

**Tallinna Kaubamaja AS**  
**Consolidated Annual Report**  
**2014**  
(translation of the Estonian original)

# TALLINNA KAUBAMAJA AS

## CONSOLIDATED ANNUAL REPORT 2014

The main areas of activity of Tallinna Kaubamaja Group are retail and wholesale trade. At the year-end 2014, Tallinna Kaubamaja Group employed more than 3,800 employees.

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<i>Beginning of financial year:</i>	<i>1.01.2014</i>
<i>End of financial year:</i>	<i>31.12.2014</i>
<i>Auditor:</i>	<i>PricewaterhouseCoopers AS</i>
<i>Bank:</i>	<i>Swedbank AS SEB Pank AS Nordea Bank Finland Plc Estonian branch</i>

*Lawyer:* *Helen Tulve*

<i>Subsidiaries and associates:</i>	<i>Share capital</i>	<i>Equity as at 31.12.2014</i>	<i>Ownership interest</i>
<i>Kaubamaja AS</i>	<i>25 TEUR</i>	<i>16,930 TEUR</i>	<i>100%</i>
<i>Selver AS</i>	<i>1,406 TEUR</i>	<i>26,925 TEUR</i>	<i>100%</i>
<i>Kulinaaria OÜ</i>	<i>3 TEUR</i>	<i>5,786 TEUR</i>	<i>100%</i>
<i>Selver Latvia SIA</i>	<i>285 TEUR</i>	<i>-8,744 TEUR</i>	<i>100%</i>
<i>Topsec Turvateenused OÜ</i>	<i>3 TEUR</i>	<i>430 TEUR</i>	<i>100%</i>
<i>Viking Security AS</i>	<i>134 TEUR</i>	<i>173 TEUR</i>	<i>100%</i>
<i>TKM Beauty OÜ</i>	<i>3 TEUR</i>	<i>-26 TEUR</i>	<i>100%</i>
<i>TKM Beauty Eesti OÜ</i>	<i>3 TEUR</i>	<i>-305 TEUR</i>	<i>100%</i>
<i>TKM Auto OÜ</i>	<i>3 TEUR</i>	<i>5,935 TEUR</i>	<i>100%</i>
<i>KIA Auto AS</i>	<i>114 TEUR</i>	<i>4,704 TEUR</i>	<i>100%</i>
<i>Viking Motors AS</i>	<i>223 TEUR</i>	<i>118 TEUR</i>	<i>100%</i>
<i>Forum Auto SIA</i>	<i>14 TEUR</i>	<i>-92 TEUR</i>	<i>100%</i>
<i>KIA Auto UAB</i>	<i>10 TLTL</i>	<i>118 TEUR</i>	<i>100%</i>
<i>TKM King AS</i>	<i>32 TEUR</i>	<i>-1,603 TEUR</i>	<i>100%</i>
<i>Tallinna Kaubamaja Kinnisvara AS</i>	<i>28 TEUR</i>	<i>122,949 TEUR</i>	<i>100%</i>
<i>Tartu Kaubamaja Kinnisvara OÜ</i>	<i>3 TEUR</i>	<i>39,776 TEUR</i>	<i>100%</i>
<i>SIA TKM Latvija</i>	<i>3 TEUR</i>	<i>5,111 TEUR</i>	<i>100%</i>
<i>Rävala Parkla AS</i>	<i>600 TEUR</i>	<i>3,556 TEUR</i>	<i>50%</i>

*The subsidiaries and associates Kaubamaja AS, Selver AS, Kulinaaria OÜ, Topsec Turvateenused OÜ, Viking Security AS, 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 and Auto Forum SIA 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

The steady growth of the Tallinna Kaubamaja Group in the year 2014 resulted from the efforts made by the Group's companies to provide our customers with the best product range and the most convenient shopping environment. In order to meet these goals, one new Selver supermarket was opened, the groceries departments of Tallinn and Tartu department stores (Kaubamaja) were renovated and expanded, both the shoe stores and I.L.U beauty stores were given a facelift, and product ranges were updated. We have also step by step developed our e-commerce services by launching an online shopping service for I.L.U stores and improving the campaign-based e-commerce solutions for department stores by launching an online Gift Shop (Kingipood) in addition to the Osturalli sales campaign online shop. Most of the goals set for the year 2014 were also met. In 2014, the Estonian retail market expanded with new commercial premises and market participants emerging and competition increasing to a level starting to negatively affect the results for many market participants. Despite the somewhat more modest expansion of the Tallinna Kaubamaja Group, a remarkable increase in sales revenue was achieved, and both the market share and the slight increase in profit for the Group as a whole can be considered satisfactory. The total amount of investments made in 2014 was 9.1 million euros, whereas in the previous year, 30.1 million euros worth of investments were made. In 2014, fewer investments were made in construction and more attention was paid to updating the interior design of the stores and to IT-solutions.

In the current highly competitive market, success is not guaranteed for us merely by having the position of the leading retailer in Estonia and therefore, several important strategic actions have been planned for the year 2015. Our main focus is on improving trade management and analytic capabilities, developing e-commerce and adding new customer convenience functions to the customer loyalty programme.

The most significant events for the Tallinna Kaubamaja Group in the year 2014, including the post-balance sheet events were the following:

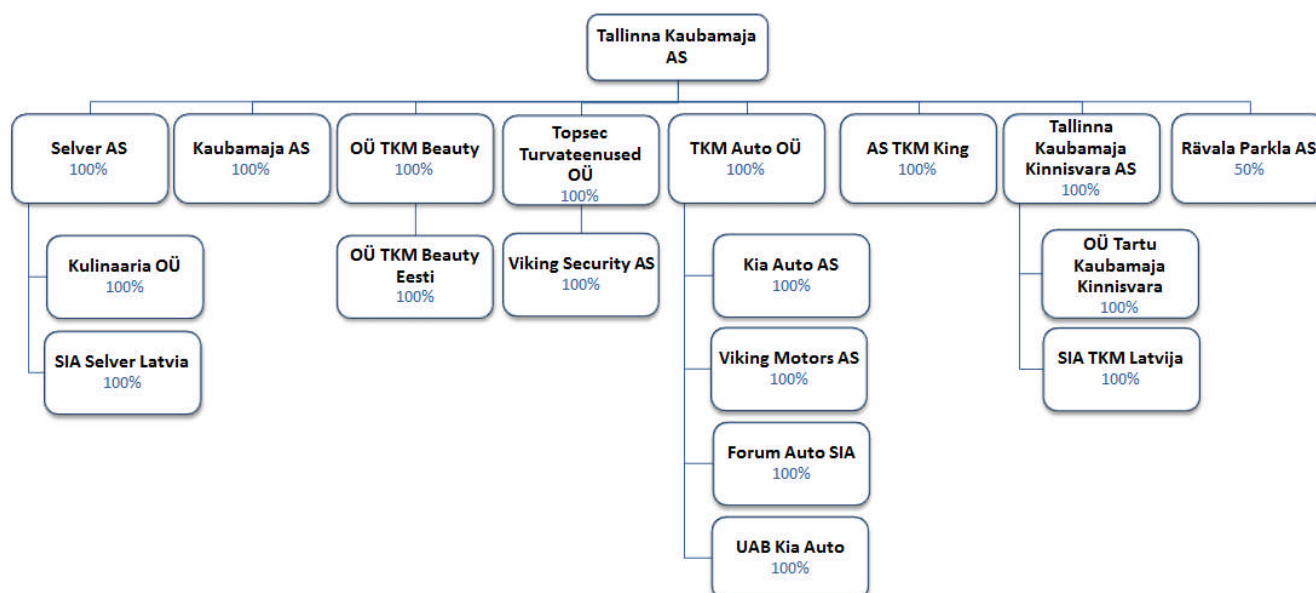
- On 1 January 2014, new commerce software was implemented in Selver.
- In January, the Group's non-operating Latvian subsidiaries SIA ABC King and SIA Suurtuki were merged with the Latvian operating subsidiary SIA TKM Latvija.
- In March, TKM King AS opened a renovated flagship store of ABC King in the Viru shopping centre.
- In April, Andres Heinver, the former CEO of Selver AS, became the CEO of Selver's subsidiary Kulinaaria OÜ.
- In May, changes were made in the Management Board of Selver, and Kristi Lomp, elected to the Management Board at the end of 2013, became the CEO of Selver.
- In June, Selver opened a new Selver supermarket in the Astri shopping centre in Narva.
- The self-scan solution SelveEkspress was expanded further. By the end of the year 2014, the SelveEkspress self-scan solution was used in 13 Selver supermarkets and 88 thousand customers had concluded the contract for using the service.
- The separate Gurmee store in the Solaris centre was closed and the range of gourmet products was expanded in the existing Selver supermarkets.
- Groceries departments of Tallinn and Tartu department stores were renovated and the sales area of fresh fruit and vegetables and organic products was significantly expanded.
- In September, the subsidiary Viking Security AS was purchased in order to improve the field of security services.
- In October, the I.L.U. store in the expanded Ülemiste shopping centre was reopened.
- In November, Anne-Liis Ostov became the CEO of the companies OÜ TKM Beauty Eesti, which manages I.L.U. beauty stores, and OÜ TKM Beauty, which imports beauty products.
- At the end of the year, a campaign-based online Gift Shop was launched in addition to the traditional Osturalli sales campaign online shop.

## 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 31.12.2014:



The restructuring of the Group's companies started year earlier was completed in 2013. The goal of restructuring was to render the structure more comprehensible and internally more manageable. The mergers and demergers were carried out 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. 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 and 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 to 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. AS TKM King sold its holdings in the non-operating Latvian subsidiaries (SIA ABC King and SIA Suurtuki) to SIA TKM Latvija, another member of the Tallinna Kaubamaja Group, for cost optimisation purposes. The merger of SIA TKM Latvija, SIA ABC King and SIA Suurtuki was entered into the Latvian Commercial Register in January 2014. 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 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. 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 remains as the sole shareholder of TKM Auto OÜ. On 2013, the business name of KIA Automobiles SIA was changed to Forum Auto SIA in connection with the new development plans.

On 2 September 2014, Topsec Turvateenused OÜ, a subsidiary of Tallinna Kaubamaja AS, acquired a 100% share in Viking Security AS. Acquisition of the shareholding in Viking Security AS enables Tallinna Kaubamaja Group to further strengthen its security services, one of the most fast-growing business areas of the Group in recent years. As a result of the transaction, the service portfolio of Topsec Turvateenused OÜ will expand from manned guarding and video security to include services related to the design, installation and maintenance of electronic alarm, security and surveillance systems and the possibility of participating in certified security tenders.

## Economic development

According to the preliminary data of Statistics Estonia, the growth of GDP for the year 2014 is 1.8%. Statistics Estonia revised the time series of the indicators of national accounting and corrected the system of national accounts, which brought about the changes in the preceding comparable GDP indicators. In 2014, the weakening of the external environment and deterioration of economic and political situation in Russia resulted in smaller volumes of export and investments. The analysts estimate that in 2015, the foreign demand should start increasing once again, as the economic growth of our main trading partners will pick up. According to the Bank of Estonia, the growth of the Estonian economy in 2014 was mainly supported by the domestic market; however, the market share of Estonian goods and services in the trade of our partner countries has also increased. The accelerated growth of the industrial production and somewhat more optimistic expectations for production indicate the further increase of economic activity. Wage growth has somewhat decelerated but the pressure on the wage growth resulting from the shortage of labour supply will persist. Analysts estimate that in 2015, the wage growth will be faster than 5%. The decrease of the Estonian consumer price index in 2014 was 0.1%, whereas the prices of food and non-alcoholic beverages increased 0.02% and the prices of apparel and footwear increased 1.15%. The largest increase in prices was seen in eating out and accommodation – an increase of 4.5%. The prices fell in education (-16.7%), communication (-5.3%) and transportation (-2.6%).

According to Statistics Estonia, the increase of the total volume of retail turnover in current prices in Estonia in 2014 was 6.4%. The largest increase in turnover in 2014 was in the sales and repair of motor vehicles – 64.4%, but its proportion in the retail sales was small, merely 0.2%. Retail sales in unspecialised stores (mostly groceries) increased by 8.5% in 2014. In current prices, the growth was sluggish in the retail sales of motor fuel (1.4%), the so-called department stores segment, i.e. retail sales in other unspecialised stores, was also diminishing (-4.6%). According to the consumer survey conducted in December 2014 by the Estonian Institute of Economic Research, the level of consumer confidence is higher than the long-term average; the expectations for the economic development of both the family and the state have increased. The economies of our neighbouring Baltic states are still supported by consumption, which increases hand in hand with the increase in purchase power of households in real terms.

## Financial performance

### FINANCIAL RATIOS 2010-2014

<i>In million euros</i>	2014	2013	2012	2011	2010
Revenue	535	499	468	436	413
Change in revenue	7%	7%	7%	6%	-1%
Gross profit	133	126	121	115	108
EBITDA	35	33	38	36	29
Operating profit	24	22	26	26	19
Profit before tax	22	21	25	25	17
Net profit	20	18	21	22	17
Change in net profit	16%	-16%	-3%	29%	232%
Sales revenue per employee	0.140	0.140	0.140	0.143	0.130
Gross margin	25%	25%	26%	26%	26%
EBITDA margin	6%	7%	8%	8%	7%
Operating margin	4%	5%	6%	6%	5%
Profit before tax margin	4%	4%	5%	6%	4%
Net margin	4%	4%	5%	5%	4%
Equity ratio	51%	51%	51%	53%	50%
Return on equity (ROE)	12%	11%	14%	16%	14%
Return on assets (ROA)	6%	6%	8%	8%	6%
Current ratio	1.1	1.0	1.0	1.1	1.0
Debt ratio	0.5	0.5	0.5	0.5	0.5
Inventory turnover	7.4	7.4	7.7	7.9	11.7
Average number of employees	3,824	3,554	3,335	3,059	3,184

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)	= COGS/ average inventories
Current ratio	= current assets / current liabilities
Debt ratio	= total liabilities / balance sheet total

The consolidated sales revenue of Tallinna Kaubamaja Group in 2014 was 535.0 million euros, which is an increase of 7.3% from the result of 498.7 million euros in 2013. The consolidated net profit of 2014 was 20.3 million euros, which was 16.2% higher than the profit for the previous year (the profit for 2013 was 17.5 million euros). The profit before tax in 2014 was 22.5 million euros, which is an increase of 5.9% compared to the year before.

