

# Tallinna Kaubamaja Grupp AS

Consolidated  
Annual Report

2016

(translation of the Estonian original)

# TALLINNA KAUBAMAJA GRUPP AS

## CONSOLIDATED ANNUAL REPORT 2016

The main areas of activity of Tallinna Kaubamaja Grupp AS (hereinafter referred to as the 'Tallinna Kaubamaja Group' or 'the Group') are retail and wholesale trade. At the year-end 2016, Tallinna Kaubamaja Grupp AS employed more than 4,100 employees.

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<i>Beginning of financial year:</i>	<i>1.01.2016</i>
<i>End of financial year:</i>	<i>31.12.2016</i>
<i>Auditor:</i>	<i>PricewaterhouseCoopers AS</i>
<i>Bank:</i>	<i>Swedbank AS</i> <i>SEB Pank AS</i> <i>Nordea Bank AB Estonian branch</i> <i>LHV Pank AS</i>
<i>Lawyer:</i>	<i>Helen Tulve</i>

<i>Subsidiaries and associates:</i>	<i>Share capital</i>	<i>Equity as at 31.12.2016</i>	<i>Ownership interest</i>
<i>Kaubamaja AS</i>	<i>25 TEUR</i>	<i>14,193 TEUR</i>	<i>100%</i>
<i>Selver AS</i>	<i>1,406 TEUR</i>	<i>28,207 TEUR</i>	<i>100%</i>
<i>Kulinaaria OÜ</i>	<i>3 TEUR</i>	<i>5,075 TEUR</i>	<i>100%</i>
<i>Selver Latvia SIA</i>	<i>285 TEUR</i>	<i>-13,166 TEUR</i>	<i>100%</i>
<i>Viking Security AS</i>	<i>134 TEUR</i>	<i>881 TEUR</i>	<i>100%</i>
<i>TKM Beauty OÜ</i>	<i>3 TEUR</i>	<i>-112 TEUR</i>	<i>100%</i>
<i>TKM Beauty Eesti OÜ</i>	<i>3 TEUR</i>	<i>38 TEUR</i>	<i>100%</i>
<i>TKM Auto OÜ</i>	<i>3 TEUR</i>	<i>6,129 TEUR</i>	<i>100%</i>
<i>KIA Auto AS</i>	<i>114 TEUR</i>	<i>5,837 TEUR</i>	<i>100%</i>
<i>Viking Motors AS</i>	<i>223 TEUR</i>	<i>346 TEUR</i>	<i>100%</i>
<i>Forum Auto SIA</i>	<i>14 TEUR</i>	<i>10 TEUR</i>	<i>100%</i>
<i>KIA Auto UAB</i>	<i>3 TEUR</i>	<i>298 TEUR</i>	<i>100%</i>
<i>TKM King AS</i>	<i>32 TEUR</i>	<i>-1,117 TEUR</i>	<i>100%</i>
<i>Tallinna Kaubamaja Kinnisvara AS</i>	<i>28 TEUR</i>	<i>153,264 TEUR</i>	<i>100%</i>
<i>Tartu Kaubamaja Kinnisvara OÜ</i>	<i>3 TEUR</i>	<i>41,085 TEUR</i>	<i>100%</i>
<i>SIA TKM Latvija</i>	<i>3 TEUR</i>	<i>2,746 TEUR</i>	<i>100%</i>
<i>Rävala Parkla AS</i>	<i>600 TEUR</i>	<i>3,524 TEUR</i>	<i>50%</i>

*The subsidiaries and associates Kaubamaja AS, Selver AS, Kulinaaria 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 Forum Auto 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

## Overview of the Group's activities

The year 2016 was very successful for Tallinna Kaubamaja Group. The Group earned the biggest sales revenue in its history, whereas all Group segments proved to be successful. Net profit of the Group increased in most of the important business segments, although we were more acutely confronted with the challenges of increasing competition, changes in consumer behaviour, and pressure to increase salaries. The Group's sales areas received additions in the form of three new Selver stores in Tallinn and its neighbourhood, in the segment of department stores, the Tartu department store was renovated, and a new look was given to several departments of the Tallinn department store. In terms of supplementing its business model, the Group made a big step in the development of e-commerce. In spring, the stationary online store of Kaubamaja was launched and excellent progress was made by e-Selver, which was opened at the end of 2015. The boom of online stores and increased popularity of self-service checkout systems at our stores is a sign of customers' expectations towards the implementation of more innovative and modern solutions. The Group invested a total of 13.1 million euros in 2016, whereas a year earlier, 20.5 million euros was invested. A considerable proportion of capital investments were made to renovate and expand the sales areas; while an important investment was also the development of the Group's e-commerce.

A major challenge in 2017 is the continuing optimisation of trade processes and supplementation with new technological solutions, as well as the development of the user convenience, capacity, and service speed of online stores, and the implementation of other innovative digital solutions. To achieve the goal of increasing market share and profit, it is important to continue with the development of sales areas and further improve the quality, availability, and correspondence of goods to the customers' expectations and purchase power. The focus in the area of labour development is on improving the working environment and increasing employee satisfaction.

The most important events for Tallinna Kaubamaja Group in 2016 and until the publication of this annual report were:

- At the beginning of the year, the Group was awarded the titles of "Top Performer over 10 years, displaying the greatest increase in share price and Baltic awards ranking", as well as "The Most Trustworthy Company on the Nasdaq Baltic Market According to Investors", second place at the Nasdaq Baltic Market Awards competition.
- In March, the Kaubamaja online store was opened, which in January 2017 was awarded the title of the most user-friendly online store in the category of department stores by kaubandus.ee and the Estonian E-Commerce Association.
- In May, a new manager was appointed for the Group's footwear trade segment.
- In August, the Group's representatives opened the Nasdaq Stock Exchange in Times Square, New York, with the bell ceremony.
- In department stores, the men's department and women's shoe department of the Tallinn department store underwent a major refreshment. In Tartu, the beauty and women's departments were upgraded.
- The thorough renovation of the Tartu Kaubamaja Shopping Centre came to an end.
- Kärberi, Arsenali, and Maardu Selvers were opened and Tondi and Veeriku Selvers renovated, in the course of which the sales area of Veeriku Selver was expanded.
- Selver's self-scan checkout solution SelveEkspress was installed in seven supermarkets and now the customers can use the SelveEkspress service in as many as 27 Selver stores.
- Tallinna Kaubamaja Grupp AS was named the most competitive retail company in Estonia for the fifth year in a row and according to the study conducted in 2016 by Emor, Selver is a retail chain with the strongest brand power in Estonia.
- Viking Motors was included in the TOP 30 best European car dealers and was awarded the KIA Platinum Prestige Dealer Award, i.e. the best KIA dealer in the Baltic region. Viking Motors was also elected the best service company of OPEL in the Baltic region by Opel.
- In December, the contactless payment solution was launched in Kaubamaja department stores, Selver stores, and I.L.U. stores.
- In January 2017, a new subsidiary – UAB TKM Lietuva – was founded in Lithuania, which will engage in property development.

## Briefly about Tallinna Kaubamaja Group

Tallinna Kaubamaja Group is the biggest retail chain in Estonia. Our 4,100 employees serve customers in 90 stores, where 595,000 loyal customers make 42 million purchases a year.

# 598.4

Million euros

## Revenue

(2015: 555.4 million euros)

# 25.7

Million euros

## Net profit

(2015: 22.1 million euros)

# 63

Cents

## Net profit per share

(2015: 54 cents)

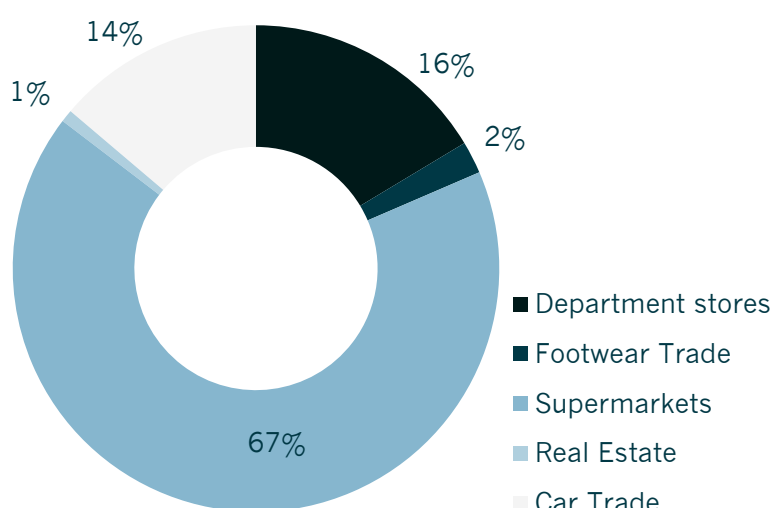
# 4,079

Yearly average number

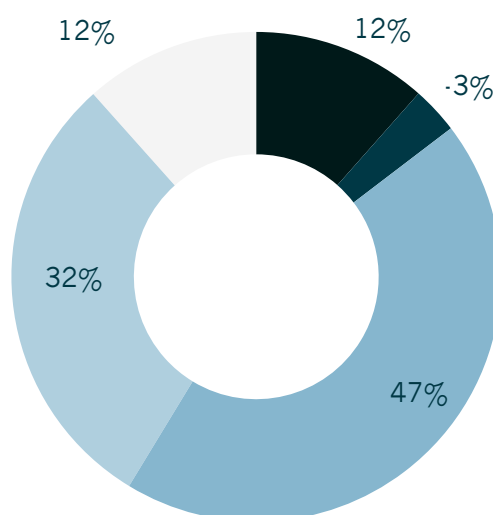
## Employees

(2015: 3 946)

### Revenue 2016



### Net profit 2016



## Group's vision

The objective of Tallinna Kaubamaja Grupp AS is to be the flagship of Estonian trade and one of the most successful listed companies in the Baltic region in every area of its business.

