Tallinna Kaubamaja AS

Consolidated Annual Report

2013

(translation of the Estonian original)

TALLINNA KAUBAMAJA AS

CONSOLIDATED ANNUAL REPORT 2013

The main areas of activity of Tallinna Kaubamaja Group are retail and wholesale trade. At the year-end 2013, Tallinna Kaubamaja Group employed more than 3,550 employees.

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Beginning of financial year:	*1.01.2013*
End of financial year:	*31.12.2013*
Auditor:	*PricewaterhouseCoopers AS*
Bank:	*AS Swedbank*
	AS SEB Pank
	Nordea Bank Finland Plc Estonian branch
Lawyer:	*Helen Tulve*

Subsidiaries and associates:	*Share capital*	*Ownership interest*
Kaubamaja AS	*25,0 TEUR*	*100%*
Selver AS	*1 405.8 TEUR*	*100%*
Kulinaaria OÜ	*2.5 TEUR*	*100%*
Selver Latvia SIA	*200.1 TLVL*	*100%*
Topsec Turvateenused OÜ	*2.5 TEUR*	*100%*
Tartu Kaubamaja Kinnisvara OÜ	*2.6 TEUR*	*100%*
TKM Auto OÜ	*2.6 TEUR*	*100%*
TKM Beauty OÜ	*2.6 TEUR*	*100%*
TKM Beauty Eesti OÜ	*2.6 TEUR*	*100%*
KIA Auto AS	*113.7 TEUR*	*100%*
AS Viking Motors	*222.6 TEUR*	*100%*
Forum Auto SIA	*10.0 TLVL*	*100%*
KIA Auto UAB	*10.1 TLTL*	*100%*
Tallinna Kaubamaja Kinnisvara AS	*28.0 TEUR*	*100%*
SIA TKM Latvija	*2.0 TLVL*	*100%*
SIA Suurtuki	*2.0 TLVL*	*100%*
AS TKM King	*31.7 TEUR*	*100%*
SIA ABC King	*200.0 TLVL*	*100%*
Rävala Parkla AS	*600.0 TEUR*	*50%*

The subsidiaries and associates Kaubamaja AS, Selver AS, Kulinaaria OÜ, Topsec Turvateenused OÜ, Tartu Kaubamaja Kinnisvara OÜ, Tallinna Kaubamaja Kinnisvara AS, TKM Auto OÜ, TKM Beauty OÜ, TKM Beauty Eesti OÜ, KIA Auto AS, Viking Motors AS, AS TKM King and Rävala Parkla AS are registered in the Republic of Estonia. Selver Latvia SIA, SIA TKM Latvija, Auto Forum 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.

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MANAGEMENT REPORT

2013 was a year of stable growth and internal development for the Group. The scheduled expansions and renovations progressed as planned. Five new Selver stores and one footwear store in Estonia and a new modern car dealership in Latvia were opened during the year. Technological improvements continued: we expanded the SelveEkspress self-checkout system in our supermarkets, introduced a convenient e-check for our customers and a group-wide e-gift certificate; we also opened an online store for the Osturalli campaign in Kaubamaja and updated our retail software. The reorganisation of the legal structure of the Group, begun in 2012, was completed. In 2013, a total of 30.1 million euros was invested, which was around the same amount as in the previous year. All segments were able to increase their sales revenue on a year-on-year basis during the entire 2013. The biggest challenge was to maintain the level of profitability in a situation of labour market pressure and rising energy prices. The growth rate of new retail spaces in the Estonian retail market in recent years has exceeded the targeted rate of profitable expansion of the Group, which is why the market share of the Group did not increase in the financial year.

The focus in 2014 will be on the growth of profitability through the efficient use of investments and the development of goods and logistic processes. The goal is also to find new outputs in e-commerce for the Group and expand the cooperation network of the loyalty programme.

The most important events for the Tallinna Kaubamaja Group in 2013 and up until the publication of the annual report included the following:

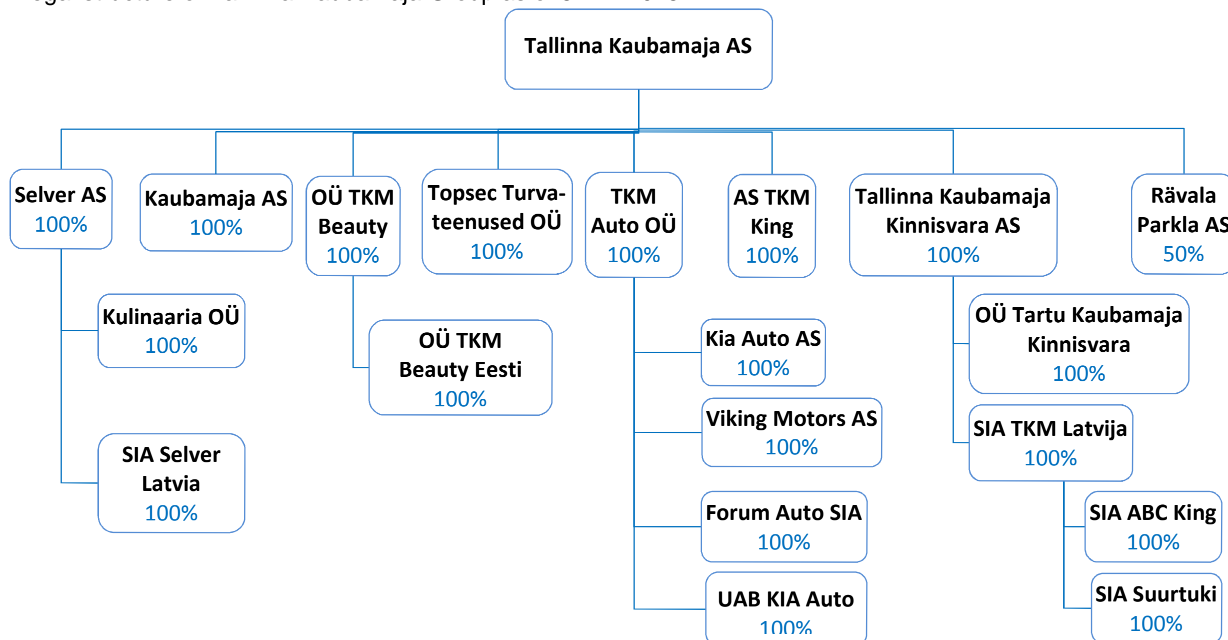
- Selver opened five new stores over the year: the Läänemere Selver in Lasnamäe in March, the Aardla Selver in Tartu in June, and the Centrum Selver in Viljandi, Peetri Selver in Harju County and Baltic Rail Station Selver in Tallinn in November.
- Selver's SelveEkspress self-service solution underwent a major expansion –self-service checkouts were opened at Tondi and Keila Selvers in March, at Ülejõe and Suurejõe stores in Pärnu in April, at Anne and Ringtee stores in Tartu in May, at Pelgulinna in June and at Peetri and Baltic Rail Station Selvers in November. By the end of 2013, the SelveEkspress self-service checkout solution had been introduced to thirteen Selver stores. 74,000 people have signed a SelveEkspress user agreement and the service is regularly used by 25,000 customers.
- In 2013, new point of sale and retail software was introduced in Selver. Transition to the new software took place on 1 January 2014.
- A subsidiary of Selver, Kulinaaria OÜ, was the first company in Estonia to launch a selection of organic ready-to-eat foods and salads without artificial preservatives.
- The renovation works in Kaubamaja were finished – by the end of the summer, a new Home Department and Kidswear and Toys Department were completed in Tartu.
- In the middle of 2013, the Estonian footwear companies ABC King AS and Suurtüki NK OÜ were merged into a single footwear company TKM King AS.
- The Group's car companies Ülemiste Autokeskus OÜ and AS Viking Motors were merged, resulting in bringing the Group's car trade business under AS Viking Motors in Estonia.
- In October, an Osturalli web store was opened for the Osturalli campaign in Kaubamaja and it was well accepted by the customers.
- A new point of sale system was introduced in department stores, helping to communicate campaign news and offers to customers in addition to significant improvements in its main functions.
- A group-wide gift certificate and an innovative e-gift certificate and e-check were launched.
- The Kaubamaja home page and the Group`s home page underwent a complete makeover.
- In December, a second Member of the Board, Kristi Lomp, was chosen in addition to the current Member of Board.
- In December, the Board of the footwear segment changed. Edward Köster became the new manager and a Member of the Board.
- At the end of 2013, the Latvian subsidiary of the car segment completed its new multi-brand car dealership in Riga.

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 as of 31.12.2013:



The restructuring of the companies of the Tallinna Kaubamaja Group began as early as in 2012, when 3 new subsidiaries – Kaubamaja AS, Topsec Turvateenused OÜ and Kulinaaria OÜ – were established. The restructuring of the Group's companies was completed in 2013. While the above-mentioned restructuring of the Group by way of mergers and acquisitions does not affect the consolidated financial results of the Group, it did render the structure more comprehensible and internally more manageable. The mergers and demerger were carried out in 2013 in both Estonia and Latvia, and they affected the department store, footwear and car trade segments.

In the department store segment, a demerger was carried out. The demerger was followed by a merger with the aim of moving the holding of OÜ TKM Beauty, the parent company of OÜ TKM Beauty Eesti, which operates the I.L.U. cosmetics stores, under the direct ownership of Tallinna Kaubamaja AS. For this purpose, the demerger of AS Tartu Kaubamaja was first carried out, which until the registration of the demerger in the Commercial Register (30 April 2013) was the holder of the footwear segment subsidiaries (AS ABC King, SIA ABC King, OÜ Suurtüki NK, SIA Suurtuki) as well as OÜ TKM Beauty and OÜ TKM Beauty Eesti. In accordance with the demerger plan of AS Tartu Kaubamaja signed on 12 March 2013, AS Tartu Kaubamaja transferred the holding in OÜ TKM Beauty to the acquiring body – OÜ TKM Beauty Holding, which was established in the course of the demerger. TKM Beauty Holding was a 100% subsidiary of Tallinna Kaubamaja AS. After the demerger of AS Tartu Kaubamaja had been registered in the Commercial Register, a merger agreement was concluded between OÜ TKM Beauty (acquiring company) and OÜ TKM Beauty Holding (company being acquired) on 3 June 2013. The merger was entered into the Commercial Register on 12 July 2013. As a result of the merger, Tallinna Kaubamaja AS became the sole shareholder of OÜ TKM Beauty. OÜ TKM Beauty Eesti remained a 100% subsidiary of OÜ TKM Beauty.

In the course of the restructuring process of the footwear segment, AS Tartu Kaubamaja, AS ABC King and OÜ Suurtüki NK were merged on 12 March 2013 on the basis of a merger agreement. The merger was registered in the Commercial Register on 17 May 2013. As a result of the merger, AS Tartu Kaubamaja and OÜ Suurtüki NK were deleted from the Commercial Register. The business name of AS ABC King was changed in the course of the merger – as from 17 May 2013, it bears the name AS TKM King. As a result of the merger, in addition to its subsidiary SIA ABC King, AS TKM King received a 100% holding in SIA Suurtuki. On 7 August 2013, AS TKM King sold its holdings in the non-active Latvian subsidiaries (SIA ABC King and SIA Suurtuki) to SIA TKM Latvija, another member of the Tallinna Kaubamaja AS Group, for cost optimisation purposes. After the transfer of the aforementioned holdings, SIA TKM Latvija merged SIA ABC King and SIA Suurtuki. The merger was entered into the Latvian Commercial Register in January 2014.

The aim of the restructuring activities in the car trade segment was to clearly separate the import of vehicles from the

retail sale of vehicles, and to merge the retail subsidiaries of the Group. For this purpose, the demerger of KIA Auto AS was first carried out, registered in the Commercial Register on 16 May 2013. In accordance with the demerger agreement of 27 March 2013, KIA Auto AS transferred its holding in OÜ Ülemiste Autokeskus to the acquiring company – AS Viking Motors. The holdings in Latvian and Lithuanian subsidiaries (Forum Auto SIA, former business name SIA KIA Automobiles; UAB KIA Auto) were transferred to OÜ Opti Auto in the course of the merger. In the second stage of restructuring of car trade, OÜ Ülemiste Autokeskus was merged with AS Viking Motors and OÜ Opti Auto was merged with TKM Auto OÜ. The corresponding agreements were concluded on 3 June 2013, and entered into the Commercial Register on 12 July 2013. As a result of the restructuring of the car trade segment, TKM Auto OÜ now has 4 subsidiaries – AS Viking Motors, KIA Auto AS, Forum Auto SIA and UAB KIA Auto. After making the merger entries, TKM AUTO OÜ has a 100% holding in all the mentioned subsidiaries. Tallinna Kaubamaja AS will remain the sole shareholder of TKM Auto OÜ. On 2 July 2013, the business name of KIA Automobiles SIA was changed to Forum Auto SIA in connection with the new development plans.

Economic development

According to the preliminary information of Statistics Estonia, in 2013 the Estonian economy grew 0.7% compared to the previous year. The economic growth was driven the most by the rise in manufacturing, also retail and wholesale trade. Economic growth is expected to increase to 3.0% in 2014 due to the accelerated growth of external demand and export and investments. The wages of workers with specific work skills are expected to increase. There is also a strong pressure to raise the wages of low-income workers, because their income was mostly spent to cover high inflation costs, such as food and housing costs. In 2013, the Estonian consumer price index increased by 2.8%, including a 4.1% increase in the prices of food and non-alcoholic beverages and 4.3% increase in the prices of clothes and footwear. The steepest rise – 8.8% – occurred in housing costs. Inflation is predicted to decrease to 2.6% in 2014.

According to Statistics Estonia, the total volume of retail turnover in Estonia in current prices increased by 6.4% in 2013. The greatest turnover growth was seen in the retail sale of used goods – 60.9% – but the proportion thereof was small in retail sale. Retail sales in non-specialised stores (predominantly selling food products) in 2013 grew by 6.1%. According to Statistics Estonia, higher than average increases occurred in the retail sales of household items, home appliances, hardware and building materials in stores and sales via mail and the Internet. The December consumer barometer survey conducted by the Estonian Institute of Economic Research showed that consumer confidence has improved significantly in 4th quarter compared to 3rd quarter and even slightly exceeded the average of 2013.

