates with the Supervisory Board, the Management Board, internal and external auditors and if necessary, external experts.

The Audit Committee has 5 members, at least half of whom are appointed from among the members of the Supervisory Board. The members are appointed by the Supervisory Board for three years.

The Audit Committee prepares an annual summary report about meeting the goals laid down in the statutes and presents it to the Supervisory Board, in which it assesses its activities and gives its opinion in respect of the monitoring of (i) adherence to accounting principles, (ii) preparation and approval of the financial budget and reporting, (iii) sufficiency and effectiveness of performing an external audit, (iv) development and functioning of an internal control system (incl. risk management), (v) legal compliance, (vi) activities of an internal audit and (vii) independence of an external audit provider.

Based on its duties, the Audit Committee provides ongoing evaluations and makes proposals to the Supervisory Board, the Management Board, the internal audit and/or an external audit provider.

10 planned Audit Committee meetings were held during the accounting period.

## **Directions for 2013**

The key development directions and objectives of the Tallinna Kaubamaja Group in 2013 are:

- Increasing the Group's market share and efficiency.
- Improving cooperation between the Group's business units and the search for synergy.
- The restructuring of the Group's companies in order to make the leading network even clearer and more effective.
- Opening of new Selver stores, the considerable expansion of the SelveEkspressi service and increasing the competitiveness of major product groups.
- Further development of the multifunctional job management of the supermarket segment, the expansion of central logistical processes.
- Introduction of new business and commercial software in supermarkets.
- Development of the self-service environment of the Group's Partner Card loyalty programme, the launch of the e-cheque, and the development of analytical marketing for the more efficient use of synergy.
- Updating the communication of the Home Department and the renovation of the Home and Children's Department in Tartu.
- Modernisation of the Kaubamaja website, launch of the digital version of *Hooaeg*.
- Updating the hardware and software of the cash system of Department stores.
- Increasing the market share of the footwear segment and the gross margin through inventory management and more favourable conditions of purchase.
- Increasing the profitability of I.L.U. stores and the development of the import of beauty brands which are suitable for the Group's different formats.
- Maintaining and increasing the profitability of the car trade segment and the growth in the market share.
- Integration of Viking Motors AS into the Group's business environment and Ülemiste Autokeskus OÜ. Construction and opening of the new building of KIA Automobiles SIA in Riga.
- Opening of a new vehicle trade centre in Tallinn.
- Expansion of the sales of Kulinaaria OÜ through product development and sales activities both in the domestic and foreign markets, growth in the volume of subcontracting activities, and active expansion of Gurmees Catering, the full party organisation service. Further development of Estonia's largest online sales environment for party catering.
- Increasing the turnover of the security business and finding opportunities for expansion.
- Search for additional new business opportunities and areas that create synergy.

### **Chairman's confirmation of and signature to the management report**

The Chairman confirms that management report gives a true and fair view of the key events occurred in the reporting period and their impact on the financial statements, contains a description of key risks and uncertainties of the financial year and provides an overview of important transactions with the related parties.



---

Raul Puusepp  
Chairman

Tallinn, 28 February 2013

## CONSOLIDATED FINANCIAL STATEMENTS

### MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Chairman of the Management Board confirms the correctness and completeness of Tallinna Kaubamaja AS consolidated financial statements for the year 2012 as set out on pages 22-61.

The Chairman of the Management Board confirms that:

1. the accounting policies used in preparing the financial statements are in compliance with International Financial Reporting Standard as adopted in the European Union;
2. the financial statements give a true and fair view of the financial position, the results of the operations and the cash flows of the Parent and the Group;
3. Tallinna Kaubamaja AS and its subsidiaries are going concerns.



\_\_\_\_\_  
Raul Puusepp  
Chairman of the Management Board

Tallinn, 28 February 2013

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only
Initsiaalid/initials <u>PP</u>
Kuupäev/date <u>28.02.2013</u>
PricewaterhouseCoopers, Tallinn

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2012	31.12.2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank	5	13,494	11,948
Trade receivables and prepayments	6	18,497	20,702
Inventories	8	48,264	41,578
<b>Total current assets</b>		<b>80,255</b>	<b>74,228</b>
<b>Non-current assets</b>			
Long-term receivables and prepayments	11	667	1,041
Investments in associates	10	1,628	1,550
Investment property	12	3,756	3,566
Property plant and equipment	13	190,298	172,272
Intangible assets	14	11,236	9,809
<b>Total non-current assets</b>		<b>207,585</b>	<b>188,238</b>
<b>TOTAL ASSETS</b>		<b>287,840</b>	<b>262,466</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Borrowings	15,16	17,210	11,261
Trade payables and other liabilities	17	64,151	56,081
<b>Total current liabilities</b>		<b>81,361</b>	<b>67,342</b>
<b>Non-current liabilities</b>			
Borrowings	15,16	59,781	55,591
Provisions and prepayments		519	73
<b>Total non-current liabilities</b>		<b>60,300</b>	<b>55,664</b>
<b>TOTAL LIABILITIES</b>		<b>141,661</b>	<b>123,006</b>
<b>Equity</b>			
Share capital	19	24,438	24,438
Statutory reserve capital		2,603	2,603
Revaluation reserve		51,079	52,197
Currency translation differences		-7	-111
Retained earnings		68,066	60,333
<b>TOTAL EQUITY</b>		<b>146,179</b>	<b>139,460</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>287,840</b>	<b>262,466</b>

The notes presented on pages 27-61 form an integral part of these consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only Initsiaalid/initials <u>PP</u> Kuupäev/date <u>28.02.2013</u> PricewaterhouseCoopers, Tallinn
--

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	Note	2012	2011
Revenue	20	467,800	435,977
Other operating income		820	420
Materials, consumables used and services	8	-347,119	-321,503
Other operating expenses	21	-47,242	-44,353
Staff costs	22	-36,376	-34,145
Depreciation, amortisation and impairment losses	13,14	-11,481	-9,976
Other expenses		-383	-347
<b>Operating profit</b>		<b>26,019</b>	<b>26,073</b>
Finance income	23	133	247
Finance costs	23	-1,647	-1,897
Finance income on shares of associates	10	126	150
<b>Profit before tax</b>		<b>24,631</b>	<b>24,573</b>
Corporate income tax	19	-3,761	-3,035
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>		<b>20,870</b>	<b>21,538</b>
<b>Other comprehensive income:</b>			
Currency translation differences		104	515
<b>Other comprehensive income for the financial year</b>		<b>104</b>	<b>515</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>		<b>20,974</b>	<b>22,053</b>
Basic and diluted earnings per share (euros)	24	0.51	0.53

Net profit and total comprehensive income are attributable to the owners of the parent.

The notes presented on pages 27-61 form an integral part of these consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks  
 Initialed for the purpose of identification only  
 Initsiaalid/initials PP  
 Kuupäev/date 28.02.2013  
 PricewaterhouseCoopers, Tallinn



## CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit		20,870	21,538
<i>Adjustments:</i>			
Income tax on dividends paid	19	3,761	3,031
Interest expense	23	1,647	1,897
Interest income	23	-133	-247
Depreciation, amortisation and impairment losses	13,14	10,525	9,976
Loss on sale and write-off of non-current assets	13	985	93
Profit on sale of non-current assets	13	-184	-9
Effect of equity method	10	-126	-150
Change in inventories		-6,091	-2,563
Change in receivables and prepayments related to operating activities		-1,303	261
Change in liabilities and prepayments related to operating activities		8,090	6,232
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>38,041</b>	<b>40,059</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment (excl. finance lease)	13	-29,118	-5,830
Proceeds from sale of property, plant and equipment	13	222	42
Purchase of intangible assets	14	-370	0
Investments in subsidiaries	9	-1,320	0
Change in balance of parent company's group account	26	4,000	-7,491
Dividends received		48	104
Interest received	23	133	247
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-26,405</b>	<b>-12,928</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	15	44,243	18,206
Repayments of borrowings	15	-34,548	-32,575
Change in overdraft balance	15	-1	150
Dividends paid	19	-14,255	-11,404
Income tax on dividends paid	19	-3,761	-3,031
Repayments of finance lease principal	16	-128	-408
Interest paid	23	-1,662	-1,898
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>-10,112</b>	<b>-30,960</b>
<b>TOTAL CASH FLOWS</b>		<b>1,524</b>	<b>-3,829</b>
Effect of exchange rate changes		22	43
Cash and cash equivalents at the beginning of the period	5	11,948	15,734
Cash and cash equivalents at the end of the period	5	13,494	11,948
<b>Net change in cash and cash equivalents</b>		<b>1,546</b>	<b>-3,786</b>

The notes presented on pages 27-61 form an integral part of these consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks  
 Initialled for the purpose of identification only  
 Initsiaalid/initials PP  
 Kuupäev/date 28.02.2013  
 PricewaterhouseCoopers, Tallinn

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Revaluation reserve	Currency translation differences	Retained earnings	Total
<b>Balance as of 31.12.2010</b>	<b>26,031</b>	<b>2,603</b>	<b>53,308</b>	<b>-626</b>	<b>47,495</b>	<b>128,811</b>
Net profit for the reporting period	0	0	0	0	21,538	21,538
Other comprehensive income for the reporting period	0	0	0	515	0	515
<b>Total comprehensive income for the reporting period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>515</b>	<b>21,538</b>	<b>22,053</b>
Reclassification of depreciation of revalued land and buildings	0	0	-1,111	0	1 111	0
Dividends paid	0	0	0	0	-11,404	-11,404
Decrease in share capital	-1,593	0	0	0	1,593	0
<b>Balance as of 31.12.2011</b>	<b>24,438</b>	<b>2,603</b>	<b>52,197</b>	<b>-111</b>	<b>60,333</b>	<b>139,460</b>
Net profit for the reporting period	0	0	0	0	20,870	20,870
Other comprehensive income for the reporting period	0	0	0	104	0	104
<b>Total comprehensive income for the reporting period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>104</b>	<b>20,870</b>	<b>20,974</b>
Reclassification of depreciation of revalued land and buildings	0	0	-1,118	0	1,118	0
Dividends paid	0	0	0	0	-14,255	-14,255
<b>Balance as of 31.12.2012</b>	<b>24,438</b>	<b>2,603</b>	<b>51,079</b>	<b>-7</b>	<b>68,066</b>	<b>146,179</b>

Additional information on share capital and changes in equity is provided in Note 19.

The notes presented on pages 27-61 form an integral part of these consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks  
 Initialed for the purpose of identification only  
 Initsiaalid/initials PP  
 Kuupäev/date 28.02.2013  
 PricewaterhouseCoopers, Tallinn

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 General information

Tallinna Kaubamaja AS (the Company) and its subsidiaries (together as the Group) are entities engaged in retail trade and provision of related services. Tallinna Kaubamaja AS is a company registered on 18 October 1994 in the Republic of Estonia with the legal address of Gonsiori 2, Tallinn. The shares of Tallinna Kaubamaja AS are listed on the Tallinn Stock Exchange. The majority shareholder of Tallinna Kaubamaja AS is OÜ NG Investeeringud (Note 28), the majority owner of which is NG Kapital OÜ. NG Kapital OÜ is an entity with ultimate control over Tallinna Kaubamaja Group.

These consolidated financial statements have been authorised by the Management Board on 4 March 2013 for issue. In accordance with the Commercial Code of the Republic of Estonia, the Annual Report shall be approved by the Company's Supervisory Board and approved by the General Meeting of Shareholders.

### Note 2 Accounting policies adopted in the preparation of the financial statements

#### Bases of preparation

The consolidated financial statements of AS Tallinna Kaubamaja for the year 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The consolidated financial statements have been prepared under the historical cost convention, except for land and buildings that have been revalued and are reported under the revaluation method as described in the respective accounting policies, as well investment property which is reported at fair value.

The functional and presentation currency of AS Tallinna Kaubamaja is euro. All amounts disclosed in the financial statements have been rounded to the nearest thousand unless referred to otherwise.

In preparing the consolidated financial statements, the following accounting policies applied to all periods presented in the financial statements have been used, unless referred to otherwise.

In accordance with International Financial Reporting Standards, management needs to make accounting estimates in certain areas. They also need to make decisions in respect of the adoption of the Group's accounting policies. The areas in which the importance and complexity of management's decisions have a greater impact or in which the consolidated financial statements largely depend on assumptions and estimates, are disclosed in Note 3.

#### Changes in accounting policies and presentation

In 2012 consolidated annual report the presentation of balance sheet lines has been adjusted to give a better overview of company's financial position. Accordingly 2011 comparatives have been adjusted as following. In 2011 consolidated annual report balance sheet lines "Trade receivables" in the amount of 9,976 thousand euros, "Other short-term receivables" in the amount of 9,372 thousand euros and "Prepaid taxes and other prepayments" in the amount of 959 thousand euros were shown in separate balance sheet lines. In 2012 consolidated annual report all above mentioned balance sheet lines are aggregated in one balance sheet line "Trade receivables and prepayments" in total amount of 20,702 thousand euros.

In 2011 consolidated annual report prepayments for inventories were shown within balance sheet line "Inventories". In 2012 consolidated annual report prepayments for inventories are recorded in the balance sheet line "Trade receivables and prepayments", adjustment amounted to 395 thousand euros.

In 2011 consolidated annual report balance sheet lines "Prepayments" in the amount of 985 thousand euros and "Other long-term receivables" in the amount of 56 thousand euros were shown in separate balance sheet lines. In 2012 consolidated annual report above mentioned items are shown aggregated in one balance sheet line "Long-term receivables and prepayments" in the amount of 1,041 thousand euros.