In 2014, there was a continuous positive tendency of sales growth in the Group's main retail segments, which was higher than in the Estonian retail market on the average. The only retail segment with sales lower than the sales results from the preceding year was footwear segment. The year 2014 on the whole, but especially the end of the year, was affected by the expansion of the Estonian retail market with the emergence of new commercial premises and market participants. This is good news for consumers, but it has watered down the economic results of numerous market participants. The anticipated flow of tourists at the end of the year, especially from the East, was significantly lower than expected and diminished the sales of exclusive goods. All segments of the group were profitable in the fourth quarter of 2014. The only segment that ended the year with a loss was the footwear segment, which was affected by the changes in sales premises and product range. The Group managed to achieve a 16.2% annual growth of the net profit for the year 2014. The increase of staff costs slowed down at the end of the year (the total growth for the year was 11.8%), which resulted from the slowdown of the increase in the number of employees in the second half of the year. The lower growth of profits in 2014 was due to lower sales margins in car and footwear segments. The influence was most felt in the footwear segment, where the margin decreased due to changes in product ranges.

Since the beginning of 2014, we have opened a new Selver supermarket and SHU shoe store in the Astri shopping centre in Narva; however, we have closed the SHU shoe store at the Viru shopping centre in Tallinn city centre. In October, we reopened the I.L.U. store at the Ülemiste shopping centre, which had been closed in August in the course of reconstruction works. Now, the store has a new and more attractive location and a larger sales area. In November, we opened the new website for I.L.U. at [www.ilu.eu](http://www.ilu.eu) with the additional option of e-sales. Kaubamaja continued its online business with campaign stores: in October, we opened the online shop for the sales campaign Osturalli, and at the end of the year, we launched the online Gift Shop. In September 2014, the construction works of a new shopping centre in Viimsi began, where a new Selver supermarket will be opened in 2015.

The total of assets of the Tallinna Kaubamaja Group as at 31 December 2014 was 342.9 million euros, which is an increase of 4.6% or 15.1 million euros in comparison with the end of 2013.

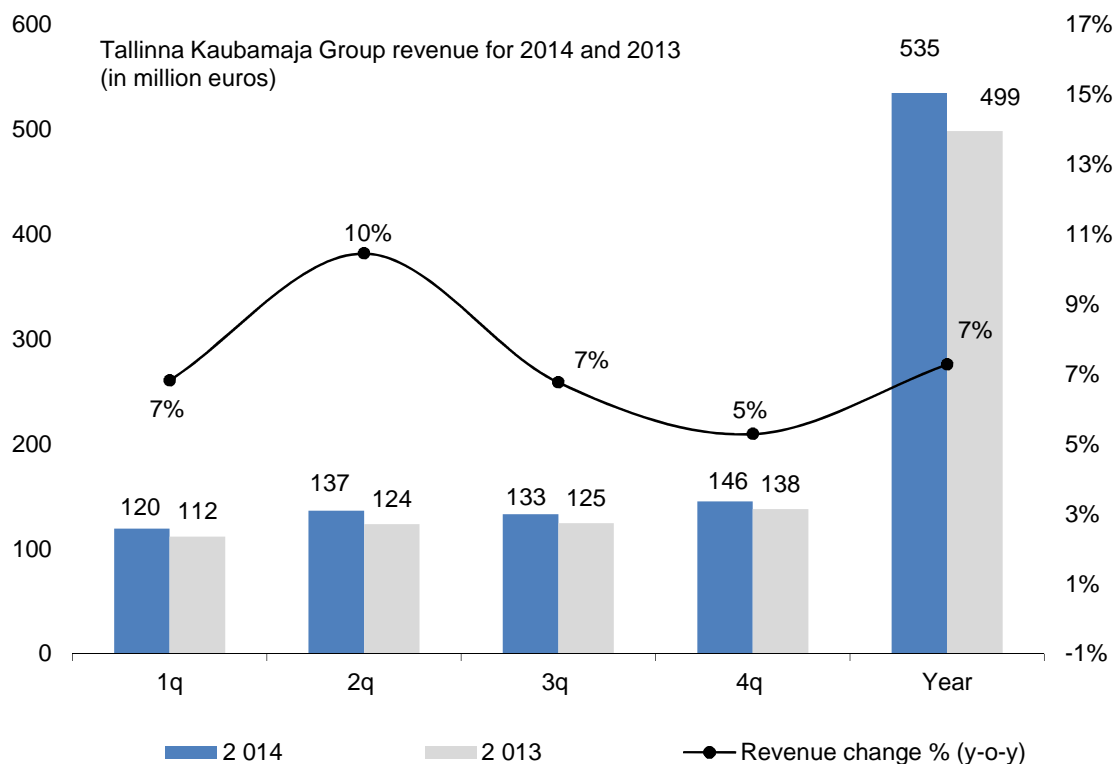
At the end of the reporting period, there were over 614 thousand customers in our customer loyalty programme, which is an annual increase of 7.1%. The proportion of loyal customers in the group's turnover was 80.9% (82.1% in 2013). There were over 5.3 thousand Partner Bank and Credit cards issued in Estonia by the end of the year.

## Investments

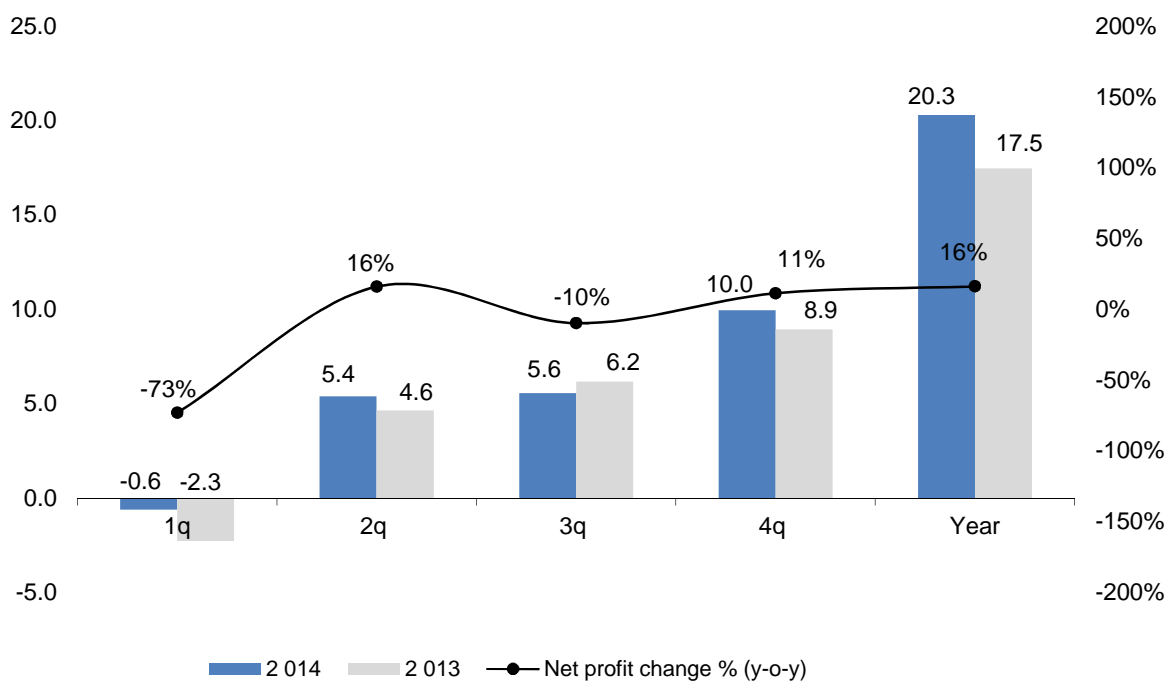
The Group's investments in 2014 amounted to 9.1 million euros (30.1 million euros in 2013), with 9.0 million euros invested in property, plant and equipment, and 0.1 million euros in intangible assets. In the supermarket segment, 2.9 million euros worth of investments were made (in 2013, 8.2 million euros). Investments were made to open a new supermarket in Narva, in furnishings and equipment, but also in SelveEkspress self-scan systems that were introduced in several supermarkets. The amount of investments made in the department store business segment was 1.9 million euros (in 2013, 1.9 million euros), used, inter alia, to refresh the groceries departments of Kaubamaja by giving them a new, more open and modern look. In the car segment, 0.6 million euros worth of investments were made (in 2013, 0.5 million euros). In the footwear segment, the Group invested 0.6 million euros in opening new stores and improving the sales environment and check-out systems of the stores (0.2 million euros in 2013). Investments made in the real estate business segment amounted to 3.0 million euros (19.5 million euros in 2013). In 2014, the parking lot of Hiiumaa Selver supermarket was expanded and unfinished major works were tied up. In September 2014, construction works of a shopping and entertainment centre in Viimsi were started.

## Seasonality of business and risks

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.



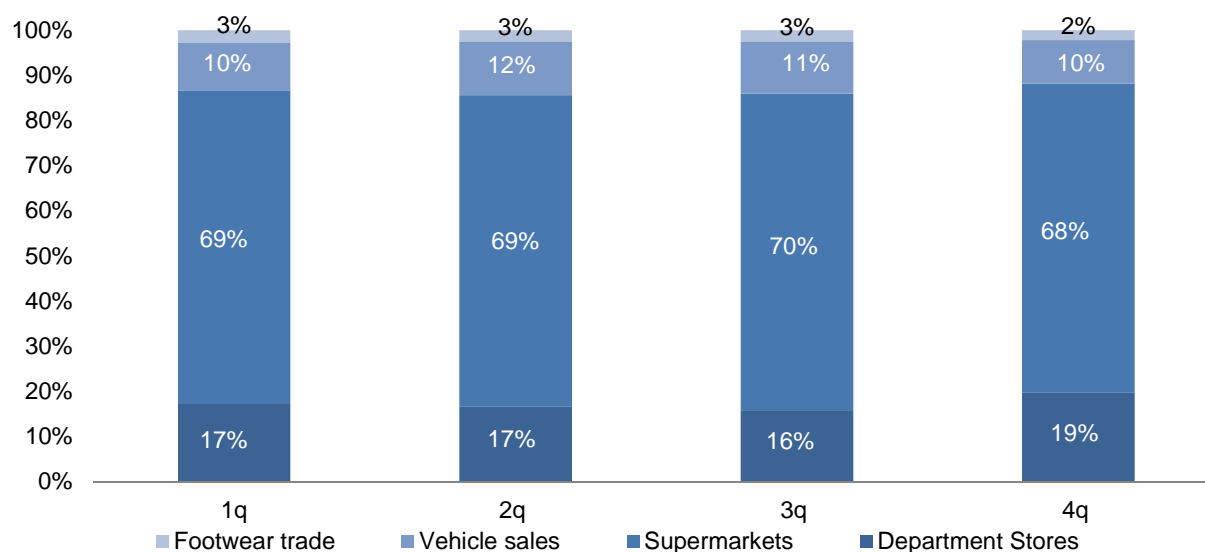
Tallinna Kaubamaja Group net profit for 2014 ja 2013  
(in million euros)





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

Tallinna Kaubamaja Group revenue distribution for 2014



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

Detailed description of The Group's risks and risk management principles is provided in Note 4 of the financial statements.

## Business segments

In million euros	Supermarkets			Department stores			Car Trade			Footwear Trade			Real Estate			Group total		
	2014	2013	%	2014	2013	%	2014	2013	%	2014	2013	%	2014	2013	%	2014	2013	%
<b>External revenue</b>	368.2	343.1	7.3%	92.5	89.6	3.3%	57.7	48.0	20.1%	13.4	14.7	-9.0%	3.3	3.3	1.1%	535.0	498.7	7.3%
<b>EBITDA</b>	11.4	10.3	10.9%	6.3	6.1	3.8%	2.8	2.5	8.3%	-0.3	0.9	-136%	14.7	13.3	10.2%	34.8	33.1	5.0%
<i>EBITDA margin%</i>	3.1%	3.0%		6.8%	6.8%		4.8%	5.3%		-2.5%	6.3%		442%	406%		6.5%	6.6%	
<b>Operating profit/loss</b>	7.8	6.3	23.7%	4.4	4.2	5.7%	2.3	2.2	6.4%	-1.0	0.1	-1697%	10.3	9.6	6.4%	23.8	22.4	6.4%
<i>Operating profit margin%</i>	2.1%	1.8%		4.8%	4.7%		4.0%	4.5%		-7.5%	0.4%		310%	295%		4.4%	4.5%	
<i>Finance income and costs</i>	0.3	0.1		0.4	0.2		-0.3	-0.2		-0.3	-0.2		-1.4	-1.0		-1.3	-1.1	
<i>Corporate income tax</i>	-0.4	-1.7		-1.4	-1.2		-0.4	0.0		0.0	0.0		0.0	-0.8		-2.2	-3.8	
<b>Net profit/loss</b>	7.7	4.7	65.8%	3.4	3.2	6.3%	1.7	1.9	-14.3%	-1.3	-0.1	1350%	8.8	7.8	13.2%	20.3	17.5	16.2%
<i>Net profit margin%</i>	2.1%	1.4%		3.6%	3.5%		2.9%	4.0%		-9.6%	-0.6%		267%	238%		3.8%	3.5%	

## Supermarkets

The consolidated sales revenue of the supermarkets business segment in 2014 was 368.2 million euros, which is an increase of 7.3% in comparison with the preceding year. The average monthly sales revenue of goods per square metre of commercial space in 2014 was 0.36 thousand euros, which is a 0.2% decrease in comparison with the preceding year. The sales revenue of goods per square metre of commercial space for comparable stores in 2014 was 0.36 thousand euros, which represents a 0.6% fall in comparison with 2013. Throughout 2014, 35.6 million purchases were made in Selver supermarkets, which is 5.2% more than in the previous year.