Financial performance

FINANCIAL RATIOS 2009-2013

In million euros	**2013**	**2012**	**2011**	**2010**	**2009**
Revenue	499	468	436	413	418
Sales growth	7%	7%	*6%*	*-1%*	*-2%*
Gross profit/loss	126	121	115	108	91
EBITDA	33	38	36	29	17
Operating profit/loss	22	26	26	19	-10
Profit/loss before tax	21	25	25	17	-12
Net profit	18	21	22	17	-13
Change in net profit	-16%	-3%	*29%*	*232%*	*-337%*
Sales revenue per employee	0.140	0.140	0.143	0.130	0.113
Gross margin	25%	26%	26%	26%	22%
EBITDA margin	7%	8%	8%	7%	4%
Operating margin	5%	6%	6%	5%	-2%
Profit before tax margin	4%	5%	6%	4%	-3%
Net margin	4%	5%	5%	4%	-3%
Equity ratio	51%	51%	53%	50%	41%
Return on equity (ROE)	11%	14%	16%	14%	-11%
Return on assets (ROA)	6%	8%	8%	6%	-5%
Current ratio	1.0	1.0	1.1	1.0	0.9
Debt ratio	0.5	0.5	0.5	0.5	0.6
Inventory turnover	9.6	9.7	10.4	10.5	10.6
Average number of employees	3,554	3,335	3,059	3,184	3,695

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 2013 was 498.7 million euros, having grown by 6.6% compared to the result of 2012, when the sales revenue was 467.8 million euros. The Group's consolidated net profit of 2013 was 17.5 million euros, which is 16.3% less than the net profit of the previous year, when the net profit was 20.9 million euros. The pre-tax profit of 2013 was 21.2 million euros, having dropped by 13.8% in a year.

The accelerated growth in turnover in the second half of the year was satisfying and resulted in strong sales revenue numbers for the entire year. The growth of turnover was driven by the strong sales of food products and vehicles in the Group. The sales of footwear and clothes were affected by the long warm autumn; warm weather lasted until the end of the year and strongly inhibited the sale of winter goods. The targeted actions of the Group to improve the gross margin, especially in the supermarkets segment, increased profits in the end of the year, although labour costs and other operating costs, especially heating and electricity costs, continued to increase faster than turnover. The continued increase in competition in the Estonian retail market due to the addition of retail spaces generally dilutes the results of market participants and adds tension to price competition. The Group has been actively dealing with this problem in the recent years. We have focused on increasing the ratio of direct delivery of goods and own production that gives us an opportunity to offer better prices to customers without losing our margins. For example, the sales revenue of the ready-to-eat foods produced by the Group under the Selveri Köök trademark has increased by 11.0% in 2013. Another major challenge in 2013 has been the scarcity of labour leading to the rapid growth of labour costs. The positive sides of the growth of labour costs include a decrease in employee turnover and tying the growth in pay rates to growth in efficiency.

Five new Selver stores were opened in the 2013, three of them at the end of year. The new stores have been accepted well by our customers. At the end of the year, the Group's Latvian car company opened a new 3,000 square metre multi-brand dealership.

The volume of the assets of the Tallinna Kaubamaja Group as of 31 December 2013 was 327.8 million euros, increasing by 40.0 million euros compared to the end of 2012, i.e. 13.9%.

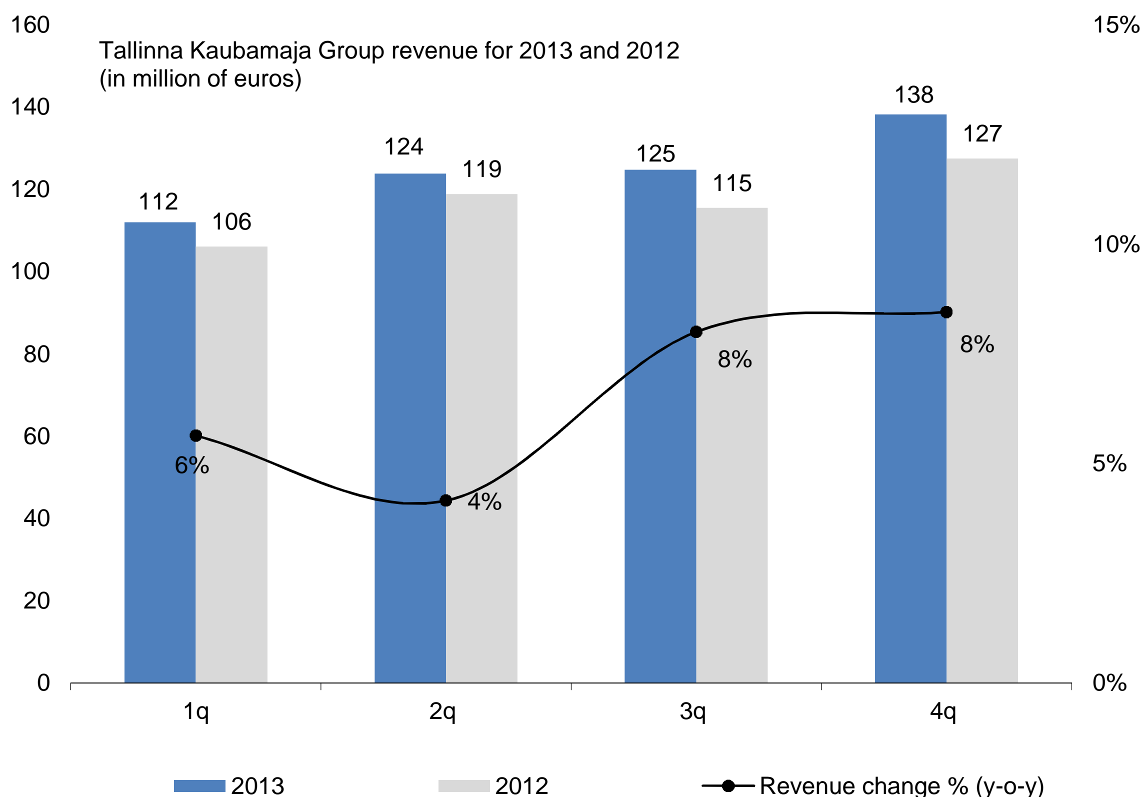
At the end of the accounting period, the Group had more than 573 thousand loyal customers – a figure that had increased by 3.4% in a year. The share of purchases made by loyal customers from the 2013 sales revenue of the Group was 82.1% (in 2012 80.0%). By the end of December, approximately 7.8 thousand Partner Bank and Credit Cards had been issued.

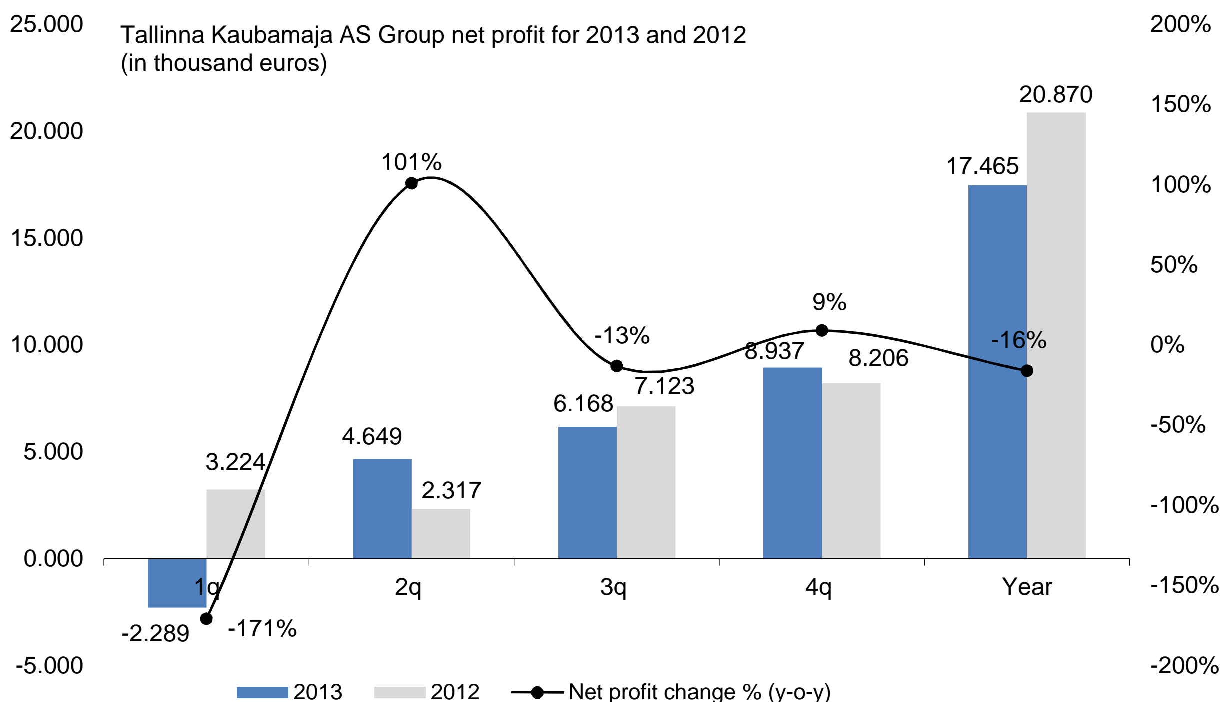
Investments

In 2013, the Group invested 30.1 million euros (31.1 million euros in 2012). Whereas 30.0 million euros were invested in tangible fixed assets and 0.1 million euros in intangible fixed assets. In the supermarket segment, investments were made in the amount of 8.2 million euros in 2013 (4.5 million euros in 2012). The investments were mainly made in sales environment, interior fittings and equipment of five new stores, also were invested in new SelveEkspress SelfScan checkout system. In the department store segment, investments were made in the amount of 1.9 million euros (3.4 million euros in 2012). During the financial year, renovations of showrooms and update of till hardware and software were carried out in the department store. In the car segment, the cost of investments made during the accounting period was 0.5 million euros (1.9 million euros in 2012, whereas 1.6 million euros were invested as a result of the acquisition of the new company AS Viking Motors brand). The footwear trade segment invested 0.2 million euros in the opening of new stores (0.5 million euros in 2012). In the real estate segment, the cost of investments was 19.5 million (20.8 million euros in 2012). The Group purchased the registered immovables of Sõbra Selver in Tartu, Valga Selver in Valga and Keskuse plot in Viimsi, in Haabneeme parish in Harjumaa. The Selver store in Peetri parish and extensive renovation works in Saare Selver in Saaremaa, Kuressaare were completed during the accounting period.

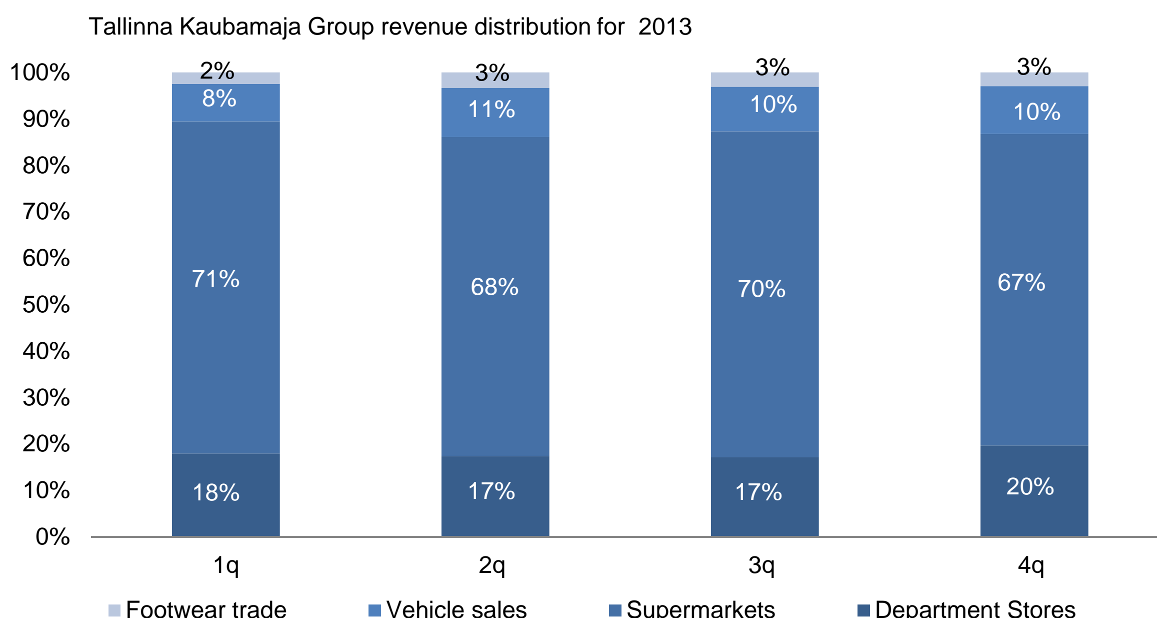
Seasonality of business

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.