## Group's mission

Group's mission is to be the first choice for its customers, valued employer to its employees and trustworthy investment option for its shareholders.

## Group's core values

### Integrity

We are open and sincere and do not distort the truth.

### Concern

We are friendly and helpful and open to solutions.

### Reliability

We keep our promises and follow applicable regulations.

### Innovation

We are open to new and progressive ideas, so that we always try to be a step ahead.

### Environmental awareness

We care about the surrounding environment and we use our resources sustainably.

## Morality and legality

The underlying principle of the Group's business activity is to ensure that, all lines of business comply with the code of ethics. The Group bases its activities on laws and other legislation and practices, applicable to the respective field of activity. In case there is any distinctness between applicable legislations and other agreements, the more rigid requirements will prevail. Group supports ethical, fair-minded and professional way of conduct within all its activity. The Group supports free and fair competition, excluding limitation, foiling and damaging of the free competition. The Group follows the rules of competition and does not enter into illegal agreements or act in concert with anyone in a manner that would restrict competition

## Confidentiality and handling of inside information

- The Group's employees and partners shall maintain confidential information in a secure and secret manner and abstain from misusing the inside information they have become aware of.
- The Group disapproves of corruption in all of its forms.
- A Group employee may not make use of their official position for receiving personal gain on the account of the Group, its partners, customers, or other employees. Receiving personal gain also means any benefit obtained by the employee's close relative or a legal person closely related to the employee.
- The Group, its employees, and partners do not offer or agree to accept bribe or gratuity in any form, if this is designed to guide or influence someone unethically to perform an act or omission.
- A Group employee behaves in a reliable manner and avoids situations where their personal interests would be in conflict with those of the Group or where the employee cannot act in the interests of the Group.
- A Group employee shall immediately inform their line manager or a body, who performs supervision in any form over their activity, of a situation where a conflict of interests has occurred or where there is a risk of the occurrence thereof.
- The Group's activity is transparent and corresponds to the understanding of openness and integrity established in the society.
- The Group's employees and partners inform the Group whenever they suspect the violation of exemplary business principles in the Group's operations. The Group's employees shall notify of suspected violations their line manager, the Group's management, or a person or body with a compliance function.

## Structure of the Group

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

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

The Supermarkets' segment comprises the Selver store chain with 47 Selver stores, e-Selver and a café with a total sales space of 89.6 thousand m<sup>2</sup>. The segment also includes the largest central kitchen in the Baltic countries Kulinaaria OÜ and non-operational SIA Selver Latvia.

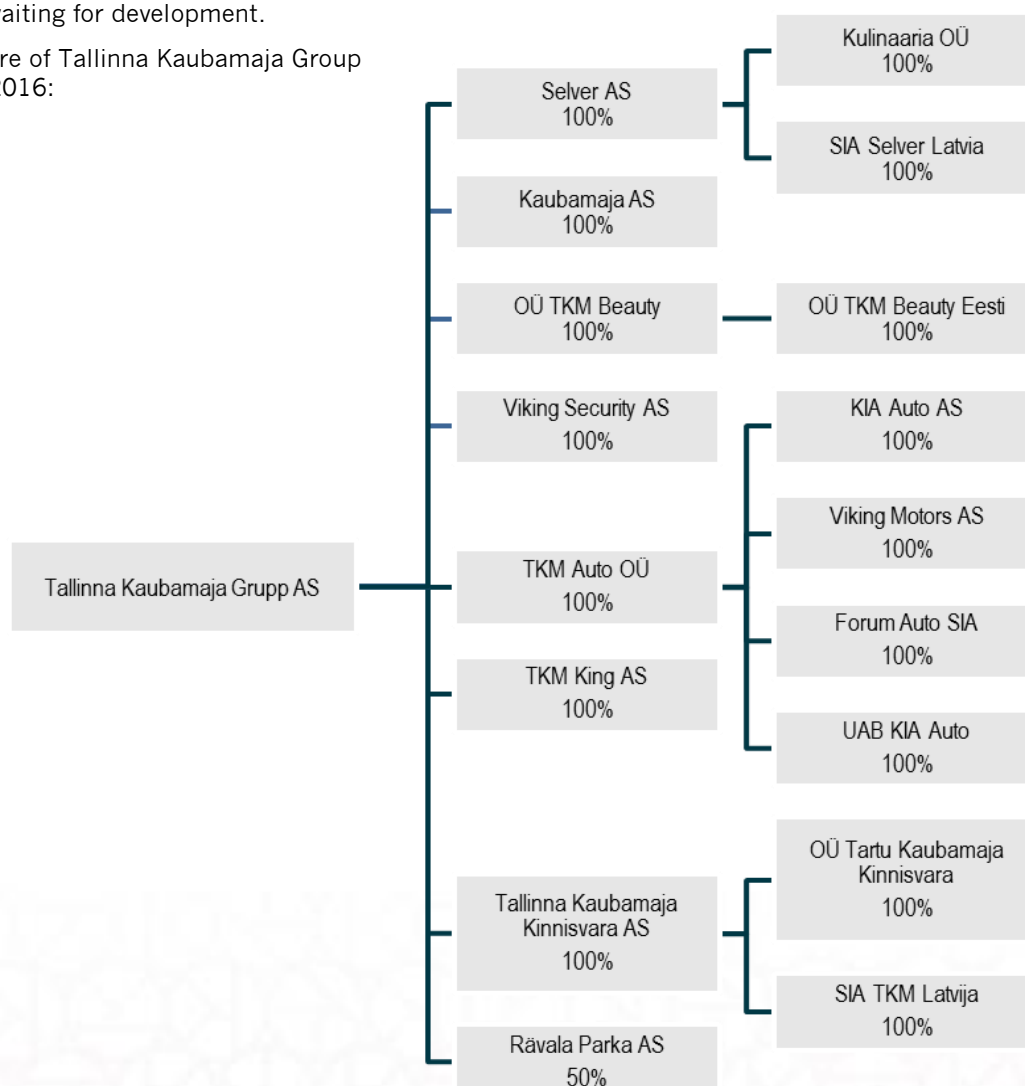
Kaubamaja operates two department stores, one in Tallinn and the other in Tartu city centre, offering a large selection of beauty and fashion products. The results of beauty product (I.L.U. and L'Occitane) sales, which includes eight stores, and the security segment, are presented in the report of the department store segment.

The footwear trade segment includes 28 ABC King and SHU shoe stores.

The car trade segment with an independent dealers' network is the importer of KIAs in the Baltic countries and is involved in the sales of passenger cars in two showrooms in Tallinn, one showroom in Riga and one in Vilnius. In addition to KIAs, there are several car brands, such as OPEL and Cadillac in Estonia and Peugeot in Latvia, in the selection.

The real estate segment is involved in the management, maintenance and renting out of commercial space of real estate that belongs to the Group. The Group's real estate segment owns the sales premises of Kaubamaja in Tallinn, Tartu Kaubamaja centre, Viimsi shopping centre, 3 car showrooms and 18 Selver buildings, and several land plots awaiting for development.

Legal structure of Tallinna Kaubamaja Group as of 31.12.2016:



## Economic environment

At the time of preparing this report, most of the statistics concerning the Estonian economy in 2016 had not been disclosed; however, the indicators of the third quarter cast light on the developments in the second half-year. The gross domestic product increased by 1.2% if the first three quarters of 2016 compared to the same period of 2015. In the view of the three quarters, the most added value was created in the field of retail and wholesale, as well as the information and communication. Within the first nine months of 2016 domestic demand increased, however the investments to the non-current assets declined by 1.3%. At real prices, household final consumption expenditures increased by 4.1%, mainly due to the expenditures on food, transportation and recreation. Based on the forecast of Eesti Pank published in December 2016, Estonian economy will grow by 1% in 2016. The overall annual increase of consumer price index in Estonia was 0.1%. At the same time, the price of food and non-alcoholic beverages didn't increase within the year. However, the prices of clothing and footwear rose by 3.4% in a year. The biggest increase in prices – 6.4% – occurred in alcoholic beverages and tobacco due to a rise in excise duty. Benefits paid per employee still rose faster than productivity and the unit cost of labour increased in 2016. According to Statistics Estonia, the average gross wage per month increased roughly by 7.0% in the first three quarters of 2016, being faster than average mainly in the areas where the wages are lower than average. In the view of the Ministry of Finance, the wages pressure is not anticipated to lose its momentum in the near term due to decreasing working-age population and low unemployment.

According to Statistics Estonia, the total volume of retail sale in current prices in Estonia grew by 7.0% in 2016. The maintenance and repair of motor vehicles had the highest growth rate (18.7%). In terms of monetary volume, the biggest upsurge was in the sale of motor vehicles, parts and accessories. Retail sale in non-specialised stores (predominantly food products) went up by 3.7% in 2016. Retail sale in other non-specialised stores increased by 2.1%. In terms of monetary value, the biggest slowdown in retail sale in year-on-year comparison was still in the sale of motor fuel, where the decrease was 1.9%. According to the Estonian Institute of Economic Research, the confidence indicator of consumers has shown signs of improvement during the last months of the 2016.