The consolidated profit before tax for 2014 in the supermarket segment was 8.1 million euros and the net profit was 7.7 million euros. The net profit for the year 2014 increased more than 3.0 million euros in comparison with the year 2013. The profit before tax earned in Estonia was 10.5 million euros and net profit 10.1 million euros. The difference between net profit and profit before tax emerges from the income tax paid on dividends. The loss before tax and net loss earned in Latvia in 2014 was 2.4 million euros. The loss remained on the same level as in the previous year.

The increase in turnover in 2014 was supported by new stores that had been opened in 2012 and 2013. The increase of turnover was also supported by low inflation rate, good consumer confidence, and private consumption spending indicators. Especially in the second half of the year, the turnover was affected by successful marketing campaigns and also by the category management project and the changes in product range that take clients' needs into account to a larger extent. There was negative influence proceeding from changing competitive environment, as a result of which, there is a redistribution of clients between stores, including Selver supermarkets. Looking by segments, the increase of turnover is led by the food segment, where there was an increase in the sales of fresh groceries and the increased range of gourmet products. The profits for 2014 were positively affected by the continuous improvement of the efficiency of activities. In addition to that, changes in the labour market had an effect on the profits throughout the year 2014, as a result of which, the average wages have increased and the staff expenses have also risen. The annual results also include the non-capitalized costs related to one-off projects. Larger one-off projects in the reported year were as follows: on 1 January, new commerce software was implemented in Selver supermarkets; in the first quarter, the Gurmeekauplus store selling gourmet food items in Solaris centre was closed, and a new section of gourmet goods was opened in Pirita Selver; in June, a new Selver supermarket was opened at the Astri shopping centre in Narva. In 2014, the content of the SelveEkspress service was improved and the webpage of Selver was updated. There was also a change in the management board: since spring, the Selver supermarket retail chain is led by Kristi Lomp, the long-time sales director of Selver.

The supermarket segment includes the chain of Selver supermarkets with 44 Selver supermarkets and sales area of 83.9 thousand m<sup>2</sup>, SIA Selver Latvia, where there is no current business operation, and Kulinaaria OÜ, which includes the largest central kitchen in the Baltic States. In 2015, we plan to open a Selver supermarket in Viimsi and expand the SelveEkspress service to five existing Selver supermarkets.

### Department stores

The sales revenue of the department store business segment in 2014 was 92.5 million euros, which is a 3.3% increase in comparison with the same period last year. The average monthly sales revenue of department stores per square metre of sales premises was 0.3 thousand euros, which is 2.2% higher than in the preceding year. The profit before tax of department stores in 2014 was 4.8 million euros, which was 10.2% higher than the profit for the preceding year. In conclusion of 2014, it should also be said that the results of Kaubamaja department stores were affected by difficult access to both department store buildings, as tramways were renovated in Tallinn and the streets in the centre of Tartu were closed for extensive reconstruction works. The results were also affected by autumn and winter months that were warmer than usual, which allowed clients to postpone the purchase decision of clothing items and had the most profound effect on the sales of outdoor clothing. At the end of the year, the results of Kaubamaja were affected by aggressive and large-scale campaigns of the competitors and also the altered competitive environment in the Tallinn retail market, as the renovated Ülemiste shopping centre reopened in October. However, taking all this into consideration, Kaubamaja department stores have managed to be profitable and hold on to their market share.

The sales revenue of OÜ TKM Beauty, which operates the I.L.U. cosmetic stores in Estonia, in 2014 was 4.7 million euros, representing a growth of 1.6% in comparison with the year 2013. The loss for the year 2014 was 0.3 million euros, which was 0.07 million euros lower in comparison with 2013. In the summer of 2014, there was a development carried out in the I.L.U. store in Pärnu, where sales area was decreased and the available product range was optimized, proceeding from the expectations of the local consumers. The I.L.U. store in Ülemiste shopping centre was closed in August for the renovation works of the centre, and reopened in October, in a more attractive location and with a larger sales area. In November, the new website of I.L.U. at [www.ilu.eu](http://www.ilu.eu) was opened with the added online sales function. In November, Anne-Liis Ostov, who was previously the Marketing Director of Kaubamaja AS, became the Member of the Management Board and the CEO.

### Car Trade

The sales revenue of the car trade segment in 2014 was 57.7 million euros. The sales revenue was 20.1% higher than the same revenue for the previous year; including the sales revenue of KIAs increasing by 16.9%. In 2014, altogether 3,050 new vehicles were sold. The net profit of the segment for 2014 was 1.7 million euros. The profit before tax for the segment in 2014 was 2.0 million euros, which is an increase of 6.1% in comparison with the profit for 2013.

### Footwear trade

The sales revenue of the footwear segment in 2014 was 13.4 million euros, which was a decrease of 9.0% in comparison with the preceding year. The loss for 2014 was 1.3 million euros, whereas the loss for 2013 was 0.1 million euros. The annual sales revenue was affected strongly by the relocation of ABC flagship store to the first floor of the Viru shopping centre and the termination of rent lease of the SHU store in the same shopping centre. In addition, there was a long and warm autumn in the fourth quarter, which did not favour the sales of warm winter boots, thereby negatively affecting both sales revenues and sales margin. In 2014, we continued making changes in the planned product range and brand portfolio, and in relation to that, reorganizing store supplies, which resulted in temporary diminishing of the gross margin. In comparison with the previous period, the level of store supplies by the end of 2014 was optimized down by 1.95 million euros. By the end of the year, there were 27 footwear stores in the group with total retail space of 8.8 thousand m<sup>2</sup>.

### Real estate

The external revenue of the real estate business segment for 2014 was 3.3 million euros. The sales revenue increased by 1.1% in comparison with the previous year. The profit before tax for real estate segment in 2014 was 8.8 million

euros, which was 0.2 million euros or 2.3% more than in the previous fiscal year (in 2013 it was 8.6 million euros). The annual profit increase in 2014 resulted from the increase of the rentable areas belonging to the company in 2013, as at the end of the year, the Peetri Selver supermarket in Rae rural municipality and a car show room in Ulmana Street in Riga were completed. At the end of September 2014, the construction works of shopping and entertainment centre in Viimsi were started. The centre is planned to be opened in the autumn of 2015.

## 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 company are considered important and we have increased the amount of these sessions in 2014. Department stores' internal training offers high-level customer service and teamwork training. Systematic service management supported by training, evaluation and feedback constitute a whole which allowed maintaining the level of service quality in Kaubamaja in the year 2014 and improving it even further. Managers, experienced specialists and members of the Service Club share their experience acting as internal trainers.

We have started planning service trainings in Selver conducted by internal trainers, with the aim of improving our service quality and providing the staff with the opportunity of improving and developing their skills. The introduction of a mentor system was initiated in order to decrease staff turnover, ensure high-quality training for new staff members, and making it easier for new employees to adjust. Selver's internal trainers are store managers and specialists in various fields. Internal trainers contribute to the induction process for new employees, as already experienced employees' knowledge update.

In order to raise a next generation of employees, the Tallinna Kaubamaja Group has offered students various internship 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 next generation of employees who are ambitious and want to grow. In 2014, 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. In 2014 the focus of the Kaubamaja leadership programme was on applying the knowledge acquired in lectures in everyday work. In order to ensure the growth of new managers, five young university graduates were recruited into Selver's Young Manager Program in 2013. Their progress in the program has been rapid. Upon the successful completion of the program, they will have the opportunity to continue in a permanent position. During the reporting year, the development of a new customer service concept began in Selver. 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.

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 joint singing and dancing at Kaubamaja's summer days themed "Party on top of a party" inspired the employees to found the Kaubamaja Choir. An event called "Oma Töötaja Päev" (Employee's Day) was held in Selver once again –

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 2014, 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 the 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— many experts and professionals shared their knowledge and recommendations.

The average number of employees in the Tallinna Kaubamaja Group in 2014 increased by 7.6% reaching 3,824. Labour costs (wage costs and social tax costs) increased by 11.8% and were 46.5 million euros in 2014. The average monthly labour costs per employee in 2014 increased by 4.0% compared to the average labour costs of 2013. The salaries have been revised to the extent that allows preventing the increase of employee turnover and decrease in efficiency in relation to narrowed recruitment choices.

### Social responsibility

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

1. To offer the customers quality products and goods from small producers of Estonian origin. The goal of the Kaubamaja Group is to differentiate itself through the selection of goods – that is made possible thanks to the Group's long-term cooperation with small Estonian producers.
2. To promote a healthy lifestyle among the Tallinna Kaubamaja Group employees, supporting sports and 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:
  - In 2014, Kaubamaja received the responsible business bronze award. The responsible business index evaluates three different aspects: economic/financial responsibility, environmental responsibility and social responsibility of the company.
  - 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 more than ten years.
  - In cooperation with Uuskasutuskeskus, Kaubamaja has opened permanent collection points for second-hand clothes and footwear. The materials used in advertising campaigns have been donated to be recycled in child care institutions and to be used for handicraft made by people with special needs.
  - In the past seven years, we have launched campaigns in cooperation with several charity organizations, collecting money for animal shelters, large families etc. In our charity projects, we concentrate on projects related to children. Cooperation partners have included MTÜ Clinic Clowns Eesti (selling Doctor Clown badges), Charity Piritall OÜ (charity concert "The Touch of Sound"), Pelgulinna maternity hospital (in cooperation with TV3, selling fan items of the TV-show Kättemaksukontor), and Dharma music therapy sessions for children with special needs (selling charity postcards and teddy bears at Christmas). There have also been various smaller events related to children and child care institutions, such as song competitions, sport days, and school parties, where Kaubamaja has provided prizes for the winners.
  - In cooperation with SEB Heategevusfond, Kaubamaja employees wrapped 1,100 gifts for children living in safe houses and substitute homes in 2014 in the project "Tree of Christmas Wishes".
  - Kaubamaja values Estonian fashion design and promotes the work of Estonian designers in every possible way. Estonian products bear special labelling in Kaubamaja in order to introduce local design to tourists. In the women's fashion department of Tallinna Kaubamaja, there is a special sales area dedicated to the work of Estonian fashion designers and numerous exhibitions displaying Estonian design on the windows of Kaubamaja take place throughout the year. For several years, Kaubamaja has been a sponsor of Tallinn Fashion Week and is proud to present the Estonian Fashion Award Kuldnõel. Kaubamaja also cares about future fashion designers – we encourage schools to organize their own fashion shows and help by providing the prizes; for instance we sponsor the organization of youth fashion events "MoeP.A.R.K." and "NoorMood".
  - In 2012, Kaubamaja and Selver joined the Diversity Charter, which commits us to follow the principles of equal treatment and opportunities and contribute to the development of diversity in the company. A company in which the diversity of employees is valued (whether concerning age, ethnicity, disabled people) has more knowledge, skills, experiences, perspectives, and a more tolerant atmosphere at work. We believe that this way we will be able to provide better service to our customers.
  - For the twelfth 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 2014, 104,000 euros were raised (100,146 euros in

2013).

- For the past 5 years, Selver has been cooperating with the Shalom Centre, a non-profit organisation, donating soon-to-expire food to families in need.
- In 2014, 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 all over 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.
- In 2014, Selver became a sponsor of the FC Flora football club.
- Selver is also the presenting sponsor of the Linnajooks running events, a series of seven races taking place all over Estonia: Tartu Spring Run, Rapla Selver Run, Narva Energy Run, Estonian Night Run in Rakvere, Jüri Jaanson's Two Bridges Race in Pärnu, SEB Tallinn Marathon, and the Paide-Türi Public Run. Selver also sponsors the Moonsund Regatta.
- Selver supports small and large scale cultural projects, primarily outside of major cities. In 2014, for example, the sponsored events included Saaremaa Opera Days, Hiiumaa Church Concerts, Viljandi Folk Music Festival, Järvi Festival and Hiiu Folk Music Festival.

## The share

### Security information

ISIN	EE0000001105
Ticker	TKM1T
Nominal value	0.40 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 0.40 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.

On 27 March 2014, the annual general meeting of shareholders of Tallinna Kaubamaja AS decided to amend the articles of association and to reduce the share capital by reducing the nominal value of shares by 0.20 euros, from the existing 0.60 euros to 0.40 euros. At the same time, the total number of shares was not changed. According to the Commercial Code, respective amendment of the articles of association shall take effect as of respective entry to the Commercial Registry. Respectively, also the changes in the share capital and nominal value of the shares shall be considered changed as of entry in the Commercial Registry. The abovementioned entries to the Commercial Registry were made in 7 July 2014.

## 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 3 March 2014, the Management Board proposed to pay 6.1 million euros as dividends that is 0.15 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.