In 2011 consolidated annual report balance sheet lines "Trade payables" in the amount of 46,419 thousand euros, "Tax liabilities" in the amount of 5,038 thousand euros, "Other current liabilities" in the amount of 4,489 thousand euros and "Provisions" in the amount of 135 thousand euros were shown in separate balance sheet lines. In 2012 consolidated annual report above mentioned items are shown aggregated in one balance sheet line "Trade payables and other liabilities" in the amount of 56,081 thousand euros.

#### **Adoption of New or Revised Standards and Interpretations**

There are no new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 01.01.2012 that would be expected to have a material impact to the Group.

#### **New Accounting Pronouncements**

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 01.01.2013, and which the Group has not early adopted.

### **Presentation of Items of Other Comprehensive Income, amendments to IAS 1**

(effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

### **IFRS 12, Disclosure of Interest in Other Entities**

(effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

### **IFRS 13, Fair Value Measurement**

(effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

### **Disclosures about the primary statements of the Parent**

In accordance with the Accounting Act of Estonia, the separate primary statements of the consolidating entity (Parent) are to be disclosed in the notes to the consolidated financial statements. The Parent's primary statements, disclosed in Note 31, have been prepared using the same accounting methods and measurement bases as those that have been used for preparing the consolidated financial statements. In the separate primary statements, investment in subsidiaries and associates are carried at historical cost. According to the cost method, the investment is initially recognised at cost which is the fair value of the consideration paid upon acquisition which is subsequently adjusted by any impairment losses.

### **Foreign currency transactions**

#### *Functional and presentation currency*

The financial statements of group entities have been prepared in the currency of the primary economic environment of each entity (functional currency), that being the local currency. The functional currency of the Parent and its subsidiaries registered in Estonia is euro. The consolidated financial statements have been prepared in euros.

#### *Accounting for foreign currency transactions*

Foreign currency transactions are recorded based on the foreign currency exchange rates of the central bank prevailing on the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency have been translated using the foreign currency exchange rates of the central bank prevailing on the balance sheet date. Profits and losses from foreign currency transactions are recognised in the income statement as income or expenses of that period.

#### *Financial statements of foreign entities*

When the functional currency of subsidiaries differs from the functional currency of the Parent (for example, the Latvian lats in case of the entities operating in Latvia), the following principles have been applied to translate the financial statements of subsidiaries prepared in foreign currencies:

- The assets and liabilities of all foreign subsidiaries have been translated using the exchange of the central bank rate prevailing on the balance sheet date;
- The income and expenses of subsidiaries have been translated using the weighted average exchange rate for the year (unless this average cannot be considered a reasonable rounding of the cumulative effect of the rates prevailing on the transaction date in which case income and expenses are translated on the dates of the transaction).

The exchange rate differences are reported in the equity item "currency translation differences". Upon the disposal of foreign subsidiaries, the amounts reported in the equity item "currency translation differences" are recognised in profit or loss of the financial year.

## **Principles of consolidation**

### *Subsidiaries*

A subsidiary is an entity controlled by the Parent. Control is presumed to exist when the Parent owns, directly or indirectly through subsidiaries, more than 50% of the voting power of a subsidiary or otherwise has power to govern its financial and operating policies. Subsidiaries are consolidated from the date of their acquisition (obtaining of control) until the date of sale (loss of control).

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of acquisition is measured as the fair value of consideration paid upon acquisition (i.e. assets transferred, liabilities incurred and equity instruments issued by the acquirer for the purpose of acquisition) plus fair value of assets and liabilities of contingent consideration. Costs directly attributable to the acquisition are recorded as expenses. Acquired and separately identifiable assets, liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values on the date of acquisition. The Group chooses for each business combination whether to account for non-controlling interest at fair value or proportionally to net assets.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

In preparing consolidated financial statements, the financial statements of all the subsidiaries under the control of the Parent are combined on a line-by-line basis. The receivables, liabilities, income, expenses and unrealised profits which arise as a result of transactions between the Parent and its subsidiaries are eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

### *Associates*

Associate is an entity in which the Group has significant influence, but which it does not control. Significant influence is generally presumed to exist when the Group holds between 20% and 50% of the voting power of the investee.

In the consolidated financial statements, investments in associated are carried using the equity method; under this method, the initial investment is adjusted with the profit/loss received from the entity and the dividends collected.

Unrealised gains on transactions between the investor and its associates are eliminated to the extent of the Company's interest in the investment. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

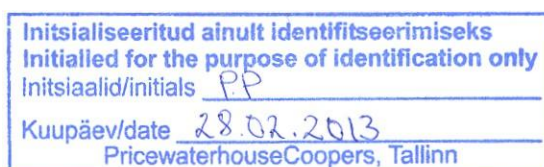
When the Group's share of losses in an associate equals or exceeds the book value of the associate, the investment is reduced to zero and further losses are recognised as off-balance-sheet items. When the Group has incurred obligations or made payments on behalf of the associates, the respective liability is recorded in the balance sheet, and loss under the equity method is recognised. Where necessary, the accounting policies of associates have been changed to correspond to the accounting policies of the Group.

## **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Supervisory Board of the Parent that makes strategic decisions.

## **Cash and cash equivalents**

For the purposes of the balance sheet and the cash flow statement, cash and cash equivalents include cash on hand, bank account balances (excl. overdraft) and term deposits with maturities of 3 months or less. Overdraft is included within short-term borrowings in the balance sheet. Cash collected, but not yet deposited in the bank account is recognised as cash in transit. Cash and cash equivalents are carried amortised cost.





## **Financial assets**

The Group's financial assets are classified only in the category of loans and receivables. Classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Loans and receivables are initially recognised at their cost which is the fair value of consideration paid for the financial asset. Initial cost includes all transactions costs directly attributable to the financial asset.

Subsequently, the Group carries loans and receivables at amortised cost (less any impairment losses), calculating interest income on the receivable in the following periods using the effective interest rate method. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included within current assets except for maturities greater than 12 months after the balance sheet date. Such assets are classified as non-current assets. Loans and receivables are reported as trade receivables and other receivables in the balance sheet.

An impairment loss is recognised when there is objective evidence that the Group is unable to collect all amounts due according to the original terms of receivables. Such situations may include significant financial difficulties of the debtor, bankruptcy or delinquency in payments to the Group. The amount of the impairment loss is the difference between the carrying amount and the present value of cash flows to be received from the present value, discounted at the initial effective interest rate of the receivable.

Financial assets are derecognised from the balance sheet when the entity loses its right to receive cash flows from the financial asset or when it transfers the cash flows from the asset and most of the related risks and benefits to a third party.

Purchases and sales of financial assets are recognised consistently from the day on which the Company becomes the owner of the financial asset or loses its ownership interest in the financial asset

## **Inventories**

Inventories are initially recognised at cost which includes the purchase price, the related customs duties and other non-refundable taxes and costs of transportation directly attributable to the acquisition of inventories, less any discounts and volume rebates. The FIFO method is used to account for the cost of industrial goods inventories, the cost of food products is recognised by means of the weighted average acquisition cost method. In the car trade segment, the cost of spare parts is recognised by means of the weighted average acquisition cost method and that of cars is recorded on individual cost basis. Inventories are measured in the balance sheet at the lower of acquisition/production cost and net realisable value. The net realisable value is the estimated sales price less estimated expenditures for completion and sale of the product.

## **Investment property**

The property (land or a building) held by the Group for earning long-term rental yields or for capital appreciation, rather than its own operations, is recorded as investment property. Investment property is initially recognised in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would have not taken place). Investment property is subsequently measured at fair value, based on the market price determined annually by independent appraisers, based on the prices of recent transactions involving similar items (adjusting the estimate for the differences) or using the discounted cash flow method. Changes in fair value are recorded under the income statement items "Other operating expenses"/"Other operating income". No depreciation is calculated on investment property recognised at fair value.

Investment property whose fair value cannot be determined reliably, is measured at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is derecognised on disposal or when the asset is withdrawn from use and no future economic benefits are expected. Gains or losses from the derecognition of investment property are included within other operating income or other operating expenses in the income statement in the period in which derecognition occurs.

When the purpose of use of an investment property changes, the asset is reclassified in the balance sheet. From the date of the change, the accounting policies of the group into which the asset has been transferred are applied to the asset.

## **Property, plant and equipment**

Property, plant and equipment are assets used in the operations of the Company with a useful life of over one year when it is probable that future economic benefits attributable to them will flow to the Company.

Land and buildings are carried using the revaluation method: after initial recognition, land and buildings are carried at the revalued amount, being the fair value of the assets at the date of revaluation less any accumulated depreciation and any impairment losses. Valuations are performed regularly by independent real estate experts at least once every four years. Earlier accumulated depreciation is eliminated on the date of revaluation and the former cost of the asset is replaced by its fair value on the date of revaluation.

The increase in the carrying amount of land and buildings as a result of revaluation is recognised in the statement of comprehensive income and accumulated in the equity item "Revaluation reserve". The recoveries of value of such assets that have been written down through profit or loss are recognised in the income statement. Impairment of an asset is recognised in the statement of comprehensive income to the extent of the accumulated revaluation reserve of the same asset. The remaining amount is charged to the profit or loss. Each year, the difference in depreciation arising from the difference in historical cost and revalued amounts of assets is transferred from "Revaluation reserve" to "Retained earnings".

Other items of property, plant and equipment are recognised at cost less any accumulated depreciation and any impairment losses. Other items of property, plant and equipment are initially recognised at cost which consists of the purchase price and any directly attributable expenditure.

For items of property, plant and equipment that necessarily take a substantial period of time to get ready for its intended use, the borrowing costs are capitalised in the cost of the asset. Capitalisation of borrowing costs is terminated when the asset is substantially ready to be used or its active development has been suspended for a longer period of time.

Subsequent expenditure incurred for items of property, plant and equipment are recognised as property, plant and equipment when it is probable that future economic benefits associated with the asset will flow to the company and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at the time they are incurred.

The straight-line method is used for determining depreciation. The depreciation rates are set separately for each item of property, plant and equipment depending on its useful life. The ranges of useful lives for the groups of property, plant and equipment are as follows:

- Land and buildings
  - Land is not amortised.
  - Buildings and facilities 10-50 years  
*incl. Renovation of buildings* 12-23 years
- Machinery and equipment 3-7 years
- Other fixtures and fittings
  - IT equipment and software 3-7 years
  - Vehicles and fixtures 5 years
  - Capitalised improvements on rental premises 4-10 years

Depreciation is started when the asset is available for use for the purpose intended by management and is ceased when the residual value exceeds the carrying amount, when the asset is permanently withdrawn from use or upon its reclassification as held for sale. On each balance sheet date, the appropriateness of the depreciation rates, the depreciation method and the residual value are reviewed.

Management assesses on each balance date whether there is any known indication of the impairment of non-current assets. When indications of impairment exist, management determines the recoverable amount of non-current assets (i.e. higher of the fair value of the asset less costs to sell and its value in use). When the recoverable amount is lower than the carrying amount, the items of property, plant and equipment are written down to their recoverable amount. An impairment loss recognised in previous period is reversed when there has been a change in the estimates that form the basis for determining recoverable value.

Profits and losses from the sale of non-current assets, determined by subtracting the carrying amount from the sales price, are recognised within other operating income or other operating expenses in the statement of comprehensive income.

### **Intangible assets**

Purchased intangible assets are initially recognised at cost which includes the purchase price and any directly attributable expenditure. The cost of intangible assets acquired in a business combination is their fair value at the time of the business combination. After initial recognition, intangible assets are recognised at cost less any accumulated amortisation and any impairment losses.

The straight-line method is used for amortising intangible assets with finite useful lives. The useful lives are as follows:

- |                           |           |
|---------------------------|-----------|
| ▪ Beneficial contracts    | 5.5 years |
| ▪ Trademark               | 15 years  |
| ▪ Development expenditure | 5 years   |

For determining the useful lives of beneficial lease agreements, the length of lease agreements has been used as the basis, in case of the trademark and development expenditure, the expected length of a cash-generating period has been taken into consideration. The amortisation charge of intangible assets with a finite useful life is recognised in the income statement according to the allocation of intangible assets. The amortisation period and method of intangible assets with definite useful lives are reviewed at least once at the end of the financial year. Changes in the expected useful lives or the expected use of economic benefits related to the asset are recognised as changes in the amortisation period or method. Such changes are treated as changes in accounting estimates.

Intangible assets with finite useful lives are tested for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable. If necessary, the asset is written down to its recoverable amount.

### **Impairment of assets**

Assets that are subject to depreciation and land are assessed for possible impairment when there is any indication that the carrying amount of the asset may not be recoverable. Whenever such indication exists, the recoverable amount of the asset is assessed and compared with the carrying amount. An impairment loss is recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of the asset is the higher of its fair value less costs to sell and its value in use. An impairment test is performed for the smallest identifiable group of assets for which cash flows can be determined (cash-generating unit). On each following balance sheet date, the test is repeated for the assets that have been written down to determine whether their recoverable amount has increased.

### **Goodwill**

Goodwill is subsequently measured at cost less any accumulated impairment losses. Goodwill is not amortised. Instead, an impairment test is performed annually (or more frequently if an event or change in circumstances indicates that the value of goodwill may be impaired).

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units or groups of units which are expected to generate economic benefits from a specific business combination. An independent cash-generating unit (group of units) is the smallest identifiable group of assets which is not larger than an operating segment used for segment reporting. Impairment is determined by estimating the recoverable amount of the cash-generating unit. When the recoverable amount of the cash-generating unit is lower than its carrying amount (incl. goodwill), an impairment loss for goodwill is recognised. Impairment losses of goodwill are not reversed.