## Financial performance

### FINANCIAL RATIOS 2012-2016

<i>In millions of euros</i>	2012	2013	2014	2015	2016
Revenue	468	499	535	555	598
Change in revenue	7%	7%	7%	4%	8%
Gross profit	121	126	133	139	153
EBITDA	38	33	35	42	47
Operating profit	26	22	24	27	32
Profit before tax	25	21	22	26	31
Net profit	21	18	20	22	26
Change in net profit	-3%	-16%	16%	9%	17%
Sales revenue per employee	0.140	0.140	0.140	0.141	0.147
Gross margin	26%	25%	25%	25%	26%
EBITDA margin	8%	7%	6%	8%	8%
Operating margin	6%	5%	4%	5%	5%
Profit before tax margin	5%	4%	4%	5%	5%
Net margin	5%	4%	4%	4%	4%
Equity ratio	51%	51%	51%	52%	52%
Return on equity (ROE)	14%	11%	12%	13%	13%
Return on assets (ROA)	8%	6%	6%	6%	7%
Current ratio	1.0	1.0	1.1	0.9	1.1
Debt ratio	0.5	0.5	0.5	0.5	0.5
Inventory turnover	7.7	7.4	7.4	7.1	6.8
Average number of employees	3,335	3,554	3,824	3,946	4,079



Gross profit	= revenue – cost of sales
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)	= cost of sales / average inventories
Current ratio	= current assets / current liabilities
Debt ratio	= total liabilities / balance sheet total

The consolidated sales revenue of the Group was 598.4 million euros in 2016, a growth of 7.7% compared to the results of 2015 when the sales revenue was 555.4 million euros. The net profit of the Group was 25.7 million euros in 2016, which was better by 16.6% of the profit earned in the previous year. The year's pre-tax profit was 31.0 million euros, showing a year-on-year growth of 19.4%. The net profit was influenced by the dividend payment, on which an income tax of 5.2 million euros was paid in 2016, whereas the year earlier, 3.9 million euros was paid as income tax.

2016 continued to be a successful year for the Group in terms of sales results, where all segments of the Group managed to increase their sales revenue. The car trade segment demonstrated the strongest growth throughout the year. Additionally, other segments of the Group achieved good sales growth in the tight competition. The economic environment of 2016 was favourable for consumption. At the same time, the salaries in Estonia made an upsurge and in order to retain qualified personnel, the Group had to introduce changes in salary levels. A strong contribution to the Group's profit growth came from the capable management of stocks in increasing the gross margin and enhancing the purchasing process. In the 2<sup>nd</sup> quarter, the City of Tallinn returned the illegitimate collected sales tax on excise goods in the amount of 0.5 million euros to the Group, which increased the operating profit. Similar to 2015, the Group's operating profit was influenced also by the revaluation of investment property, contributing to the EBITDA with 1.6 million euros (in 2015 with 4.3 million euros).

At the beginning of the year 2016, Kärberi Selver was opened in Tallinn in the Lasnamäe district and one Selver store was closed in Narva. In the second half-year of the reporting year, Selver expanded its sales area by opening Arsenali Selver in Põhja-Tallinn in October and Maardu Selver in December. In summer, thorough renovation works were carried out in Tondi Selver in Tallinn and in the third quarter, in Veeriku Selver in Tartu. Selver's online store expanded its area of operation and increased its functionality. In the department stores, the beauty and women's departments of the Tartu department store were revamped. In the Tallinn department store, the men's department and women's shoe department have undergone major refreshment and the Kaubamaja's e-store was opened in spring. The I.L.U. store in Tartu was moved as a result of reorganisation from the Tasku Centre to the new Kvartal Centre opened in the Tartu town centre.

As of 31 December 2016, the amount of assets of the Group was 388.7 million euros, which is 11.7% higher compared to the end of 2015.

The number of loyal customers exceeded 595,000 at the end of the accounting period, showing an annual increase of 0.8%. The proportion of purchases by loyal customers in the turnover of the Group was 81.7% (the indicator was 80.4% in 2015). Over 25,000 Partner bank and credit cards had been issued as of the end of December.

## Investments

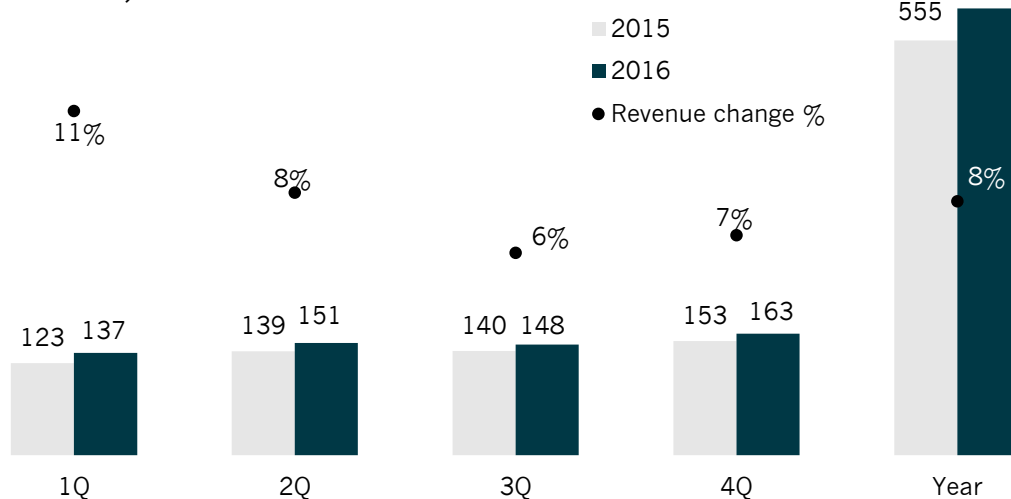
The Group's investments in 2016 amounted to 13.1 million euros (20.5 million euros in 2015), with 13.0 million euros invested in tangible assets and 0.1 million euros in intangible assets. In the supermarkets business segment, 7.6 million euros worth of investments were made in 2016 (in 2015, 4.4 million euros). Investments were used for opening three new stores, renovating Tondi Selver, as well as renovating and expanding Veeriku Selver. Additionally, repair and refurbishing works were conducted in the stores, and fittings and computing equipment were purchased. In addition, the SelveEkspress SelfScan systems were installed seven stores. The investments of the department stores business segment amounted to 3.4 million euros (2.4 million euros in 2015), most of which were used for the development of the online store of Kaubamaja, renovation of the beauty and women's departments of Tartu department store and the women's shoe department, as well as the men's department of the Tallinn department store. In the car trade business segment, the cost of investments was 0.5 million euros (0.2 million euros in 2015). The footwear trade segment invested 0.1 million euros to improve the sales environment and checkout systems of the

stores (0.1 million euros in 2015). The cost of investments in real estate business segment was 1.4 million euros (12.9 million euros in 2015). The most important investment of the accounting period was the Tartu Kaubamaja Shopping Centre, which was fully renovated.

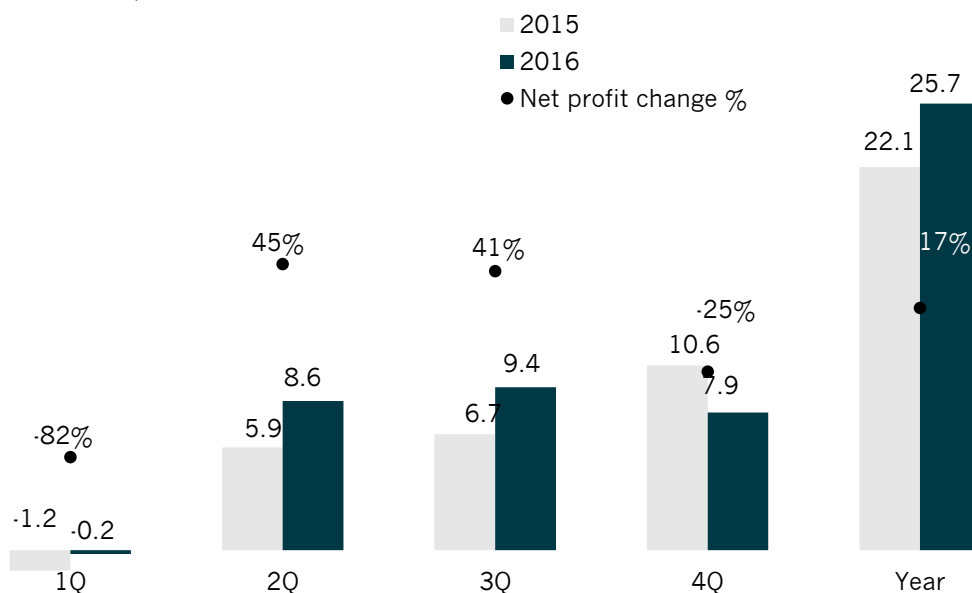
## Seasonality of business and risks

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 revenue 2015 and 2016  
(in million euros)