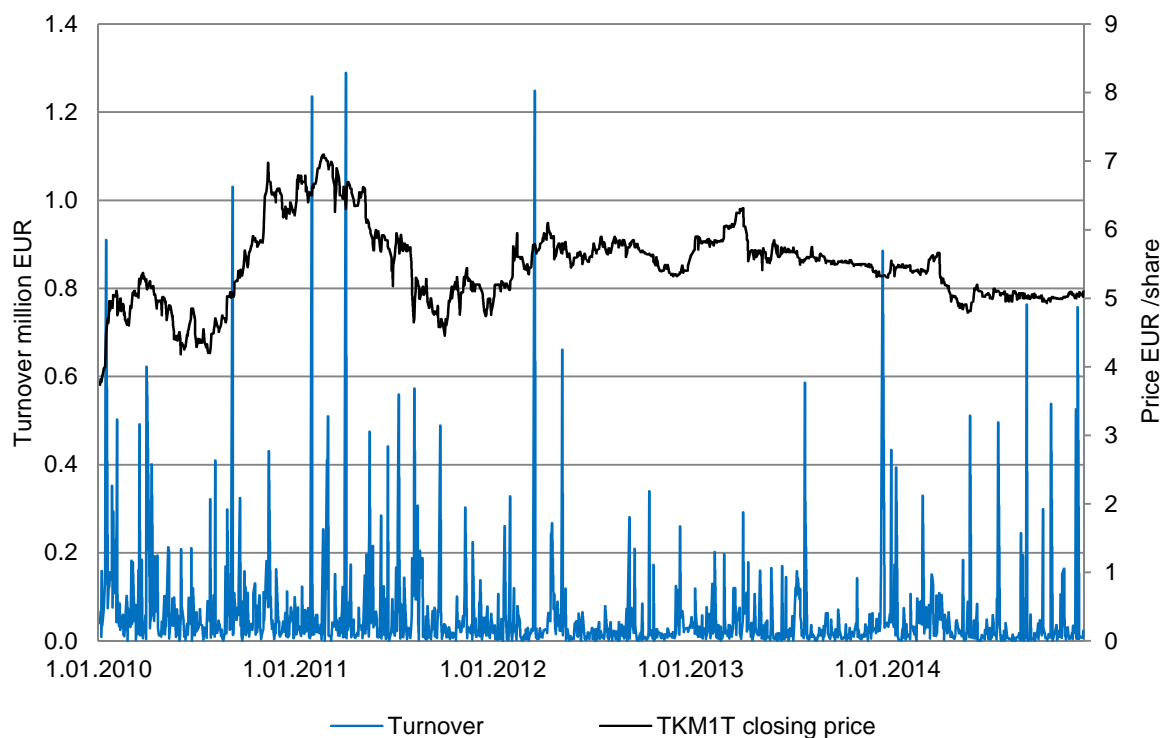
At the end of the 2014 the Group had 3,397 shareholders and division of shares is following:

Ownership structure	Number of shareholders	Shareholders%	Shares%	Votes%
Private persons	2,876	84.7%	7.1%	7.1%
Companies (Estonian)	477	14.0%	8.0%	8.0%
Financial institutions (other countries)	31	0.9%	9.6%	9.6%
Companies (other countries)	8	0.2%	1.3%	1.3%
Financial institutions (Estonian)	3	0.1%	0.0%	0.0%
ING LUXEMBOURG S.A.	1	0.0%	6.9%	6.9%
OÜ NG INVESTEERINGUD	1	0.0%	67.0%	67.0%
<b>Total</b>	<b>3,397</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Number of shares	Number of shareholders	Shareholders%	Shares%	Votes%
1–100	701	20.6%	0.1%	0.1%
101–1,000	1,729	50.9%	1.9%	1.9%
1,001–10,000	882	26.0%	5.6%	5.6%
10,001–100,000	66	1.9%	4.3%	4.3%
100,001–1,000,000	16	0.5%	11.7%	11.7%
1,000 001– ...	3	0.1%	76.4%	76.4%
<b>Total</b>	<b>3,397</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

#### Share price and trading statistics in Tallinn Stock Exchange during 01.01.2010 - 31.12.2014

In euros



## Share trading history

In euros

	2014	2013	2012	2011	2010
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (pcs)	2,368,070	1,757,026	1,907,270	3,136,128	4,207,617
Dividend / net profit	80%*	35%	68%	66%	69%
P/E	10.2	12.4	10.7	9.1	15.2
P/BV	1.2	1.3	1.5	1.4	2.0
Opening price	5.35	5.5	4.845	6.37	3.62
Share price, highest	5.69	6.37	6.13	7.19	6.98
Share price, lowest	4.79	5.3	4.845	4.35	3.62
Share price, at the year-end	5.1	5.3	5.48	4.813	6.21
Share price, yearly average	5.15	5.67	5.59	5.77	5.13
Turnover (million)	12.19	9.95	10.70	17.96	21.00
Capitalisation (million)	207.72	215.86	223.20	196.03	252.93
Earnings per share	0.5	0.4	0.5	0.5	0.4
Dividend per share	0.4*	0.15	0.35	0.35	0.28
Equity per share	4.3	4.1	3.6	3.4	3.2

\* 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 2014 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 3 March 2014 and through a daily newspaper Eesti Päevaleht on 4 March 2014. 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 3 March 2014.

The general meeting of shareholders of Tallinna Kaubamaja was held in the conference centre of Radisson Blu Hotel Olümpia, Liivalaia 33, Tallinn, on 27 March 2014 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 2014 was Estonian and the meeting was chaired by the general lawyer of the Tallinna Kaubamaja Helen Tulve. The meeting was also attended by the chairman of the Supervisory Board Jüri Kõo, members Andres Järving, Enn Kunila and Gunnar Kraft, member of the Management Board Raul Puusepp and auditors Ago Vilu and Eva Jansen-Diener from PricewaterhouseCoopers AS. 78.32% 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 2014, 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 2014 to the Chairman of the Management Board amounted to 121 thousand euros (in 2013, 133 thousand euros) and the calculated fees, including social security taxes, amounted to 47.5 thousand euros (for 2013 the performance pay in amount of 28 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 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 2014, 12 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2013, 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 Kõo, Enn Kunila, Meelis Milder and Gunnar Kraft were elected as the members of the Supervisory Board. Authorities of the current members of the Supervisory Board: Andres Järving, Jüri Kõo, Enn Kunila, Meelis Milder and Gunnar Kraft will expire on 19 May 2015. At the meeting of 21 May 2012, the Supervisory Board elected Jüri Kõo as the Chairman of the Supervisory Board, he has been a member of the Supervisory Board of Tallinna Kaubamaja from 1997 and has been a Chairman of the Supervisory Board in 2000-2001 and 2009-2012.

According to the decision of the annual general meeting on 12 April 2012, the monthly remuneration of the Supervisory Board member of Tallinna Kaubamaja AS is 1,000 euros; the Chairman of the Supervisory Board receives 1,200 euros monthly. In the year 2014, the remuneration for the members of the Supervisory Board, payroll tax included, was 83 thousand euros, of which the remuneration of the Chairman of the Supervisory Board was 19 thousand euros (in 2013, 83 thousand euros, of which the remuneration of the Chairman of the Supervisory Board was 19 thousand euros). Additionally, the members of the Supervisory Board received remuneration for participating in the work of the audit committee in the total sum of 17 thousand euros, payroll tax included, of which the Chairman of the Supervisory Board received 5 thousand euros (in 2013, 17 thousand euros, of which the Chairman of the Supervisory Board received 5 thousand euros).

## 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 Group's website [www.tkmgroup.ee](http://www.tkmgroup.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. The Audit Committee members contribute to the process of preparing the annual report primarily for surveillance purposes. 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 Tallinna Kaubamaja AS was established in March 2010, its statutes were approved at the meeting of the Supervisory Board of Tallinna Kaubamaja AS held on 21 May 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 Supervisory Board of Tallinna Kaubamaja AS appointed Andres Järving, Gunnar Kraft, Jüri Kõo, Kaia Salumets and Kristo Anton as the members of the Audit Committee.

The Audit Committee prepares an annual summary report about meeting the goals sets in the statutes and presents it to the Supervisory Board.

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.

## The targets for 2015

The most important directions of development and objectives for the Tallinna Kaubamaja Group in 2015 are following:

- Increasing the Group's market share, constantly improving efficiency and profitability, offering more added value to customers.
- Opening a new Selver supermarket in Viimsi and renovating Torupilli Selver supermarket.
- Launching the SelveEkspress self-scan service in five additional Selver supermarkets and implementing the self-service check-out system in the groceries departments in Tallinn and Tartu department stores.
- Developing and implementing our e-platform so that permanent online shops could be opened in 2016.
- Improving the profitability of the footwear segment by updating the product range.
- Developing the technological solutions of the central kitchen of OÜ Kulinaaria.
- Developing the retail concept of I.L.U. stores and increasing the import of beauty brands that are suitable for different formats of the Group.
- Developing the analytic marketing of the Group's Partnerkaart customer loyalty programme.
- Expanding the functions of the customer loyalty programme by including external partners.
- Increasing the turnover and profit of the security business and expanding its activities.
- Merging security businesses and improving management efficiency.
- Increasing the market share of car business.
- Constantly improving the cooperation and synergies between the Group's business units.
- Finding new business opportunities and fields that would create new 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.



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Raul Puusepp  
Chairman of the Management Board

Tallinn, 26 February 2015

## 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 2014 as set out on pages 21-62.

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, 26 February 2015

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2014	31.12.2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	24,626	14,766
Trade and other receivables	6	17,938	15,991
Inventories	8	56,876	51,937
<b>Total current assets</b>		<b>99,440</b>	<b>82,694</b>
<b>Non-current assets</b>			
Long-term trade and other receivables	11	338	313
Investments in associates	10	1,778	1,711
Investment property	12	3,035	3,035
Property, plant and equipment	13	227,914	229,406
Intangible assets	14	10,402	10,636
<b>Total non-current assets</b>		<b>243,467</b>	<b>245,101</b>
<b>TOTAL ASSETS</b>		<b>342,907</b>	<b>327,795</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Borrowings	15	20,405	14,300
Trade and other payables	17	70,317	67,725
<b>Total current liabilities</b>		<b>90,722</b>	<b>82,025</b>
<b>Non-current liabilities</b>			
Borrowings	15	77,663	77,104
Provisions for other liabilities and charges		692	878
<b>Total non-current liabilities</b>		<b>78,355</b>	<b>77,982</b>
<b>TOTAL LIABILITIES</b>		<b>169,077</b>	<b>160,007</b>
<b>Equity</b>			
Share capital	19	16,292	24,438
Statutory reserve capital		2,603	2,603
Revaluation reserve		67,159	68,617
Currency translation differences		-255	-257
Retained earnings		88,031	72,387
<b>TOTAL EQUITY</b>		<b>173,830</b>	<b>167,788</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>342,907</b>	<b>327,795</b>

The notes presented on pages 26-62 form an integral part of these consolidated financial statements.

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	Note	2014	2013
Revenue	20	535,045	498,721
Other operating income		715	966
Cost of sales	8	-402,233	-372,930
Other operating expenses	21	-51,510	-51,365
Staff costs	22	-46,493	-41,571
Depreciation, amortisation and impairment losses	13,14	-10,970	-10,730
Other expenses		-767	-726
<b>Operating profit</b>		<b>23,787</b>	<b>22,365</b>
Finance income	23	24	31
Finance costs	23	-1,494	-1,322
Finance income on shares of associates	10	172	163
<b>Profit before income tax</b>		<b>22,489</b>	<b>21,237</b>
Income tax expense	18	-2,194	-3,773
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>		<b>20,295</b>	<b>17,464</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of land and buildings	13	0	18,650
<i>Items that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		2	-250
<b>Other comprehensive income for the financial year</b>		<b>2</b>	<b>18,400</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>		<b>20,297</b>	<b>35,864</b>
Basic and diluted earnings per share (euros)	24	0.50	0.43

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

The notes presented on pages 26-62 form an integral part of these consolidated financial statements.

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## CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit		20,295	17,464
<i>Adjustments:</i>			
<i>Interest expense</i>	23	1,494	1,322
<i>Interest income</i>	23	-24	-31
<i>Depreciation, amortisation and impairment losses</i>	13, 14	10,929	10,595
<i>Revaluation of property, plant and equipment</i>	13	0	-8
<i>Loss on sale and write-off of non-current assets</i>	13	41	218
<i>Profit on sale of non-current assets</i>	13	-11	-16
<i>Effect of equity method</i>	10	-172	-163
<i>Income tax on dividends paid</i>	19	1,324	3,777
<i>Corporate income tax paid</i>	19	1,012	0
Change in inventories		-4,879	-3,673
Change in receivables and prepayments related to operating activities		2,261	-2,140
Change in liabilities and prepayments related to operating activities		2,216	3,921
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>34,486</b>	<b>31,266</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment (excl. finance lease)	13	-8,982	-30,143
Proceeds from sale of property, plant and equipment	13	83	71
Purchases of intangible assets	14	-125	-108
Investments in subsidiaries	9	-308	0
Change in balance of parent company's group account	26	-4,000	5,000
Dividends received	10	105	80
Interest received	23	24	31
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-13,203</b>	<b>-25,069</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	15	52,508	68,194
Repayments of borrowings	15	-47,042	-53,885
Change in overdraft balance	15	1,199	107
Dividends paid	19	-6,109	-14,255
Income tax on dividends paid	19	-1,324	-3,777
Reduction of share capital	19	-8,146	0
Corporate income tax paid	19	-1,012	0
Repayments of finance lease principal	16	0	-3
Interest paid	23	-1,498	-1,310
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>-11,424</b>	<b>-4,929</b>
<b>TOTAL CASH FLOWS</b>		<b>9,859</b>	<b>1,268</b>
Effect of exchange rate changes		1	4
Cash and cash equivalents at the beginning of the period	5	14,766	13,494
Cash and cash equivalents at the end of the period	5	24,626	14,766
<b>Net change in cash and cash equivalents</b>		<b>9,860</b>	<b>1,272</b>

The notes presented on pages 26-62 form an integral part of these consolidated financial statements.

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Revaluation reserve	Currency translation differences	Retained earnings	Total
<b>Balance as of 31.12.2012</b>	<b>24,438</b>	<b>2,603</b>	<b>51,079</b>	<b>-7</b>	<b>68,066</b>	<b>146,179</b>
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
<b>Total comprehensive income for the reporting period</b>	<b>0</b>	<b>0</b>	<b>18,650</b>	<b>-250</b>	<b>17,464</b>	<b>35,864</b>
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
<b>Balance as of 31.12.2013</b>	<b>24,438</b>	<b>2,603</b>	<b>68,617</b>	<b>-257</b>	<b>72,387</b>	<b>167,788</b>
Net profit for the reporting period	0	0	0	0	20,295	20,295
Revaluation of land and buildings	0	0	0	0	0	0
Other comprehensive income for the reporting period	0	0	0	2	0	2
<b>Total comprehensive income for the reporting period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>20,295</b>	<b>20,297</b>
Reclassification of depreciation of revalued land and buildings	0	0	-1,458	0	1,458	0
Reduction of share capital	-8,146	0	0	0	0	-8,146
Dividends paid	0	0	0	0	-6,109	-6,109
<b>Balance as of 31.12.2014</b>	<b>16,292</b>	<b>2,603</b>	<b>67,159</b>	<b>255</b>	<b>88,031</b>	<b>173,830</b>

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

The notes presented on pages 26-62 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 26 February 2015 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 2014 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 as 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 01.01.2014 that would be expected to have a material impact to the Group.

#### 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 assesses the impact of the amendments on the disclosures in its financial statements immaterial.

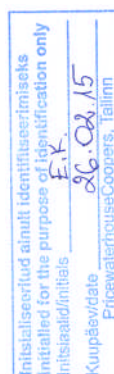
#### Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

(effective for annual periods beginning on or after 1 January 2014).