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

Business segments

	Supermarkets			Department stores			Car Trade			Footwear Trade			Real Estate			Group total		
In million euros	2013	2012	%	2013	2012	%	2013	2012	%	2013	2012	%	2013	2012	%	2013	2012	%
External revenue	343.1	330.0	*4.0*	89.6	86.3	*3.9*	48.0	34.2	*40.3*	14.7	14.4	*1.7*	3.3	2.9	*14.0*	498.7	467.8	*6.6*
EBITDA	**10.3**	**17.1**	*-39.9*	**6.1**	**4.9**	*24.4*	**2.5**	**2,2**	*13,8*	**0,9**	**0,9**	*-0,2*	**13,3**	**12,4**	*7,4%*	**33,1**	**37,5**	*-11,7*
EBITDA margin%	*3,0*	*5,2*		*6,8*	*5,6*		*5,3*	*6,5*		*6,3*	*6,4*		*406,1*	*431,0*		*6.6*	*8.0*	
Operating profit	**6.3**	**11.6**	*-45.8*	**4.2**	**3.1**	*34.8*	**2.2**	**2.0**	*7.7*	**0.1**	**0.1**	*-55.0*	**9.6**	**9.1**	*5.6*	**22.4**	**26.0**	*-14.0*
Operating profit margin%	*1.8*	*3.5*		*4.7*	*3.6*		*4.5*	*5.8*		*0.4*	*1.0*		*294.6*	*318.0*		*4.5*	*5.6*	
Finance income and costs	*0.1*	*0.2*		*0.2*	*0.3*		*-0.2*	*-0.2*		*-0.2*	*-0.2*		*-1.0*	*-1.5*		*-1.1*	*-1.4*	
Corporate income tax	*-1.7*	*-2.8*		*-1.2*	*0.0*		*0.0*	*0.0*		*0.0*	*0.0*		*-0.8*	*-1.0*		*-3.8*	*-3.8*	
Net profit/loss	**4.7**	**9.0**	*-48.5*	**3.2**	**3.4**	*-7.2*	**1.9**	**1.8**	*7.7*	**-0.1**	**-0.1**	*-11.1*	**7.8**	**6.7**	*16.1*	**17.5**	**20.9**	*-16.3*
Net profit margin%	*1.4*	*2.7*		*3.5*	*4.0*		*4.0*	*5.2*		*-0.6*	*-0.7*		*238.1*	*233.7*		*3.5*	*4.5*	

Supermarkets

In 2013, the consolidated sales revenue of the supermarkets business segment was 343.1 million euros, an increase of 4.0% year-on-year. Average monthly sales revenue earned per square metre of retail space was 0.36 thousand euros in 2013, decreasing by 5.3% compared to the previous year. Average sales revenue per square metre of retail space in comparable stores was 0.37 thousand euros in 2013, showing a decrease of 3.0%. In 2013, 33.8 million purchases were made in Selver stores, a result that exceeded the year-on-year number of purchases by 3.7%.

In 2013, the pre-tax profit of the supermarket segment was 6.4 million euros. Profit after taxes earned for 2013 was 4.7 million euros. Net profit earned in 2013 was down by 4.4 million euros compared to the previous period. Profit before taxes in Estonia for 2013 was 8.8 million euros, with a net profit of 7.0 million euros. The difference between net profit and profit before income tax is due to the income tax paid on dividends. Pre-tax loss and net loss sustained in Latvia was 2.4 million euros in 2013. Net loss remained equal to last year's. Business activity in Latvia has been frozen.

The growth of turnover in 2013, especially in the year end, has been driven by the opening of new stores. Throughout

the year, positive results have been observed in the sales of food products, the share of which in total turnover and total margin has continued to increase. The competitive situation has had a significant effect on Selver`s turnover and economic results. The continued scarcity of labour and difficulties in finding employees with the requisite skills has had a negative effect on profits. Profits are also influenced by the costs incurred in connection with the opening and launching of new stores and renovating the existing stores. In the first half of 2013, the Läänemere Selver in Tallinn, the Aardla Selver in Tartu and in the end of year Selvers in the Baltic Railway Station in Tallinn, in Peetri parish, and in the centre of Viljandi were opened. The Saare Selver in Saaremaa was expanded. A positive result was the growth in sales revenue of Kulinaaria OÜ, a subsidiary operating Selveri Köök from October 2012, by 11.0% in 2013 compared to the previous year. The SelveEkspress service has been launched in another seven stores this year. At the end of August, the gourmet store at Kaubamaja was closed and the business was relocated to Järve Selver. New retail software was introduced in Selver on 1 January 2014.

A lease contract has been made to open a new Selver store in the Astri Centre in Narva in June 2014. As of the end of 2013, the Selver store chain comprises 43 Selver stores and a gourmet store with total retail space of 82.5 thousand m².

Department stores

The sales revenue of the department stores business segment was 89.6 million euros in 2013, growing 3.9% year-on-year. Average sales revenue per square metre of retail space in department stores was 0.29 thousand euros per month, remaining on par with the previous year. At the same time, average amount of retail space at department stores has grown by 6% compared to the previous period due to reorganisations carried out within the company. Renovation works undertaken in the Home department and Kidswear and Toys department in Tartu, interrupted sales in July and August, had a negative effect on Department stores overall results in 2013. The largest Kidswear and Toys department in Southern Estonia was opened in August. This completed the cycle of extensive renovation of all departments over the last two years. Sales revenue was also negatively affected by the unusually warm autumn and winter months that allowed the customers to postpone purchasing clothing and footwear. The profit before taxes of the department stores was 4.4 million euros in 2013, a 27.7% year-on-year increase. The reorganisation and renovation of retail spaces and the best ever service quality indicators have increased the average sum of purchase by 7%.

The sales revenue of OÜ TKM Beauty Eesti that operates the I.L.U. cosmetics stores was 4.6 million euros in 2013, an 11.5% increase over 2012. The net loss of the I.L.U. chain in 2013 was 0.38 million euros, or 13.2% better result than last year. In August 2012, the I.L.U. chain opened its sixth store in the Tasku Centre in Tartu, influencing the comparable basis. Overall, sales were inhibited in the accounting period compared to 2012 with the aggressive sales campaigns and fast growth in sales by web stores, especially in the second half of the year.

The goals of the department stores segment for 2014 are to maintain the market share and profitability through the reorganisation of brand portfolios and making retail space more effective. The goal is to maintain the present high level of service. In 2013, we entered e-commerce with Osturalli and we intend to actively expand this effort in the next year. In 2014, there will be changes in I.L.U. stores due to the extension of Ülemiste Centre increasing the available retail space and improving the location. Negotiations will be initiated to extend the lease contract with Pärnu Centre. The goal for 2014 is to increase the profitability of the I.L.U. stores chain.

Car Trade

The sales revenue of the car trade segment was 48.0 million euros in 2013. Sales revenue exceeded year-on-year revenue by 40.3%, whereas the sales revenue of KIAs increased by 14.7%. A total of 2,650 vehicles were sold in 2013. The net profit of the segment reached 1.9 million euros in 2013. This result exceeded the profit earned in the previous year by 7.7%.

The reason behind the growth of sales revenue and the significant improvement in profits earned in the year end was that the sales operations of Viking Motors AS, obtained in the middle of 2012, and Ülemiste Autokeskus OÜ were merged in Estonia in 2013 and the synergy from this reorganisation has resulted in a significant improvement in growth and investment capacity. The car trade segment was also positively influenced by the Latvian subsidiary Forum Auto SIA beginning to sell Peugeot passenger and commercial vehicles in the 3rd quarter. In addition, due to the renewed team and reorganised operational plan, the sale of KIA passenger cars in Forum Auto SIA has also increased. At the end of the year, the Latvian subsidiary Forum Auto SIA completed a new 3,000 square metre multi-brand KIA, Peugeot and Cadillac dealership only a fifteen-minute drive from the centre of Riga.

In 2013, the legal structure of the car trade segment was reorganised, resulting in a new structure where the shareholdings of KIA Auto AS in the Latvian subsidiary Forum Auto SIA and Lithuanian subsidiary UAB KIA Auto were transferred directly to TKM Auto OÜ and the Group's car trade in Estonia was consolidated under AS Viking Motors.

Footwear trade

The turnover of the footwear trade segment was 14.7 million euros in 2013, a 1.7% increase over last year. The footwear segment made a 0.1 million euro loss in 2013, which is similar to 2012 loss. The turnover and profit earned in 2013 were lower than planned. The main reasons were delays in delivery of goods and the unusually late arrival of winter, which

significantly slowed down the sale of winter shoes. A Shu store was opened in Kohtla-Järve in the 3rd quarter. The Group's footwear store chain comprises 29 stores with a total space of 9 thousand square meters as of the year-end.

The primary goal of the footwear trade segment in 2014 is to increase the sales efficiency of the existing stores.

Real Estate

The sales revenue of the business segment of real estate totalled to 3.3 million euros in 2013 (2.9 million euros in 2012), having grown 14.3% compared to the same period of the previous year. The profit before taxes of the real estate segment in 2013 was 8.6 million euros, 0.96 million euros more than in the previous financial year (7.7 million euros in 2012), a year-on-year increase of 12.5%. The net profit of the segment was 7.8 million euros in 2013, up 1.1 million euros compared to the result of the year before (6.7 million euros in 2012), a year-on-year increase of 16.1%. The growth of profit results from the increase in the leased space belonging to the company in 2013. In the first quarter of 2013, the premises of Valga Selver in Valga and Sõbra Selver in Tartu were acquired. In the end of 2013, the Peetri Selver was completed in Peetri parish and a building in Riga in Ulmana Street was reconstructed into a modern car dealership.

The objective for 2014 is to begin the construction of a shopping centre in the centre of Viimsi and continue preparing future development projects.

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 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 2013. Department stores' internal training offers high-level customer service and teamwork training. Systematic service management, where training, assessment and feedback form a coherent whole, enabled Department stores to achieve an excellent level of service quality in 2013. The Service Club began its activities – we view its members as the advancers of internal training. At Selver, 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 enterprises as their research object. This helps to develop a body of next-generation employees who are ambitious and want to grow. In 2013, active cooperation with the Estonian Unemployment Insurance Fund continued in order to offer traineeships and recruit job seekers. In 2013, Selver concluded a recruitment and cooperation agreement with the Estonian Unemployment Insurance Fund. The aim of the agreement is to find additional cooperation opportunities for recruitment and continuing education. 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.

Developing management competencies continues to be a focus for the companies. Within the Leadership Program of Department stores, managers passed modules about managing people, services and processes. The aim of these modules was to become acquainted with leadership in a changing environment and to shape a common understanding of the leadership culture in accordance with the principal values of Department stores. In order to ensure the growth of new managers, five young university graduates were recruited into Selver's Young Manager Program, who's recruits are rapidly progressing. Upon the successful completion of the program, they will have the opportunity to continue in a permanent position. The development of a new customer service concept began in Selver in 2013. The primary focus of the concept is on the leadership role of managers and their skills as trainers and teachers, in order to ensure a high level of quality in daily customer service activities.

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 safety 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.

Joint events are a common occurrence, these lay the foundations for a good atmosphere and cooperation in teams. The summer days of Department stores – "World of Flower Children" – offered employees the opportunity to share an active summer event and take part in creative activities. An event called "Oma Töötaja Päev" (Employee's Day) was held in Selver in 2013 – 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. The employees of the Group have the opportunity to use a number different sporting opportunities, both on an individual basis or in a team. Teams continue to participate in different amateur sports events.

In 2013, the Group paid more attention to motivating employees through both monetary and non-monetary incentives. With the renewed motivation system, the Group aim is 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. Department stores' best salespersons and employees set an example in the compliance and commitment of core values. Employees' benefits are related to family and health care. A health week was held for the employees of Department stores – many experts and professionals shared their knowledge and recommendations. Solutions for holding photography exhibitions were created during the renovation of the staff room, along with opportunities for improved exchange of information.

The average number of employees in the Tallinna Kaubamaja Group in 2013 increased by 6.6% reaching 3,554. Labour costs (wage costs and social tax costs) increased by 14.3% and were 41.6 million euros in 2013. The average monthly labour costs per employee in 2013 increased by 7.6% compared to the average labour costs of 2012. The growth of labour costs is an inevitable consequence of the labour market situation discussed above, but we have also attempted to tie it to employee development and the growth of work efficiency.

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 though 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 healthy habits, 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:
    - Tallinna Kaubamaja has been a godparent for white-tailed eagles in Tallinn Zoo since 1994.
    - Tallinna Kaubamaja has supported the Male Choir of Tallinn University of Technology for the last ten years.
    - In cooperation with the Dharma foundation, collection points were opened at Department store in order to collect clothing and footwear, which will be delivered to shelters and families with many children.
    - 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. Support activities focus on projects related to children: various cooperation projects with MTÜ Clinic Clowns (sale of Doktor Kloun badges), Charity Pirital 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 and teddy bears). The development of Estonian fashion design is also considered important – Kaubamaja sponsored the 2013 Tallinn Fashion Week and the Golden Needle Award for fashion designers.
    - In 2012, Department stores 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 in 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.