### **Finance and operating leases**

Leases which transfer substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

#### *The Group as the lessee*

Finance leases are recognised in the balance sheet as assets and liabilities at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charges (interest expense) and reduction of the outstanding liability. The finance costs are charged to the income statement over the lease period so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The assets acquired under finance leases are depreciated similarly to purchased assets over the shorter of the useful life of the asset and the lease term (if the passage of ownership at the end of lease period is not certain).

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Payments to be made to the lessor for the right of use of rental premises are treated as part of the rental agreement and these payments are recognised as rental prepayments in the balance sheet and a rental expense on a straight-line basis over the lease term.

#### *The Group as the lessor*

Assets leased out under operating lease terms are recognised in the balance sheet analogously to property, plant and equipment. They are depreciated over their expected useful lives on a basis consistent with similar assets. Operating lease payments are recognised as income on a straight-line basis over the lease term.



## **Financial liabilities**

Financial liabilities (trade payables, other current and non-current liabilities) are initially recognised at cost, less transaction costs. They are subsequently measured at amortised cost, using the effective interest rate method.

The amortised cost of current financial liabilities generally equals their nominal value, therefore current financial liabilities are carried in the balance sheet in their redemption value. For determining the amortised cost of non-current financial liabilities, they are initially recognised at the fair value of the consideration received (less any transaction costs), calculating interest expense on the liability in subsequent periods using the effective interest rate method.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings due to be settled within 12 months after the balance sheet date but that are refinanced as long-term after the balance sheet date but before the financial statements are authorised for issue are recognised as current liabilities. Borrowings that the lender has the right to recall on the balance sheet date as a consequence of a breach of contractual terms are also recognised as current liabilities.

Borrowings costs (e.g. interest) related to construction of assets are capitalised during the period which is necessary to prepare the asset for the purpose intended by management. Other borrowing costs are expensed in the period in which they are incurred.

## **Provisions and contingent liabilities**

Provisions are recognised in the balance sheet when the company has a (legal or contractual) commitment arising from the events occurred before the balance sheet date; it is probable that an outflow of resources will be required to settle the obligation; but the final amount of the liability or date of payment are not known.

Provisions are recognised based on management's estimates regarding the amount and timing of the expected outflows. The amount recognised as a provision is the best estimate of the management regarding the expenditure required to settle the present obligation on the balance sheet date or to transfer it to a third party. Provisions are recognised at the discounted value (in the amount of the present value of payments relating to the provision), unless the effect of discounting is insignificant. The cost relating to the provision is recognised in the income statement for the period. Future operating losses are not recognised as provisions.

Other obligations whose settlement is not probable or the amount of accompanying expenditure of which cannot be measured with sufficient reliability, but that in certain circumstances may become obligations, are disclosed as contingent liabilities in the notes to the financial statements.

## **Corporate income tax and deferred corporate income tax**

Corporate income tax assets and liabilities, and income tax expenses and income include current (payable) income tax and deferred income tax. Income tax payable is classified as a current asset or a current liability, and deferred income tax as a non-current asset or a non-current liability.

### *Group's Estonian entities*

In accordance with applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on profits. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The current tax rate is 21/79 on the amount paid out as net dividends. As income tax is paid on dividends and not on profit, no temporary differences arise between the tax bases of assets and liabilities and the carrying amounts of assets and liabilities which may give rise to deferred income tax assets and liabilities.

The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in Note 29 to the consolidated financial statements.

### *Group's Latvian and Lithuanian entities*

In Latvia and in Lithuania, corporate profits are subject to income tax. The corporate income tax rate is 15% in Latvia and 15% in Lithuania on taxable income. Taxable income is calculated by adjusting profit before tax for permanent and temporary differences as permitted by local tax laws.

For foreign subsidiaries, the deferred income tax assets and liabilities are determined for all temporary differences between the tax bases of assets and liabilities and their carrying amounts on the balance sheet date. Deferred corporate

income tax on calculated on the basis of tax rates applicable on the balance sheet date and current legislation, expected to prevail when the deferred tax assets are settled. Deferred tax assets are recognised in the balance sheet only when it is probable that future taxable profit will be available against which the deductions can be made.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates granted.

Revenue from the sale of goods is recognised when all significant risks and rewards of ownership of the goods have been transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and the receipt of economic benefits associated with the transaction is probable.

#### *Revenue from the sale of goods – retail sales*

Revenue from the sale of goods is recognised at the time when a sales transaction is completed for the client in a retail store. The client generally pays in cash or by credit card. The probability of returning goods is estimated based on prior experience, and returns are recognised in the period of the sales transaction as a reduction of revenue.

#### *Revenue from the sale of goods – wholesale*

Revenue from the sale of goods is recognised when all the risks and rewards have been transferred to the client in accordance with the terms of delivery. The probability of returning goods is estimated based on prior experience, and returns are recognised in the period of the sales transaction as a reduction of revenue.

#### *Revenue from provision of services*

Revenue from provision of services (mainly rental income) is recorded upon the provision of services or (when services are performed over a longer period of time), based on the stage of completion on the balance sheet date.

#### *Income from joint advertising*

The provision of marketing services arising from contractual relations is recorded as income from joint advertising as the group has a contractual obligation to advertise its sublessees and their products for common benefit throughout the year during various campaigns and joint events via various media channels and outlets.

#### *Interest income*

Interest income is recognised using the effective interest rate. Interest income is recognised when the receipt of revenue is probable and the amount of revenue can be estimated reliably. If the receipt of interest is uncertain, interest income is recognised on a cash basis.

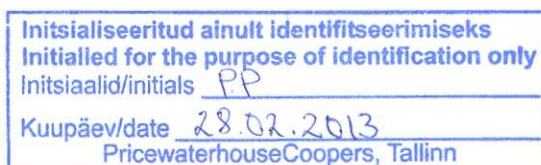
In cooperation with credit institutions, the group offers its clients the loyalty card Partner Krediidkaart with credit options. The clients are required to pay a fixed interest for the credit used with Partner Krediidkaart and the interest income is divided between the bank and the group in proportion to the distribution of risks related to the crediting activity.

#### *Loyalty program*

In 2012, the Group implemented a new loyalty programme for customers, which allows Partner Card holders to earn points for purchases and use these points to pay for their future purchases in the Group's six companies. When paying for the purchases, one bonus point equals one euro cent. Points earned during a calendar year will expire at the end of January of the following calendar year. In the first sales transaction, the Group will recognise revenue in the amount paid by the customer, which has been reduced by the value of the bonus points used for future purchases. For the bonus points used in the future, the balance sheet will recognise a liability in the amount of the number of unused bonus points multiplied by one euro cent. Bonus points accumulated during the financial year that will expire by the end of January of the following financial year are determined by the time of preparing the annual report and recognised in the sales revenue, and the liability of bonus points has been derecognised from the balance sheet.

### **Statutory reserve capital**

The Company has formed statutory reserve capital in accordance with the Commercial Code of the Republic of Estonia. During each financial year, at least 5% of the net profit shall be entered in reserve capital, until reserve capital is at least 10% of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.



## Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year by the weighted average number of shares issued during the period. The diluted earnings per share are calculated by adjusting both the net profit as well as the average number of shares with potential shares that have a dilutive effect on earnings per share. As the Group does not have financial instruments with a dilutive effect on earnings per share, the basic earnings per share equal the diluted earnings per share.

## Payables to employees

Payables to employees contain the contractual obligation arising from employment contracts with regard to performance-based pay which is calculated on the basis of the Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is paid in the next financial year. In addition to the performance-based pay, this liability also includes accrued social and unemployment taxes calculated on it.

Pursuant to employment contracts and current legislation, payables to employees also include vacation pay accrual as of the balance sheet date. In addition to the vacation pay accrual, this liability also includes accrued social and unemployment taxes.

## **Note 3 Critical accounting estimates and judgements**

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates and judgments by management, which impact the amounts reported in the financial statements. It also requires management to exercise its judgment and make estimates in the process of applying the Group's accounting policies and measurement bases. Although these estimates have been made to the best knowledge of management, they may not coincide with subsequent actual results. Changes in management estimates are included in the income statement of the period in which the change occurred.

The areas requiring key management judgments and estimates which have a direct impact on the amount reported in the financial statements are as follows:

- *Estimation of the useful lives of property, plant and equipment:* the Group owns several in the recent past completed sales areas, the useful lives of significant components of which have been estimated using the data of technical project documentation and historical data. Actual useful lives may differ from those initially estimated by management.
- *Determination of the revalued value of land and buildings:* the Group accounts for land and buildings using the revaluation method. For this purpose, management regularly evaluates whether the fair value of revalued non-current assets does not significantly differ from their carrying amount. Management uses expert opinions to determine the fair value of revalued non-current assets, whereby the estimates of external experts are used at least every 4 years. As a result of the valuation performed in the end of reporting year no significant differences recognised between fair values and carrying value of land and buildings. Carrying value of land and buildings using revaluation method as at 31.12.2012 amounted to 143,259 thousand euros (31.12.2011: 125,422 thousand euros). Valuation performed in the end of previous financial year did not reveal significant differences between fair values and carrying value of land and buildings. More detailed information is disclosed in Note 13.
- *Assessment of impairment of buildings under construction:* at each balance sheet date, the Group assesses whether any indications exist of possible impairment of buildings under construction. If such indications exist, an impairment test is performed at each balance sheet date on assets that have been previously impaired. For estimation of the value, the items' value in use is determined. For determining the value in use, the discounted cash flow method is used and the investment value is found. Internal and external valuers were used for determining the value in use. As a result of the impairment test performed in the end of 2012 no impairment of buildings under construction was recognised (carrying value: 32,609 thousand euros as at 31.12.2012). Similarly as at 31.12.2011 no impairment of buildings under construction was recognised (carrying value: 33,124 thousand euros as at 31.12.2011). See more detailed information in Note 13.
- *Assessment of impairment of goodwill:* at least annually, the Group evaluates possible impairment of goodwill which arose in the acquisition of subsidiaries. For the purpose of determining the value, the fair value is determined for cash-generating units which goodwill has been allocated to. For determining the value in use, management has forecast future cash flows of cash-generating units and selected an appropriate discount rate for determining the present value of cash flows. As at 31.12.2012, the carrying value of goodwill was 6,710 thousand euros (2011: 6,710 thousand euros). The results of the impairment tests performed in the financial year showed that no recognition of impairment of goodwill was necessary, neither in 2011. More detailed information is disclosed in Note 14.

#### **Note 4 Risk management and description of key risks**

Managing risks associated with the Group's business activities is an integral and important part of the management of the Group. The supervisory boards of enterprises in collaboration with the executive management teams and the audit committee regularly analyse the enterprises' risks and the management thereof. The Audit Committee analyses the prepared risk management plans, assessed level of risk and risk profile and determines the risk tolerance threshold. The executive management teams identify and assess risks, prepare management plans and if necessary make proposals as to the allocation of resources to deal with major risks. In cooperation with the executive management teams, the internal audit department promotes awareness of risks and helps to bring the idea of risk management to the processes and employees.

In 2011, the Group adopted common rules and methods that regulate the framework and process of risk management. According to these, risk is defined as a potential event or scenario that may occur in the future and that could impact the ability of the Group and/or its enterprises to achieve their objectives. A risk may be both a threat as well as an opportunity. The Group's ability to identify, evaluate and manage various risks has an important impact on the Group's profitability. Every year risks are identified and assessed in all of the Group's enterprises, the tolerance threshold is established and risk management plans are prepared. The quantification of risks enables to compare financial and non-financial risks as well as make informed decisions about managing a risk by comparing its cost against its impact. Risk management activities are coordinated by the manager of the internal audit department, which reports to the audit committee. The duties of the Audit Committee include the regular monitoring of risks and preparing a risk report twice a year.

#### **Management of financial risks**

The Group's business may be accompanied by exposure to several financial risks, of which the most significant are liquidity risk, credit risk and market risk (including foreign exchange risk, interest rate risk and price risk). Managing financial risks falls within the scope of competence of the parent company's management board and comprises risk identification, measurement and management. The objective of financial risk management is managing financial risks and reducing the volatility of financial performance results. The supervisory board of the parent company exercises supervision over the measures taken by the management board for the purpose of managing risks. The Group systematically analyses and manages risks through the financial unit, which is involved in financing the parent company and its subsidiaries and, consequently, managing the liquidity risk and interest rate risk arising from it. Risks are also analysed and managed by the subsidiaries' managements and financial units. The assistance of specialists from the principle shareholder NG Investeeringud OÜ is also employed in risk management.

All the financial assets of the Group are included in the category "Loans and receivables" and consist of cash and cash equivalents (Note 5), trade receivables (Note 6), other short-term receivables (Note 6) and other long-term receivables (Note 11). All financial liabilities of the Group are included in the category "Other financial liabilities" and consist of borrowings (Note 15), trade payables (Note 17), interest payables, other accrued expenses and rental prepayments by tenants (Note 17).

#### **Market risk**

##### **Foreign currency risk**

Foreign exchange risk is a risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in foreign exchange rates. The financial assets and liabilities denominated in euros are deemed to be financial assets and liabilities free of foreign exchange risk. To manage the foreign exchange risk of the Group, most of the contracts are concluded in euros. As of the end of the accounting period, the Group did not have any major financial assets and liabilities fixed in some other currency than the euro. The Group has assessed its foreign-exchange risks in 2011 and 2012 and does not see any reason to use additional measures to manage the foreign exchange risk.