The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group assesses that there is no impact of application of the amendments to its financial statements.

#### Recoverable Amount Disclosures for Non-financial Assets - Amendments to IAS 36 -

(effective for annual periods beginning on or after 1 January 2014).



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 assesses the impact of the amendments on the disclosures in its financial statements immaterial.

#### **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 01.01.2015, and which the Group has not early adopted.

#### **Annual Improvements to IFRSs 2012**

(effective for annual periods beginning on or after 1 July 2015, 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.

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.

#### **IFRS 15, Revenue from Contracts with Customers**

(effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the amendments on its financial statements.

#### **Annual Improvements to IFRSs 2014**

(effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

#### **Disclosure Initiative – Amendments to IAS 1**

(effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Group is currently assessing the impact of the amendments on its financial statements.

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

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

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

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## 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 Lithuanian lits in case of the entities operating in Lithuania), the following principles have been applied to translate the financial statements of subsidiaries prepared in foreign currencies:

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

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

## Principles of consolidation

### *Subsidiaries*

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

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

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

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

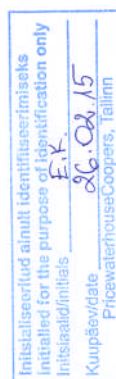
### *Associates*

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

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

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

When the Group's share of losses in an associate equals or exceeds the book value of the associate, the investment is



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

### Segment reporting

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

### Cash and cash equivalents

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

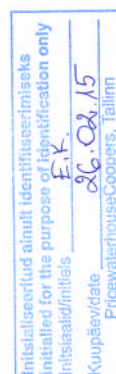
Purchases and sales of financial assets are recognised consistently from the day on which the Company becomes the owner of the financial asset or loses its ownership interest in the financial asset.

### 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 and the cost of food products. In the car trade segment, the cost of spare parts is recognised by means of the weighted average acquisition cost method and that of cars is recorded on individual cost basis. Inventories are measured in the balance sheet at the lower of acquisition/production cost and net realisable value. The net realisable value is the estimated sales price less estimated expenditures for completion and sale of the product.

### Investment property

The property (land or a building) held by the Group for earning long-term rental yields or for capital appreciation, rather than its own operations, is recorded as investment property. Investment property is initially recognised in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would have not taken place). Investment property is subsequently measured at fair value, based on the market price determined annually by independent



appraisers, based on the prices of recent transactions involving similar items (adjusting the estimate for the differences) or using the discounted cash flow method. Changes in fair value are recorded under the income statement items "Other operating expenses"/"Other operating income". No depreciation is calculated on investment property recognised at fair value.

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

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

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

## Property, plant and equipment

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

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

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

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

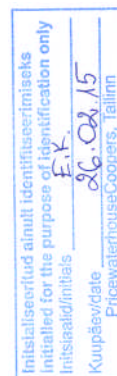
For items of property, plant and equipment that necessarily take a substantial period of time to get ready for its intended use, the borrowing costs are capitalised in the cost of the asset. Capitalisation of borrowing costs is terminated when the asset is substantially ready to be used or its active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

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

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

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

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



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

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

### Intangible assets

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

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

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

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

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

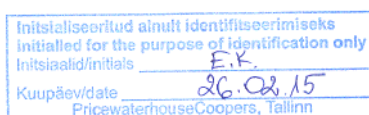
### Impairment of assets

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

### Goodwill

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

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



## Finance and operating leases

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

### *The Group as the lessee*

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

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

### *The Group as the lessor*

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

## Financial liabilities

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

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

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

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

## Provisions and contingent liabilities

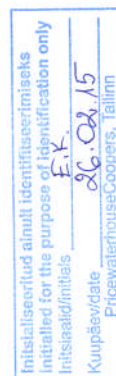
Provisions are recognised in the balance sheet when the company has a (legal or contractual) commitment arising from the events occurred before the balance sheet date; it is probable that an outflow of resources will be required to settle the obligation; but the final amount of the liability or date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

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

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

## Corporate income tax and deferred corporate income tax

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





tax as a non-current asset or a non-current liability.

#### *Group's Estonian entities*

In accordance with applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on profits. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. As of 01 January 2015 the current tax rate is 20/80 on the amount paid out as net dividends (until 31 December 2014 tax rate was 21/79 on the amount paid out as net dividends). As income tax is paid on dividends and not on profit, no temporary differences arise between the tax bases of assets and liabilities and the carrying amounts of assets and liabilities which may give rise to deferred income tax assets and liabilities.

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

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

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

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

For foreign subsidiaries, the deferred income tax assets and liabilities are determined for all temporary differences between the tax bases of assets and liabilities and their carrying amounts on the balance sheet date. Deferred corporate income tax on calculated on the basis of tax rates applicable on the balance sheet date and current legislation, expected to prevail when the deferred tax assets are settled. Deferred tax assets are recognised in the balance sheet only when it is probable that future taxable profit will be available against which the deductions can be made.

## **Revenue recognition**

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

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

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

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

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

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

#### *Revenue from provision of services*

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

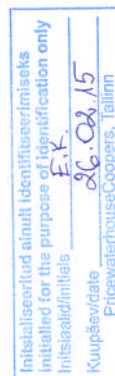
#### *Income from joint advertising*

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

#### *Interest income*

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

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



### Loyalty program

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

### Statutory reserve capital

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

### Earnings per share

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

### Payables to employees

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

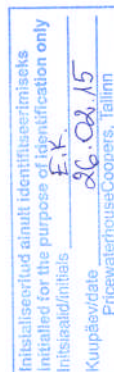
Pursuant to employment contracts and current legislation, payables to employees also include vacation pay accrual as of the balance sheet date. In addition to the vacation pay accrual, this liability also includes accrued social and unemployment taxes.

### Note 3 Critical accounting estimates and judgements

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

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

- *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. The valuation performed in 2014 did not reveal significant differences between fair values and carrying value of land and buildings located in Estonia. As a result of the valuation performed in 2013, 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 the amount of 18,650 thousand euros. No significant differences were recognised between fair values and carrying value of land and buildings located in Latvia (carrying value: 16,210 thousand euros as at 31.12.2014). As at 31.12.2014 the carrying value of land and buildings using revaluation method was 173,944 thousand euros (31.12.2013: 178,225 thousand euros). 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. Valuation performed in the end of 2014 financial year did not reveal significant differences between value in use and carrying value buildings under construction located in Estonia. As a result of the impairment test performed in the end on 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. Valuation performed in the end of 2014 and 2013 financial year did not reveal significant differences between fair values and carrying value (carrying value: 18,316 thousand euros (as at 31.12.2013: 17,923 thousand euros)) of buildings under construction located in Latvia. See more detailed information in Note 13.

- *Assessment of impairment of goodwill:* at least annually, the Group evaluates possible impairment of goodwill which arose in the acquisition of subsidiaries. For the purpose of determining the value, the fair value is determined for cash-generating units which goodwill has been allocated to. For determining the value in use, management has forecast future cash flows of cash-generating units and selected an appropriate discount rate for determining the present value of cash flows. As at 31.12.2014, the carrying value of goodwill was 6,710 thousand euros (2013: 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 2013. 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. Had the useful lives of buildings been extended by 10%, the Group's depreciation cost for 2014 would have decreased by 323 thousand euros (281 thousand euros for 2013).

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

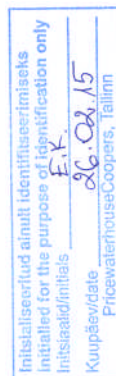
Managing risks associated with the Group's business activities is an integral and important part of the management of the Group. The supervisory boards of enterprises in collaboration with the executive management teams and the audit committee regularly analyse the enterprises' risks and the management 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 7), 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).





- 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:

	31.12.2014	31.12.2013
Aa3	5,631	4,245
A1	18,445	9,950
<b>Total</b>	<b>24,076</b>	<b>14,195</b>

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

Due to the specific nature of retail sales, the Group is not exposed to any major credit risk. Possible credit risk related to receivables is primarily attributable to non-collection of rental income, but this risk does not represent a major risk for the Group. As at 31 December 2014, the maximum credit risk arising from receivables is in the amount of 15,976 thousand euros (2013: 13,375 thousand euros).

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

	31.12.2014	31.12.2013
Not due	14,839	9,898
<i>Incl. receivables from the group account</i>	4,000	0
<i>Incl. receivables from card payments</i>	1,924	1,723
<i>Incl. receivables from bonuses</i>	0	2,255
<i>Incl. trade receivables</i>	7,107	5,879
<i>Incl. other receivables</i>	1,808	41
Overdue < 3 months	980	3,353
Overdue 3 - 6 months	111	64
Overdue 6 - 12 months	29	19
Overdue > 12 months	17	41
<b>Total receivables</b>	<b>15,976</b>	<b>13,375</b>

With regard to receivables not yet overdue, the claims against the group account is secured by the group account contract of the head group (NG Investeeringud OÜ). According to the contract, the members of the latter group 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.

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## 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 obtain 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:

<b>In thousands of euros</b>	<b>&lt; 3 months</b>	<b>3-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>after 5 years</b>	<b>Total 31.12.2014</b>
Borrowings	3,009	18,515	35,979	40,957	2,374	100,834
Financial liabilities (Note 17)	59,568	0	0	0	0	59,568
<b>Total</b>	<b>62,577</b>	<b>18,515</b>	<b>35,979</b>	<b>40,957</b>	<b>2,374</b>	<b>160,402</b>

<b>In thousands of euros</b>	<b>&lt; 3 months</b>	<b>3-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>after 5 years</b>	<b>Total 31.12.2013</b>
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
<b>Total</b>	<b>61,468</b>	<b>11,778</b>	<b>37,056</b>	<b>36,858</b>	<b>5,553</b>	<b>152,713</b>

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2014 and 31.12.2013, have been used.

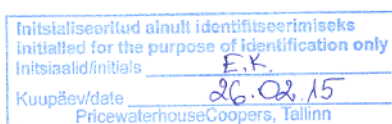
As at the end of the financial year, the Group had available funds in the amount of 24,626 thousand euros (2013: 14,766 thousand euros). The Group follows its established credit risk management strategy when investing its cash flow surplus. As at 31 December 2014, the Group had deposits in the amount of 4,000 thousand euros into the joint group account through its parent company NG Investeeringud OÜ (0 euros in 2013 was deposited).

As at 31 December 2014, the working capital was positive by 8,718 thousand euros (2013: 669 thousand euros). The positive change in the working capital was due to a decrease in the volume of investments in the reporting year. The liquidity ratio of the Tallinna Kaubamaja Group (current assets less inventories/current liabilities) also increased due to the decrease in investments, and in 2014, it improved to the level 0.47. In 2013, the corresponding figure was 0.37. 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 at 31 December 2014, the ratio was 30% and compared to 31 December 2013 when the ratio was 31%, it has slightly deteriorated during the accounting period as a result of the interest-bearing liabilities and equity growth in reporting period.



in thousands of euros

	31.12.2014	31.12.2013
Interest-bearing liabilities (Note 15)	98,068	91,404
Cash and cash equivalents (Note 5)	-24,626	-14,766
<b>Net debt</b>	<b>73,442</b>	<b>76,638</b>
Equity	173,830	167,788
<b>Total equity and borrowings</b>	<b>247,272</b>	<b>244,426</b>
Debt to equity ratio*	30%	31%

\*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. Fair value of financial instruments is level 3.

### Note 5 Cash and cash equivalents

in thousands of euros

	31.12.2014	31.12.2013
Cash on hand	550	571
Bank accounts	22,325	12,427
Cash in transit	1,751	1,768
<b>Total cash and cash equivalents</b>	<b>24,626</b>	<b>14,766</b>

### Note 6 Trade and other receivables

in thousands of euros

	31.12.2014	31.12.2013
Trade receivables (Note 7)	10,167	13,336
Receivables from Parent (Note 26)	4,000	0
Other short-term receivables	1,774	4
<b>Total financial assets from balance sheet line "Trade and other receivables"</b>	<b>15,941</b>	<b>13,340</b>
Prepayment for inventories	1,154	1,616
Other prepaid expenses	553	484
Prepaid rental expenses	160	412
Prepaid taxes (Note 18)	130	139
<b>Total trade and other receivables</b>	<b>17,938</b>	<b>15,991</b>

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## Note 7 Trade receivables

in thousands of euros

	31.12.2014	31.12.2013
Trade receivables	7,554	8,772
Other receivables	0	2,255
Provision for impairment of trade receivables	-59	-79
Receivables from related parties (Note 26)	748	665
Credit card payments (receivables)	1,924	1,723
<b>Total trade receivables</b>	<b>10,167</b>	<b>13,336</b>

## Note 8 Inventories

in thousands of euros

	31.12.2014	31.12.2013
Goods purchased for resale	56,133	51,216
Raw materials and materials	743	721
<b>Total inventories</b>	<b>56,876</b>	<b>51,937</b>

The income statement line "Cost of sales" includes the allowances and write-off expenses of inventories and inventory stocktaking deficit as follows:

in thousands of euros

	2014	2013
Write-down and write-off of inventories	8,265	6,560
Inventory stocktaking deficit	1,764	1,890
<b>Total materials and consumables used</b>	<b>10,029</b>	<b>8,450</b>

The basis for inventory write-down is their aging structure and in case of fashion goods, the seasonality. The carrying amount of inventories is adjusted through the allowance account. As at 31 December 2014, the allowance account amounted to 819 thousand euros (31.12.2013: 923 thousand euros).

The Group's cost of goods sold in 2014 amounted 402,233 thousand euros (2013: 372,930 thousand euros). The Group recognises as the "Cost of goods sold" the cost of purchased passenger cars, food and industrial goods, packing material, cost of finished goods, logistics and transportation, discount and write off of inventories.

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

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## Note 9 Subsidiaries

Tallinna Kaubamaja Group as at 31.12.2014 consists of:

Name	Location	Area of activity	Ownership 31.12.2014	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
Forum Auto SIA	Marupe K.Ulmana gatve 101	Retail trade	100%	2007
KIA Auto UAB	Vilnius, Perkunkiemies 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
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
Viking Security AS	Tallinn Mustamäe tee 4	Security activities	100%	2014

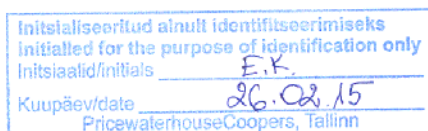
With the intention of improving the structure and making the administration of Tallinna Kaubamaja Group more transparent, merger and demerger of its subsidiaries took place in 2013. Reorganizing the structure of the group had no impact on the consolidated financial results. Restructuring did not have substantial influence on the operations of the Tallinna Kaubamaja Group.