- In 2013, Selver joined the Diversity Agreement, to contribute to the continuous development of diversity through accepting differences and taking them into account both in the workplace as well as in customer communication.
- For the eleventh year, Selver organised the charity project "Koos on kergem" ("It's Easier Together"), within the framework of which, money is donated to support the paediatric and maternity departments of hospitals. Money is collected for the local county hospital in each store. In 2013, 100,146 euros were collected (88,733 euros in 2012).
- For the past four and a half years, Selver has been cooperating with the Shalom Centre, a non-profit organisation, donating soon-to-expire food to families in need.
- In 2013, Selver supported the animal parks in Elistvere and Alaveski and the Tartu Animal Shelter.
- Selver continues to support youth sports and is the title sponsor of the Selver Tallinn volleyball club. The aim of the team is to promote volleyball in the whole of Estonia, as well as to promote youth activities and professional sports. Club activities take place via the following outputs:
  - First team: Selver Tallinn
  - Feeder team for developing new players: Selver / Audentes
  - Promoting youth sports: Audentes Volleyball School
  - Amateur beach volleyball: Caparol Beach Volleyball Centre.
- Selver is a supporter of the "Rakvere ööjooks" and "Selveri Rapla suurjooks" jogging events, also a supporter of the The Moonsund Regatta.
- Selver supports small and large scale cultural projects, primarily outside of major cities. In 2013, for example, the sponsored events included Saaremaa Opera Days, Hiiumaa Church Concerts, Viljandi Folk Music Festival, Järvi Festival, Hiiu Folk Music Festival 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 4 March 2013, 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:

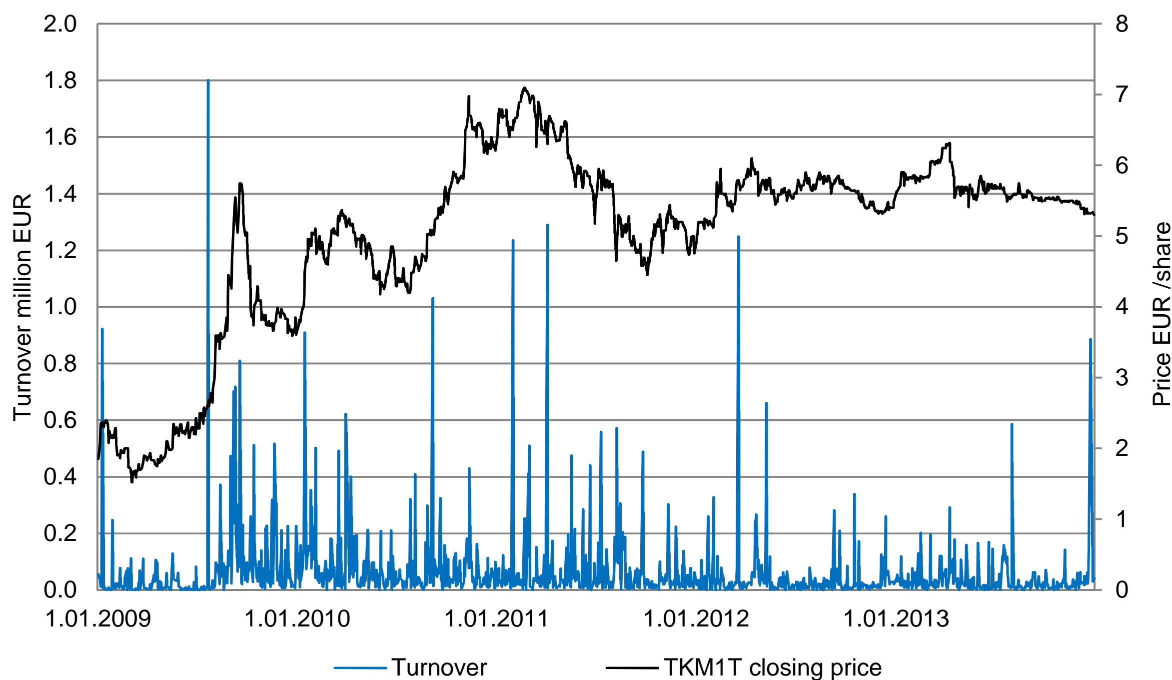
- The dividend expectations of the majority shareholders;
- The overall rate of return on the local securities market ;
- The optimal structure capital that is required for the Group's sustainable development.

At the end of the 2013 the Group had 3,198 shareholders and division of shares is following:

Ownership structure	Number of shares	Shareholders%	Shares%	Votes%
Private persons	2,679	83.8%	6.3%	6.3%
Companies (Estonian)	467	14.6%	5.6%	5.6%
Financial institutions (other countries)	39	1.2%	13.5%	13.5%
Companies (other countries)	8	0.3%	0.4%	0.4%
Financial institutions (Estonian)	3	0.1%	0.2%	0.2%
ING LUXEMBOURG S.A.	1	0.0%	6.9%	6.9%
OÜ NG INVESTEERINGUD	1	0.0%	67.0%	67.0%
Total	**3,198**	**100.0%**	**100.0%**	**100.0%**

Number of shares	Number of shareholders	Shareholders%	Shares%	Votes%
1–100	648	20.3%	0.1%	0.1%
101–1,000	1,653	51.7%	1.8%	1.8%
100,001–1,000,000	811	25.4%	4.9%	4.9%
10,001–100,000	66	2.1%	4.5%	4.5%
1,001–10,000	16	0.5%	9.2%	9.2%
1,000 001– …	4	0.1%	79.5%	79.5%
Total	**3 198**	**100.0%**	**100.0%**	**100.0%**

Share price and trading statistics in Tallinn Stock Exchange during 01.01.2009 - 31.12.2013
In euros



Share trading history

In euros

	2013	2012	2011	2010	2009
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (1000 pcs)	1,757,026	1,907,270	3,136,128	4,207,617	5,558,846
Dividend / net profit	35%*	68%	66%	69%	-13%
P/E	12.4	10.7	9.1	15.2	-11.7
P/BV	1.3	1.5	1.4	2.0	3.9
Opening price	5.5	4.845	6.37	3.62	2.08
Share price, highest	6.37	6.13	7.19	6.98	5.88
Share price, lowest	5.3	4.845	4.35	3.62	1.5
Share price, at the year-end	5.3	5.48	4.813	6.21	3.61
Share price, yearly average	5.67	5.59	5.77	5.13	2.95
Turnover (million)	9.95	10.70	17.96	21.00	18.58
Capitalisation (million)	215.86	223.20	196.03	252.93	147.03
Earnings per share	0.4	0.5	0.5	0.4	-0.3
Dividend per share	0.15*	0.35	0.35	0.28	0.04
Equity per share	4.1	3.6	3.4	3.2	2.5

* 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 2013 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 4 March 2013 and through a daily newspaper Eesti Päevaleht on 5 March 2013. 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 4 March 2013.

The general meeting of shareholders of Tallinna Kaubamaja was held in the conference centre of Nordic Hotel Forum, Viru väljak 3, Tallinn, on 28 March 2013 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.

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.

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 2013 was Estonian and the meeting was chaired by the general lower of the Tallinna Kaubamaja Helen Tulve. The meeting was also attended by the chairman of the Supervisory Board Jüri Käo, members Andres Järving, Enn Kunila and Gunnar Kraft and member of the Management Board Raul Puusepp. 74.42% 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.

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 2013, 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 21 February 2014 and his term of office will expire on 6 March 2017.

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 2013 to the Chairman of the Management Board amounted to 133 thousand euros (in 2012, 58 thousand euros) and the calculated fees, including social security taxes, amounted to 8 thousand euros (for 2012 the performance pay in amount of 35 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 Company 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 2013, 12 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2012, 12 scheduled meetings and 1 extraordinary meeting was 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 Käo, 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 Käo, 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 Käo 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 2013, the total remuneration calculated for the members of the Supervisory Board of Tallinna Kaubamaja totalled 100 thousand euros, (in 2012 802 thousand euros), including 24 thousand euros (in 2012 19 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 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:

- adherence to accounting principles;
- preparation and approval of the financial budget and reporting;
- sufficiency and effectiveness of performing an external audit;
- development and functioning of an internal control system (incl. risk management);
- monitoring of the legality of the Group'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 adherence to accounting principles, preparation and approval of the financial budget and reporting, sufficiency and effectiveness of performing an external audit, development and functioning of an internal control system (incl. risk management), legal compliance, activities of an internal audit and 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 in 2014

The most important directions of development and objectives for the Tallinna Kaubamaja Group in 2014 are following:

- Increasing the market share, efficiency and profitability of the Group.
- Efficient implementation of the new financial and retail software introduced in supermarkets at the beginning of 2014.
- Improving sales management function at department stores.
- Changing the range of goods in the footwear segment and reorganising stores based on the concepts.
- Reorganising the I.L.U. retail concept and developing the import of beauty brands matching the Group's various formats.
- Developing analytical marketing of the Group's Partnerkaart loyalty programme.
- Expanding the options offered by the loyalty programme by way of involving the Group's external partners.
- Creating additional web sale channels.
- Providing centralised support to and optimising logistics processes.
- Increasing the turnover of and expanding the security business.
- Continued improvement of the cooperation between the Group's business units and synergies created.
- Finding new business opportunities and areas that help create more added value.

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, 27 February 2014

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 2013 as set out on pages 21-61.

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, 27 February 2014

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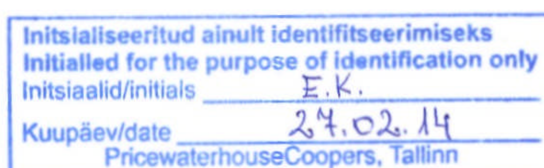
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2013	31.12.2012
ASSETS			
Current assets			
Cash and bank	5	14,766	13,494
Trade receivables and prepayments	6	15,991	18,497
Inventories	8	51,937	48,264
Total current assets		**82,694**	**80,255**
Non-current assets			
Long-term receivables and prepayments	11	313	667
Investments in associates	10	1,711	1,628
Investment property	12	3,035	3,756
Property plant and equipment	13	229,406	190,298
Intangible assets	14	10,636	11,236
Total non-current assets		**245,101**	**207,585**
TOTAL ASSETS		**327,795**	**287,840**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	15	14,300	17,210
Trade payables and other liabilities	17	67,725	64,151
Total current liabilities		**82,025**	**81,361**
Non-current liabilities			
Borrowings	15	77,104	59,781
Provisions and prepayments		878	519
Total non-current liabilities		**77,982**	**60,300**
TOTAL LIABILITIES		**160,007**	**141,661**
Equity			
Share capital	19	24,438	24,438
Statutory reserve capital		2,603	2,603
Revaluation reserve		68,617	51,079
Currency translation differences		-257	-7
Retained earnings		72,387	68,066
TOTAL EQUITY		**167,788**	**146,179**
TOTAL LIABILITIES AND EQUITY		**327,795**	**287,840**

The notes presented on pages 26-61 form an integral part of these consolidated financial statements.



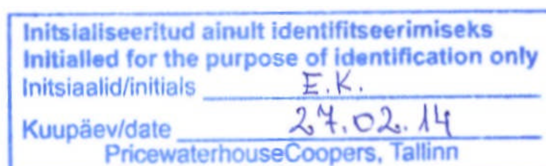
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	Note	2013	2012
Revenue	20	498,721	467,800
Other operating income		966	820
Materials, consumables used and services	8	-372,930	-347,119
Other operating expenses	21	-51,365	-47,242
Staff costs	22	-41,571	-36,376
Depreciation, amortisation and impairment losses	13,14	-10,730	-11,481
Other expenses		-726	-383
Operating profit		**22,365**	**26,019**
Finance income	23	31	133
Finance costs	23	-1,322	-1,647
Finance income on shares of associates	10	163	126
Profit before tax		**21,237**	**24,631**
Corporate income tax	19	-3,773	-3,761
NET PROFIT FOR THE FINANCIAL YEAR		**17,464**	**20,870**
Other comprehensive income			
Items that subsequently might be reclassified to profit or loss			
Revaluation of land and buildings		18,650	0
Currency translation differences		-250	104
Other comprehensive income for the financial year		**18,400**	**104**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**35,864**	**20,974**
Basic and diluted earnings per share (euros)	24	0.43	0.51

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

The notes presented on pages 26-61 form an integral part of these consolidated financial statements.

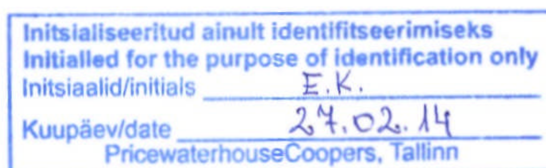


CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		17,464	20,870
Adjustments:			
Interest expense	*23*	1,322	*1,647*
Interest income	*23*	-31	*-133*
Depreciation, amortisation and impairment losses	*13,14*	10,595	*10,525*
Revaluation of property, plant and equipment	*13*	*-8*	*0*
Loss on sale and write-off of non-current assets	*13*	218	*985*
Profit on sale of non-current assets	*13*	-16	*-184*
Effect of equity method	*10*	-163	*-126*
Income tax on dividends paid	19	3,777	3,761
Change in inventories		-3,673	-6,091
Change in receivables and prepayments related to operating activities		-2,140	-1,303
Change in liabilities and prepayments related to operating activities		3,921	8,090
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		**31,266**	**38,041**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment (excl. finance lease)	13	-30,143	-29,118
Proceeds from sale of property, plant and equipment	13	71	222
Purchase of intangible assets	14	-108	-370
Investments in subsidiaries	9	0	-1,320
Change in balance of parent company's group account	26	5,000	4,000
Dividends received	10	80	48
Interest received	23	31	133
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		**-25,069**	**-26,405**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	15	68,194	44,243
Repayments of borrowings	15	-53,885	-34,548
Change in overdraft balance	15	107	-1
Dividends paid	19	-14,255	-14,255
Income tax on dividends paid	19	-3,777	-3,761
Repayments of finance lease principal	16	-3	-128
Interest paid	23	-1,310	-1,662
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		**-4,929**	**-10,112**
TOTAL CASH FLOWS		**1,268**	**1,524**
Effect of exchange rate changes		4	22
Cash and cash equivalents at the beginning of the period	5	13,494	11,948
Cash and cash equivalents at the end of the period	5	14,766	13,494
Net change in cash and cash equivalents		**1,272**	**1,546**

The notes presented on pages 26-61 form an integral part of these consolidated financial statements.



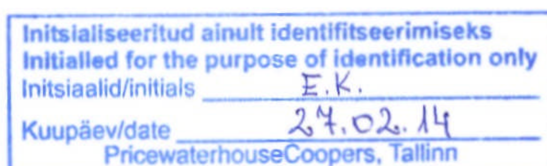
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Revalua-tion re-serve	Currency translation differences	Retained earnings	Total
Balance as of 31.12.2011	**24,438**	**2,603**	**52,197**	**-111**	**60,333**	**139,460**
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
Total comprehensive income for the reporting period	**0**	**0**	**0**	**104**	**20,870**	**20,974**
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
Balance as of 31.12.2012	**24,438**	**2,603**	**51,079**	**-7**	**68,066**	**146,179**
Net profit for the reporting period	0	0	0	0	17,464	17,464
Revaluation of land and buildings	0	0	18,650	0	0	18,650
Other comprehensive income for the reporting period	0	0	0	-250	0	-250
Total comprehensive income for the reporting period	**0**	**0**	**18,650**	**-250**	**17,464**	**35,864**
Reclassification of depreciation of revalued land and buildings	0	0	-1,112	0	1,112	0
Dividends paid	0	0	0	0	-14,255	-14,255
Balance as of 31.12.2013	**24,438**	**2,603**	**68,617**	**-257**	**72,387**	**167,788**

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

The notes presented on pages 26-61 form an integral part of these consolidated financial statements.