The Group operates through its subsidiaries both in Latvia and Lithuania. The currencies of these countries are strictly tied to the euro (Lithuania) or are in the euro corridor (Latvia), lowering the foreign currency risk arising from intra-group transactions and other similar transactions.

##### **Cash flow and fair value change interest rate risk**

Interest rate risk is such risk whereby an increase in interest expenses due to higher interest rates may significantly impact the profitability of the Group's operations. The Group's interest-rate risk mainly arises from long-term loan commitments.

The Group's long-term loans are primarily tied to EURIBOR, therefore, the Group is dependent on the developments in international financial markets. In managing the Group's interest rate risk, it is important to monitor the changes in the money market interest rate curve, which reflects the expectations of market participants in respect of market interest rates and enables to evaluate the trend of formation of EUR interest rates.

In 2012, the 6-month EURIBOR decreased from 1.606% at the beginning of the year to the year-end 0.320%. In the beginning of 2013, EURIBOR began to slightly increase. The Group estimates that EURIBOR will not rise in 2013 enough to significantly affect the Group's financial performance results.



Had the interest rates with a floating interest rate been 1 percentage point higher as of 31 December 2012 (31.12.2011: 1 percentage point), the Group's financial cost would have increased by 679 thousand euros (2011: 638 thousand euros). Had the interest rates been 0.1 percentage point lower as of 31 December 2012, the Group's financial cost would have decreased by 52 thousand euros (2011: as of 31 December 2010 changed by 0.9 percentage point and by 536 thousand euros).

During the interest rate analysis, different options to hedge risks are considered. Such options include refinancing, renewal of existing positions and alternative financing. During the financial year and the previous financial year, the management evaluated and recognised the extent of the interest-rate risk. However, the Group has not entered into transactions to hedge the interest-rate risk with financial instruments, as it finds the extent of the interest-rate risk to be insignificant.

The borrowings of the Group are exposed to changes in interest rate risks as follows:

in thousands of euros

	31.12.2012	31.12.2011
Rates changing during 3 months	5,316	2,534
Rates changing during 3 – 6 months	71,675	64,187
<b>Total borrowings at floating interest rate</b>	<b>76,991</b>	<b>66,721</b>
Borrowings with fixed interest rate	0	131
<b>Total borrowings</b>	<b>76,991</b>	<b>66,852</b>

### Credit risk

Credit risk is defined as the risk that the Group will suffer as financial loss caused by the other party of a financial instrument who is unable to meet its liabilities.

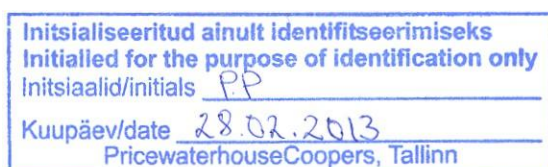
The Group is exposed to credit risk arising from its operating (mainly receivables) and investing activities, including deposits in banks and financial institutions. The management of the Group manages the credit risk arising from deposits in banks and financial institutions in compliance with the Group's strategy, according to which the Group may invest available funds only into financial instruments that meet the following criteria:

- Deposits and cash in bank accounts in domestic credit institutions – the domestic credit institution has an activity licence as required by the Credit Institutions Act and the credit rating of its parent bank by Moody's rating agency is at least A2 and the rating perspective is set at least as stable or equivalent;
- Deposits and cash in bank accounts in foreign credit institutions – the credit rating of the foreign credit institution as provided by Moody's rating agency is at least A2 and the rating perspective is set at least as stable or equivalent;
- Commercial papers and bonds of a domestic issuer – the credit rating of the domestic issuer is at least Baa3 or equivalent, as provided by Moody's rating agency, and the bonds are freely marketable on the securities market;
- Commercial papers and bonds of a foreign issuer – the credit rating of the foreign issuer is at least Aa3 or equivalent, as provided by Moody's rating agency, and the bonds are freely marketable on the securities market;
- Interest and money market funds – the management company has an activity licence as prescribed by the Investment Funds Act and the weighted average of the investments (enterprises) comprising the fund has been given Moody's credit rating Baa3 at the least.

In the allocation of short term liquid funds the following principles are followed in the order of priority:

- Assuring liquidity;
- capital retention;
- earning income.

The Group does not keep more than a half of its assets (including money in the bank account, deposits and investments in the bonds of the relevant bank) in one bank to manage the liquidity risk.



Cash and cash equivalents by the credit rating of the depositing bank in thousands of euros:

	31.12.2012	31.12.2011
Aa2	0	4 584
Aa3	6,740	0
A1	1,295	630
A2	4,587	5,376
<b>Total</b>	<b>12,622</b>	<b>10,590</b>

Credit rating is given to deposits. The data is from the website of Moody's Investor Service.

Due to the specific nature of retail sales, the Group is not exposed to any major credit risk. Possible credit risk related to receivables is primarily attributable to non-collection of rental income, but this risk does not represent a major risk for the Group. As at 31 December 2012, the maximum credit risk arising from receivables is in the amount of 16,834 thousand euros (2011: 19,404 thousand euros).

The aging structure of receivables is as follows, in thousands of euros:

	31.12.2012	31.12.2011
Not due	13,465	17,575
<i>Incl. receivables from the group account</i>	<i>5,000</i>	<i>9,000</i>
<i>Incl. receivables from card payments</i>	<i>1,568</i>	<i>1,358</i>
<i>Incl. receivables from bonuses</i>	<i>3,214</i>	<i>2,686</i>
<i>Incl. trade receivables</i>	<i>3,511</i>	<i>4,103</i>
<i>Incl. other receivables</i>	<i>172</i>	<i>428</i>
Overdue < 3 months	3,330	1,774
Overdue 3 - 6 months	21	41
Overdue 6 - 12 months	15	8
Overdue > 12 months	3	6
<b>Total receivables</b>	<b>16,834</b>	<b>19,404</b>

With regard to receivables not yet overdue, the claims against the group account is secured by the group account contract of the head group (NG Investeeringud OÜ). According to the contract, the group members are solidarily responsible for any unpaid amounts. The receivables arising from card payments are secured by the card payment agreement of Nordea Bank Finland Plc Estonia Branch, ensuring the receipt of card payments during two banking days. Bonuses and other receivables are secured by merchandise contracts and they do not carry credit risk because the Group's liabilities to the same contractual partners exceed the receivables due from them.

The Group does not consider it necessary to write down its overdue receivables, because the customers with overdue receivables are also the Group's suppliers whose liabilities exceed the amount of receivables.

### Liquidity risk

Liquidity risk is risk that the Group is unable to meet its financial liabilities due to cash flow shortages.

Liquidity, i.e. the existence of adequate financial resources to settle the liabilities arising from the activities of the Group is one of the priorities of Tallinna Kaubamaja Group. For more efficient management of the Group's cash flows, joint group accounts of the Parent and its subsidiaries have been set up at the banks which enable the members of the group accounts to use the monetary funds of the Group within the limit established by the Parent. In its turn, this group as a subgroup has joined the contract of the group account of NG Investeeringud OÜ. The group accounts have been opened in Estonia. To manage liquidity risk, the Group uses different sources of financing, including bank loans, overdraft, regular monitoring of trade receivables and delivery contracts.

Tallinna Kaubamaja Group has solid support from the financial sector to secure the liquidity and development process of the Group. According to the Group's experience, it is possible to find additional sources of funding with favourable interest rates, and also to refinance or extend existing loans if necessary.

Analysis of the Group's undiscounted financial liabilities by maturity dates:

In thousands of euros	< 3 months	3-12 months	1-2 years	2-5 years	after 5 years	Total 31.12.2012
Borrowings	3,685	14,643	23,688	30,023	8,106	80,145
Financial liabilities (Note 17)	55,593	0	0	0	0	55,593
<b>Total</b>	<b>59,278</b>	<b>14,643</b>	<b>23,688</b>	<b>30,023</b>	<b>8,106</b>	<b>135,738</b>

	< 3 months	3-12 months	1-2 years	2-5 years	after 5 years	Total 31.12.2011
Borrowings	3,167	9,547	25,887	4,152	29,478	72,231
Financial liabilities (Note 17)	47,577	0	0	0	0	47,577
<b>Total</b>	<b>50,744</b>	<b>9,547</b>	<b>25,887</b>	<b>4,152</b>	<b>29,478</b>	<b>119,808</b>

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2012 and 31.12.2011, have been used.

As of the end of the financial year, the Group had available funds in the amount of 13,494 thousand euros (2011: 11,948 thousand euros). The Group follows its established credit risk management strategy when investing its cash flow surplus. As of 31 December 2012, the Group had deposited 5,000 thousand euros into the joint group account through its parent company NG Investeeringud OÜ (9,000 thousand euros in 2011).

As at 31 December 2012, the working capital was in a modest deficit of 1,106 thousand euros (2011: positive working capital of 6,886 thousand euros). A temporary decrease in working capital was caused by the acquisition of the stock of several new stores opened at the end of 2012. The inclusion of additional loans for investments slightly decreased the liquidity ratio of the Tallinna Kaubamaja Group (current assets less inventories/current liabilities), and in 2012, it fell to 0.39. In 2011, the corresponding figure was 0.48. According to the Management Board, the negative working capital at the end of the accounting year does not jeopardise the future sustainability of Kaubamaja and the Group does not have a liquidity problem.

### Capital management

The Group's primary goal of capital (both debt and equity) management is to ensure a strong capital structure, which would support the stability of the Group's business operations and continuity of its operations, and would optimise the capital structure, lower the cost of capital and thereby protect the interests of shareholders. To preserve and adjust the capital structure, the Group may regulate the dividends payable to the shareholders, resell shares, issue new shares or sell assets to cover liabilities.

Following a common practice in retail business, the Group uses the debt to equity ratio, which is calculated as net debt to total equity, to monitor its proportion of capital. As of 31 December 2012, the ratio was 30% and compared to 31 December 2011 when the ratio was 28%, it has slightly disapproved during the accounting period as a result of the debt commitment growth in current assets.

in thousands of euros

	31.12.2012	31.12.2011
Interest-bearing liabilities (Note 15)	76,991	66,852
Cash and bank (Note 5)	-13,494	-11,948
<b>Net debt</b>	<b>63,497</b>	<b>54,904</b>
Equity	146,179	139,460
<b>Total equity and borrowings</b>	<b>209,676</b>	<b>194,364</b>
Debt to equity ratio*	30%	28%

\*Debt to equity ratio = Net debt / Total equity and borrowings

### Fair value of financial instruments

Management estimates that the carrying amount of the Group's financial assets and liabilities does not significantly differ from their fair value. Trade receivables and payables are short-term and therefore the management estimates that their carrying amount is close to their fair value. Most of the Group's long-term borrowings are based on floating interest rates, which change according to the market interest rate. Based on the above, the management estimates that the fair values of long-term payables and receivables are an approximation of their carrying amount. To determine the fair value, a discounted cash flow analysis has been used, by discounting contractual future cash flows with current market interest

rates that are available to the Group for using similar financial instruments.

#### Note 5 Cash and bank

in thousands of euros

	31.12.2012	31.12.2011
Cash on hand	872	1,358
Bank accounts	11,305	8,917
Cash in transit	1,317	1,673
<b>Total cash and bank</b>	<b>13,494</b>	<b>11,948</b>

#### Note 6 Trade receivables and prepayments

in thousands of euros

	31.12.2012	31.12.2011
Trade receivables (Note 7)	11,662	9,976
Short-term receivables from related parties (Note 26)	5,096	9,277
Other short-term receivables	41	95
<b>Total financial assets from balance sheet line "Trade receivables and prepayments"</b>	<b>16,799</b>	<b>19,348</b>
Prepayment for goods	806	395
Other prepaid expenses	435	482
Prepaid rental expenses	399	398
Prepaid taxes (Note 18)	58	79
<b>Total trade receivables and prepayments</b>	<b>18,497</b>	<b>20,702</b>

#### Note 7 Trade receivables

in thousands of euros

	31.12.2012	31.12.2011
Trade receivables	6,689	5,737
Other receivables	3,214	2,686
Allowance for doubtful receivables	-63	-35
Receivables from related parties (Note 26)	254	230
Credit card payments	1,568	1,358
<b>Total trade receivables</b>	<b>11,662</b>	<b>9,976</b>

#### Note 8 Inventories

in thousands of euros

	31.12.2012	31.12.2011
Goods purchased for resale	47,410	40,794
Raw materials and materials	854	784
<b>Total inventories</b>	<b>48,264</b>	<b>41,578</b>

Initsialiseeritud ainult identifitseerimiseks  
 Initialled for the purpose of identification only  
 Initsiaalid/initials PP  
 Kuupäev/date 28.02.2013  
 PricewaterhouseCoopers, Tallinn



The income statement line "Materials, consumables used and services" includes the allowances and write-off expenses of inventories and inventory stocktaking deficit as follows:

in thousands of euros

	2012	2011
Write-down and write-off of inventories	4,586	4,640
Inventory stocktaking deficit	1,864	1,678
<b>Total materials and consumables used</b>	<b>6,450</b>	<b>6,318</b>

The basis for inventory impairment is their aging structure and in case of fashion goods, the seasonality. The carrying amount of inventories is adjusted through the allowance account. As of 31 December 2012, the allowance account amounted to 940 thousand euros (31.12.2011: 1,003 thousand euros).

Group's materials, consumables used and services cost in 2012 amounted 347,119 thousand euros (2011: 321,503 thousand euros). Group recognises as the "Cost of materials, consumables used and services" the cost of purchased passenger cars, food and industrial goods, packing material, cost of finished goods, logistics and transportation, discount and write off of goods sold.