The subsidiary of AS Tallinna Kaubamaja, AS TKM King, had two dormant subsidiaries in Latvia – SIA ABC King and SIA Suurtuki. In 07 August 2013 AS TKM King sold its shareholdings in the above mentioned Latvian subsidiaries 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). 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.

Business combinations in 2014:

Name	Location	Area of activity	Acquisition date	Ownership %
Viking Security AS	Estonia	Security activities	02.09.2014	100%

Acquisition of the shareholding in Viking Security AS enables Tallinna Kaubamaja Group to further strengthen its security services, one of the most fast-growing business areas of the Group in recent years. As a result of the transaction, the service portfolio of Topsec Turvateenused OÜ will expand from manned guarding and video security to include services related to the design, installation and maintenance of electronic alarm, security and surveillance systems and the possibility of participating in certified security tenders.



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

in thousands of euros	Fair value
Cash and cash equivalents	44
Other receivables and assets	294
Fixed assets (Note 13)	34
Trademark (Note 14)	175
Liabilities	-195
<b>Total identifiable assets</b>	<b>352</b>
Cost of ownership interest	352
Paid for ownership interest in cash	<b>352</b>
Cash and cash equivalents in the acquired entity	<b>-44</b>
<b>Total cash effect on the Group</b>	<b>-308</b>

Trademark at value of 175 thousand euros was acquired. Trademark will be amortised within 7 years (Note 14).

From acquisition date till 31 December Viking Security AS earned net profit of 5 thousand euros and revenues amounted to 408 thousand euros. If the acquisition of Viking Security AS by the Group had happened at the beginning of the year then group revenues would have been higher by 1,160 thousand euros and net profit lower by 19 thousand euros.

In order to increase efficiency, Tallinna Kaubamaja AS plans to merge the activities of subsidiaries in the group that are involved in security business – Topsec Turvateenused OÜ (company to be acquired) will be merged with Viking Security AS (acquiring company). As a result of the merger, Viking Security AS will remain, the sole shareholder of which will become Tallinna Kaubamaja AS. The activities of the company will be continued under the business name of the acquiring company, Viking Security AS. The merger agreement related to the above-mentioned merger was signed in December 2014. The merger will most likely be registered in the Commercial Registry in the spring of 2015.

In 2013 there were no business combinations.

#### Note 10 Investments in associates

in thousands of euros

Tallinna Kaubamaja AS has ownership of 50% (2013: 50%) interest in the entity AS Rävalla Parkla which provides the services of a parking house in Tallinn.

	31.12.2014	31.12.2013
<b>Investment in the associate at the beginning of the year</b>	<b>1,711</b>	<b>1,628</b>
Profit for the reporting period under equity method	172	163
Dividends received	-105	-80
<b>Investment in the associate at the end of the year</b>	<b>1,778</b>	<b>1,711</b>

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

	31.12.2014	31.12.2013
Assets	3,602	3,644
Liabilities	46	222
Revenue	456	428
Profit	344	326

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### Note 11 Long-term trade and other receivables

in thousands of euros

	31.12.2014	31.12.2013
Prepaid rental expenses	87	204
Deferred tax asset	216	74
Other long-term receivables	35	35
<b>Total long-term trade and other receivables</b>	<b>338</b>	<b>313</b>

### Note 12 Investment property

in thousands of euros

<b>Carrying value as at 31.12.2012</b>	<b>3,756</b>
Reclassification (Note 13)	-721
<b>Carrying value as at 31.12.2013</b>	<b>3,035</b>
<b>Carrying value as at 31.12.2014</b>	<b>3,035</b>

Investment property represents construction in progress. Management evaluates fair value of all investment property at the end of every fiscal year. As a result of the evaluation management estimates that fair value of investment property has not changed compared to 31 December 2013.

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 2013.

As a result of valuation in 2014 and in 2013 no changes were recognised in fair value of investment property.

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## Note 13 Property, plant and equipment

in thousands of euros

	Land and buildings	Machinery and equipment	Other fixtures and fittings	Construction in progress and prepayments	Total
<b>31.12.2012</b>					
Cost or revalued amount	158,633	23,810	25,970	48,377	256,790
Accumulated depreciation	-15,374	-18,042	-17,839	-15,237	-66,492
<b>Carrying value</b>	<b>143,259</b>	<b>5,768</b>	<b>8,131</b>	<b>33,140</b>	<b>190,298</b>
<b>Changes occurred in 2013</b>					
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
<b>31.12.2013</b>					
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
<b>Carrying value</b>	<b>178,225</b>	<b>7,464</b>	<b>9,789</b>	<b>33,928</b>	<b>229,406</b>
<b>Changes occurred in 2014</b>					
Purchases and improvements	11	385	758	7,828	8,982
Acquired through business combinations (Note 9)	0	33	1	0	34
Reclassification	1,193	1,906	3,777	-6,876	0
Disposals	0	-61	-11	0	-72
Write-offs	-30	-4	-7	0	-41
Depreciation	-5,455	-1,971	-2,969	0	-10,395
<b>31.12.2014</b>					
Cost or revalued amount	181,815	28,728	29,527	50,630	290,700
Accumulated depreciation	-7,871	-20,976	-18,189	-15,750	-62,786
<b>Carrying value</b>	<b>173,944</b>	<b>7,752</b>	<b>11,338</b>	<b>34,880</b>	<b>227,914</b>

### Investments in non-current assets

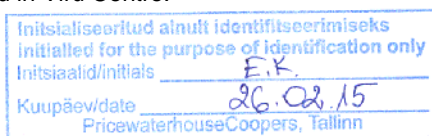
The cost of investments for the 12 months of 2014 amounted to 9,107 thousand euros (including purchases of property, plant and equipment in the amount of 8,982 thousand euros and purchases of intangible assets amounted to 125 thousand euros). In 2013 the cost of investments amounted to 30,251 thousand euros (including purchases of property, plant and equipment in the amount of 30,143 thousand euros and purchases of intangible assets amounted to 108 thousand euros).

The cost of investments made in 12 months of 2014 in the supermarket business segment was 2,900 thousand euros. In June Selver opened new store Astri in Narva, Tallinna mnt 4. In the reporting period Selver renewed store fittings and purchased computing technology.

The size of the investment in the department stores business segment amounted to 1,911 thousand euros. During the reporting period the Department stores' food departments received a facelift resulting in broader and more modern look of the department.

The cost of investments in the accounting period was 608 thousand euros in the car trade business segment.

The cost of investments made in the reporting period in the footwear segment was 590 thousand euros. In March a new store under trademark ABC King was opened in Viru Centre.



The cost of the real estate business segment investment amounted to 2,973 thousand euros. In September 2014 construction works began in new Viimsi shopping and entertainment centre. In the reporting period extension of parking lot in Hiiumaa was carried out and other renovation works were performed.

In 2014 and 2013 Tallinna Kaubamaja Group companies had no commitments to purchase fixed assets.

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

At the year-end 2014, 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 both used 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 6 properties in 2014. The same expert also provided an expert opinion with regard to the discount and capitalisation rates in respect of 16 properties. The discount rates used for estimation were 8.5% -12% (2013: 8.5% - 12%) depending on the location of the property and the rental growth rates were 1% - 2.5% (2013: 1% - 2.5%). For the purpose of estimating the value of "Land and buildings", the rental agreements in force have been used for determining the input of the rental price, which management believes correspond to the market conditions.

For determining the value of "Land and buildings" located in Latvia as at 31.12.2014, valuation of a certified independent real estate expert was used with regard to the discount and capitalisation rates used. The discount and capitalisation rates compared to 2013 remained unchanged. The valuation was carried out by applying similar inputs as for the valuation of the other remaining buildings under construction located in Latvia. The discount rate used for valuation was 10.0% - 11.25% (2013: 11.25%) and the growth rates of rental income were 1.0% - 2.5% (2013: 1.0% - 1.5%).

Revaluation of „Land and buildings" was previously performed in 2013. The evaluation of non-current assets has been performed every year. Although, given the situation in global economy and the wait-and-see attitude of the market which both influenced market liquidity and investors' readiness to invest, the management estimated that the values of investment property, land and buildings and construction-in-progress have not changed and therefore no revaluation has been recorded.

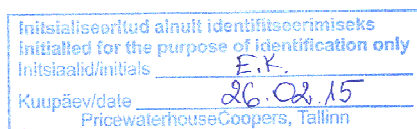
As a result of the revaluation in 2013 the value of "Land and buildings" located in Estonia increased by 19,264 thousand euros, which was recognized through revaluation reserve in the amount of 18,650 thousand euros and through profit and loss in the amount of 614 thousand euros. For "Land and buildings" located in Latvia no significant differences were recognised between fair values and carrying value.

As a result of valuation, the value of "Land and buildings" located in Estonia was adjusted neither upwards nor downwards in 2014. Also as a result of valuation, the value of "Land and buildings" located in Latvia was adjusted neither upwards nor downwards in 2014.

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 little as possible Group Management's assessments. The land and buildings are classified as level 2 if all significant 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 classified as level 3.



The Group's non-financial assets carried at fair value as at 31.12.2014 are classified as level 3.

In thousands of euros	Fair value at 31 December 2014	Valuation technique	Unobservable inputs	Range of unobservable inputs (eur)	Relationship of unobservable inputs to fair value
PPE items in Estonia, for which an expert opinion was provided	53,584	opinion of a certified independent real estate expert	Price per square metre	7.8 – 13.5	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	98,206	an expert opinion with regard to the discount and capitalisation rates	Price per square metre	7.0 – 18.1	The higher the price per square metre, the higher the fair value
Remaining PPE items in Estonia	5,944	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	16,210	the assessment of an expert opinion with regard to the discount and capitalisation rates	Price per square metre	6.9 – 9.5	The higher the price per square metre, the higher the fair value
<b>Total</b>	<b>173,944</b>				

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

In thousands of euros	Fair value at 31 December 2013	Valuation technique	Unobservable 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 (recently acquired)	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
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
<b>Total</b>	<b>178,225</b>				

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#### Determination of recoverable amounts 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 one item and in 2013 in respect of 3 items. For valuation purposes, the discount rates used were 10.4% (2013: 10.5%-13%) and the growth rate was 1.5% (2013: 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% (2013: 11.3%-12.8%) depending on the location of the item, and the growth rates were 1.0% - 1.5% (2013: 1.0%-1.5%). For determining the investment value, the discounted cash flow method was used. The capitalisation rates of 9.8%-11.3% (2013: 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	31.12.2014	31.12.2013
PPE items in Estonia, for which an expert opinion was provided	1,308	4,684
PPE items in Estonia for which an internal estimate was provided	0	9,112
Remaining PPE items in Estonia	14,845	9
PPE items in Latvia, for which an internal estimate was provided	18,316	17,923
<b>Total</b>	<b>34,469</b>	<b>31,728</b>

Based on the results of valuation in 2014, no impairment was recognised and no previous impairment was reversed on buildings under construction in Estonia. In 2013 impairment in the amount of 606 thousand euros was recognised through statement of profit or loss.

In accounting period, no impairment was recognised and no previous impairment was reversed on buildings under construction in Latvia. (in 2013 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:

31.12.2014 109,173 thousand euros

31.12.2013 109,831 thousand euros

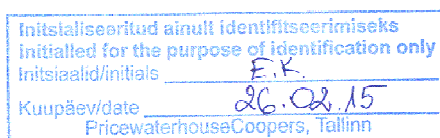
As at 31.12.2014 the cost of non-current assets in use with a zero carrying value was 28,081 thousand euros (2013: 28,814 thousand euros).

As at 31.12.2014, property, plant and equipment with the carrying value of 159,912 thousand euros (2013: 140,622 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 31.12.2014 the recoverable amount of the non-current assets of I.L.U. cosmetics stores (carrying value: 699 thousand euros, in 2013: 829 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 5% in 2015-2019 (2013: 2014 – 2018 is estimated to be 6,4%). I.L.U. launched its operations in 2009. In the end of 2014 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 6.72% (2013: 7.5%) and the future growth rate (after year 5) is 2.5%. No impairment loss was identified as a result of the impairment test.

As at 31.12.2014 the recoverable amount of the non-current assets in footwear segment was estimated. No impairment loss was identified as a result of the impairment test of non-current assets in the carrying value of 1,062 thousand euros. More detailed data about inputs used see Note 14.



## Note 14 Intangible assets

in thousands of euros

	Goodwill	Trademark	Beneficial contracts	Development expenditure	Total
<b>31.12.2012</b>					
Cost	7,298	5,097	1,080	388	13,863
Accumulated amortisation and impairment	-588	-1,127	-884	-28	-2,627
<b>Carrying value</b>	<b>6,710</b>	<b>3,970</b>	<b>196</b>	<b>360</b>	<b>11,236</b>
<b>Changes occurred in 2013</b>					
Purchases and improvements	0	0	0	108	108
Amortisation	0	-461	-196	-51	-708
<b>31.12.2013</b>					
Cost	7,298	5,097	1,080	496	13,971
Accumulated amortisation and impairment	-588	-1,588	-1,080	-79	-3,335
<b>Carrying value</b>	<b>6,710</b>	<b>3,509</b>	<b>0</b>	<b>417</b>	<b>10,636</b>
<b>Changes occurred in 2014</b>					
Purchases and improvements	0	0	0	125	125
Acquired through business combinations (Note 9)	0	175	0	0	175
Amortisation	0	-469	0	-65	-534
<b>31.12.2014</b>					
Cost	7,298	5,272	1,080	621	14,271
Accumulated amortisation and impairment	-588	-2,057	-1,080	-144	-3,869
<b>Carrying value</b>	<b>6,710</b>	<b>3,215</b>	<b>0</b>	<b>477</b>	<b>10,402</b>

As a trademark, the Group has recognised the image of ABC King in the amount of 3,509 thousand euros; the image contains a combination of the name, symbol and design together with recognition and preference by consumers. Trademark will be amortised during 15 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.