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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 28 February 2014 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 2013 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

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 01.01.2013 that would be expected to have a material impact to the Group.

Presentation of Items of Other Comprehensive Income, amendments to IAS 1
(effective for annual periods beginning on or after 1 July 2012). 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 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. Consequently in the Note 13 in current financial statements additional information regarding fair value measurement of property, plant and equipment was disclosed.

Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets
(effective for annual periods beginning on or after 1 January 2014 which the Group has early adopted).
The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

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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 01.01.2014, and which the Group has not early adopted.

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.

Annual Improvements to IFRSs 2012

(effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below; not yet adopted by the EU).

The improvements consist of changes to two standards that may have impact on Group's financial statements.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

The Group is currently assessing the impact of the amendments on its financial statements.

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

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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.

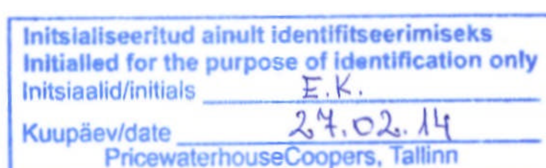
Investment property

The property (land or a building) held by the Group for earning long-term rental yields or for capital appreciation, rather than it 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.

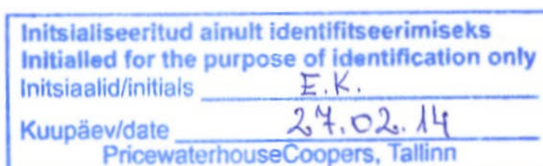
The straight-line method is used for determining depreciation. The depreciation rates are set separately for each item of property, plant and equipment depending on its useful life. The ranges of useful lives for the Groups of property, plant and equipment are as follows:

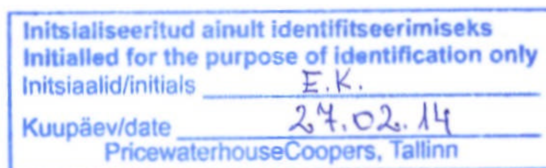
- Land and buildings
  - Land is not amortised.
  - Buildings and facilities — 10-50 years
    incl. Renovation of buildings — 12-23 years
- Machinery and equipment — 3-7 years
- Other fixtures and fittings
  - IT equipment and software — 3-7 years
  - Vehicles and fixtures — 5 years
  - Capitalised 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 loss 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.

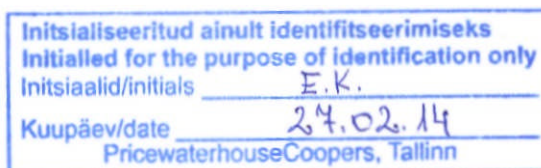
Finance and operating leases

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.

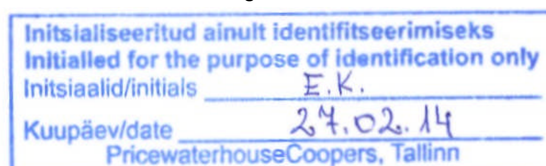
Interest income

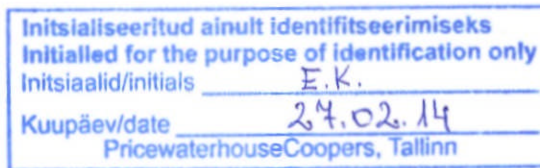
Interest income is recognised using the effective interest rate. Interest income is recognised when the receipt of revenue is probable and the amount of revenue can me estimated reliably. If the receipt of interest is uncertain, interest income is recognised on a cash basis.

In cooperation with credit institutions, the Group offers its clients the loyalty card Partner Krediitkaart with credit options. The clients are required to pay a fixed interest for the credit used with Partner Krediitkaart 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:

- *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 for every object are used at least every 4 years. As a result of the valuation performed in the end of reporting year, the value of land and buildings located in Estonia (carrying value: 47,247 thousand euros as at 31.12.2013) increased by 19,264 thousand euros, which was recognised through profit or loss in the amount of 614 thousand euros and through revaluation reserve in total 18,650 thousand euros. Land and buildings located in Latvia (carrying value: 16,690 thousand euros as at 31.12.2013) no significant differences were recognised between fair values and carrying value. As at 31.12.2013 the carrying value of land and buildings using revaluation method was 178,225 thousand euros (31.12.2012: 143,259 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 2013 buildings under construction located in Estonia (carrying value: 13,805 thousand euros as at 31.12.2013) was reduced by 606 thousand euros, which was recognised through profit or loss. No decrease in value was recognised for buildings under construction located in Latvia (carrying value: 17,923 thousand euros as at 31.12.2013). Valuation performed in the end of previous financial year did not reveal significant differences between fair values and carrying value (carrying value: 32,609 thousand euros) of buildings under construction. See more detailed information in Note 13.

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- *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 31.12.2013, the carrying value of goodwill was 6,710 thousand euros (2012: 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 2012. More detailed information is disclosed in Note 14.
- *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.

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.

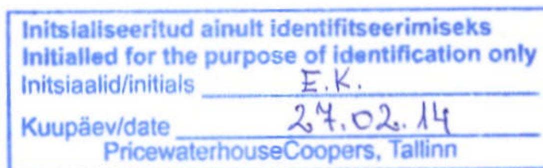
All the financial assets of the Group are included in the category "Loans and receivables" and consist of cash and cash equivalents (Note 5), trade receivables (Note 6), other short-term receivables (Note 6) and other long-term receivables (Note 11). All financial liabilities of the Group are included 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.

Latvia joined the euro zone on 1st of January 2014. Accordingly the Group has no foreign exchange risk related to Latvian subsidiaries.

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 2013, the 6-month EURIBOR increased from 0.319% at the beginning of the year to the year-end 0.389%. In the beginning of 2014, EURIBOR has been stable at average level of 0.4%. The Group estimates that EURIBOR will not rise in 2014 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 2013 (31.12.2012: 1 percentage point), the Group's financial cost would have increased by 846 thousand euros (2012: 679 thousand euros). Had the interest rates been 0.1 percentage point lower as of 31 December 2013, the Group's financial cost would have decreased by 85 thousand euros (2012: as of 31 December 2012 changed by 0.1 percentage point and by 52 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

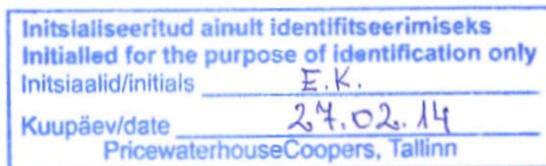
	31.12.2013	**31.12.2012**
Rates changing during 3 months	6,760	5,316
Rates changing during 3 – 6 months	84,644	71,675
Total borrowings at floating interest rate	**91,404**	**76,991**
Borrowings with fixed interest rate	0	0
Total borrowings	**91,404**	**76,991**

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:

	31.12.2013	31.12.2012
Aa3	4,245	6,740
A1	9,950	1,295
A2	0	4,587
Total	**14,195**	**12,622**

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 2013, the maximum credit risk arising from receivables is in the amount of 13,375 thousand euros (2012: 16,834 thousand euros).

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

	31.12.2013	31.12.2012
Not due	9,898	13,465
Incl. receivables from the group account	0	*5,000*
Incl. receivables from card payments	1,723	*1,568*
Incl. receivables from bonuses	2,255	*3,214*
Incl. trade receivables	5,879	*3,511*
Incl. other receivables	41	*172*
Overdue < 3 months	3,353	3,330
Overdue 3 - 6 months	64	21
Overdue 6 - 12 months	19	15
Overdue > 12 months	41	3
Total receivables	**13,375**	**16,834**

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 Swedbank AS, 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.

Cash flow forecasting is performed in the operating entities of the Group in and aggregated by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, at all times so that the Group does not breach borrowing limits or covenants.

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 31.12.2013
Borrowings	3,700	11,778	37,056	36,858	5,553	94,945
Financial liabilities (Note 17)	57,768	0	0	0	0	57,768
Total	**61,468**	**11,778**	**37,056**	**36,858**	**5,553**	**152,713**
	< 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
Total	**59,278**	**14,643**	**23,688**	**30,023**	**8,106**	**135,738**

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2013 and 31.12.2012, have been used.

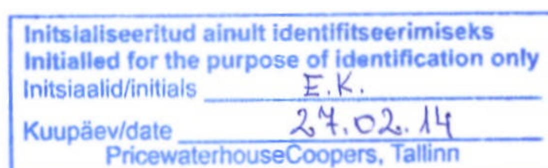
As of the end of the financial year, the Group had available funds in the amount of 14,766 thousand euros (2012: 13,494 thousand euros). The Group follows its established credit risk management strategy when investing its cash flow surplus. As of 31 December 2013, the Group had no deposits into the joint group account through its parent company NG Investeeringud OÜ (5,000 thousand euros in 2012 was deposited).

As at 31 December 2013, the working capital was positive of 669 thousand euros (2012: - 1,106 thousand euros). The working capital became positive again due to a decrease in short-term debts. The latter is due to fact, that for loans partially refinanced in 2013, the current payment proportion was decreasing. 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 2013, it improved to the level 0.37. In 2012, the corresponding figure was 0.39. According to the Management Board, 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, change the nominal value of 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 2013, the ratio was 31% and compared to 31 December 2012 when the ratio was 30%, it has slightly deteriorated during the accounting period as a result of the interest-bearing liabilities growth in reporting period.



in thousands of euros

	31.12.2013	31.12.2012
Interest-bearing liabilities (Note 15)	91,404	76,991
Cash and bank (Note 5)	-14,766	-13,494
Net debt	**76,638**	**63,497**
Equity	167,788	146,179
Total equity and borrowings	**244,426**	**209,676**
Debt to equity ratio*	31%	30%

**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

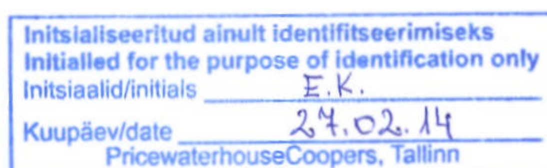
in thousands of euros

	31.12.2013	31.12.2012
Cash on hand	571	872
Bank accounts	12,427	11,305
Cash in transit	1,768	1,317
Total cash and bank	**14,766**	**13,494**

Note 6 Trade receivables and prepayments

in thousands of euros

	31.12.2013	31.12.2012
Trade receivables (Note 7)	13,336	11,662
Short-term receivables from related parties (Note 26)	0	5,096
Other short-term receivables	4	41
Total financial assets from balance sheet line "Trade receivables and prepayments"	**13,340**	**16,799**
Prepayment for goods	1,616	806
Other prepaid expenses	484	435
Prepaid rental expenses	412	399
Prepaid taxes (Note 18)	139	58
Total trade receivables and prepayments	**15,991**	**18,497**



Note 7 Trade receivables

in thousands of euros

	31.12.2013	31.12.2012
Trade receivables	8,772	6,689
Other receivables	2,255	3,214
Allowance for doubtful receivables	-79	-63
Receivables from related parties (Note 26)	665	254
Credit card payments	1,723	1,568
Total trade receivables	**13,336**	**11,662**

Note 8 Inventories

in thousands of euros

	31.12.2013	31.12.2012
Goods purchased for resale	51,216	47,410
Raw materials and materials	721	854
Total inventories	**51,937**	**48,264**

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

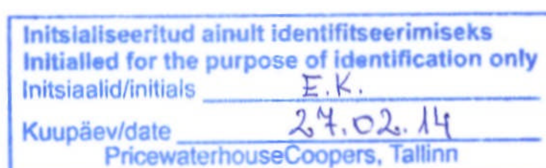
in thousands of euros

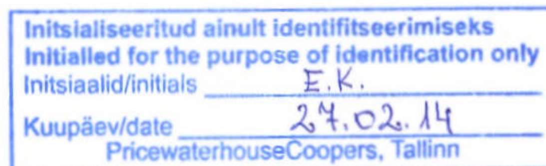
	2013	2012
Write-down and write-off of inventories	6,560	4,586
Inventory stocktaking deficit	1,890	1,864
Total materials and consumables used	**8,450**	**6,450**

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 2013, the allowance account amounted to 923 thousand euros (31.12.2012: 940 thousand euros).

Group's materials, consumables used and services cost in 2013 amounted 372,930 thousand euros (2012: 347,119 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 as at 31.12.2013 consists of:

Name	Location	Area of activity	Ownership 31.12.2013	Year of acquisition
Selver AS	Tallinn Pärnu mnt. 238	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
Auto Forum SIA	Marupe K.Ulmana gatve 101	Retail trade	100%	2007
KIA Auto UAB	Vilnius, Perkunkiemio 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
TKM King AS	Tallinn Betooni 14	Retail trade	100%	2008
ABC King SIA	Riga Ieriku iela 3	Retail trade	100%	2008
SIA Suurtuki	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
Viking Motors AS	Tallinn Tammsaare tee 51	Retail trade	100%	2012

With the intention of improving the structure and making the administration of Tallinna Kaubamaja Group more transparent, merger and demerger of its subsidiaries took place in 2013.

On 30 April 2013 the Commercial Register registered demerger of the subsidiary of Tallinna Kaubamaja AS, AS Tartu Kaubamaja. According to the demerger plan signed on 12 March 2013 AS Tartu Kaubamaja transferred by demerger the share of OÜ TKM Beauty (registry code 11431051) to the recipient company, OÜ TKM Beauty Holding (registry code 12466011). OÜ TKM Beauty Holding was entered to the Commercial register also on 30 April 2013. OÜ TKM Beauty Holding is a 100% subsidiary of Tallinna Kaubamaja AS. A demerger resolution was adopted on 15 March 2013. The share capital of the company being demerged did not change.