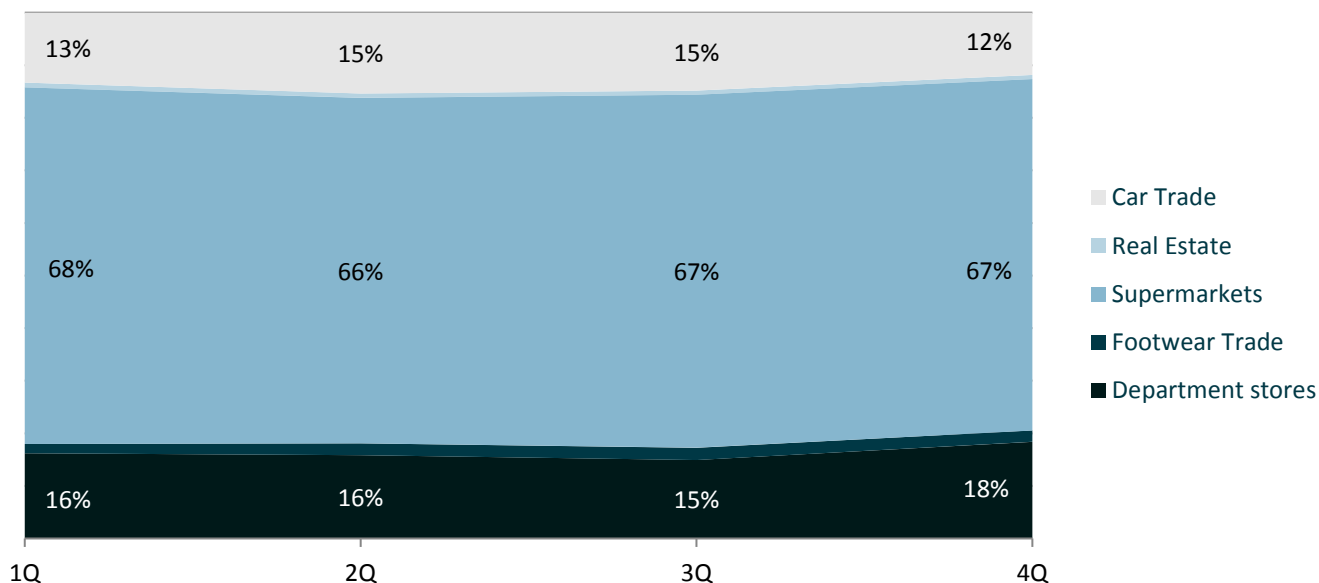


Tallinna Kaubamaja Group net profit 2015 and 2016  
(in million euros)



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

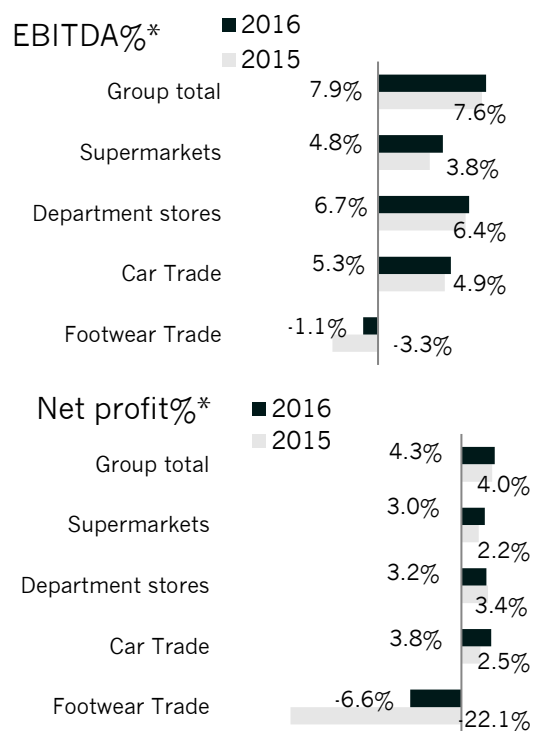
### Tallinna Kaubamaja Group revenue distribution for 2016



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

### Business segments

<i>In millions, EUR</i>	2015	2016	%
<b>Revenue</b>	<b>555.4</b>	<b>598.4</b>	<b>7.7%</b>
Supermarkets	383.4	400.0	4.3%
Department stores	95.6	98.0	2.6%
Car Trade	60.8	82.6	35.9%
Footwear Trade	11.9	12.8	7.5%
Real Estate	3.7	5.0	33.1%
<b>EBITDA</b>	<b>42.2</b>	<b>47.3</b>	<b>12.1%</b>
Supermarkets	14.5	19.0	30.8%
Department stores	6.1	6.5	6.4%
Car Trade	3.0	4.4	47.9%
Footwear Trade	-0.4	-0.1	-64.6%
Real Estate	18.9	17.5	-7.6%
<b>Net profit/-loss</b>	<b>22.1</b>	<b>25.7</b>	<b>16.6%</b>
Supermarkets	8.5	12.1	41.5%
Department stores	3.3	3.2	-3.5%
Car Trade	1.5	3.2	113.1%
Footwear Trade	-2.6	-0.9	-67.8%
Real Estate	11.4	8.2	-28.5%



\*ratio of revenue

## Supermarkets

The consolidated sales revenue of 2016 in the business segment of supermarkets was 400.0 million euros, having grown by 4.3% in a year-on-year comparison. The average monthly sales revenue of goods per sales area square metre was 0.37 thousand euros in 2016, exceeding the figure of the previous year by 2.8%. The average sales revenue per sales area square metre of goods sold by comparable stores was 0.37 thousand euros in a year, indicating a 2.8% increase respectively. 36.2 million purchases were made in Selvers in 2016, surpassing the figure of the previous year by 0.4%.

The consolidated pre-tax profit of the segment of supermarkets was 14.7 million euros in 2016, net profit was 12.1 million euros, having grown by 3.9 and 3.5 million euros respectively compared to the previous year. The difference between the net profit and the profit before income tax arises from the income tax paid on dividends. The pre-tax profit earned in Estonia amounted to 16.8 million euros and the net profit to 14.1 million euros. The loss incurred in Latvia in 2016 was 2.1 million euros, the loss decreased by 0.3 million euros compared to the previous year.

In 2016, the retail trade was highly competitive. Increasingly more work has to be done to maintain the market share. The sales growth in the segment of supermarkets was supported by an increase in the average shopping basket backed by an upsurge in the real income of people and successful sales campaigns. In the tightening competition, new clients were gained and the number of purchases of the previous year was surpassed by opening new stores. Negative impact on the sales growth originated from the closure of Kerese Selver in February 2016, resulting in a higher comparison basis and lost turnover from stores temporarily closed for renovation works – Tondi Selver in Tallinn (closed for 4 weeks) and Veeriku Selver in Tartu (closed for 6 weeks). Considering the stores, the drivers of the growth of sales revenue are the Selvers that were opened and renovated in recent years.

The formation of the profit earned in Estonia has primarily been affected by increases in the gross profit earned from the sale of goods, which has been accomplished chiefly by changes in the operating principles of the sale of goods and through optimising the purchase process of goods. With regard to operating expenses, the level of cost efficiency of 2015 has managed to increase. Pressure for salary increase is strongly pronounced also in the segment of supermarkets, as a result of which we can see a slight decrease in labour efficiency in 2016 compared to the previous year.

The Tallinn Administrative Court satisfied the claim for the refund of sales tax from the Tallinn City Enterprise Department regarding the sales tax collected on excise goods. This non-recurrent income was reflected in the results of the second quarter. The loss in Latvia decreased, owing to the termination of a lease contract of one store.

In 2016, Selver opened 3 stores: in April, Kärberi Selver at Lasnamäe; in October, Arsenali Selver in Põhja-Tallinn; and in December, Maardu Selver. One store was closed in Narva. Two stores were renovated – Tondi Selver in Tallinn and Veeriku Selver in Tartu. Starting from summer 2016, the e-Selver service covers the entire Tallinn and most of Harju County. In the second half of 2016, the capability of e-Selver to serve a bigger number of clients was notably increased. The service of SelveEkspress was expanded to 27 Selvers; in seven of them, the service was opened in 2016.

In 2017, at least three new stores are to be opened. The SelveEkspress service will be made available in all newly opened Selver stores and in another three, already existing Selvers.

## Department stores

The sales revenue of 2016 in the business segment of department stores was 98.0 million euros, having grown by 2.6% in a year. The pre-tax profit earned by department stores amounted to 4.3 million euros in 2016, being 2.0% less than the result of the previous year. The department stores' average monthly sales revenue per sales area square metre was 0.3 thousand euros in 2016, being 1.7% better in a year-on-year comparison. The sales revenue of the department stores in 2016 was influenced by renovation works in both sales locations, where in the first quarter, the renovation of the beauty and women's departments of the Tartu department store was completed and at the beginning of September, the updated women's shoe department and third floor of the men's department in the Tallinn department store were opened. Starting from the second quarter, the increased competition in the Tartu town centre in the segment of groceries and fashion items has negatively affected the result of the Tartu department store. The turnover of Kaubamaja's online store, which was opened at the beginning of March, exceeded, by the end of December, the level planned for 2016. The number of products offered extended already up to 90,000 by the end of the year. The profit of department stores has been positively influenced by lower utility costs compared to the previous year due to milder weather and investments made into modern lighting and technology. The 2017 plans of the department store include holistic and wide-scale content and the creation of a clear format for the planned Tallinn department store, as well as the further development of the online store.

The sales revenue of 2016 of OÜ TKM Beauty Eesti, which operates the I.L.U. cosmetics stores, was 4.9 million

euros, having decreased by 4.0% in a year-on-year comparison. The loss was 0.3 million euros in 2016, which is 0.1 million euros more than the loss of 2015. In 2016, an important change in location of the Tartu town centre store took place. In May, the store in Tasku Centre was closed and a new store was opened in the shopping centre Kvartal. Launching the operations of the Kvartal I.L.U. store on a new sales area immediately before the summer season appeared to be a challenge. The annual sales outcome of the store remained below expectations, which also influenced the total result of the company. The Ülemiste I.L.U. store underwent a reconstruction, in the course of which another client entrance was opened through the neighbouring L'Occitane store. In April 2017, the store in the Tartu Lõunakeskus is to be moved to a more attractive location due to the renovation and reconstruction of the centre. The analysis of assortment will continue and the focus will be on increasing the retail margin and growing the profitability of stores. An increase in service quality and the proactive customer service by consultants is under focus in the daily business of the stores.

Growth of the security company, reported in the segment of department stores, continued in 2016 in all security areas: security service, the development, installation, and maintenance of security equipment, and in the new area of inventory, which has unfolded as a logical follow-up to security services in close cooperation with commercial establishments. In the financial year, the security company obtained quality labels for its activity with ISO 9001:2015 and ISO 14001:2015 certificates.