Inventories have been pledged as part of the commercial pledge; information on pledged assets is disclosed in Note 25.

### Note 9 Subsidiaries

Tallinna Kaubamaja Group consists of:

Name	Location	Area of activity	Ownership	Year of acquisition
			31.12.2012 and 31.12.2011	
Selver AS	Tallinn Pärnu mnt. 238	Retail trade	100%	1996
AS Tartu Kaubamaja	Tartu Riia 2	Retail trade	100%	1996
Tallinna Kaubamaja Kinnisvara AS	Tallinn Gonsiori 2	Real estate management	100%	1999
Tartu Kaubamaja Kinnisvara OÜ	Tartu Riia 1	Real estate management	100%	2004
SIA TKM Latvia	Riga Ieriku iela 3	Real estate management	100%	2006
SIA Selver Latvija	Riga Ieriku iela 3	Retail trade	100%	2006
TKM Auto OÜ	Tallinn Gonsiori 2	Commercial and finance activities	100%	2007
KIA Auto AS	Tallinn Ülemiste tee 1	Retail trade	100%	2007
Ülemiste Autokeskus OÜ	Tallinn Ülemiste tee 1	Retail trade	100%	2007
KIA Automobile SIA	Riga Pulkeveza Brieza 31	Retail trade	100%	2007
KIA Auto UAB	Vilnius, Perkunkiemiõ g.2	Retail trade	100%	2007
TKM Beauty OÜ	Tallinn Gonsiori 2	Retail trade	100%	2007
TKM Beauty Eesti OÜ	Tallinn Gonsiori 2	Retail trade	100%	2007
AS ABC King	Tallinn Pärnu mnt. 139E	Retail trade	100%	2008
ABC King SIA	Riga Ieriku iela 3	Retail trade	100%	2008
OÜ Suurtüki NK	Tallinn Ehitajate tee 110	Retail trade	100%	2008
SIA Suurtüki	Riga Ieriku iela 3	Retail trade	100%	2008
Kaubamaja AS	Tallinn Gonsiori 2	Retail trade	100%	2012
Topsec Turvateenused OÜ	Tallinn Gonsiori 2	Security activities	100%	2012
Kulinaaria OÜ	Tallinn Taevakivi 7B	Centre kitchen activities	100%	2012
AS Viking Motors	Tallinn Tammsaare tee 51	Car trade	100%	2012

Three new subsidiaries (Kaubamaja AS, Topsec Turvateenused OÜ and Kulinaaria OÜ) have been established in June 2012 for the purpose of improving the structure and making the administration of Tallinna Kaubamaja Group more transparent.

Tallinna Kaubamaja AS separated and by dividing the company in order to transfer the business of the department stores in Tallinn and Tartu, that have been a part of the group up to the present moment, into Kaubamaja AS. Correspondingly related assets and liabilities were transferred to Kaubamaja AS. Tallinna Kaubamaja AS as the group's

parent company (Note 31) will hereafter concentrate on managing the subsidiaries and investments and on arranging the group's support services.

Business combinations in 2012:

Name	Location	Area of activity	Acquisition date	Ownership %
AS Viking Motors	Estonia	Car trade	01.07.2012	100%

By acquiring the shares of AS Viking Motors, Tallinna Kaubamaja Group enlarges its segment of car trade that has been one of the strategic segments for the business activities of the group since 2007. By virtue of this transaction, in parallel to the export and sale of KIA vehicles in all the Baltic States, the salon in Tallinn will launch the sale of Opel and Cadillac vehicles, providing an opportunity to expand the group's activities to the segment of commercial vehicles, and additional sale and service premises for better customer service.

The table below provides an overview of acquired identifiable assets and liabilities at the time of acquisition.

in thousands of euros	Fair value
Cash and bank	6
Other receivables and assets	714
Fixed assets	33
Trademark (Note 14)	1,588
Liabilities	-1,015
<b>Total identifiable assets</b>	<b>1,326</b>
Cost of ownership interest	1,326
Paid for ownership interest in cash	1,326
Cash and cash equivalents in the acquired entity	-6
<b>Total cash effect on the Group</b>	<b>-1,320</b>

Trademark at value of 1,588 thousand euros was acquired. Trademark will be amortised during 7 years (Note 14).

From acquisition date till 31 December Viking Motors AS earned net loss of 63 thousand euros and revenues amounted to 2,981 thousand euros. If the acquisition of Viking Motors AS by the Group had happened at the beginning of the year then group revenues would have been higher by 2,844 thousand euros and net profit less by 419 thousand euros.

In 2011 there were no business combinations.

#### Note 10 Investments in associates

in thousands of euros

Tallinna Kaubamaja AS has ownership of 50% (2011: 50%) interest in the entity AS Rävåla Parkla which provides the services of a parking house in Tallinn.

	31.12.2012	31.12.2011
<b>Investment in the associate at the beginning of the year</b>	<b>1,550</b>	<b>1,504</b>
Profit for the reporting period under equity method	126	150
Dividends received	-48	-104
<b>Investment in the associate at the end of the year</b>	<b>1,628</b>	<b>1,550</b>

Financial information about the associate Rävåla Parkla AS (reflecting 100% of the associate):

	31.12.2012	31.12.2011
Assets	3,678	3,706
Liabilities	423	606
Revenue	341	425
Profit	251	300

### Note 11 Long-term prepayments and receivables

in thousands of euros

	31.12.2012	31.12.2011
Prepaid rental expenses	561	916
Deferred tax asset	71	69
Other long-term receivables	35	56
<b>Total other long-term receivables</b>	<b>667</b>	<b>1,041</b>

### Note 12 Investment property

in thousands of euros

	EUR
<b>Carrying value as at 31.12.2011</b>	<b>3,566</b>
<b>Changes occurred in 2012</b>	
Purchases and improvements (Note 13)	190
<b>Carrying value as at 31.12.2012</b>	<b>3,756</b>

Investment property represents construction in progress. Determination of fair value is based on the expert opinion of a real estate expert, using a comparative method. Expert opinion has been adjusted by -10% which management believes is a fairer reflection of the fact that the detailed plan has not been approved yet. In 2012 network engineering and road engineering works were made for the properties in the amount of 190 thousand euros. In 2012 and 2011 no changes were recognised in fair value of investment property.

Initsialiseeritud ainult identifitseerimiseks  
Initialed for the purpose of identification only  
Initsiaalid/initials PP  
Kuupäev/date 28.02.2013  
PricewaterhouseCoopers, Tallinn

### Note 13 Property, plant and equipment

in thousands of euros

	Land and buildings	Machinery and equipment	Other fixtures and fittings	Construction in progress	Total
<b>31.12.2010</b>					
Cost or revalued amount	138,031	21,718	20,959	50,352	231,060
Accumulated depreciation	-10,290	-15,691	-14,369	-15,072	-55,422
<b>Carrying value</b>	<b>127,741</b>	<b>6,027</b>	<b>6,590</b>	<b>35,280</b>	<b>175,638</b>
<b>Changes occurred in 2011</b>					
Purchases and improvements	88	460	586	4,696	5,830
Reclassification	1,430	1,957	2,398	-5,785	0
Disposals	0	-38	-4	0	-42
Write-offs	0	-10	-74	0	-84
Depreciation	-4,048	-2,666	-2,828	0	-9,542
Currency translation difference	211	0	0	261	472
<b>31.12.2011</b>					
Cost or revalued amount	139,635	22,250	23,282	49,656	234,823
Accumulated depreciation	-14,213	-16,520	-16,614	-15,204	-62,551
<b>Carrying value</b>	<b>125,422</b>	<b>5,730</b>	<b>6,668</b>	<b>34,452</b>	<b>172,272</b>
<b>Changes occurred in 2012</b>					
Purchases and improvements	2,091	312	1,387	25,328	29,118
Acquired through business combinations (Note 9)	0	20	13	0	33
Reclassification (Note 12)	20,065	2,401	4,030	-26,686	-190
Disposals	0	-12	-27	0	-39
Write-offs	0	-6	-978	0	-984
Depreciation	-4,356	-2,677	-2,961	0	-9,994
Currency translation difference	37	0	-1	46	82
<b>31.12.2012</b>					
Cost or revalued amount	158,633	23,810	25,970	48,377	256,790
Accumulated depreciation	-15,374	-18,042	-17,839	-15,237	-66,492
<b>Carrying value</b>	<b>143,259</b>	<b>5,768</b>	<b>8,131</b>	<b>33,140</b>	<b>190,298</b>

#### Investments in non-current assets

The cost of investments for the 12 months of 2012 amounted to 29,118 thousand euros.

The size of the investment in the business segment of Department store amounted to 3,037 thousand euros. In the reporting period extensive renovation was performed in Department store showrooms, total investment amounted to 2,264 thousand euros. Department store Women's department in Tallinn was expanded by 1000 square metres and was reopened as renewed to the clients on 8 March. On 22 March Estonian biggest Children's department was opened. In the reporting period other investments amounted to 773 thousand euros.

The cost of investments made in 2012 in the supermarket business segment was 4,487 thousand euros. During the period investments in the amount of 1,032 thousand euros was made for the new software. The cost of new stores opened in the reporting period amounted to 2,904 thousand euros. In May new Saku Selver was opened. First store that was named as Selver Gurmees was opened in Tallinn at Kaubamaja first floor in B gallery, in the beginning of September and the second store in Solaris Centre was opened in November. Furthermore, another three Selver stores were added to the Selver chain in the end of the 4<sup>th</sup> quarter. December saw the opening of two supermarkets – the Vahi Selver in Tartu and a Selver in Rapla – and one convenient store Koduselver in Tallinn. From 2012 Selver started to cook bake-off products (pre-cooked and deep-frozen products that need after baking) and new SELFSCAN cash register were introduced. For that purposes new machines and computing technology were purchased in the amount of 474 thousand euros. Subsidiary of Selver AS, Kulinaaria OÜ, invested into Selver Kitchen 77 thousand euros.

The cost of the real estate business segment investment was 20,796 thousand euros. On 8 February Männimäe Selver property at Tallinn, Paldiski road 56 was purchased. On 30 May Torupilli Selver properties at Vesivärava street 37, Tallinn was purchased. On 1 July property at Piiri 14, Keila was purchased and on 3 July AS Viking Motors property at

Tammsaare road 51. Tallinn was purchased. On 15 November property near Riga at Märupe, Kärja Ulmaņa gatve 101 was purchased. During the reporting period was finished Selver in Saku, which was opened on 17 May 2012.

The cost of investments in the accounting period was 276 thousand euros in the vehicle trade business segment. Machinery and equipment in the net amount of 33 thousand euros was acquired through business combinations (acquisition of Viking Motors AS shares) (Note 9).

The cost of investments made in 2012 in the footwear segment was 521 thousand euros. In July 2012 ABS King reopened store in Pärnu Kaubamajakas. In December 2012 new store in Tartu Lõunakeksus was opened. In November 2012 new SHU stores were opened in Viljandi and Pärnu.

In 2012 and 2011 Tallinna Kaubamaja Group companies had no commitments to purchase fixed assets.

At the year-end 2012, the fair value of "Land and buildings" and recoverable amount of "Construction in progress" was assessed. The fair values of "Land and buildings" and the recoverable amounts of buildings under construction (based on the value in use) were determined based on management's judgment, using the estimates of certified independent real estate experts for determining the inputs to be used or the fair value of the items. The discounted cash flow model and market data (comparable transactions, rental income, etc.) were used both for determining fair values as well as recoverable amounts.

#### Estimation of fair value of "Land and buildings"

For estimating the value of "Land and buildings" located in Estonia, the valuations of a certified independent real estate expert were used in respect of 3 properties. The same expert also provided an expert opinion with regard to the discount and capitalisation rates in respect of 11 properties. Properties purchased in 2012 were not valued by certified independent real estate experts as their purchase price is considered as fair value. The estimates were prepared internally using these inputs, applying the discounted cash flow model. The discount rates used for estimation were 8.5% -12.5% (2011: 9.0% - 12.5%) depending on the location of the property and the rental growth rates were 1% - 2.0% (2011: 1% - 2.5%). For the purpose of estimating the value of "Land and buildings", the rental agreements in force have been used for determining the input of the rental price, which management believes correspond to the market conditions. Management estimated the fair value of the remaining items of "Land and buildings" on the basis of the replacement cost method and determined that their fair value approximates their carrying amount.

Value of "Land and buildings" located in Latvia as at 31.12.2012 based on the assessment of an expert opinion with regard to the discount and capitalisation rates in respect of 4 properties. The discount and capitalisation rates compared to 2011 remained unchanged. The adjustment was a result of applying similar inputs as for the remaining buildings under construction located in Latvia. The discount rate used for valuation was 11.3% (2011: 11.3%) and the growth rates of rental income were 1.0% - 1.5% (2011: 1.0% - 1.5%).

The values of land and buildings in Estonia assessed by the external evaluators and the management have generally remained unchanged due to the decrease in discount and capitalisation rate. The values of land and buildings in Latvia assessed by the external evaluators and the management were the same as in 2011.

Given the situation in global economy and the fact that the market treads water waiting for whatever comes next, which all influence market liquidity and investors' readiness to invest, the management has reached a conclusion, using the principle of prudence, that the values of investment property, land and buildings and construction-in-progress will not be changed based on this valuation.