On 17 May 2013 the Commercial Register registered the merger of AS ABC King, AS Tartu Kaubamaja and OÜ Suurtüki NK. In connection to registration of the merger, AS Tartu Kaubamaja and OÜ Suurtüki NK were deleted from the Commercial Register. The business name of AS ABC King is as of 17 May 2013 AS TKM King. The merger resolutions were adopted on 12 April 2013. The share capital of the acquiring company did not change.

On 16 May 2013 the Commercial Register registered the demerger of KIA Auto AS. According to the demerger agreement signed on 27 March 2013 KIA Auto AS transferred by demerger the share of OÜ Ülemiste Autokeskus to the recipient company, AS Viking Motors. According to the demerger plan signed on 27 March 2013 KIA Auto AS transferred by demerger the shares of Forum Auto SIA (former SIA KIA Automobiles) and UAB KIA Auto to the recipient company, OÜ Opti Auto. OÜ Opti Auto was entered to the Commercial register also on 16 May 2013. OÜ Opti Auto is a 100% subsidiary of OÜ TKM Auto, which in turn is a 100% subsidiary of Tallinna Kaubamaja AS. The demerger resolutions were adopted on 5 April 2013. The share capital of the company being demerged did not change.

Next, merger of Estonian car sales businesses of the group took place, whereof AS Viking Motors (acquiring company) merged into itself OÜ Ülemiste Autokeskus (company acquired).

Secondly, OÜ Opti Auto (company acquired), that was the shareholder of Latvian subsidiary Forum Auto SIA and Lithuanian subsidiary UAB KIA Auto, merged with TKM Auto OÜ (acquiring company). Consequently, TKM Auto OÜ has after the merger four subsidiaries - AS Viking Motors, KIA Auto AS, Forum Auto SIA and UAB KIA Auto. TKM Auto OÜ has 100% shareholding in all of the abovementioned subsidiaries. The sole shareholder of TKM Auto OÜ is Tallinna Kaubamaja AS.

Thirdly, OÜ TKM Beauty (acquiring company) merged into itself OÜ TKM Beauty Holding (company acquired). OÜ TKM Beauty Holding was the sole shareholder of OÜ TKM Beauty. As a result of the merger, OÜ TKM Beauty remained and Tallinna Kaubamaja AS is its sole shareholder.

The merger agreements connected to the above mentioned mergers were concluded on 3 June 2013. The above mentioned mergers were registered with the Commercial Registry in 12 July 2013. Reorganizing the structure of the Group has no impact on the consolidated financial results. The abovementioned restructuring does not have substantial influence on the operations of the Tallinna Kaubamaja AS Group.

From 2 July 2013 Company KIA Automobiles SIA has a new name Forum Auto SIA, related to new business development plans.

In 07 August 2013 AS TKM King sold its shareholdings in Latvian subsidiaries (SIA ABC King and SIA Suurtüki) to SIA TKM Latvija, which is also a part of the AS Tallinna Kaubamaja Group. The reason for selling the shares is optimizing of costs of Latvian subsidiaries. In January Latvian Enterprise Register has registered the merger between SIA TKM Latvija (acquiring company), SIA ABC King (company being acquired) and SIA Suurtuki (company being acquired). In connection to registration of the merger, SIA ABC King and SIA Suurtuki were deleted from the Enterprise Register. According to the merger agreement the legal successor of SIA ABC King and SIA Suurtuki is SIA TKM Latvija. By registration of the mergers, all assets of SIA ABC King and SIA Suurtuki were given over to SIA TKM Latvija. The share capital of the acquiring company did not change.

In 2012 June three new subsidiaries (Kaubamaja AS, Topsec Turvateenused OÜ and Kulinaaria OÜ) have been established 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.

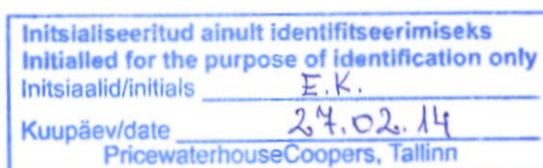
The table below provides an overview of acquired identifiable assets and liabilities at the time of acquisition.

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
Total identifiable assets	**1,326**
Cost of ownership interest	1,326
Paid for ownership interest in cash	1,326
Cash and cash equivalents in the acquired entity	-6
Total cash effect on the Group	**-1,320**

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 2012 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 2012 then group revenues in 2012 would have been higher by 2,844 thousand euros and net profit for 2012 less by 419 thousand euros.

In 2013 there were no business combinations.



Note 10 Investments in associates

in thousands of euros

Tallinna Kaubamaja AS has ownership of 50% (2012: 50%) interest in the entity AS Rävala Parkla which provides the services of a parking house in Tallinn.

	31.12.2013	31.12.2012
Investment in the associate at the beginning of the year	**1,628**	**1,550**
Profit for the reporting period under equity method	163	126
Dividends received	-80	-48
Investment in the associate at the end of the year	**1,711**	**1,628**

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

	31.12.2013	31.12.2012
Assets	3,644	3,678
Liabilities	222	423
Revenue	428	341
Profit	326	251

Note 11 Long-term prepayments and receivables

in thousands of euros

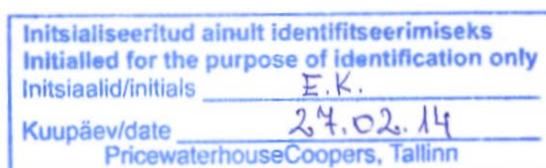
	31.12.2013	31.12.2012
Prepaid rental expenses	204	561
Deferred tax asset	74	71
Other long-term receivables	35	35
Total other long-term prepayments and receivables	**313**	**667**

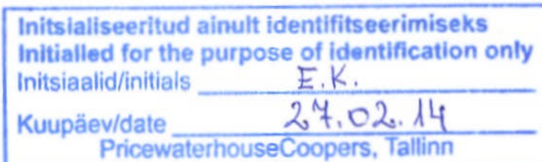
Note 12 Investment property

in thousands of euros

	EUR
Carrying value as at 31.12.2011	**3,566**
Changes occurred in 2012	
Reclassification (Note 13)	190
Carrying value as at 31.12.2012	**3,756**
Reclassification (Note 13)	-721
Carrying value as at 31.12.2013	**3,035**

Investment property represents construction in progress. In 2013, the opinion of an independent certified real estate expert was used in appraising the fair value of 3 facilities. In 2012, the expert opinion of an independent real estate expert based on the comparative method was used as a basis. During the realization of the 2013 detailed plan, two registered immovables were divided into five plots designated for development, three of which are reflected as investment properties. As a result, a reclassification from investment properties to the fixed assets group “Land and buildings” in the amount of 721 thousand euros was performed in the reporting year. In 2012, design work of technological networks and roads was carried out in the amount of 190 thousand euros.
As a result of valuation, the items of investment property were adjusted neither upwards nor downwards in 2013. In 2012 no changes were recognised in fair value of investment property.





Note 13 Property, plant and equipment

in thousands of euros

	Land and buildings	Machinery and equipment	Other fixtures and fittings	Construc-tion in progress and prepayments	Total
31.12.2011					
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
Carrying value	**125,422**	**5,730**	**6,668**	**34,452**	**172,272**
Changes occurred in 2012					
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
31.12.2012					
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
Carrying value	**143,259**	**5,768**	**8,131**	**33,140**	**190,298**
Changes occurred in 2013					
Purchases and improvements	87	226	602	29,228	30,143
Reclassification (Note 12)	20,565	3,785	4,011	-27,640	721
Disposals	0	-1	-1	-53	-55
Write-offs	-123	-38	-46	-11	-218
Decline/increase in value through profit or loss	614	0	0	-606	8
Increase in value through revaluation reserve	18,650	0	0	0	18,650
Depreciation	-4,708	-2,275	-2,904	0	-9,887
Currency translation difference	-119	-1	-4	-130	-254
31.12.2013					
Cost or revalued amount	181,231	27,022	28,663	49,678	286,594
Accumulated depreciation	-3,006	-19,558	-18,874	-15,750	-57,188
Carrying value	**178,225**	**7,464**	**9,789**	**33,928**	**229,406**

Investments in non-current assets

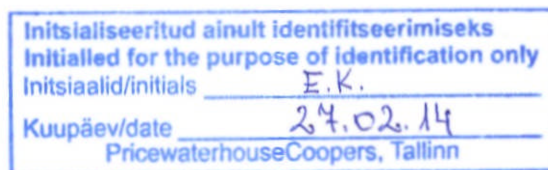
The cost of investments for the twelve months of 2013 amounted to 30,143 thousand euros.

The cost of investments made in 12 months of 2013 in the supermarket business segment was 8,188 thousand euros. In March new Selver store in Lasnamäe at Läänemere tee 28 was opened and in June Selver store in Tartu, Võru Street 77 was opened. In November three new Selver stores were opened. On 1 November the second store in Viljandi at Tallinna mnt. 22 were opened together with renovated Centrum centre. On 14 November new store was opened in Peetri at Veesaare street 2 and on 28 November in Tallinn, Balti Jaam at Toompuiestee 37.

In 2013 the size of the investment in the business segment of Department store amounted to 1,789 thousand euros. In the reporting period renovation works were carried out in Department store showrooms and exchange of point of sale software and hardware in the stores was finalised.

The cost of investments in the accounting period was 532 thousand euros in the car trade business segment. The cost of investments made in the reporting period in the footwear segment was 152 thousand euros.

The cost of the real estate business segment investment was 19,482 thousand euros. In March Sõbra Selver property in Tartu, Sõbra street 56a, was purchased and in Valga, Raja street 5, Valga Selver property. In July Keskuse property in Harjumaa at Viimsi parish, Haabneeme was purchased. Major renovation works were performed in Kuressaare, Saare



Selver and in Veesaare, Peetri property. Investments in Latvia amounted to 1,647 thousand euros in the reporting period.

In 2013 and 2012 Tallinna Kaubamaja Group companies had no commitments to purchase fixed assets.

Estimation of fair value of "Land and buildings"

At the year-end 2013, 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.

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 4 properties. The same expert also provided an expert opinion with regard to the discount and capitalisation rates in respect of 15 properties. Properties purchased in 2013 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% (2012: 8.5% - 12.5%) depending on the location of the property and the rental growth rates were 1% - 2.5% (2012: 1% - 2%). 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.

Value of "Land and buildings" located in Latvia as at 31.12.2013 the valuation of a certified independent real estate expert was used in respect of one property. In respect of 4 properties the assessment of an expert opinion with regard to the discount and capitalisation rates was used. The discount and capitalisation rates compared to 2012 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% (2012: 11.3%) and the growth rates of rental income were 1.0% - 1.5% (2012: 1.0% - 1.5%).

Carrying amounts of "Land and buildings":

in thousands of euros	**31.12.2013**	**31.12.2012**
PPE items in Estonia, for which an expert opinion was provided	54,040	30,737
PPE items in Estonia, for which estimates were provided by experts in respect of discount and capitalisation rates	91,861	70,085
Remaining PPE items in Estonia (recently acquired)	15,634	26,371
PPE items in Latvia for which an expert opinion was provided	3,086	14,070
Remaining PPE items in Latvia	13,604	1,996
Total	**178,225**	**143,259**

Revaluation of „Land and buildings" in Group was previously performed in 2010. The evaluation of non-current assets has been performed every year, thus given the situation in global economy and the fact that the market treads water was waiting for whatever comes next, which all influenced market liquidity and investors` readiness to invest, the management had reached a conclusion, using the principle of prudence, that the values of investment property, land and buildings and construction-in-progress would not be changed based on this valuation.
In a view of stabilization of global economy management of the Group evaluated the results of the valuation in the end of reporting period sufficiently reliable for recording revaluation of non-current assets.

As a result of the revaluation the value of "Land and buildings" located in Estonia increased by 19,264 thousand euros, which was recognized through revaluation reserve in the amount of 18,650 thousand euros and through profit and loss in the amount of 614 thousand euros. For "Land and buildings" located in Latvia no significant differences were recognised between fair values and carrying value.

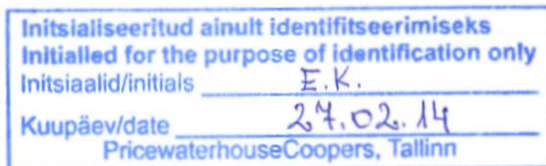
As a result of valuation, the items of "Land and buildings" located in Estonia was adjusted neither upwards nor downwards in 2012. Also as a result of valuation, the items of "Land and buildings" located in Latvia was adjusted neither upwards nor downwards in 2013 and 2012.

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:
– Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair value of land and building is determined using valuation techniques. The valuation technique uses observable inputs as much as they are available and uses as less as possible Groups Management assessments. The land and buildings are classified as level 2 if all observable inputs which are basis for determining the fair value are observable. If



one or more significant inputs are not based on observable market data, lands and buildings are classed as level 3.

The Group's non-financial assets carried at fair value as of 31.12.2013 are classed as level 3.

In thousands of euros	Fair value at 31 December 2013	Valuation technique	Unobser-vable inputs	Range of unobservable inputs (eur)	Relationship of unobservable inputs to fair value
PPE items in Estonia, for which an expert opinion was provided	54,040	opinion of a certified independent real estate expert	Price per square metre	10.0-17.7	The higher the price per square metre, the higher the fair value
PPE items in Estonia, for which estimates were provided by experts in respect of discount and capitalisation rates	91,861	an expert opinion with regard to the discount and capitalisation rates	Price per square metre	7.5-13.6	The higher the price per square metre, the higher the fair value
Remaining PPE items in Estonia	15,634	discounted cash flow model	Price per square metre	9.0	The higher the price per square metre, the higher the fair value
PPE items in Latvia for which an expert opinion was provided	3,086	opinion of a certified independent real estate expert	Price per square metre	6.8	The higher the price per square metre, the higher the fair value
Remaining PPE items in Latvia	13,604	the assessment of an expert opinion with regard to the discount and capitalisation rates	Price per square metre	9.5	The higher the price per square metre, the higher the fair value
Total	**178,225**				

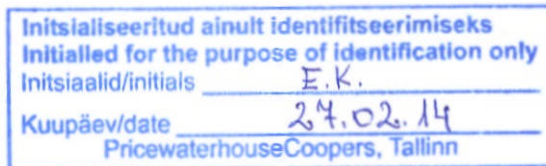
Determination of fair values of buildings under construction

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% (2012: 10.5%-13%) and the growth rate was 1.0% (2012: 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% (2012: 11.3%-12.8%) depending on the location of the item, and the growth rates were 1.0% - 1.5% (2012: 1.0%-1.5%). For determining the investment value, the discounted cash flow method was used. The capitalisation rates of 9.8%-11.3% (2012: 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	31.12.2013	31.12.2012
PPE items in Estonia, for which an expert opinion was provided	4,684	5,187
PPE items in Estonia for which an internal estimate was provided	9,112	9,362
Remaining PPE items in Estonia	9	13
PPE items in Latvia, for which an internal estimate was provided	17,923	18,047
Total	**31,728**	**32,609**

Based on the results of valuation, the value of Estonian building under construction was reduced by 606 thousand euros, which was recognised through profit or loss (in 2012 no impairment was recognised).