## Car Trade

The sales revenue of 2016 in the segment of car trade was 82.6 million euros. The sales revenue was 35.9% higher in a year-on-year comparison, including an increase of 33.5% in the sales revenue of KIAs. In 2016, the total car sale of the Group's car trade segment was 3,893 new vehicles. The net profit of the segment in 2016 was 3.2 million euros, surpassing the profit of the same period of the previous year by 113.1%. The pre-tax profit of 2016 of the segment was 3.7 million euros, surpassing the profit of the same period of 2015 by 83.0%. In addition to the superb sales results, good profitability in all car sale companies of the Group was achieved in 2016. The sales growth is reinforced by the good work of the dealers themselves by achieving a high level of service quality and customer satisfaction. This has contributed to the sales growth of new cars and thanks to improved reliability, increased the workload of after-sale service. In addition, the sale of new cars in 2016 was supported by the growth in the car sale market in all three Baltic States. The driving force in car sales has continued to be the hit model of KIA – Sportage SUV – and the competitive and strong model range of OPEL in all model segments. In Latvia and Lithuania, we could also highlight winning several large public procurements in 2016. The sale of new cars was supported, in turn, by the sale of used cars by the car group dealers.

The goal for 2017 is to maintain the achieved sales capability and improve the quality of after-sales service.

## Footwear trade

The sales revenue of 2016 in the business segment of footwear trade was 12.8 million euros, having grown by 7.5% compared to the previous year. The improvement of the results was supported by a more aggressive sale-oriented strategy, which has helped improve the age structure of stock and given a good starting point for margin growth. The performance of SHU footwear stores has advanced well compared to 2015. In addition to shoe sales, the sales in the line of children's goods and bags also showed a notable increase.

The biggest challenge for the new financial year will be increasing the profitability. The plans for 2017 include optimising the sales areas of the stores, reorganising the concept of ABC King stores, and improving the efficiency of cost management.

## Real estate

The external sales revenue of 2016 in the business segment of real estate was 5.0 million euros. The sales revenue increased by 33.1%, i.e. 1.2 million euros compared to the previous year. The pre-tax profit of 2016 of the real estate segment was 9.1 million euros, which is 19.9% less in a year-on-year comparison. The growth in the sales revenue was supported by the Viimsi trade and recreation centre opened in August 2015 and renting out the Rezekne building in Latvia to an external party. In March 2016, the renovation works of the Tartu Kaubamaja Shopping Centre were finalised, in the course of which the entire shopping environment was modernised. Profit in the real estate segment was affected by the revaluation of the segment's assets, resulting in a 2.2 million euro decrease in the profit of the quarter (as a result of the 2015 revaluation, the profit increased by 2.3 million euros).

More important projects in 2017 will be the development of the new department store of Kaubamaja in Tallinn and coordinating the activity of the Lithuanian subsidiary. To simplify the administrative work in real estate, a new management software will be implemented.

## The share

### Security information

ISIN	EE0000001105
Ticker	TKMIT
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 Grupp AS are listed on the Tallinn Stock Exchange from 6 September 1996 and in the Main List, from 19 August 1997. Tallinna Kaubamaja Grupp 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 Grupp 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 Grupp AS have no right to issue or buy back shares of Tallinna Kaubamaja Grupp 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.

The Group received a significant acknowledgment at the Nasdaq Baltic Market Awards competition for displaying the greatest increase in share price on the Baltic Stock Exchange over 10 years, and for its trustworthiness. As part of the award ceremony, the representatives of the Group were given the opportunity to ring the ceremonial bell at the opening of the Nasdaq Stock Exchange on 17 August 2016 in Times Square, New York.

### 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 1 March 2016, the Management Board proposed to pay 21.2 million euros as dividends that is 0.52 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.



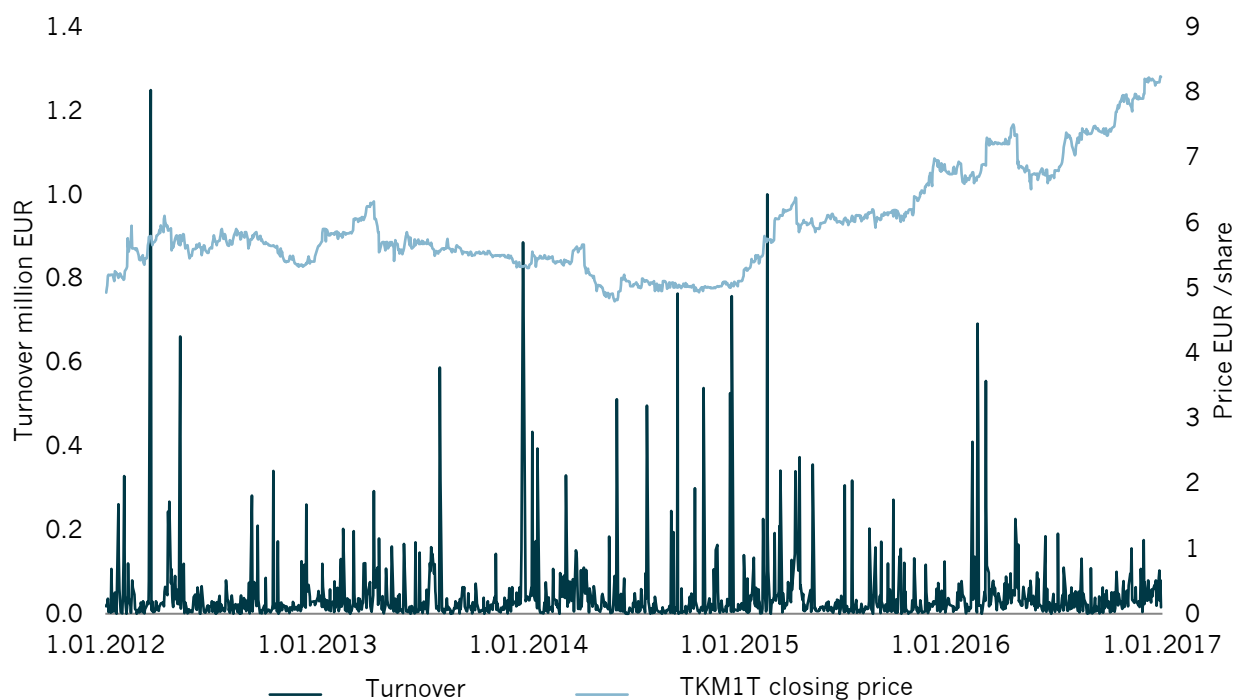
17.08.2016 Time Square, New York

At the end of the 2016 the Group had 4,314 shareholders and division of shares is following:

Ownership structure	Number of shareholders	Shareholders%	Shares%	Votes%
Private persons	3,783	87.7%	10.5%	10.5%
Companies (Estonian)	475	11.0%	3.2%	3.2%
Financial institutions (other countries)	12	0.3%	3.2%	3.2%
Companies (other countries)	2	0.0%	0.0%	0.0%
Financial institutions (Estonian)	40	0.9%	9.3%	9.3%
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>4,314</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Number of shares	Number of shareholders	Shareholders%	Shares%	Votes%
1–100	1 152	26.7%	0.2%	0.2%
101–1,000	2 145	49.7%	2.2%	2.2%
1,001–10,000	929	21.5%	5.9%	5.9%
10,001–100,000	69	1.6%	4.5%	4.5%
100,001–1,000,000	17	0.4%	13.3%	13.3%
1,000,001– ...	2	0.0%	73.9%	73.9%
<b>Total</b>	<b>4,314</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Share price and trading statistics in Tallinn Stock Exchange during 01.01.2012 – 01.01.2017



## Share trading history

In euros

	2012	2013	2014	2015	2016
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (pcs)	1,907,270	1,757,026	2,368,070	1,933,408	1,647,752
Dividend / net profit	68%	35%	80%	96%	100%*
P/E	10.7	12.4	10.2	12.4	13.0
P/BV	1.5	1.3	1.2	1.5	1.6
Opening price	4.845	5.5	5.35	5.1	6.72
Share price, highest	6.13	6.37	5.69	7.0	8.30
Share price, lowest	4.845	5.3	4.79	5.03	6.49
Share price, at the year-end	5.48	5.3	5.1	6.74	8.23
Share price, yearly average	5.59	5.67	5.15	6.07	7.25
Turnover (million)	10.70	9.95	12.19	11.6	11.87
Capitalisation (million)	223.20	215.86	207.72	274.51	335.20
Earnings per share	0.5	0.4	0.5	0.5	0.6
Dividend per share	0.35	0.15	0.40	0.52	0.63*
Equity per share	3.6	4.1	4.3	4.4	5.0

\* 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

## Plans for 2017

The most important development plans and objectives of Tallinna Kaubamaja Group for 2017 are:

- Continued growth of the Group's market share
- Improving profitability
- Extensive expansion of e-Selver
- Increasing the number of Selver stores by three
- Retaining personnel
- Expanding the production of the central kitchen of Kulinaaria
- Improving the profitability of the footwear trade segment
- Improving the result of I.L.U.
- Developing the Partner programme
- Increasing the service base and market share of the security business
- Expanding the car trade businesses
- Finding business expansion opportunities



## Ethical business practices and corporate responsibility

Ethical business belongs to the core values of Tallinna Kaubamaja Group and is an important success factor for us. By following high ethical principles, we foster profitable growth, win the trust of stakeholders, and support fair competition and equal treatment.

We feel very strongly about the implementation of the principles of corporate responsibility in daily business. Our objective is to develop an environmentally friendly, responsible and sustainable approach in every activity, from the simplest daily tasks to extensive investment projects.