Carrying amounts of "Land and buildings":

in thousands of euros	31.12.2012	31.12.2011
PPE items in Estonia, for which an expert opinion was provided	30,737	11,408
PPE items in Estonia, for which estimates were provided by experts in respect of discount and capitalisation rates	70,085	92,740
Remaining PPE items in Estonia	26,371	6,857
PPE items in Latvia for which an expert opinion was provided	14,070	14,417
Remaining PPE items in Latvia	1,996	0
<b>Total</b>	<b>143,259</b>	<b>125,422</b>

As a result of valuation, the items of "Land and buildings" located in Estonia and Latvia was adjusted neither upwards nor downwards in 2012 and 2011.

#### Determination of fair values of buildings under construction

In accounting period, for determining the value of buildings under construction located in Estonia, the valuations of a

certified independent real estate expert were used in respect of 3 items. The valuation for other item was determined internally. For valuation purposes, the discount rates used were 10.5%-13% (2011: 10.5%-13%) and the growth rate was 1.0% (2011: 1.0%). The buildings under construction located in Latvia were valued internally, based on the investment value. For valuation purposes, the discount rates used were 11.3%- 12.8% (2011: 11.3%-12.8%) depending on the location of the item, and the growth rates were 1.0% - 1.5% (2011: 1.0%-1.5%). For determining the investment value, the discounted cash flow method was used. The capitalisation rates of 9.8%-11.3% (2011: 9.8%-11.3%) provided by a certified expert were used for valuation. For determining the rental price and vacancy rate inputs, the rental price of the rental agreement concluded with an independent tenant and the vacancy rate of completed items provided by certified experts were used.

Carrying amounts of buildings under construction:

In thousands of euros	31.12.2012	31.12.2011
PPE items in Estonia, for which an expert opinion was provided	5,187	5,532
PPE items in Estonia for which an internal estimate was provided	9,362	9,594
Remaining PPE items in Estonia	13	0
PPE items in Latvia, for which an internal estimate was provided	18,047	17,998
<b>Total</b>	<b>32,609</b>	<b>33,124</b>

Based on the results of valuation, the values of Estonian and Latvian building under construction were not adjusted (2011: no adjustments were made).

#### Estimation of the recoverable amount of non-current assets

As at 31.12.2012 the recoverable amount of the non-current assets of I.L.U. cosmetics stores (carrying value: 1,122 thousand euros, in 2011: 1,219 thousand euros) was estimated. The recoverable amount is based on the value in use, determined on the basis of the future cash flow forecast for the next 5 years. The average growth rate of I.L.U. is estimated to be 10.1% in 2013-2017 (2011: 2012 – 2016 is estimated to be 11.2%). I.L.U. launched its operations in 2009. In 2011 I.L.U. chain owned five stores and in financial year in Tartu was opened one new store. Hence, the average sales growth estimated is relatively significant. The sales growth was forecast on the basis of purchases made at the beauty departments of Tallinna and Tartu Kaubamaja as well as the sales per square meter. The discount rate applied is 6.7% (2011: 6.5%) and the future growth rate (after year 5) is 2%. No impairment loss was identified as a result of the impairment test.

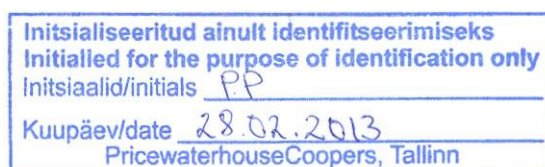
Had the non-current assets been accounted for at cost, the carrying amount of revalued items of property, plant and equipment would have been as follows:

31.12.2012	92,363 thousand euros
31.12.2011	90,398 thousand euros

As at 31.12.2012 the cost of non-current assets in use with a zero carrying value was 20,665 thousand euros (2011: 17,844 thousand euros).

As at 31.12.2012, property, plant and equipment with the carrying value of 121,176 thousand euros (2011: 105,117 thousand euros) was used as collateral for the borrowings. More detailed information is disclosed in Note 25.

Information about non-current assets leased under finance lease terms is disclosed in Note 16.





## Note 14 Intangible assets

in thousands of euros

	Goodwill	Trademark	Beneficial contracts	Development expenditure	Total
<b>31.12.2010</b>					
Cost	7,298	3,509	1,080	18	11,905
Accumulated amortisation and impairment	-588	-583	-491	0	-1,662
<b>Carrying value</b>	<b>6,710</b>	<b>2,926</b>	<b>589</b>	<b>18</b>	<b>10,243</b>
<b>Changes occurred in 2011</b>					
Amortisation	0	-234	-196	-4	-434
<b>31.12.2011</b>					
Cost	7,298	3,509	1,080	18	11,905
Accumulated amortisation and impairment	-588	-817	-687	-4	-2,096
<b>Carrying value</b>	<b>6,710</b>	<b>2,692</b>	<b>393</b>	<b>14</b>	<b>9,809</b>
<b>Changes occurred in 2012</b>					
Purchases and improvements	0	0	0	370	370
Acquired through business combinations (Note 9)	0	1,588	0	0	1,588
Amortisation	0	-310	-197	-24	-531
<b>31.12.2012</b>					
Cost	7,298	5,097	1,080	388	13,863
Accumulated amortisation and impairment	-588	-1,127	-884	-28	-2,627
<b>Carrying value</b>	<b>6,710</b>	<b>3,970</b>	<b>196</b>	<b>360</b>	<b>11,236</b>

As a trademark, the Group has recognised the image of ABC King acquired in acquisition of footwear trade segment companies AS ABC King and SIA ABC King; the image contains a combination of the name, symbol and design together with recognition and preference by consumers. The remaining useful life of the trademark as at 31.12.2012 is 10.5 years. Trademark at value of 1,588 thousand euros was acquired in 2012 through purchase of AS Viking Motors shares. Trademark will be amortised during 7 years (Note 9).

Impairment tests of goodwill and other intangible assets were carried out as of 31 December 2012 and 2011.

Goodwill is allocated to cash generating units of the Group by the following segments:

in thousands of euros	31.12.2012	31.12.2011
Car trade	3,156	3,156
Footwear trade	3,554	3,554

The recoverable amount (based on value in use) was determined on the basis of future cash flows for the next five years. In all units it was evident that the present value of cash flows covers the value of goodwill and trademark as well as beneficial lease agreements and other assets related to the unit.

The value in use calculations are based on the following assumptions:

	Car trade		Footwear trade	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Operating profit margin during next 5 years	0.4% - 3.8%	2.6%-6.8%	0.6% - 2.7%	1.8% - 3.9%
Discount rate	5.8%	7.7%	5.9%	8.0%
Sales growth during next 5 years	2% - 36%	9% - 24%	-0.3% - 8.4%	-0.4% - 4.9%
Future growth rate*	2%	2%	2%	2%

\*Future growth rate is estimated cash flow growth after the fifth year.



Pre-tax discount rates have been used, reflecting the risks inherent in the respective segments. The weighted average growth rates used are based on the Group's experience and the estimates of the economic environment. The key assumptions used for calculating the value in use include the growth rate of sales volumes and the operating margin. As compared to the assumptions used for estimating the value in use in 2011, the assumptions used for 2012 factor in lower volatility of sales volumes due to the expected stabilisation of the economic environment in the upcoming years. Also operating profit margin has improved in relation with Group's ability to adopt with changes in economy.

In 2012, the car business showed a significant growth 72% (2011: 50.4%). While we expect to see the largest growth in the following year (36.1%), thereafter the annual sales growth will decline down to 2% in year. The five year average sales growth in the car business is estimated to be 10.6% (14.5% in 2011).

In the footwear segment, the five year average sales growth in the footwear segment is planned to be 4.3% (2011:3.3%). The gross profit margin in the footwear business recoverable amount tests is 1.7% (2.9% in 2011) on an average.

Management estimates that the assumptions used in the impairment test are realistic and rather conservative. If the following changes were to occur in the assumptions used in the impairment test, the recoverable amount would equal the carrying amount:

	Car trade		Footwear trade	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Difference between the carrying amount and recoverable amount of the cash generating unit (in thousands of euros)	15,439	11,907	12,343	6,410
Reasonably possible change in the assumptions, which would cause the recoverable amount to be equal to the carrying amount:				
Decrease in the average sales growth	-7.3%	-52.9%	-35.7%	-41.2%
Decrease of the average operating profit margin	-1.10 pp	-2.08 pp	-2.77 pp	-2.45 pp

#### Note 15 Interest bearing borrowings

in thousands of euros

	31.12.2012	31.12.2011
<b>Short-term borrowings</b>		
Overdraft	294	295
Bank loans	16,310	10,378
Finance lease liability (Note 16)	3	128
Other borrowings	603	460
<b>Total short-term borrowings</b>	<b>17,210</b>	<b>11,261</b>
	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Long-term borrowings</b>		
Bank loans	59,570	55,399
Finance lease liability (Note 16)	0	3
Other borrowings	211	189
<b>Total long-term borrowings</b>	<b>59,781</b>	<b>55,591</b>
<b>Total borrowings</b>	<b>76,991</b>	<b>66,852</b>
<b>Borrowings received</b>		
	<b>2012</b>	<b>2011</b>
Overdraft	0	150
Bank loans	42,581	16,555
Other borrowings	1,662	1,651
<b>Total borrowings received</b>	<b>44,243</b>	<b>18,356</b>

## Borrowings repaid

	2012	2011
Overdraft	1	0
Bank loans	32,478	31,193
Finance lease liability	128	408
Other borrowings	1,497	1,382
<b>Total borrowings repaid</b>	<b>34,104</b>	<b>32,983</b>

Bank loans and finance lease liabilities are denominated in euros. Information on pledged assets is disclosed in Note 25.

As of 31.12.2012, the repayment dates of bank loans are between 28.01.2012 and 30.08.2018 (2011: between 8.03.2012 and 30.08.2018), interest is tied both to 3-month and 6-month EURIBOR as well as EONIA. Weighted average interest rate was 1.41% (2010: 2.61%).

## Note 16 Finance and operating lease

### Group as the lessee –finance lease agreements

The Group leases buildings under finance lease terms with the carrying amount of 0 thousand euros as of 31.12.2012 (2011: 91 thousand euros), machinery with the carrying amount of 3 thousand euros (2011: 6 thousand euros).

### Group is the lessee – operating lease agreements

Operating lease expenses include the costs for leasing retail premises. Information about the rental expenses in the reporting period is disclosed in Note 21.

Future minimum lease payments under non-cancellable operating leases:

in thousands of euros	31.12.2012	31.12.2011
due in less than 1 year	20,348	18,699
due between 1 and 5 years	76,842	54,008
due after 5 years	63,233	63,160
<b>Total</b>	<b>160,423</b>	<b>135,867</b>

Future minimum lease payments under non-cancellable operating leases have been calculated taking into consideration non-cancellable periods of lease agreements and the growth of lease payments according to the terms and conditions set in agreements.

Operating lease agreements do not specify purchase options. Operating lease agreements contain a clause that rental prices are reviewed once a year according to the market situation or rental prices increase according to the percentage set in contracts.

The lease agreements of the Group as the lessee form the basis for one of its core activities – operation of stores. Therefore, the Group assumes that it will not terminate its lease agreements even if the conditions of agreements allow it under certain circumstances prior to the expiry of the agreement. Due to this, all lease agreements concluded for a specified term have been considered as non-cancellable agreements.

### Subleases of buildings leased under operating lease terms:

Future minimum lease payments under non-cancellable subleases:

in thousands of euros	31.12.2012	31.12.2011
due in less than 1 year	1,504	1,129
due between 1 and 5 years	3,387	1,983
due after 5 years	395	566
<b>Total</b>	<b>5,286</b>	<b>3,678</b>

## Group as the lessor

### Operating lease

Rental income received is made up of income received for the leasing out of premises.

Future minimum lease payments under non-cancellable operating leases (other than the sublease payments mentioned above):

in thousands of euros	31.12.2012	31.12.2011
due in less than 1 year	2,398	2,540
due between 1 and 5 years	4,823	6,135
<b>Total</b>	<b>7,221</b>	<b>8,675</b>

Most lease agreements have concluded for the term of 7 to 10 years and the changes in lease term and conditions are renegotiated before the end of the lease term. Lease agreements with no specified term are expected to be valid for at least 5 years from the conclusion of the agreement and are cancellable with a 1-3 month advance notice.

### Note 17 Trade payables and other liabilities

in thousands of euros

	31.12.2012	31.12.2011
Trade payables	49,113	43,957
Payables to related parties (Note 26)	4,965	2,462
Other accrued expenses	268	291
Prepayments by tenants	1,247	867
<b>Total financial liabilities from balance sheet line "Trade payables and other liabilities"</b>	<b>55,593</b>	<b>47,577</b>
Taxes payable (Note 18)	4,740	5,038
Employee payables	3,220	3,124
Prepayments	445	207
Short-term provisions*	153	135
<b>Total trade payables and other liabilities</b>	<b>64,151</b>	<b>56,081</b>

\*Short-term provisions represent warranty provisions related to footwear trade.

### Note 18 Taxes

in thousands of euros

	31.12.2012		31.12.2011	
	Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Prepaid taxes (Note 6)	58	0	79	0
Value added tax	0	2,325	0	2,270
Sales tax	0	0	0	595
Personal income tax	0	677	0	609
Social security taxes	0	1,482	0	1,335
Corporate income tax	0	41	0	21
Unemployment insurance	0	147	0	156
Mandatory funded pension	0	68	0	52
<b>Total taxes</b>	<b>58</b>	<b>4,740</b>	<b>79</b>	<b>5,038</b>

### Note 19 Share capital

As of 31.12.2012, the share capital in the amount of 24,438 thousand euros consisted of 40,729,200 ordinary shares with the nominal value of 0.60 euros per share (as of 31.12.2011, the share capital in the amount to 24,438 thousand euros consisted of 40,729,200 ordinary shares with the nominal value of 0.60 euros per share). All shares issued have been paid for. According to the articles of association, the maximum allowed number of shares is 162,916,800 shares. In

2012, dividends were paid shareholders in the amount of 14,255 thousand euros (2011: 11,404 thousand euros), or 0.35 euros per share (2011: 0.28 euros per share), and income tax on dividends totalled 3,761 thousand euros (2011: 3,031 thousand euros).