No decrease in value nor was cancelled decrease in value made in previous periods for buildings under construction located in Latvia (in 2012 no impairment was recognised).

Estimation of the recoverable amount of non-current assets

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:
31.12.2013 109,831 thousand euros
31.12.2012 92,363 thousand euros

As at 31.12.2013 the cost of non-current assets in use with a zero carrying value was 28,814 thousand euros (2012: 20,665 thousand euros).

As at 31.12.2013, property, plant and equipment with the carrying value of 140,622 thousand euros (2012: 121,176 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.

As at 31.12.2013 the recoverable amount of the non-current assets of I.L.U. cosmetics stores (carrying value: 829 thousand euros, in 2012: 1,122 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 6.4% in 2014-2018 (2012: 2013 – 2017 is estimated to be 10.1%). I.L.U. launched its operations in 2009. In the end of 2013 I.L.U chain owned six stores. The sales growth was forecast on the basis of Group's long-term sales experience. The discount rate applied is 7.5% (2012: 6.7%) and the future growth rate (after year 5) is 2.5%. No impairment loss was identified as a result of the impairment test.

Note 14 Intangible assets

in thousands of euros

	Goodwill	Trademark	Beneficial contracts	Development expenditure	Total
31.12.2011					
Cost	7,298	3,509	1,080	18	11,905
Accumulated amortisation and impairment	-588	-817	-687	-4	-2,096
Carrying value	**6,710**	**2,692**	**393**	**14**	**9,809**
Changes occurred in 2012					
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
31.12.2012					
Cost	7,298	5,097	1,080	388	13,863
Accumulated amortisation and impairment	-588	-1,127	-884	-28	-2,627
Carrying value	**6,710**	**3,970**	**196**	**360**	**11,236**
Changes occurred in 2013					
Purchases and improvements	0	0	0	108	108
Amortisation	0	-461	-196	-51	-708
31.12.2013					
Cost	7,298	5,097	1,080	496	13,971
Accumulated amortisation and impairment	-588	-1,588	-1,080	-79	-3,335
Carrying value	**6,710**	**3,509**	**0**	**417**	**10,636**

As a trademark, the Group has recognised the image of 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 31.12.2013 is 9.5 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 2013 and 2012.

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

in thousands of euros	31.12.2013	31.12.2012
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	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Operating profit margin during next 5 years	2.5% - 4.3%	0.4% - 3.8%	-1.6% - 1.6%	0.6% - 2.7%
Discount rate	8.0%	5.8%	7.5%	5.9%
Sales growth during next 5 years	3.0% - 11.7%	2.0% - 36.1%	3.2% - 4.0%	-0.3% - 8.4%
Future growth rate*	2.0%	2.0%	2.5%	2.0%

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

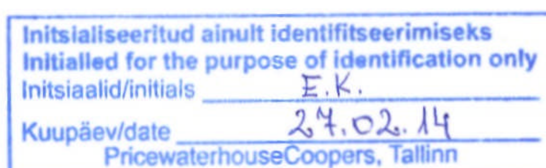
Pre-tax discount rates have been used, reflecting the risks inherent in the respective segments. The weighted average growth rates used are based on the Group's experience and the estimates of the economic environment. The key assumptions used for calculating the value in use include the growth rate of sales volumes and the operating margin. As compared to the assumptions used for estimating the value in use in 2012, the applied discount rate were increasing in relation to the fact that the comparison Group risk indicators were increasing over the previous year. Yet, due to economy stabilisation the volatility of sales growths' has decreased.

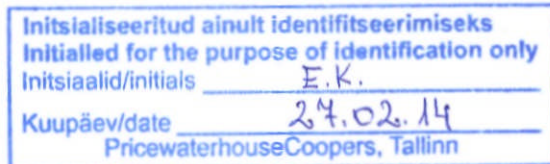
In 2013, the car business showed a significant growth 40.6% (2012: 72.0%). While we expect to see the largest growth in the following year (11.7%), thereafter the annual sales growth will decline down to 3% in year. The five year average sales growth in the car business is estimated to be 5.5% (10.6% in 2012).

In the footwear segment, the five year average sales growth in the footwear segment is planned to be 3.7% (2012:4.3%). The gross profit margin in the footwear business recoverable amount tests is -0.1% (1.7% in 2012) 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	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Difference between the carrying amount and recoverable amount of the cash generating unit (in thousands of euros)	19,889	15,439	454	12,343
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	-17.1%	-7.3%	-4.5%	-35.7%
Decrease of the average operating profit margin	-2.07 pp	-1.10 pp	-0.14 pp	-2.77 pp





Note 15 Interest bearing borrowings

in thousands of euros	31.12.2013	31.12.2012
Short-term borrowings		
Overdraft	400	294
Bank loans	12,265	16,310
Finance lease liability (Note 16)	0	3
Other borrowings	1,635	603
Total short-term borrowings	**14,300**	**17,210**

	31.12.2013	31.12.2012
Long-term borrowings		
Bank loans	75,283	59,570
Other borrowings	1,821	211
Total long-term borrowings	**77,104**	**59,781**
Total borrowings	**91,404**	**76,991**

Borrowings received

	2013	2012
Overdraft	106	0
Bank loans	63,476	42,581
Other borrowings	4,718	1,662
Total borrowings received	**68,300**	**44,243**

Borrowings repaid

	2013	2012
Overdraft	0	1
Bank loans	51,808	32,478
Finance lease liability	3	128
Other borrowings	2,077	1,497
Total borrowings repaid	**53,888**	**34,104**

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

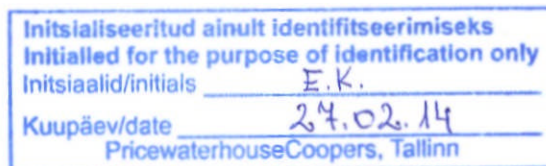
As of 31.12.2013, the repayment dates of bank loans are between 28.01.2014 and 4.12.2019 (2012: between 28.01.2013 and 30.08.2018), interest is tied both to 3-month and 6-month EURIBOR as well as EONIA. Weighted average interest rate was 1.40% (2012: 1.41%).

Note 16 Finance and operating lease

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	31.12.2013	31.12.2012
due in less than 1 year	21,568	20,348
due between 1 and 5 years	90,552	76,842
due after 5 years	128,878	63,233
Total	**240,998**	**160,423**



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	31.12.2013	31.12.2012
due in less than 1 year	1,799	1,504
due between 1 and 5 years	6,216	3,387
due after 5 years	694	395
Total	**8,709**	**5,286**

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	31.12.2013	31.12.2012
due in less than 1 year	2,262	2,398
due between 1 and 5 years	1,545	4,823
Total	**3,807**	**7,221**

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

	31.12.2013	31.12.2012
Trade payables	51,112	49,113
Payables to related parties (Note 26)	5,323	4,965
Other accrued expenses	69	268
Prepayments by tenants	1,264	1,247
Total financial liabilities from balance sheet line “Trade payables and other liabilities”	**57,768**	**55,593**
Taxes payable (Note 18)	5,388	4,740
Employee payables	3,521	3,220
Prepayments	895	445
Short-term provisions*	153	153
Total trade payables and other liabilities	**67,725**	**64,151**

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

Note 18 Taxes

in thousands of euros

	31.12.2013		31.12.2012	
	Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Prepaid taxes (Note 6)	139	0	58	0
Value added tax	0	2,459	0	2,325
Personal income tax	0	864	0	677
Social security taxes	0	1,787	0	1,482
Corporate income tax	0	42	0	41
Unemployment insurance	0	149	0	147
Mandatory funded pension	0	87	0	68
Total taxes	**139**	**5,388**	**58**	**4,740**

As at 31 December 2013 and 31 December 2012 the Group did not have deferred income tax assets nor liabilities.

Note 19 Share capital

As of 31.12.2013, 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 31.12.2012, 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 2013, dividends were paid shareholders in the amount of 14,255 thousand euros (2012: 14,255 thousand euros), or 0.35 euros per share (2012: 0.35 euros per share), and income tax on dividends totalled 3,777 thousand euros (2012: 3,761 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

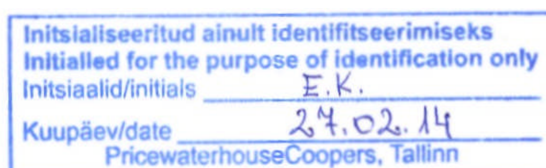
The Group has defined the business segments based on the reports used regularly by the supervisory board to make strategic decisions.

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.



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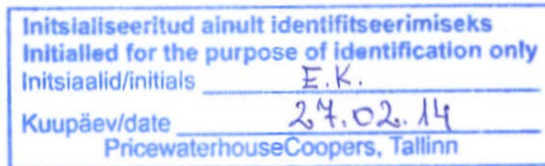
in thousands of euros

2013	Super markets	Depart-ment store	Car trade	Footwear trade	Real estate	Inter-segment transact-ions	Total seg-ments
External revenue	**343,147**	**89,592**	**48,023**	**14,684**	**3,275**	0	**498,721**
Inter-segment revenue	934	3,740	31	210	10,584	-15,499	0
Total revenue	344,081	93,332	48,054	14,894	13,859	-15,499	498,721
EBITDA	10,280	6,054	2,542	920	13,299	0	33,095
Depreciation and amortisation (Note 13, 14)	-3,983	-1,848	-390	-857	-3,652	0	-10,730
Operating profit	**6,297**	**4,206**	**2,152**	**63**	**9,647**	0	**22,365**
Finance income (Note 23)	103	403	13	1	49	-538	31
Finance income on shares of associates	0	163	0	0	0	0	163
Finance costs (Note 23)	0	-401	-244	-152	-1,063	538	-1,322
Corporate income tax* (Note 19)	-1,745	-1,196	4	0	-836	0	-3,773
Net profit/loss	**4,655**	**3,175**	**1,925**	**-88**	**7,797**	0	**17,464**
incl. in Estonia	7,022	3,17 5	1,930	-73	7,063	0	19,117
incl. in Latvia	-2,367	0	-33	-15	734	0	-1,681
incl. in Lithuania	0	0	28	0	0	0	28
Segment assets	**74,334**	**65,211**	**19,958**	**13,211**	**207,808**	-52,727	**327,795**
Segment liabilities	**53,757**	**21,122**	**12,056**	**13,283**	**97,524**	-37,735	**160,007**
Segment investment in non-current assets (Note 13, 14)	8,188	1,897	532	152	19,482	0	30,251

in thousands of euros

2012	Super markets	Depart-ment store	Car trade	Footwear trade	Real estate	Inter-segment transact-ions	Total seg-ments
External revenue	**329,989**	**86,257**	**34,237**	**14,445**	**2,872**	0	**467,800**
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
EBITDA	**17,098**	**4,869**	**2,234**	**922**	**12,377**	0	**37,500**
Depreciation and amortisation (Note 13, 14)	-5,473	-1,748	-235	-782	-3,243	0	-11,481
Operating profit	**11,625**	**3,121**	**1,999**	**140**	**9,134**	0	**26,019**
Finance income (Note 23)	225	886	1	1	84	-1,064	133
Finance income on shares of associates	0	126	0	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
Net profit/loss	**9,046**	**3,423**	**1,787**	**-99**	**6,713**	0	**20,870**
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
Segment assets	**72,452**	**72,402**	**15,726**	**13,802**	**176,836**	-63,378	**287,840**
Segment liabilities	**49,968**	**26,566**	**9,773**	**18,035**	**89,069**	-51,750	**141,661**
Segment investment in non-current assets (Note 13, 14)	4,487	3,409	1,863	521	20,796	0	31,076

*- 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 3,275 thousand euros (2012: 2,858 thousand euros), loans granted in the amount of 34,460 thousand euros (2012: 48,892 thousand euros) and investments in subsidiaries in the amount of 14,992 thousand euros (2012: 11,628 thousand euros).

Inter-segment transactions in line segment liabilities comprise inter-segment short-term liabilities in the amount of 3,275 thousand euros (2012: 2,858 thousand euros) and inter-segment borrowings in the amount of 34,460 thousand euros (2012: 48,892 thousand euros).

External revenue according to types of goods and services sold

in thousands of euros

	2013	2012
Retail revenue	467,675	437,331
Wholesale revenue	14,718	15,515
Rental income	6,694	6,053
Revenue for rendering services	9,634	8,901
Total revenue	**498,721**	**467,800**

External revenue by client location

in thousands of euros

	2013	2012
Estonia	481,445	458,427
Latvia	11,031	3,886
Lithuania	6,245	5,487
Total	**498,721**	**467,800**

Distribution of non-current assets* by location of assets

in thousands of euros

	31.12.2013	31.12.2012
Estonia	207,841	171,572
Latvia	35,372	34,193
Lithuania	177	192
Total	**243,390**	**205,957**

* 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

	2013	2012
Rental expenses	14,453	13,403
Heat and electricity expenses	8,398	6,988
Operating costs	6,710	6,765
Cost of sale related services and materials	7,113	6,561
Marketing expenses	6,703	6,340
Miscellaneous operating expenses	3,388	3,198
Computer and communication costs	2,763	2,398
Personnel expenses	1,837	1,589
Total other operating expenses	**51,365**	**47,242**

Note 22 Staff costs

in thousands of euros

	2013	2012
Wages and salaries	31,199	27,232
Social security taxes	10,372	9,144
Total staff costs	**41,571**	**36,376**
Average wages per employee per month (euros)	732	680
Average number of employees in the reporting period	3,554	3,335

Staff costs also include accrued holiday pay as well as bonuses and termination benefits for 2013 but not yet paid.