For Tallinna Kaubamaja Group, integrity, responsibility and sustainability is much more than merely compliance with external requirements – it is an integral part of our business. To promote this way of thinking, a Code of Ethics is on the process of establishing in Tallinna Kaubamaja Group, which all employees of the Group must read and adhere to.

- In our activity, we are guided by ethical principles. We ensure that our employees know these principles and follow them in their everyday work.
- We act responsibly, taking into account the impact of the Group's activity on the ambient natural environment, the health and quality of life of residents, and interlinkage with the interests of various stakeholders.
- We value the natural environment in which we operate and therefore, we use resources sustainably and constantly seek new solutions for more sustainable consumption.
- We value human rights and comply with them within the Group and in all Group-related activities, incl. in the Group's supply chain.
- We tackle corruption, proceeding from honest and transparent business conduct.
- We fulfil the requirements that govern our activity.
- We support our customers, create shareholder value, and contribute to the economy as a whole.
- We give social contribution to the society and offer possibilities and support also to those, who need more assistance and attention.
- We are a good neighbour in our community; we support and encourage activities related to environmental care and healthy lifestyle.

Comprehensive, responsible and environmentally sustainable thinking is integrated into all the businesses and business processes of Tallinna Kaubamaja Group. This approach includes above all caring for the environment and natural resources, complying with human rights, tackling corruption, having an honest and open dialogue with employees, clients, suppliers and all other stakeholders.

Concurrent with the objective to achieve the best possible efficiency, we focus on environmental protection in our daily business and try to minimise the impact of our operations on the environment.

It is important for us to prove our social and environmental responsibility by being open in our communication. We are ready to give competent information about all the Group's companies, their strategies and objectives, as well as talk about less important daily issues. With the level of development of technology in the present world, long-term success can be achieved only with an honest and open dialogue and collaboration with all stakeholders.

## Social responsibility

Tallinna Kaubamaja Group feels its role and responsibility in the society and is aware that through its activities, the Group also influences the society around us. These are reflected in the social responsibility principles accepted throughout the Group:

- We consider the Group's Selver chain stores as regional centres where we have assembled several public services important for the society.
- If possible, especially in food items, we prefer domestic products and small Estonian manufacturers.
- We hold events to promote local design and manufacturers at the Group's department stores and stores.
- We are active in sponsoring activities and programmes and organise various charity campaigns.

- We support the popularisation of sports through promoting youth work and professional sports.
- We support several smaller and larger cultural projects, mainly outside of larger cities.
- We contribute to improving the employment of disabled persons and offer jobs to people who are at a disadvantage in competing on the current labour market.
- We help the state in creating jobs and contribute to its tax revenues.

In 2016, Tallinna Kaubamaja Group companies paid to the state and local authorities a total of 57.1 million euros in taxes, a growth of 18.4% in a year (2015: 48.2).

Tallinna Kaubamaja Group taxes paid in 2014, 2015 and 2016  
(in million euros)



Some examples of the activities of Tallinna Kaubamaja Grupp AS companies:

- Since 1994, Tallinna Kaubamaja has been a godparent for white-tailed eagles at the Tallinn Zoo.
- Tallinna Kaubamaja has supported the Male Choir of Tallinn University of Technology for over 12 years.
- In collaboration with Uuskasutuskeskus (Re-use Centre), stationary collection points for second-hand clothes and footwear have been opened in Kaubamaja. We have donated materials used during promotional campaigns for re-use to childcare institutions and as material for handicraft to people with special needs.
- During the last eight years, Kaubamaja has conducted campaigns in cooperation with several charity organisations and collected money for an animal shelter, big families etc. In our charity activity, we have primarily focused on projects related to children. There have been many smaller scale endeavours related to children and childcare institutions, such as singing competitions, sports days, school parties, where Kaubamaja has awarded the winners with mementos. In cooperation with our clients, we held the charity Christmas sale in Kaubamaja at the end of 2016 and donated half of the revenues.
- Within the framework of “Jõulusoovide puu” (Christmas wish tree), Kaubamaja employees in cooperation with SEB Heategevusfond have packed presents for children in shelters and substitute homes since 2014. We continued with the project, which has become a good tradition, in 2016 as well.
- Kaubamaja values Estonian fashion and promotes the work of Estonian designers in every way. Estonian products are specially labelled in Kaubamaja to introduce local design also to tourists. There is a separate area allocated for the work of Estonian fashion designers in the women’s fashion department of Tallinna Kaubamaja and several window and in-store displays introducing Estonian design were organised during the year. Future fashion designers are also important for Kaubamaja – we encourage schools to organise fashion shows and help them with awards. For example, we support the organisation of young people’s fashion events “MoeP.A.R.K.” and “NoorMood”.
- Kaubamaja and Selver joined with the Diversity Charter in 2012, thereby undertaking to adhere to the principle of equal treatment and opportunities. We focus on developing diversity in our Group. In a company where employee diversity is valued, be it different age, race, ethnicity, religious beliefs or employees with special needs, there is more knowledge, skills, experience, perspectives and a more tolerant working environment. We believe that this helps us offer better service to our clients.
- For the fourteenth year in a row, Selver organised the charity project “Koos on kergem” (It Is Easier Together), the aim of which is to donate money to the children’s and maternity departments of hospitals. In every

store, money is raised for the local county hospital. In 2016, 123,800 euros were raised (in 2015, 113,500 euros).

- In recent years, Selver has cooperated with various charity organisations, such as Shalom, Food Bank, SAK Fond and congregations to donate foodstuff nearing the best before date to families in need. Presently, almost 30 Selver stores participate in these projects.
- Selver consistently supports animal parks at Elistvere and Alaveski, as well as the Tartu animal shelter.
- Selver continues to support youth sports and is a title sponsor of the volleyball club Selver Tallinn. The objective of the club is to promote volleyball in Estonia, but also to work with young people and promote professional sports. The club's activities include:
  - First team: Selver Tallinn;
  - Youth club to raise the next generation of players: Selver/Audentes;
  - Promotion of youth sports: Audentes Volleyball School;
  - Playing beach volleyball: Caparol Beach Volleyball Centre.
- In 2016, Selver continued to support the football club FC Flora.
- Selver is the title sponsor of Linnajooks (City Run). The series include a total of seven runs organised all over Estonia: Tartu Spring Run, Rapla Selver Great Run, Narva Energy Run, Estonian Night Run in Rakvere, Jüri Jaanson's Two Bridge Run in Pärnu, SEB Tallinn Marathon, Paide-Türi Run. Selver is also a sponsor of The Moonsund Regatta.
- Selver supports smaller and larger cultural projects, mainly outside of larger cities. In 2016, we supported, for example, the Saaremaa Opera Festival, Hiiumaa church concerts, Viljandi Folk Festival, Järvi Festival, Hiiu Folk and Pärnu Grillfest. In addition, several smaller cultural projects were supported.

## Wellbeing and motivation of personnel

The objective of the human resources policy of Tallinna Kaubamaja Group is to value, develop and keep the Group's employees based on common principles, involving human resources management and planning, well thought out recruitment and selection processes, followed by purposeful and motivational development and the establishment of an environment that supports it. We are guided by the principle that success is based on loyal, committed, ethical and result-oriented employees.

An important part of the Group's HR policy is human resources management, which is an important task for every manager and the performance of which ensures smooth collaboration and good work performance. The main principles of the Group's human resources management are:

- We develop our employees and teamwork.
- We are open and honest and encourage multilateral communication.
- We encourage self-management and the individual performance of employees.
- We base our activity on consensus and collaboration.
- We develop to be an organisation that learns from the experience and knowledge of every employee.

Tallinna Kaubamaja Group is one of the biggest employers in Estonia. In 2016, our Group employed an average of 4,079 people and compared to 2015, the number of employees grew by 3.4% (2015: 3,946).

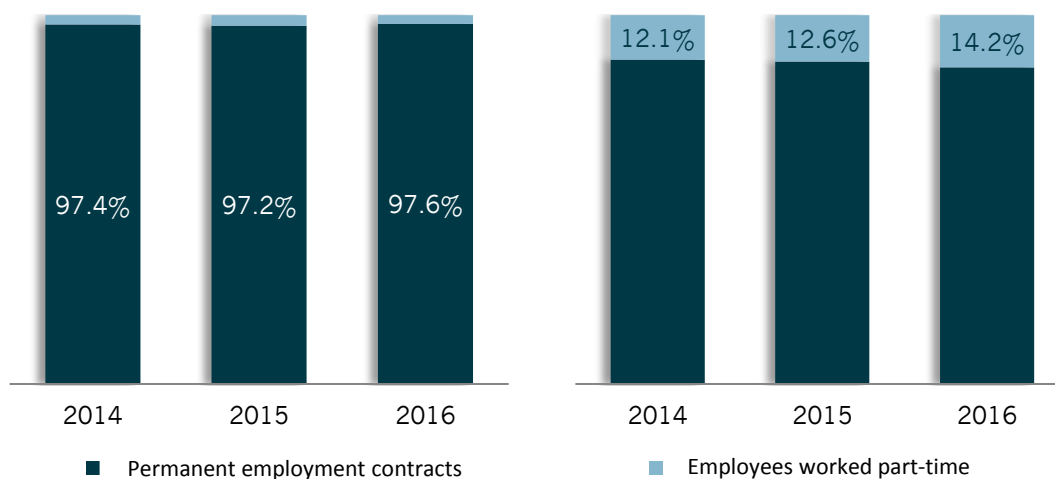
Tallinna Kaubamaja Group values long-term and lasting work relationships that provide our employees with stability in their everyday life and develop their competence over the years, thereby improving the Group's competitiveness.