Information about contingent income tax liability which would arise from the distribution of profit is disclosed in Note 29.

## Note 20 Segment reporting

The Group has defined the business segments based on the reports used regularly by the supervisory board to make strategic decisions.

The chief operating decision maker monitors the operating activities by activities. With regard to areas of activity, the operating activities are monitored in the department store, supermarket, real estate, car trade, footwear trade, beauty products (I.L.U.) and security segments. The measures of I.L.U. and security segment are below the quantitative criteria of the reporting segment specified in IFRS 8; these segments have been aggregated with the department store segment because they have similar economic characteristics and are similar in other respects specified in IFRS 8.

The main area of activity of department stores, supermarkets, footwear trade and car trade is retail trade. Supermarkets focus on the sale of foodstuffs and convenience goods, the department stores on the sale of beauty and fashion products, the car trade on the sale of cars and spare parts to cars. In the car trade segment, cars are sold at wholesale prices to authorised car dealers. In the footwear trade segment, footwear is sold at wholesale prices to family markets. The share of wholesale trade in other segments is insignificant. The real estate segment deals with the management and maintenance of real estate owned by the Group, and with the rental of commercial premises.

The activities of the Group are carried out in Estonia, Latvia and Lithuania. The Group operates in all the five operating segments in Estonia. The Company is engaged in footwear trade, car trade and retail trade in supermarkets and real estate development in Latvia; and in car trade in Lithuania.

The disclosures of financial information correspond to the information that is periodically reported to the Supervisory Board. Measures of income statement, segment assets and liabilities have been measured in accordance with accounting policies used in the preparation of the financial statements. Main measures that Supervisory Board monitors are segment revenue (external segment and inter-segment revenue and other operating income), EBITDA (earnings before interest, taxes, depreciation and amortisation) and net profit or loss. Information regarding segment assets what is periodically reported to the Supervisory Board has been changed compared to previous year. Previous year data is adjusted accordingly.

in thousands of euros

2012	Super markets	Department store	Car trade	Footwear trade	Real estate	Inter-segment transactions	Total segments
<b>External revenue</b>	<b>329,989</b>	<b>86,257</b>	<b>34,237</b>	<b>14,445</b>	<b>2,872</b>	0	<b>467,800</b>
Inter-segment revenue	906	2,281	23	375	9,323	-12,908	0
Total revenue	330,895	88,538	34,260	14,820	12,195	-12,908	467,800
<b>EBITDA</b>	<b>17,098</b>	<b>4,869</b>	<b>2,234</b>	<b>922</b>	<b>12,377</b>	<b>0</b>	<b>37,500</b>
Depreciation and amortisation (Note 13, 14)	-5,473	-1,748	-235	-782	-3,243	0	-11,481
<b>Operating profit</b>	<b>11,625</b>	<b>3,121</b>	<b>1,999</b>	<b>140</b>	<b>9,134</b>	<b>0</b>	<b>26,019</b>
Finance income (Note 23)	225	886	1	1	84	-1,064	133
Finance income on shares of associates	0	126	0	0	0		126
Finance costs (Note 23)	-3	-710	-213	-240	-1,545	1,064	-1,647
Corporate income tax* (Note 19)	-2,801	0	0	0	-960	0	-3,761
<b>Net profit</b>	<b>9,046</b>	<b>3,423</b>	<b>1,787</b>	<b>-99</b>	<b>6,713</b>	<b>0</b>	<b>20,870</b>
incl. in Estonia	11,395	3,423	1,907	-31	6,228	0	22,922
incl. in Latvia	-2,349	0	-80	-68	485	0	-2,012
incl. in Lithuania	0	0	-40	0	0	0	-40
<b>Segment assets</b>	<b>72,452</b>	<b>72,402</b>	<b>15,726</b>	<b>13,802</b>	<b>176,836</b>	<b>-63,378</b>	<b>287,840</b>
<b>Segment liabilities</b>	<b>49,968</b>	<b>26,566</b>	<b>9,773</b>	<b>18,035</b>	<b>89,069</b>	<b>-51,750</b>	<b>141,661</b>
Segment investment in non-current assets (Note 13, 14)	4,487	3,409	1,863	521	20,796	0	31,076

in thousands of euros

2011	Super markets	Department store	Car trade	Footwear trade	Real estate	Inter-segment transactions	Total segments
<b>External revenue</b>	<b>317,871</b>	<b>80,522</b>	<b>20,776</b>	<b>14,012</b>	<b>2,796</b>	<b>0</b>	<b>435,977</b>
Inter-segment revenue	834	1,324	16	468	8,086	-10,728	0
Total revenue	318,705	81,846	20,792	14,480	10,882	-10,728	435,977
<b>EBITDA</b>	<b>18,649</b>	<b>3,896</b>	<b>1,683</b>	<b>820</b>	<b>11,001</b>	<b>0</b>	<b>36,049</b>
Depreciation and amortisation (Note 13, 14)	-4,728	-1,433	-146	-763	-2,906	0	-9,976
<b>Operating profit</b>	<b>13,921</b>	<b>2,463</b>	<b>1,537</b>	<b>57</b>	<b>8,095</b>	<b>0</b>	<b>26,073</b>
Finance income (Note 23)	169	1,014	0	1	92	-1,029	247
Finance income on shares of associates	0	150	0	0	0	0	150
Finance costs (Note 23)	-23	-869	-237	-242	-1,555	1,029	-1,897
Corporate income tax* (Note 19)	-3,031	0	-4	0	0	0	-3,035
<b>Net profit</b>	<b>11,036</b>	<b>2,758</b>	<b>1,296</b>	<b>-184</b>	<b>6,632</b>	<b>0</b>	<b>21,538</b>
incl. in Estonia	13,371	2,758	1,368	-99	6,077	0	23,475
incl. in Latvia	-2,335	0	-101	-85	555	0	-1,966
incl. in Lithuania	0	0	29	0	0	0	29
<b>Segment assets</b>	<b>67,488</b>	<b>76,897</b>	<b>11,127</b>	<b>11,907</b>	<b>158,892</b>	<b>-63,845</b>	<b>262,466</b>
<b>Segment liabilities</b>	<b>43,530</b>	<b>30,790</b>	<b>10,527</b>	<b>12,485</b>	<b>74,849</b>	<b>-49,175</b>	<b>123,006</b>
Segment investment in non-current assets (Note 13, 14)	4,136	823	205	206	460	0	5,830

\*- corporate income tax is allocated based on which subsidiary bears income tax expense on distribution of dividends. Inter-segment transactions in line segment assets comprise inter-segment receivables in the amount of 2,858 thousand euros (2011: 2,751 thousand euros), loans granted in the amount of 48,892 thousand euros (2011: 46,424 thousand euros) and investments in subsidiaries in the amount of 11,628 thousand euros (2011: 14,670 thousand euros).

Inter-segment transactions in line segment liabilities comprise inter-segment short-term liabilities in the amount of 2,858 thousand euros (2011: 2,751 thousand euros) and inter-segment borrowings in the amount of 48,892 thousand euros (2011: 46,424 thousand euros).

#### External revenue according to types of goods and services sold

in thousands of euros

	2012	2011
Retail revenue	437,331	414,200
Wholesale revenue	15,515	8,074
Rental income	6,053	5,751
Revenue for rendering services	8,901	7,952
<b>Total revenue</b>	<b>467,800</b>	<b>435,977</b>

#### External revenue by client location

in thousands of euros

	2012	2011
<b>Estonia</b>	<b>458,427</b>	<b>427,049</b>
<b>Latvia</b>	<b>3,886</b>	<b>3,883</b>
<b>Lithuania</b>	<b>5,487</b>	<b>5,045</b>
<b>Total</b>	<b>467,800</b>	<b>435,977</b>

### Distribution of non-current assets\* by location of assets

in thousands of euros

	31.12.2012	31.12.2011
<b>Estonia</b>	171,572	154,013
<b>Latvia</b>	34,193	32,482
<b>Lithuania</b>	192	193
<b>Total</b>	<b>205,957</b>	<b>186,688</b>

\* Non-current assets, other than financial assets and investment in associate.

In the reporting period and comparable period, the Group did not have any clients whose revenue would exceed 10% of the Group's revenue.

### Note 21 Other operating expenses

in thousands of euros

	2012	2011
Rental expenses	13,403	13,618
Heat and electricity expenses	6,988	6,119
Operating costs	6,765	7,249
Cost of sale related services and materials	6,561	6,640
Marketing expenses	6,340	4,686
Miscellaneous operating expenses	3,198	2,456
Computer and communication costs	2,398	2,166
Personnel expenses	1,589	1,419
<b>Total other operating expenses</b>	<b>47,242</b>	<b>44,353</b>

### Note 22 Staff costs

in thousands of euros

	2012	2011
Wages and salaries	27,232	25,515
Social security taxes	9,144	8,630
<b>Total staff costs</b>	<b>36,376</b>	<b>34,145</b>
Average wages per employee per month (euros)	680	645
Average number of employees in the reporting period	3,335	3,298

Staff costs also include accrued holiday pay as well as bonuses and termination benefits for 2012 but not yet paid.

### Note 23 Finance income and costs

in thousands of euros

#### Finance income

	2012	2011
Interest income on cash and cash equivalents	1	11
Interest income on Partner credit card	78	114
Interest income from loans to related parties (Note 26)	8	30
Interest income on NGI Group's group account (Note 26)	45	91
Other finance income	1	1
<b>Total finance income</b>	<b>133</b>	<b>247</b>



## Finance costs

	2012	2011
Interest expense of bank loans	-1,569	-1,765
Interest expense of finance lease	-4	-24
Other finance costs*	-74	-108
<b>Total finance costs</b>	<b>-1,647</b>	<b>-1,897</b>

\* Other finance costs consist of the fees for conclusion and changing of lease agreements and factoring agreements.

## Note 24 Earnings per share

For calculating the basic earnings per share, the net profit to be distributed to the Parent's shareholders is divided by the weighted average number of ordinary shares in circulation. As the Company does not have potential ordinary shares, the diluted earnings per share equal basic earnings per share.

	2012	2011
Net profit (in thousands of euros)	20,870	21,538
Weighted average number of shares	40,729,200	40,729,200
Basic and diluted earnings per share (euros)	0.51	0.53

## Note 25 Loan collateral and pledged assets

The loans of group entities have the following collateral with their carrying amounts:

in thousands of euros

	31.12.2012	31.12.2011
Property, plant and equipment	121,176	105,117
Inventories	5,586	17,845
Financial assets	4,460	9,529

In addition, 100% of AS ABC King shares and 1 share of Suurtüki NK OÜ have been pledged as collateral.

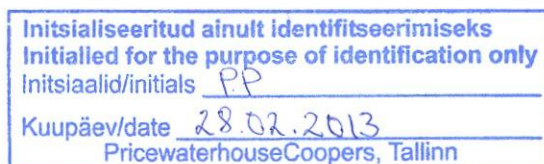
## Note 26 Related party transactions

in thousands of euros

In preparing the consolidated annual report of AS Tallinna Kaubamaja, the following parties have been considered as related parties:

- owners (Parent and the persons controlling or having significant influence over the Parent);
- associates;
- other entities in the Parent's consolidation group.
- management and supervisory boards of Group companies;
- close relatives of the persons described above and the entities under their control or significant influence.

Majority shareholder of Tallinna Kaubamaja AS is OÜ NG Investeeringud. Majority shareholder of OÜ NG Investeeringud is NG Kapital OÜ. NG Kapital OÜ is the ultimate controlling party of Tallinna Kaubamaja Group.





The Group of Tallinna Kaubamaja has purchased and sold goods, services and non-current assets as follows:

	Purchases 2012	Sales 2012	Purchases 2011	Sales 2011
Parent	411	82	289	98
Entities in the Parent's consolidation group	21,346	1,888	19,111	1,366
<i>incl. property, plant and equipment</i>	2,691	1	1,523	2
Members of management and supervisory boards	0	4	0	2
Other related parties	744	174	878	4
<b>Total</b>	<b>22,501</b>	<b>2,148</b>	<b>20,278</b>	<b>1,470</b>

A major part of the purchases from the entities in the Parent's consolidation group is made up of goods purchased for sale. Purchases from the Parent are mostly made up of management fees. Sales to related parties are mostly made up of services provided.

#### Balances with related parties:

	31.12.2012	31.12.2011
Interest receivable from Parent (Note 7)	2	11
Receivable from Parent (Note 6)	5,000	9,000
Receivables from entities in the in the Parent's consolidation group (Note 7)	127	93
Loan receivable from entities in the in the Parent's consolidation group (Note 6)	96	277
Sales bonuses receivable from entities in the in the Parent's consolidation group (Note 7)	121	124
Members of management and supervisory boards (Note 7)	4	2
<b>Total receivables from related parties</b>	<b>5,350</b>	<b>9,507</b>
	<b>31.12.2012</b>	<b>31.12.2011</b>
Parent	21	22
Entities in the Parent's consolidation group	4,895	2,378
Other related parties	49	62
<b>Total liabilities to related parties (Note 17)</b>	<b>4,965</b>	<b>2,462</b>

Receivables from and liabilities to related parties are unsecured and carry no interest because they have regular payment terms except receivable from the group account receivable.