Note 23 Finance income and costs

in thousands of euros

Finance income

	2013	2012
Interest income on cash and cash equivalents	0	1
Interest income on Partner credit card	19	78
Interest income from loans to related parties (Note 26)	2	8
Interest income on NGI Group's group account (Note 26)	8	45
Other finance income	2	1
Total finance income	**31**	**133**

Finance costs

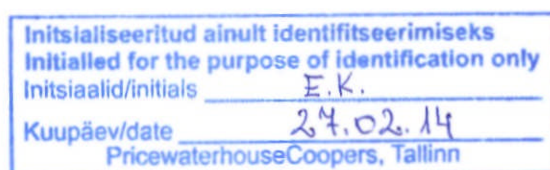
	2013	2012
Interest expense of bank loans	-1,163	-1,569
Interest expense of finance lease	0	-4
Other finance costs*	-159	-74
Total finance costs	**-1,322**	**-1,647**

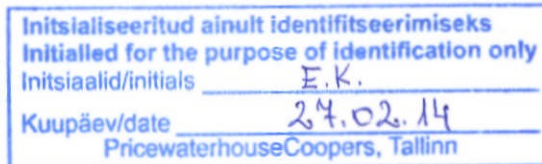
* Other finance costs consist of the fees for conclusion and changing of lease agreements and factoring agreements.

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.

	2013	2012
Net profit (in thousands of euros)	17,464	20,870
Weighted average number of shares	40,729,200	40,729,200
Basic and diluted earnings per share (euros)	0.43	0.51





Note 25 Loan collateral and pledged assets

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

in thousands of euros

	31.12.2013	31.12.2012
Property, plant and equipment	138,569	121,176
Other non-current assets	2,053	0
Inventories	6,283	5,586
Financial assets	232	4,460

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:

a. owners (Parent and the persons controlling or having significant influence over the Parent);
b. associates;
c. other entities in the Parent's consolidation group.
d. management and supervisory boards of Group companies;
e. 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 2013	Sales 2013	Purchases 2012	Sales 2012
Parent	290	17	411	82
Entities in the Parent's consolidation group	26,560	4,542	21,346	1,888
incl. property, plant and equipment	3,807	0	2,691	1
Members of management and supervisory boards	0	24	0	4
Other related parties	741	167	744	174
Total	**27,591**	**4,750**	**22,501**	**2,148**

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:

	31.12.2013	31.12.2012
Interest receivable from Parent (Note 7)	1	2
Receivable from Parent (Note 6)	0	5,000
Receivables from entities in the in the Parent's consolidation group (Note 7)	524	127
Loan receivable from entities in the in the Parent's consolidation group (Note 6)	0	96
Sales bonuses receivable from entities in the Parent's consolidation group (Note 7)	135	121
Members of management and supervisory boards (Note 7)	5	4
Total receivables from related parties	**665**	**5,350**

	31.12.2013	31.12.2012
Parent	25	21
Entities in the Parent's consolidation group	5,251	4,895
Other related parties	47	49
Total liabilities to related parties (Note 17)	**5,323**	**4,965**

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 2013, Tallinna Kaubamaja Group earned interest income on its deposits of available funds in the amount of 8 thousand euros (2012: 45 thousand euros). In 2013, Tallinna Kaubamaja Group did not use or pay any interest to the head group in 2013 (2012: 0 thousand euros). As at 31.12.2013 Group deposited through parent company NG Investeeringud OÜ 0 euros (31.12.12: 5,000 thousand euros with interest rate 0.55% and with maturity up to 21 January 2013).

The average interest rate on available funds deposited to the group account of NG Investeeringud OÜ was 0.06% in the euro account (2012: 0.14% 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 1,065 thousand euros (2012: 841 thousand euros). Short term benefits to supervisory boards' members of Tallinna Kaubamaja Group in reporting year including social taxes amounted to 268 thousand euros (2012: 240 thousand euros).

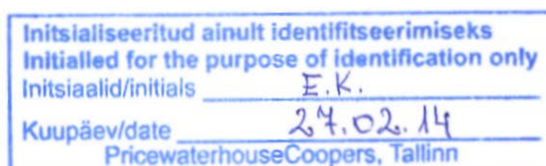
Note 27 Interests of the members of the Management and Supervisory Board

As of 31.12.2013, 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 Käo	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	Owns 10,002 (0,0246%) shares of Tallinna Kaubamaja AS

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 Käo	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	Owns 10,002 (0,0246%) shares of Tallinna Kaubamaja AS



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

Shareholders	31.12.2013 Ownership interest	31.12.2012 Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%
ING Luxembourg S.A.	6.92%	6.92%

As of 31 December 2013, 68.75% of the shares (31 December 2012: 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 2013, the retained earnings of Tallinna Kaubamaja AS Group were 72,387 thousand euros (31 December 2012: 68,066 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 57,186 thousand euros as dividends (31 December 2012: 53,772 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 15,201 thousand euros (31 December 2012: 14,294 thousand euros).

Contingent liabilities relating to bank loans

Regarding the loan agreements in the amount of 56,758 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 2013, there was no conflict in the levels established for financial covenants in the loan agreements.

Contingent liabilities relating to the Tax Board

The tax authorities may at any time inspect the books and records of the Group within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties. In 2012 and 2013 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.

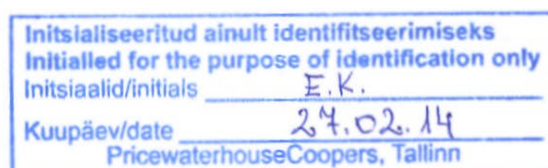
Note 30 Events after the balance sheet date

Conversion to euro

Latvia joined the euro zone on 1st of January 2014 and Latvian lats (LVL) was replaced with euro (EUR). In connection, the company converted its accounting into euro as of this date and the 2014 financial statements and all the proceeding financial statements will be compiled in euro. Comparative data will be converted into euro with its official rate 0,702804 LVL/EUR.

Structual change inside the Group

In January Latvian Enterprise Register has registered the merger between SIA TKM Latvija (acquiring company), SIA ABC King (company being acquired) and SIA Suurtuki (company being acquired). In connection to registration of the merger, SIA ABC King and SIA Suurtuki were deleted from the Enterprise Register. According to the merger agreement the legal successor of SIA ABC King and SIA Suurtuki is SIA TKM Latvija. By registration of the mergers, all assets of SIA ABC King and SIA Suurtuki were given over to SIA TKM Latvija. The share capital of the acquiring company did not change.



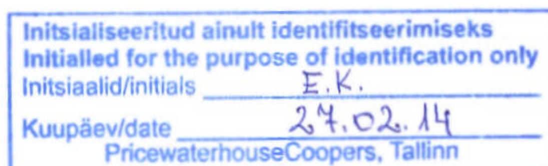
Note 31 Financial information of the Parent

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

	31.12.2013	31.12.2012
ASSETS		
Current assets		
Cash and bank	3,873	206
Trade receivables and prepaid expenses	19,397	33,030
Total current assets	**23,270**	**33,236**
Non-current assets		
Shares of subsidiaries	27,872	23,246
Share of associates	415	415
Property, plant and equipment	334	352
Intangible assets	410	348
Total non-current assets	**29,031**	**24,361**
TOTAL ASSETS	**52,301**	**57,597**
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	1,788	5,400
Trade payables and prepayments	728	616
Total current liabilities	**2,516**	**6,016**
Non-current liabilities		
Borrowings	6,363	8,097
Total non-current liabilities	**6,363**	**8,097**
TOTAL LIABILITIES	**8,879**	**14,113**
Equity		
Share capital	24,438	24,438
Statutory reserve capital	2,603	2,603
Retained earnings	16,381	16,443
TOTAL EQUITY	**43,422**	**43,484**
TOTAL LIABILITIES AND EQUITY	**52,301**	**57,597**



STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	2013	2012
Revenue	2,485	58,466
Other operating income	13	51
Materials, consumables used and services	0	-39,253
Other operating expenses	-564	-10,452
Staff costs	-1,903	-7,101
Depreciation, amortisation and impairment	-117	-1,105
Other expenses	-16	-94
Operating profit	**-102**	**512**
Interest income and expenses	8	287
Other finance income and costs	14,287	14,199
Total finance income and costs	**14,295**	**14,486**
NET PROFIT FOR THE FINANCIAL YEAR	**14,193**	**14,998**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**14,193**	**14,998**
Basic and diluted earnings per share (euros)	0.35	0.37

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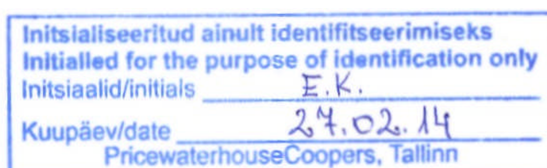
PricewaterhouseCoopers, Tallinn

CASH FLOW STATEMENT

in thousands of euros

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	14,193	14,998
Adjustments:		
Interest expense	*414*	*716*
Interest income	*-422*	*-1,002*
Depreciation, amortisation and impairment	*117*	*1,105*
Dividend received	-14,287	-14,199
Change in inventories	0	-3,278
Change in receivables and prepayments related to operating activities	6,333	7,028
Change in liabilities and prepayments related to operating activities	116	-1,065
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	**6,464**	**4,303**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-55	-2,624
Interest received	422	1,002
Change in the receivable of group account	7,298	1,198
Investments in subsidiaries	-4,626	-28
Loan repayments received form subsidiaries	0	153
Purchases of intangible assets	-108	-370
Proceeds from sale of property, plant and equipment	3	0
Dividends received	14,287	14,199
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	**17,221**	**13,530**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	9,331	0
Repayments of borrowings	-14,678	-3,128
Interest paid	-416	-719
Dividends paid	-14,255	-14,255
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	**-20,018**	**-18,102**
TOTAL CASH FLOWS	**3,667**	**-269**
Cash and cash equivalents at beginning of the period	206	475
Cash and cash equivalents at end of the period	3,873	206
Net increase/decrease in cash and cash equivalents	**3,667**	**-269**



STATEMENT OF CHANGES IN EQUITY

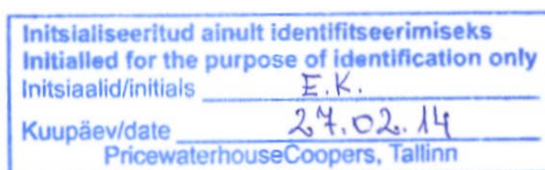
in thousands of euros

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as of 31.12.2011	**24,438**	**2,603**	**15,700**	**42,741**
Dividends paid	0	0	-14,255	-14,255
Profit for the reporting period	0	0	14,998	14,998
Balance as of 31.12.2012	**24,438**	**2,603**	**16,443**	**43,484**
Dividends paid	0	0	-14,255	-14,255
Profit for the reporting period	0	0	14,193	14,193
Balance as of 31.12.2013	**24,438**	**2,603**	**16,381**	**43,422**

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

in thousands of euros

	31.12.2013	31.12.2012
Parent's unconsolidated equity	43,422	43,484
Value of subsidiaries and associates in the Parent's unconsolidated balance sheet	-28,287	-23,661
Value of subsidiaries and associates under the equity method	123,931	116,112
Adjusted unconsolidated equity	**139,066**	**135,935**



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 2013 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 2013, 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

Ago Vilu Auditor's Certificate No. 325	Eva Jansen-Diener Auditor's Certificate No. 501

27 February 2014

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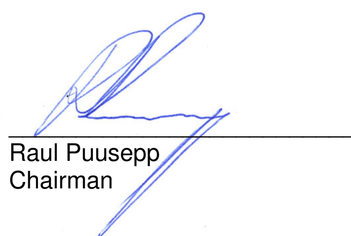
* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language 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 2013	72,387 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 6,109 thousand euros out of retained earnings accumulated until 31 December 2013.



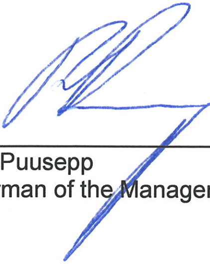
Raul Puusepp
Chairman

Tallinn, 27 February 2014

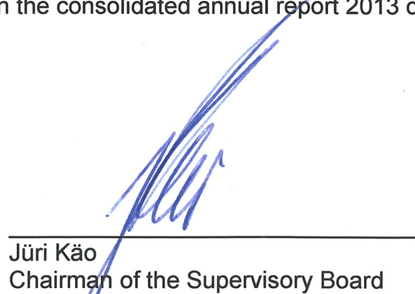
SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2013

The supervisory board of Tallinna Kaubamaja AS has reviewed the 2013 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.

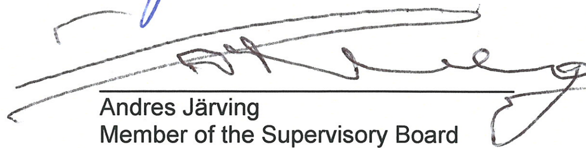
Hereby we confirm the correctness of information presented in the consolidated annual report 2013 of Tallinna Kaubamaja AS:



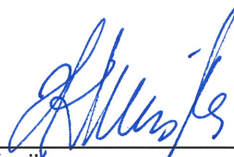
Raul Puusepp
Chairman of the Management Board



Jüri Käo
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, 3 March 2014

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

EMTAK code	Title of EMTAK Group	2013
64201	Holding company's activities	2,485
	Total revenue	**2,485**