As at the end of 2016, almost 98% of our employees were employed under permanent employment contracts and 2% under fixed-term employment contracts. Tallinna Kaubamaja Group also offers an option to work part-time in response to employees' wishes and opportunities. As at the end of 2016, almost 14% of our employees worked part-time.

97.6%  
Permanent contracts

14.2%  
Part-time

The popularity of part-time working has grown year by year in Group, in 2016 higher growth also can be noticed.



The main objective of personnel management is to maintain a sophisticated recruitment and selection process and the ensuing targeted development of employees, as well as the creation of a working environment supporting it. Various training and evaluation programmes and other incentives support employees' readiness to serve, their focus on results and commitment to our companies.

The Group highly values the experiences of its employees, supporting a long-term stable career of employees (both vertical and horizontal) within the company. Employees are offered specialised refresher trainings in Estonia as well as abroad. The Group's total number of training hours exceeded 13,000 in 2016, which is 13% more than the year before. The number of training hours per employee, which was on an average 3.2 hours in 2016 (2015: 3.0) increased as well. Internal trainings carried out by specialists in our companies play an important role in the development of employees, and we have been continuously increasing their volume and selection to meet employees' needs and expectations.

Kaubamaja's internal training offers high-level service and teamwork training. Systematic management of service, where training, evaluation and feedback form an integral whole, enabled Kaubamaja to maintain and improve the level of service in 2016. Experienced managers, specialists and Service Club members that share their experiences act as internal trainers. To support the next generation and development of our staff, Kaubamaja launched a trade development programme in 2016, the main target groups of which are trade purchase teams.

Activities were undertaken in Selver to increase the volume of internal training and service training conducted by Selver internal trainers with the aim of improving service quality further and offer employees an opportunity to learn and develop. In 2016, a total of 1,804 employees participated in the internal training programmes of Selver. Our mentoring system, which was introduced last year, functions well and helps to reduce the turnover of employees, ensure a good training of new employees and facilitate their induction to the company. At Selver, internal training is carried out by store managers and specialists of various areas. The internal trainers contribute to the induction process of new employees as well as refresh the knowledge of experienced employees.

In companies, the focus is still on the development of managerial competences. In 2016, several interesting lecturers made presentations to Kaubamaja's managers to share their remarkable practical managerial experience.

To train new employees and improve the efficiency of the induction period, training programmes have been drawn up within the Group. The programmes are carried out by several specialists, whose experience gained during their long-term service ensures the high quality of training and good learning results. New managers are appointed a mentor for their induction period and to support the induction of new employees a sophisticated instructional system functions. The continued development and motivation of employees are ensured by a system of evaluation and competence levels, which corresponds to the main values of companies and position competence models.

To ensure a new generation of employees, Tallinna Kaubamaja Group has offered students various practical training opportunities. In 2016, we offered practical training opportunities to a total of 108 young interns, being 9% more than the year before. Our Group's companies cooperate closely with vocational institutions and other educational institutions all over Estonia by offering them a place of apprenticeship and being a cooperation partner in training. We have also helped our employees that are still studying in writing their course and final papers by offering them the opportunity to use the Group's companies as their object of research. This approach helps the Group's companies to raise the next generation of forward-looking people that appreciate development. In 2016, we continued our active cooperation with the Estonian Unemployment Insurance Fund to offer practical

training and free positions for job seekers. Selver and Kaubamaja have signed an employment and cooperation agreement with the Unemployment Insurance Fund with the aim of finding various additional cooperation opportunities for recruiting employees and holding refresher trainings.

Together with the Unemployment Insurance Fund, Tallinna Kaubamaja Group has contributed to improving the employment of disabled persons and offered positions to people that are at a disadvantage in competing on the labour market.

In its operations, Tallinna Kaubamaja Group is guided by the principle that a safe working environment is one of the fundamental rights of our employees. We have created a system of measures to ensure a safe working environment and occupational health, which includes medical examinations, regular trainings on safety requirements (including fire safety and first aid), conducting risk analyses and supplying employees with protective equipment. We have built up a system in the Group to involve working environment representatives in maintaining a healthy working environment. In 2016, there were a total of 66 occupational accidents in the Group.

We organise joint events that build a foundation for a good atmosphere and cooperation in teams. In 2016, Selver launched a Culture Club project, aimed at organising joint visits for the company staff to different cultural events, such as museums, theatre performances, concerts, etc. We celebrate the most important holidays together with our employees. To celebrate its 50<sup>th</sup> anniversary, Tartu Kaubamaja department store organised a reception at the newly opened Estonian National Museum, inviting all the employees of the company. The Group promotes healthy lifestyle among its employees by increasing their knowledge of how to care for their health and creating a safe and healthy working environment, providing opportunities to be involved in sports, for recreational activities and healthy lunch and rest breaks in a comfortable environment (rest areas), using the family physician service and blood pressure measuring devices, massage stools and massage services. The Group's employees can use individual and team sports opportunities. Our teams participate in various non-professional sports events.

In our Group, we pay attention to maintaining employees' motivation by using monetary and non-monetary incentives. The objective of Kaubamaja's incentives system is to ensure the coherence of objectives in a way that, in addition to meeting business objectives, ensures client satisfaction and the efficiency and development of work processes. In our incentives system, we consider it important to acknowledge a behaviour that is in agreement with our main values. Kaubamaja's best service persons and employees are an example for others with their commitment and honouring of main values.

We support healthy lifestyle among employees and offer the employees benefits related to taking care of their family and health. A health weeks for employees take place, where many health specialists and experts present their suggestions and share their knowledge.

We also contribute to developing diversity within the Group by valuing a tolerant working environment and diversity of employees, be it different age, race or ethnicity, religious beliefs or employees with special needs.

Tallinna Kaubamaja Group's labour costs increased altogether 10.8% (wage costs and social tax cost), which was 56.4 million euros in 2016. The average labour cost per employee grew by 7.3% in 2016 compared to 2015. Labour costs have been adjusted to the extent that helps to prevent the increased rotation of labour and decreased efficiency resulting from narrower recruitment choices.

Tallinna Kaubamaja Group labour costs in 2014, 2015 and 2016  
(in million euros)



## Complying with human rights and responsible procurement

Tallinna Kaubamaja Group undertakes to honour the UN Convention for the Protection of Human Rights and Fundamental Freedoms and contributes to ensuring the objectives of the declaration through complying with human rights and fundamental freedoms in all of its activities.

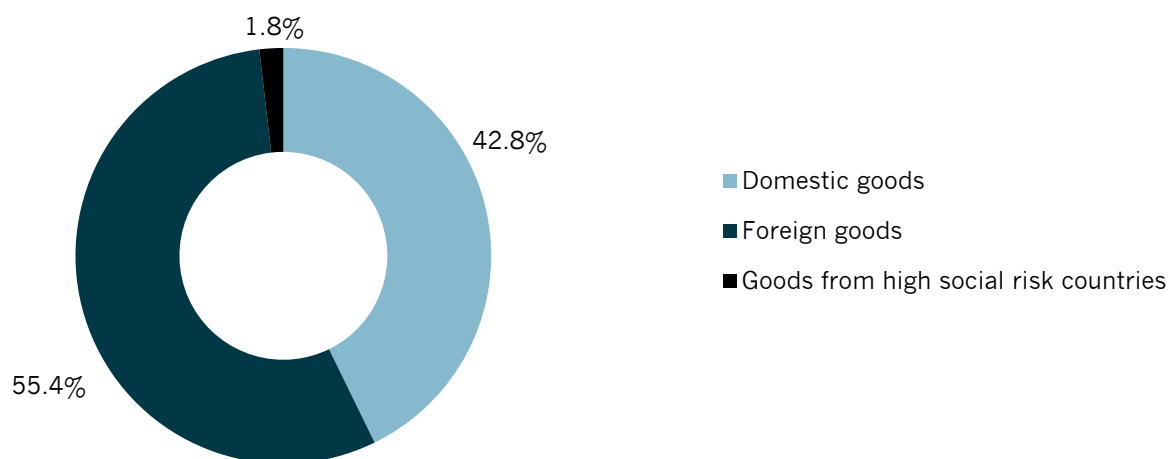
The Group has analysed its activities and assessed as a possible risk in the protection of human rights and

fundamental freedoms the supply chain of the Group. As a result, we have committed to continuously develop the responsibility and sustainability of our procurements. Responsibility is an important part of our procurement process and in addition to product-specific quality requirements, also includes non-discrimination principles and the honouring of labour and human rights, paying more attention when buying from high social risk countries (such as African, Asian, South and Central American countries).

In 2016, over 2,800 suppliers provided products to Tallinna Kaubamaja Group. 70% of the purchases of Tallinna Kaubamaja Group have been made via domestic suppliers.

In terms of social responsibility, Tallinna Kaubamaja Group has suppliers also from high social risk countries, such as some countries in Africa, Asia, South America and Central America. Purchase amounts from these countries are very small and accounted for about 1.8% of all purchases in 2016.

Tallinna Kaubamaja Group origin of products in 2016



### Private label products

1.5% of products purchased by Tallinna Kaubamaja Group are private label products, 26.7% of which have been purchased from high social risk countries. The volume of high-risk products varies depending on product category; it is higher for textile products and consumer goods and lower for food products.

The Group's principle is to be responsible for the private label products and their safety. In order to ensure this in our procurements, we have:

- Found suppliers who have the capability to manufacture products that meet our requirements;
- Analysed the risks related to the location of manufacture of products, including raw materials used therein;
- Checked that suppliers have the required certificates and are compliant with them;
- Concluded procurement contracts that set down specific requirements on production and the raw materials used therein.

The quality and safety of our private label products are constantly monitored. We conduct tests and analyses and listen to client feedback. Products that have already been included in our product selection are tested in accordance with our annual risk control plan. For example, meat and fish products are examined several times a year, other products less frequently.