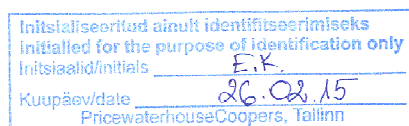
Trademark at value of 175 thousand euros was acquired in 2014 through purchase of Viking Security AS shares. Trademark will be amortised during 7 years (Note 9).

Impairment tests of goodwill and other intangible assets were carried out as at 31 December 2014 and 2013.

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

in thousands of euros	31.12.2014	31.12.2013
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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Operating profit margin during next 5 years	4.14% - 4.26%	2.5% - 4.3%	-1.19% - 5.54%	-1.6% - 1.6%
Discount rate	7.4%	8.0%	6.7%	7.5%
Sales growth during next 5 years	-4.9% - 5%	3.0% - 11.7%	3% -6%	3.2% - 4.0%
Future growth rate*	2.5%	2.0%	2.5%	2.5%

\*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. Compared to the assumptions used for estimating the value in use in 2013, the volatility of sales growths has decreased due to economy stabilisation.

In 2014, the car business showed a growth of 22.7% (2013: 40.6%). While we expect to see a decrease in sales in 2015 (-4,9%), the annual sales growth will stabilise at 3% per year after that. The five year average sales growth in the car business is estimated to be 2.2% (5.5% in 2013).

In the footwear segment, the five year average sales growth is planned to be 3.7% (2013:3.7%). The gross profit margin used in the footwear business recoverable amount tests is 0.3% (-0.1% in 2013).

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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Difference between the carrying amount and recoverable amount of the cash generating unit (in thousands of euros)	23,793	19,889	5,792	454
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	-1.4%	-17.1%	-0.8%	-4.5%
Decrease of the average operating profit margin	-2.48 pp	-2.07 pp	-1.94 pp	-0.14 pp

## Note 15 Interest bearing borrowings

in thousands of euros

	31.12.2014	31.12.2013
<b>Short-term borrowings</b>		
Overdraft	1,599	400
Bank loans	15,936	12,265
Other borrowings	2,870	1,635
<b>Total short-term borrowings</b>	<b>20,405</b>	<b>14,300</b>
	<b>31.12.2014</b>	<b>31.12.2013</b>
<b>Long-term borrowings</b>		
Bank loans	75,269	75,283
Other borrowings	2,394	1,821
<b>Total long-term borrowings</b>	<b>77,663</b>	<b>77,104</b>
<b>Total borrowings</b>	<b>98,068</b>	<b>91,404</b>

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## Borrowings received

	2014	2013
Overdraft	1,199	106
Bank loans	47,818	63,476
Other borrowings	4,690	4,718
<b>Total borrowings received</b>	<b>53,707</b>	<b>68,300</b>

## Borrowings repaid

	2014	2013
Bank loans	44,207	51,808
Finance lease liability repayments	0	3
Other borrowings	2,835	2,077
<b>Total borrowings repaid</b>	<b>47,042</b>	<b>53,888</b>

Bank loans and finance lease liabilities are denominated in euros. Information on pledged assets is disclosed in Note 25. Management estimates that the carrying amount of the Group's financial liabilities does not significantly differ from their fair value.

As of 31.12.2014, the repayment dates of bank loans are between 05.04.2015 and 07.02.2020 (2013: between 28.01.2014 and 4.12.2019), interest is tied both to 3-month and 6-month EURIBOR as well as EONIA. Weighted average interest rate was 1.2% (2013: 1.4%).

## 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	31.12.2014	31.12.2013
due in less than 1 year	22,155	21,568
due between 1 and 5 years	81,879	73,232
due after 5 years	91,348	115,217
<b>Total</b>	<b>195,382</b>	<b>210,017</b>

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

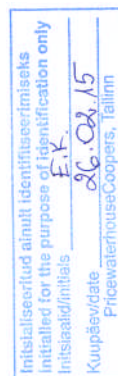
Operating lease agreements do not specify purchase options. Operating lease agreements contain a clause that rental prices are reviewed once a year according to the market situation or rental prices increase according to the percentage set in contracts.

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

*Subleases of buildings leased under operating lease terms:*

Future minimum lease payments under non-cancellable subleases:

in thousands of euros	31.12.2014	31.12.2013
due in less than 1 year	1,996	1,799
due between 1 and 5 years	6,189	6,216
due after 5 years	5,026	694
<b>Total</b>	<b>13,211</b>	<b>8,709</b>



## Group as the lessor

### Operating lease

Rental income received consists 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	31.12.2014	31.12.2013
due in less than 1 year	2,422	2,262
due between 1 and 5 years	5,009	1,545
<b>Total</b>	<b>7,431</b>	<b>3,807</b>

Most lease agreements have been 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 and other payables

in thousands of euros

	31.12.2014	31.12.2013
Trade payables	52,982	51,112
Payables to related parties (Note 26)	4,913	5,323
Other accrued expenses	60	69
Prepayments by tenants	1,613	1,264
<b>Total financial liabilities from balance sheet line "Trade and other payables"</b>	<b>59,568</b>	<b>57,768</b>
Taxes payable (Note 18)	5,797	5,388
Employee payables	3,868	3,521
Prepayments	953	895
Short-term provisions*	131	153
<b>Total trade and other payables</b>	<b>70,317</b>	<b>67,725</b>

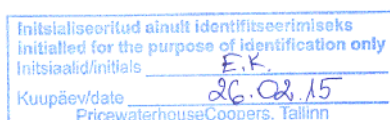
\*Short-term provisions represent warranty provisions related to footwear trade.

### Note 18 Taxes

in thousands of euros

	31.12.2014		31.12.2013	
	Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Prepaid taxes (Note 6)	130	0	139	0
Value added tax	0	2,719	0	2,459
Personal income tax	0	881	0	864
Social security taxes	0	1,880	0	1,787
Corporate income tax	0	81	0	42
Unemployment insurance	0	140	0	149
Mandatory funded pension	0	96	0	87
<b>Total taxes</b>	<b>130</b>	<b>5,797</b>	<b>139</b>	<b>5,388</b>

Group's deferred income tax asset as at 31 December 2014 and 31 December 2013 is disclosed in note 11. As at 31 December 2014 and 31 December 2013 the Group did not have deferred income tax liabilities.



in thousands of euros

	2014	2013
<b>Corporate income tax expense from payments to owners:</b>		
- Dividends declared (Note 19)	1 324	3 777
- Reduction of share capital (Note 19)	1 012	0
<b>Corporate income tax expense arising from foreign subsidiaries:</b>		
- Deferred tax income	-147	-4
- Corporate income tax payable	5	0
<b>Total corporate income tax</b>	<b>2 194</b>	<b>3 773</b>

### Note 19 Share capital

As at 31.12.2014, the share capital in the amount of 16,292 thousand euros consisted of 40,729,200 ordinary shares with the nominal value of 0.40 euros per share (as at 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). 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 2014, dividends were declared and paid to the shareholders in the amount of 6,109 thousand euros (2013: 14,255 thousand euros, 0.35 euros per share), or 0.15 euros per share. Related income tax on dividends amounted to 1,324 thousand euros (2013: 3,777 thousand euros).

In July, 2014, the reduction of share capital of Tallinna Kaubamaja AS in the amount of 8,146 thousand euros was registered in the Commercial Register. The new registered share capital of Tallinna Kaubamaja AS is 16,291,680 euros, which is divided into 40,729,200 shares with nominal value of 0.40 euros per share. In October, 2014 payments to the shareholders upon a reduction of share capital were made in the amount of 8,146 thousand euros, 0.20 euros per share. Related income tax expense amounted to 1,012 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

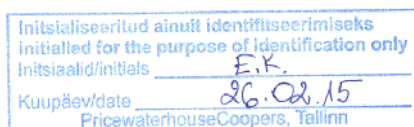
The Group has defined the business segments based on the reports used regularly by the supervisory board to make strategic decisions.

The chief operating decision maker monitors the Group's operations 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 food products 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. 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 supermarkets. 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 car trade 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.



in thousands of euros

2014	Super markets	Department store	Car trade	Footwear trade	Real estate	Inter-segment transactions	Total segments
<b>External revenue</b>	<b>368,159</b>	<b>92,525</b>	<b>57,692</b>	<b>13,358</b>	<b>3,311</b>	0	<b>535,045</b>
Inter-segment revenue	947	4,261	26	433	11,924	-17,591	0
Total revenue	369,106	96,786	57,718	13,791	15,235	-17,591	535,045
<b>EBITDA</b>	<b>11,399</b>	<b>6,283</b>	<b>2,753</b>	<b>-328</b>	<b>14,650</b>	0	<b>34,757</b>
Depreciation and amortisation (Note 13, 14)	-3,610	-1,836	-464	-678	-4,382	0	-10,970
<b>Operating profit/loss</b>	<b>7,789</b>	<b>4,447</b>	<b>2,289</b>	<b>-1,006</b>	<b>10,268</b>	0	<b>23,787</b>
Finance income (Note 23)	338	777	48	1	57	-1,197	24
Finance income on shares of associates	0	172	0	0	0	0	172
Finance costs (Note 23)	-45	-581	-298	-271	-1,496	1,197	-1,494
Corporate income tax* (Note 19)	-366	-1,439	-389	0	0	0	-2,194
<b>Net profit/loss</b>	<b>7,716</b>	<b>3,376</b>	<b>1,650</b>	<b>-1,276</b>	<b>8,829</b>	0	<b>20,295</b>
incl. in Estonia	10,145	3,376	1,626	-1,276	7,991	0	21,862
incl. in Latvia	-2,429	0	2	0	838	0	-1,589
incl. in Lithuania	0	0	22	0	0	0	22
<b>Segment assets</b>	<b>85,027</b>	<b>59,476</b>	<b>20,357</b>	<b>11,300</b>	<b>214,015</b>	-47,268	<b>342,907</b>
<b>Segment liabilities</b>	<b>58,107</b>	<b>21,841</b>	<b>12,656</b>	<b>12,080</b>	<b>96,213</b>	-31,820	<b>169,077</b>
Segment investment in non-current assets (Note 13, 14)	2,944	1,992	608	590	2,973	0	9,107

in thousands of euros

2013	Super markets	Department store	Car trade	Footwear trade	Real estate	Inter-segment transactions	Total segments
<b>External revenue</b>	<b>343,147</b>	<b>89,592</b>	<b>48,023</b>	<b>14,684</b>	<b>3,275</b>	0	<b>498,721</b>
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
<b>EBITDA</b>	<b>10,280</b>	<b>6,054</b>	<b>2,542</b>	<b>920</b>	<b>13,299</b>	0	<b>33,095</b>
Depreciation and amortisation (Note 13, 14)	-3,983	-1,848	-390	-857	-3,652	0	-10,730
<b>Operating profit</b>	<b>6,297</b>	<b>4,206</b>	<b>2,152</b>	<b>63</b>	<b>9,647</b>	0	<b>22,365</b>
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
<b>Net profit/loss</b>	<b>4,655</b>	<b>3,175</b>	<b>1,925</b>	<b>-88</b>	<b>7,797</b>	0	<b>17,464</b>
incl. in Estonia	7,022	3,175	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
<b>Segment assets</b>	<b>74,334</b>	<b>65,211</b>	<b>19,958</b>	<b>13,211</b>	<b>207,808</b>	-52,727	<b>327,795</b>
<b>Segment liabilities</b>	<b>53,757</b>	<b>21,122</b>	<b>12,056</b>	<b>13,283</b>	<b>97,524</b>	-37,735	<b>160,007</b>
Segment investment in non-current assets (Note 13, 14)	8,188	1,897	532	152	19,482	0	30,251

\*- corporate income tax is allocated based on which subsidiary bears income tax expense on distribution of dividends.

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Inter-segment transactions in line segment assets comprise inter-segment receivables in the amount of 3,413 thousand euros (2013: 3,275 thousand euros), loans granted in the amount of 28,407 thousand euros (2013: 34,460 thousand euros) and investments in subsidiaries in the amount of 15,448 thousand euros (2013: 14,992 thousand euros).

Inter-segment transactions in line segment liabilities comprise inter-segment short-term liabilities in the amount of 3,413 thousand euros (2013: 3,275 thousand euros) and inter-segment borrowings in the amount of 28,407 thousand euros (2013: 34,460 thousand euros).

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

in thousands of euros

	2014	2013
Retail revenue	497,778	467,675
Wholesale revenue	17,982	14,718
Rental income	7,258	6,694
Revenue for rendering services	12,027	9,634
<b>Total revenue</b>	<b>535,045</b>	<b>498,721</b>

#### External revenue by client location

in thousands of euros

	2014	2013
<b>Estonia</b>	512,109	481,445
<b>Latvia</b>	16,307	11,031
<b>Lithuania</b>	6,629	6,245
<b>Total</b>	<b>535,045</b>	<b>498,721</b>

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

in thousands of euros

	31.12.2014	31.12.2013
<b>Estonia</b>	206,480	207,841
<b>Latvia</b>	35,054	35,372
<b>Lithuania</b>	155	177
<b>Total</b>	<b>241,689</b>	<b>243,390</b>

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

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

#### Note 21 Other operating expenses

in thousands of euros

	2014	2013
Rental expenses	15,187	14,453
Heat and electricity expenses	8,425	8,398
Operating costs	6,311	6,710
Cost of services and materials related to sales	7,251	7,113
Marketing expenses	6,750	6,703
Miscellaneous operating expenses	2,882	3,388
Computer and communication costs	3,015	2,763
Personnel expenses	1,689	1,837
<b>Total other operating expenses</b>	<b>51,510</b>	<b>51,365</b>

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## Note 22 Staff costs

in thousands of euros

	2014	2013
Wages and salaries	34,907	31,199
Social security taxes	11,586	10,372
<b>Total staff costs</b>	<b>46,493</b>	<b>41,571</b>
Average wages per employee per month (euros)	761	732
Average number of employees in the reporting period	3,824	3,554

Staff costs also include accrued holiday pay as well as bonuses and termination benefits for 2014 but not yet paid.