#### Group account

For proving funding for its subsidiaries, the Group uses the group account, the members of which are most of the group entities. In its turn, this group as a subgroup has joined the contract of the group account of NG Investeeringud OÜ (hereinafter head group). From autumn 2001, Tallinna Kaubamaja Group has been keeping its available funds at the head group, earning interest income on its deposits. In 2012, Tallinna Kaubamaja Group earned interest income on its deposits of available funds in the amount of 45 thousand euros (2011: 91 thousand euros). In 2012, Tallinna Kaubamaja Group did not use or pay any interest to the head group in 2012 (2011: 0 thousand euros). As at 31.12.2012 Group deposited through parent company NG Investeeringud OÜ 5,000 thousand euros (31.12.11: 9,000 thousand euros) with interest rate 0.55% (31.12.11: 1.6%) and with maturity up to 21 January 2013 (31.12.2011: 21 March 2012).

As at 31.12.12 loan granted in 2009 to the entity in the Parent's consolidation group amounted to 96 thousand euros (31.12.2011: 277 thousand euros). Loan matures on 31.12.2013, interest rate is 6 months Euribor + 3% (31.12.2011: interest rate was 6 months Euribor +3%). In 2012 interest income on loan amounted to 8 thousand euros (2011: 30 thousand euros). See also Note 23.

The average interest rate on available funds deposited to the group account of NG Investeeringud OÜ was 0.14% in the euro account (2011: 0.76% euro). According to the group account contract, the Group's members are jointly responsible for the unpaid amount to the bank.

## Remuneration paid to the members of the Management and Supervisory Board

Short term benefits to the management boards' members of Tallinna Kaubamaja Group for the reporting year including wages, social security taxes, bonuses and car expenses, amounted to 841 thousand euros (2011: 966 thousand euros). Short term benefits to supervisory boards' members of Tallinna Kaubamaja Group in reporting year including social taxes amounted to 240 thousand euros (2011: 218 thousand euros).

## Note 27 Interests of the members of the Management and Supervisory Board

As of 31.12.2012, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja AS:

Andres Järving	Represents 4,795,909 (11.78%) shares of Tallinna Kaubamaja AS
Jüri Kõo	Represents 4,768,606 (11.71%) shares of Tallinna Kaubamaja AS
Enn Kunila	Represents 4,692,346 (11.52%) shares of Tallinna Kaubamaja AS
Raul Puusepp	Owens 10,002 (0,0246%) shares of Tallinna Kaubamaja AS

As of 31.12.2011, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja AS:

Andres Järving	Represents 4,795,909 (11.78%) shares of Tallinna Kaubamaja AS
Jüri Kõo	Represents 4,768,606 (11.71%) shares of Tallinna Kaubamaja AS
Enn Kunila	Represents 4,692,346 (11.52%) shares of Tallinna Kaubamaja AS
Raul Puusepp	Owens 10,002 (0,0246%) shares of Tallinna Kaubamaja AS

## Note 28 Shareholders with more than 5% of the shares of Tallinna Kaubamaja AS

Shareholders	31.12.2012 Ownership interest	31.12.2011 Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%
ING Luxembourg S.A.	6.92%	6.92%
Skandinaviska Enskilda Banken Ab	4.58%	4.54%

As of 31 December 2012, 68.75% of the shares (31 December 2011: 68.75%) of NG Investeeringud OÜ are owned by NG Kapital OÜ which is the ultimate controlling party of Tallinna Kaubamaja Group.

## Note 29 Contingent liabilities

### Contingent liability relating to income tax on dividends

As of 31 December 2012, the retained earnings of Tallinna Kaubamaja AS Group were 68,066 thousand euros (31 December 2011: 60,333 thousand euros). Payment of dividends to owners is accompanied by income tax expense 21/79 on the amount paid as net dividends. Hence, of the retained earnings existing as of the balance sheet date, the owners can be paid 53,772 thousand euros as dividends (31 December 2011: 47,663 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 14,294 thousand euros (31 December 2011: 12,670 thousand euros).

### Contingent liabilities relating to bank loans

Regarding the loan agreements in the amount of 37,141 thousand euros, the borrower is required to satisfy certain financial ratios such as debt to EBITDA (EBITDA – earnings before interest, taxes, depreciation and amortisation) or debt-service coverage ratio (DSCR or EBITDA for the reporting period divided by borrowings payable in the reporting period) pursuant to the terms and conditions of the loan agreement. As of the balance sheet date, 31 December 2012, there may have been a conflict in the levels established for financial covenants in the loan agreements concerning the amount of 2,359 thousand euros. Loan matures in May 2013 and as at the balance sheet date loan is recorded as short-term borrowing in the balance sheet.

### Contingent liabilities relating to the Tax Board

The tax authorities may at any time inspect the books and records of the Group within 6 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties. In 2011 and 2012 the tax authority did not conduct any tax audits. The management of the Group is not aware of any circumstances which may give rise to a potential material liability in this respect.

Initsialiseeritud ainult identifitseerimiseks  
Initialed for the purpose of identification only  
Initsiaalid/initials PP  
Kuupäev/date 28.02.2013  
PricewaterhouseCoopers, Tallinn

### Note 30 Financial information of the Parent

The Parent's separate primary statements have been prepared in accordance with the Accounting Act of Estonia which are not separate financial statements in the meaning of IAS 27 *Consolidated and Separate Financial Statements*.

#### BALANCE SHEET

in thousands of euros

	31.12.2012	31.12.2011
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and bank	206	475
Trade receivables and prepaid expenses	33,030	46,964
Inventories	0	12,074
<b>Total current assets</b>	<b>33,236</b>	<b>59,513</b>
<b>Non-current assets</b>		
Shares of subsidiaries	23,246	6,050
Share of associates	415	415
Other long-term receivables	0	5
Property, plant and equipment	352	2,956
Intangible assets	348	0
<b>Total non-current assets</b>	<b>24,361</b>	<b>9,426</b>
<b>TOTAL ASSETS</b>	<b>57,597</b>	<b>68,939</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Borrowings	5,400	3,128
Trade payables and prepayments	616	9,573
<b>Total current liabilities</b>	<b>6,016</b>	<b>12,701</b>
<b>Non-current liabilities</b>		
Borrowings	8,097	13,497
<b>Total non-current liabilities</b>	<b>8,097</b>	<b>13,497</b>
<b>TOTAL LIABILITIES</b>	<b>14,113</b>	<b>26,198</b>
Equity		
Share capital	24,438	24,438
Statutory reserve capital	2,603	2,603
Retained earnings	16,443	15,700
<b>TOTAL EQUITY</b>	<b>43,484</b>	<b>42,741</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>57,597</b>	<b>68,939</b>

Initialiseeritud ainult identifitseerimiseks  
Initialed for the purpose of identification only  
Initsiaalid/initials PP  
Kuupäev/date 28.02.2013  
PricewaterhouseCoopers, Tallinn

## STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	2012	2011
Revenue	58,466	78,141
Other operating income	51	51
Materials, consumables used and services	-39,253	-52,185
Other operating expenses	-10,452	-13,043
Staff costs	-7,101	-8,895
Depreciation, amortisation and impairment	-1,105	-1,153
Other expenses	-94	-93
<b>Operating profit</b>	<b>512</b>	<b>2,823</b>
Interest income and expenses	287	250
Other finance income and costs	14,199	11,501
<b>Total finance income and costs</b>	<b>14,486</b>	<b>11,751</b>
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>	<b>14,998</b>	<b>14,574</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	<b>14,998</b>	<b>14,574</b>
Basic and diluted earnings per share (euros)	0.37	0.36

Initsialiseeritud ainult identifitseerimiseks  
Initialed for the purpose of identification only  
Initsiaalid/initials PP  
Kuupäev/date 28.02.2013  
PricewaterhouseCoopers, Tallinn

## CASH FLOW STATEMENT

in thousands of euros

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit	14,998	14,574
<i>Adjustments:</i>		
<i>Interest expense</i>	716	868
<i>Interest income</i>	-1,002	-1,111
<i>Depreciation, amortisation and impairment</i>	1,105	1,153
<i>Gain (loss) from sale and write-off of non-current assets</i>	0	1
<i>Dividend income</i>	-14,199	-11,404
Change in inventories	-3,278	-175
Change in receivables and prepayments related to operating activities	7,028	7,841
Change in liabilities and prepayments related to operating activities	-1,065	1,333
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>4,303</b>	<b>13,080</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	-2,624	-572
Interest received	1,002	1,111
Change in the receivable of group account	1,198	-5,594
Investments in subsidiaries	-28	0
Loan repayments received from subsidiaries	153	0
Purchases of intangible assets	-370	0
Dividends received	14,199	11,404
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>13,530</b>	<b>6,349</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of borrowings	-3,128	-12,360
Interest paid	-719	-878
Dividends paid	-14,255	-11,404
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-18,102</b>	<b>-24,642</b>
<b>TOTAL CASH FLOWS</b>	<b>-269</b>	<b>-5,213</b>
Cash and cash equivalents at beginning of the period	475	5,688
Cash and cash equivalents at end of the period	206	475
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-269</b>	<b>-5,213</b>

Initsialiseeritud ainult identifitseerimiseks  
Initialed for the purpose of identification only  
Initsiaalid/initials PP  
Kuupäev/date 28.02.2013  
PricewaterhouseCoopers, Tallinn



## STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Retained earnings	Total
<b>Balance as of 31.12.2010</b>	<b>26,031</b>	<b>2,603</b>	<b>10,937</b>	<b>39,571</b>
Dividends paid	0	0	-11,404	-11,404
Profit for the reporting period	0	0	14,574	14,574
Decrease in share capital	-1,593	0	1,593	0
<b>Balance as of 31.12.2011</b>	<b>24,438</b>	<b>2,603</b>	<b>15,700</b>	<b>42,741</b>
Dividends paid	0	0	-14,255	-14,255
Profit for the reporting period	0	0	14,998	14,998
<b>Balance as of 31.12.2012</b>	<b>24,438</b>	<b>2,603</b>	<b>16,443</b>	<b>43,484</b>

The Parent's adjusted equity as of 31 December is as follows:

in thousands of euros

	31.12.2012	31.12.2011
Parent's unconsolidated equity	43,484	42,741
Value of subsidiaries and associates in the Parent's unconsolidated balance sheet	-23,661	-6,465
Value of subsidiaries and associates under the equity method	116,112	93,044
<b>Adjusted unconsolidated equity</b>	<b>135,935</b>	<b>129,320</b>

Initsialiseeritud ainult identifitseerimiseks  
 Initialed for the purpose of identification only  
 Initsiaalid/initials PP  
 Kuupäev/date 28.02.2013  
 PricewaterhouseCoopers, Tallinn



## **INDEPENDENT AUDITOR'S REPORT**

(Translation of the Estonian original)\*

To the Shareholders of Tallinna Kaubamaja AS

We have audited the accompanying consolidated financial statements of Tallinna Kaubamaja AS and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### **Management Board's Responsibility for the Consolidated Financial Statements**

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tallinna Kaubamaja AS and its subsidiaries as of 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Ago Vilu', written over a light blue grid background.

Ago Vilu  
Auditor's Certificate No.325

A handwritten signature in blue ink, appearing to read 'Lembi Uett', written over a light blue grid background.

Lembi Uett  
Auditor's Certificate No.566

28 February 2013

---

*\* This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

## PROFIT ALLOCATION PROPOSAL

The retained earnings of Tallinna Kaubamaja AS are:

Total retained earnings 31 December 2012 68,066 thousand euros

The Chairman of the Management Board of Tallinna Kaubamaja AS proposes to the General Meeting of Shareholders to pay dividends in the amount of 14,255 thousand euros out of retained earnings accumulated until 31 December 2012.



---

Raul Puusepp  
Chairman

Tallinn, 28 February 2013

## SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2012

The supervisory board of Tallinna Kaubamaja AS has reviewed the 2012 consolidated annual report, prepared by the management board, consisting of the management report, the consolidated financial statements, the management board's profit allocation proposal and the independent auditor's report, and has approved the annual report for presentation on the annual general meeting.

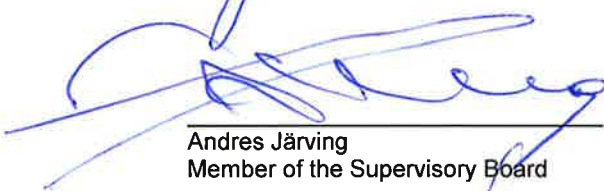
Hereby we confirm the correctness of information presented in the consolidated annual report 2012 of Tallinna Kaubamaja AS:



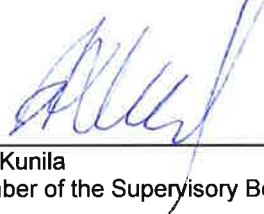
Raul Puusepp  
Chairman of the Management Board



Jüri Kõo  
Chairman of the Supervisory Board



Andres Järving  
Member of the Supervisory Board



Enn Kunila  
Member of the Supervisory Board



Meelis Milder  
Member of the Supervisory Board



Gunnar Kraft  
Member of the Supervisory Board

Tallinn, 4 March 2013

## REVENUE ALLOCATION ACCORDING TO THE ESTONIAN CLASSIFICATION OF ECONOMIC ACTIVITIES (EMTAK)

The revenue of the Group's Parent is allocated according to the EMTAK codes as follows:

in thousands of euros per year

<b>EMTAK code</b>	<b>Title of EMTAK Group</b>	<b>2012</b>
47191	Other retail sales in non-specialised stores	58,466
	<b>Total revenue</b>	<b>58,466</b>