## Note 23 Finance income and costs

in thousands of euros

### Finance income

	2014	2013
Interest income on Partner credit card	0	19
Interest income from loans to related parties (Note 26)	0	2
Interest income on NGI Group's group account (Note 26)	23	8
Other finance income	1	2
<b>Total finance income</b>	<b>24</b>	<b>31</b>

### Finance costs

	2014	2013
Interest expense of bank loans	-1,242	-1,163
Interest expense of other loans	-59	0
Other finance costs*	-193	-159
<b>Total finance costs</b>	<b>-1,494</b>	<b>-1,322</b>

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

## Note 24 Earnings per share

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

	2014	2013
Net profit (in thousands of euros)	20,295	17,464
Weighted average number of shares	40,729,200	40,729,200
Basic and diluted earnings per share (euros)	0.50	0.43

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## Note 25 Loan collateral and pledged assets

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

in thousands of euros

	31.12.2014	31.12.2013
Land and buildings	155,247	138,569
Other non-current assets	4,665	2,053
Inventories	4,376	6,283
Financial assets	189	232

As at 31 December 2014 land and buildings in carrying value of 155,912 thousand euros (as at 31.12.2013 carrying value of 140,622 thousand euros) was mortgaged. Inventories at balance sheet value of 4,376 thousand euros (as at 31.12.2013 at balance sheet value of 6,283 thousand euros) and financial assets at balance sheet value of 189 thousand euros (as at 31.12.2013 at balance sheet value of 232 thousand euros) were set under commercial pledge.

## Note 26 Related party transactions

in thousands of euros

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

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

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

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

	Purchases 2014	Sales 2014	Purchases 2013	Sales 2013
Parent	328	34	290	17
Entities in the Parent's consolidation group	26,420	6,614	26,560	4,542
Members of management and supervisory boards	0	0	0	24
Other related parties	923	190	741	167
<b>Total</b>	<b>27,671</b>	<b>6,838</b>	<b>27,591</b>	<b>4,750</b>

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

### Balances with related parties:

	31.12.2014	31.12.2013
Interest receivable from Parent (Note 7)	9	1
Receivable from Parent (Note 6)	4,000	0
Receivables from entities in the Parent's consolidation group (Note 7)	729	524
Sales bonuses receivable from entities in the Parent's consolidation group (Note 7)	0	135
Members of management and supervisory boards (Note 7)	10	5
<b>Total receivables from related parties</b>	<b>4,748</b>	<b>665</b>

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	31.12.2014	31.12.2013
Parent	21	25
Entities in the Parent's consolidation group	4,724	5,251
Other related parties	168	47
<b>Total liabilities to related parties (Note 17)</b>	<b>4,913</b>	<b>5,323</b>

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

### Group account

For arranging funding for its subsidiaries, the Group uses the group account, the members of which are most of the Group's entities. In its turn, this group as a subgroup is a member 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 account, earning interest income on its deposits. In 2014, Tallinna Kaubamaja Group earned interest income on its deposits of available funds in the amount of 23 thousand euros (2013: 8 thousand euros). In 2014, Tallinna Kaubamaja Group did not use the credit limit or pay any interest to the head group (2013: 0 euros). As at 31.12.2014 Group had deposited through parent company NG Investeeringud OÜ 4,000 thousand euros. Deposit in the amount of 2,000 thousand euros with interest rate 0.18%, maturity up to 5 January 2015 and 2,000 thousand euros with interest rate 0.20%, maturity up to 6 January 2015 (31.12.13: 0 euros).

The average interest rate on available funds deposited to the group account of NG Investeeringud OÜ was 0.07% in the euro account (2013: 0.06% 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 the companies belonging to Tallinna Kaubamaja Group for the reporting year including wages, social security taxes, bonuses and car expenses, amounted to 1,208 thousand euros (2013: 1,065 thousand euros), including termination benefits in the amount of 50 thousand euros. Short term benefits to supervisory boards' members of the companies belonging to Tallinna Kaubamaja Group in reporting year including social taxes amounted to 310 thousand euros (2013: 310 thousand euros).

The termination benefits for the members of the Management Board are limited to 3- month's salary expense.

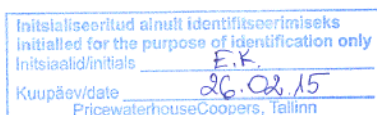
### Note 27 Interests of the members of the Management and Supervisory Board

As at 31.12.2014, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja AS:

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

As at 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 Kõo	Represents 4,768,606 (11.71%) shares of Tallinna Kaubamaja AS
Enn Kunila	Represents 4,692,346 (11.52%) shares of Tallinna Kaubamaja AS
Raul Puusepp	Owens 10,002 (0,0246%) shares of Tallinna Kaubamaja AS



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

	31.12.2014	31.12.2013
Shareholders	Ownership interest	Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%
ING Luxembourg S.A.	6.92%	6.92%

As at 31 December 2014, 68.75% of the shares (31 December 2013: 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 2014, the retained earnings of Tallinna Kaubamaja Group were 88,031 thousand euros (31 December 2013: 72,387 thousand euros). Payment of dividends to owners is accompanied by income tax expense 20/80 on the amount paid as net dividends (until 31.12.2014 income tax expense was 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 70,425 thousand euros as dividends (31 December 2013: 57,186 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 17,606 thousand euros (31 December 2013: 15,201 thousand euros).

### Contingent liabilities relating to bank loans

Regarding the loan agreements in the amount of 56,588 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 2014, there was a breach in the levels established for financial covenants in the loan agreements, thus agreement (waiver) with the bank has been reached for not calling back loan before maturity.

### Contingent liabilities relating to the Tax Board

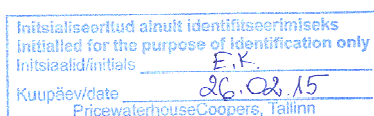
The tax authorities may at any time inspect the books and records of the Group within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties. In 2013 and 2014 the tax authority did not conduct any tax audits. The management of the Group is not aware of any circumstances which may give rise to a potential material liability in this respect.

### Contingent liabilities relating to the court-hearings

In 2014, the prosecuting authority brought charges to Selver AS, subsidiary of Tallinna Kaubamaja AS, for concluding an anticompetitive agreement. The prosecutor applied for a penalty for Selver AS in connection with concluding an alleged anticompetitive agreement in the amount of 1,300 thousand euros, applying for immediate payment of 325 thousand euros and wished to order payment of the remaining part or 975 thousand euros on a probation of three years. Harju County Court's judgement will be communicated on 26 March 2015. Since the company deems the brought charges and suspicion unfounded, the penalty sum is disclosed as a contingent liability the realisation of which depends on the future court rulings.

## Note 30 Events after the balance sheet date

Lithuania joined the euro zone on 1st of January 2015 and Lithuanian lit (LTL) was replaced with euro (EUR). In connection, the Group's enterprises registered in Lithuania converted its accounting into euro as of this date and the 2015 financial statements and all the proceeding financial statements will be compiled in euro. Comparative data will be converted into euro with its official rate 3.4528 LTL/EUR.



## Note 31 Financial information of the Parent

In accordance with the Accounting Act of Estonia, the separate primary statements of the consolidating entity (Parent's statement of financial position, statement of profit or loss and other comprehensive income, cash flow statement and statement of changes in equity). The Parent's primary statements are prepared using the same accounting methods and measurement bases as those that have been used for preparing the consolidated financial statements except for investment in subsidiaries and associates that are carried at historical cost.

### STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2014	31.12.2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,211	3,873
Trade and other receivables	10,753	19,397
<b>Total current assets</b>	<b>11,964</b>	<b>23,270</b>
<b>Non-current assets</b>		
Shares of subsidiaries	28,327	27,872
Share of associates	415	415
Property, plant and equipment	353	334
Intangible assets	411	410
<b>Total non-current assets</b>	<b>29,506</b>	<b>29,031</b>
<b>TOTAL ASSETS</b>	<b>41,470</b>	<b>52,301</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Borrowings	1,821	1,788
Trade and other payables	770	728
<b>Total current liabilities</b>	<b>2,591</b>	<b>2,516</b>
<b>Non-current liabilities</b>		
Borrowings	4,542	6,363
<b>Total non-current liabilities</b>	<b>4,542</b>	<b>6,363</b>
<b>TOTAL LIABILITIES</b>	<b>7,133</b>	<b>8,879</b>
<b>Equity</b>		
Share capital	16,292	24,438
Statutory reserve capital	2,603	2,603
Retained earnings	15,442	16,381
<b>TOTAL EQUITY</b>	<b>34,337</b>	<b>43,422</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>41,470</b>	<b>52,301</b>

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## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	<b>2014</b>	<b>2013</b>
Revenue	2,506	2,485
Other operating income	14	13
Other operating expenses	-516	-564
Staff costs	-1,960	-1,903
Depreciation, amortisation and impairment	-136	-117
Other expenses	-44	-16
<b>Operating loss</b>	<b>-136</b>	<b>-102</b>
Interest income and expenses	184	8
Other finance income and costs	6,134	14,287
<b>Total finance income and costs</b>	<b>6,318</b>	<b>14,295</b>
<b>Profit before income tax</b>	<b>6,182</b>	<b>14,193</b>
<b>Income tax expense</b>	<b>-1,012</b>	<b>0</b>
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>	<b>5,170</b>	<b>14,193</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	<b>5,170</b>	<b>14,193</b>
Basic and diluted earnings per share (euros)	0.13	0.35

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## CASH FLOW STATEMENT

in thousands of euros

	2014	2013
<b>CASH FLOWS FROM/USED IN OPERATING ACTIVITIES</b>		
Net profit	5,170	14,193
<i>Adjustments:</i>		
<i>Interest expense</i>	623	414
<i>Interest income</i>	-807	-422
<i>Corporate income tax</i>	1,012	0
<i>Depreciation, amortisation and impairment</i>	136	117
Dividend received	-6,134	-14,287
Change in receivables and prepayments related to operating activities	-491	6,333
Change in liabilities and prepayments related to operating activities	42	116
<b>TOTAL CASH FLOWS FROM/USED IN OPERATING ACTIVITIES</b>	<b>-449</b>	<b>6,464</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	-98	-55
Interest received	807	422
Change in the receivable of group account	10,636	7,298
Investments in subsidiaries	-455	-4,626
Loans granted to subsidiaries	-1,500	0
Purchases of intangible assets	-62	-108
Proceeds from sale of property, plant and equipment	3	3
Dividends received	6,134	14,287
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>15,465</b>	<b>17,221</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Proceeds from borrowings	0	9,331
Repayments of borrowings	-1,788	-14,678
Interest paid	-623	-416
Dividends paid	-6,109	-14,255
Reduction of share capital	-8,146	0
Corporate income tax paid	-1,012	0
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>-17,677</b>	<b>-20,018</b>
<b>TOTAL CASH FLOWS</b>	<b>-2,662</b>	<b>3,667</b>
Cash and cash equivalents at beginning of the period	3,873	206
Cash and cash equivalents at end of the period	1,211	3,873
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-2,662</b>	<b>3,667</b>

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## STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Retained earnings	Total
<b>Balance as of 31.12.2012</b>	<b>24,438</b>	<b>2,603</b>	<b>16,443</b>	<b>43,484</b>
Dividends paid	0	0	-14,255	-14,255
Profit for the reporting period	0	0	14,193	14,193
<b>Balance as of 31.12.2013</b>	<b>24,438</b>	<b>2,603</b>	<b>16,381</b>	<b>43,422</b>
Dividends paid	0	0	-6,109	-6,109
Reduction of share capital	0	0	5,170	5,170
Profit for the reporting period	-8,146	0	0	-8,146
<b>Balance as of 31.12.2014</b>	<b>16,292</b>	<b>2,603</b>	<b>15,442</b>	<b>34,337</b>

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

in thousands of euros

	31.12.2014	31.12.2013
Parent's unconsolidated equity	34,337	43,422
Value of subsidiaries and associates in the Parent's unconsolidated balance sheet	-28,742	-28,287
Value of subsidiaries and associates under the equity method	133,901	123,931
<b>Adjusted unconsolidated equity</b>	<b>139,496</b>	<b>139,066</b>

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## **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 2014 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 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Ago Vilu'.

Ago Vilu  
Auditor's Certificate No. 325

A handwritten signature in blue ink, appearing to read 'Eva Jansen-Diener'.

Eva Jansen-Diener  
Auditor's Certificate No. 501

26 February 2015

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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 2014

88,031 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 16,292 thousand euros out of retained earnings accumulated until 31 December 2014.



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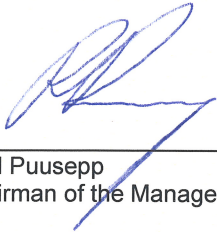
Raul Puusepp  
Chairman of the Management Board

Tallinn, 26 February 2015

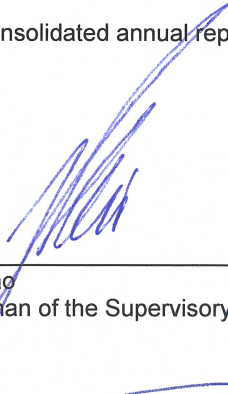
## SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2014

The supervisory board of Tallinna Kaubamaja AS has reviewed the 2014 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.

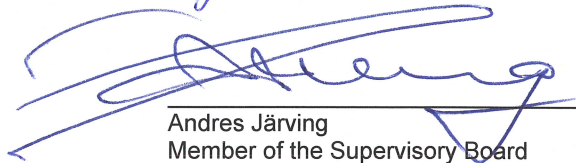
Hereby we confirm the correctness of information presented in the consolidated annual report 2014 of Tallinna Kaubamaja AS:



Raul Puusepp  
Chairman of the Management Board



Jüri Kõo  
Chairman of the Supervisory Board



Andres Järving  
Member of the Supervisory Board



Enn Kunila  
Member of the Supervisory Board



Meelis Milder  
Member of the Supervisory Board



Gunnar Kraft  
Member of the Supervisory Board

Tallinn, 2 March 2015

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

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

in thousands of euros per year

<b>EMTAK code</b>	<b>Title of EMTAK Group</b>	<b>2014</b>
64201	Holding company's activities	2,506
	<b>Total revenue</b>	<b>2,506</b>