### Traceability and origin of products

The traceability and identification of the origin of products sold at Tallinna Kaubamaja Group department stores and stores is important for the Group as well as for our clients. Because of that, we:

- Value domestic high-quality food and offer it to our clients as much as possible;
- If possible, prefer local manufactures, including small-manufactures;

- Disclose the place of origin of products and the raw materials used therein to clients as clearly and simply as possible;
- Monitor working conditions and the honouring of human rights in our supply chain.

We are aware of our clients' growing preference to consume primarily domestic production and foodstuff. To meet this expectation, we have been increasing the selection of domestic goods in our department stores and stores every year. In 2016, goods of local origin accounted for almost 43% of all goods. Our aim is to continue adding and increasing the selection of domestic goods in the following years.

The objective of Tallinna Kaubamaja Group is to know our supply chain very well and ensure its transparency, which helps us identify product-related risks and opportunities, and develop a responsible production process. We have worked hard through the years to improve the working conditions in our supply chain.

We have disclosed the origin of products and the raw materials used therein that are being sold at our Group's department stores and stores as clearly as possible. We have supplied the packaging of private label products and foodstuff with information about the origin of the product. In Selver chain stores, there are products on sale marked with the Fair Trade label that ensure our clients that no child labour has been used to produce these products and the employees have been paid fair wages and salaries.

To implement responsibility in the supply chain, we conduct regular internal audits; we also visit producers' plants to see their production conditions and discuss with them our expectations and their capability to satisfy these expectations.

In Tallinna Kaubamaja Group, consistent care is taken to ensure that the security systems agreed with and used by the suppliers, and actions to be taken to stop the delivery of damaged products or to initiate their immediate recall before they are sold are efficient and function well. In 2016, there were 54 product recall incidents in the Group's companies, (2015: 32 incidents).

If we have any reason to doubt that a product sold to clients is damaged and may be a risk to their health, product recall will be immediately initiated and coordinated. This principle is applied similarly in all EU countries. In 2016, there were no such incidents in our department stores and stores (2015: 5 incidents).

Furthermore, daily monitoring measures are in place in the grocery departments of our department stores and stores to ensure the freshness and quality of products. If a product is damaged for any reason, it will be removed immediately.

## Environment

Tallinna Kaubamaja Group admits that environmentally friendly activity serves as a basis for the creation of an efficiently functioning environment and sustainable society.

Concurrent with the objective to achieve the best possible efficiency, we focus on environmental protection in all our daily activities and try to minimise the impact of our operations on the environment. We have set people and the environment as a priority in our everyday business. Accordingly, we follow the principles of responsible work and environmental protection in developing the values of our employees as well as in our everyday activities.

In its activities, Tallinna Kaubamaja Group proceeds from environmental principles, which are binding to all our employees:

- We improve the resource efficiency of our business and implement energy saving methods.
- We reduce waste generation and encourage waste collection by type.
- We avoid and reduce the use of paper and promote paperless document management and the use of digital signatures.
- When buying goods and services, we follow the principles of environmentally friendly procurement and prefer Estonian products, where possible.
- We include all our employees (and partners, as far as possible) in the implementation of the principles of the environmental policy.
- We monitor and reduce the environmental impact resulting from business trips and promote sustainable mobility management.
- We ensure a healthy and socially responsible work environment for our employees, and support their sporting habits.
- We regularly monitor and assess our environmental performance.
- In order to raise the environmental awareness of our employees, we provide them with comprehensive information.

Due to the extensive network of stores in Tallinna Kaubamaja Group, our energy consumption as well as waste generation is massive. Accordingly, we have set a goal to proceed in all our activities from conscious resource consumption and to contribute to sustainable development, paying special attention to the energy efficiency of our business, reduction of waste and their efficient reuse.

To ensure awareness and sustainability, Tallinna Kaubamaja Group companies have committed themselves to the continuous collection of environmental information. The obtained data serve as a basis for preparing the Group's eco-balance, which gives us a more detailed overview of both the consumed energy resources as well as the generated waste.

Tallinna Kaubamaja Group is working continuously to improve the efficiency of energy use in our Group's companies, thereby saving our energy resources. More important measures in this process include monitoring energy consumption and costs, as well as the establishment of specific targets. Overwhelming majority of the Group's energy consumption originates from our department stores and stores – cooling and refrigerating systems, lighting, ventilation and heating. We proceed from energy efficiency both in our everyday business as well as in larger investment projects, such as the renovation of the existing stores or opening new ones. To achieve better traceability, we have followed the principle of monitoring the use of the Group's energy resources based on the location of companies and stores, thereby ensuring a more detailed overview.

An important factor in more sustainable energy consumption is the energy-efficient lighting in our department stores and stores. We have gradually replaced the previously used lighting systems for more efficient LED solutions. When designing the lighting solutions, we take into account the placement of the room, interior fittings, as well as the goods to reduce the lighting of irrelevant goods, still ensuring sufficient light throughout the store.

The energy-efficiency of cooling and refrigerating systems in the Group's department stores and stores has notably increased. To achieve this, we are gradually introducing new, CO<sub>2</sub>-based cooling and refrigerating systems to replace the older freon-based equipment. In addition to notably smaller energy consumption, using these devices also poses a significantly lower risk to our environment. Furthermore, installing glass doors and covers on the stores' cooling shelves, showcases and chest refrigerators helps to ensure energy efficiency.

Other energy-efficiency methods, tested setting and controlling of heating and ventilation equipment through distant management systems also have a significant impact.

Tallinna Kaubamaja Group prefers environmentally friendly packaging and offers alternatives to plastic materials. Paper and reusable textile bags are available at our department stores and stores, of which more than 95,000 pieces were sold in 2016, being 16% more compared to the previous year. Notable increase can also be seen in the purchases of paper bags, with more than 837,000 bags sold last year, being 75% more than the year before. In addition to common small-size plastic bags, Selver chain stores offer environmentally friendly and reusable mesh bags for packing fruits and vegetables and as an alternative to ordinary plastic bags, biodegradable plastic bags at the cash registers. A big step forward in reducing plastic bags is the notable decrease (–50%) in the amount of small plastic bags distributed for free compared to 2015.

100% of paper and plastic packaging waste generated in Selver chain stores is recycled. In order to reduce the volume of the transport and storage of transport packaging, Selver uses Bepco's easily assembled and resistant transport packaging in its logistics process.

To prevent the release of hazardous waste into the nature, collection containers have been installed at Tallinna Kaubamaja Group department stores and stores. This way, our clients have an easy way to dispose of their used batteries, small electronic devices, as well as paper, glass and plastic packaging. We have installed bottle-recycling machines near all the grocery stores that collect beverage bottles carrying an appropriate package deposit marking.

## Fighting corruption

Tallinna Kaubamaja Group considers as corruption the abuse of power resulting from the official position for personal gain and admits that corruption jeopardises democracy and human rights, undermines good governance, social justice, damages the competitiveness and economic development of states, endangers democratic institutions and the moral foundations of the society.

Our main goal is to prevent corruption, however, we also pay considerable attention to the control of our activities. Major methods include avoiding conflict of interests, ensuring transparency, and increasing awareness within the Group.

Main forms of corruption, the prevention of which is also in the focus of the Group, are:

- granting and accepting gratuities or bribes;
- abuse of official position or power;



- conflict of interests;
- nepotism;
- embezzlement;
- trading with know-how and inside information or using it for personal interests.

In combating corruption, we proceed from the following principles:

- When communicating with the employees, the heads of the Group's companies draw their attention to the fact that no form of corruption is accepted in the Group and is in conflict with the ethical beliefs of the Group.
- We proceed from ethical, fair and transparent business and implement measures that contribute to it (such as rules, instructions, contracts, declarations, etc.).
- In our relationships with partners, we follow mutually and in every way the principles of preventing corruption.
- Upon the emergence of incidents of corruption, we forward the respective information to the police or prosecuting authority.

To ensure transparency in our business, the Group has established rules and instructions, regulating also the use of company cars, declaration of economic interests, handling of inside information, dealing with securities, management of investments, organising procurements, recruitment of staff, risk management, business administration and document management.

The Group's internal audit department handles the transparency and compliance issues of business.

The Group organises regular internal and external training aimed at increasing the awareness of the board and members of the management as well as the employees in preventing and avoiding corruption.

## 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 2016 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 Group. 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 Group published a notice convening the general meeting through information system of the NASDAQ Tallinn Stock Exchange as well as on its website on 1 March 2016 and through a daily newspaper Eesti Päevaleht on 2 March 2016. The Group 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 1 March 2016.

The general meeting of shareholders of Tallinna Kaubamaja Group was held in the conference centre of Nordic Hotel Forum, Viru väljak 3, Tallinn, on 12 April 2016 beginning at 14.00 p.m. The resolutions made at the general meeting are published in the press releases on the website of NASDAQ Tallinn Stock Exchange and on the website of Tallinna Kaubamaja Group.

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 2016 was Estonian and the meeting was chaired by the general lawyer of the Tallinna Kaubamaja Group Helen Tulve. The meeting was also attended by the chairman of the Supervisory Board Jüri Kõo, members Andres Järving, Enn Kunila, Meelis Milder and Gunnar Kraft, member of the Management Board Raul Puusepp and auditor Ago Vilu from PricewaterhouseCoopers AS. 79.38% 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 Group 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 2016, the Group 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 Group that represents and directs the Group on a daily basis. In accordance with the articles of association, the Management Board may have one to six members. In accordance with the Commercial Code, members of the Management Board of Tallinna Kaubamaja Grupp AS are elected by the Supervisory Board. 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 Grupp AS has one member. The term of office of the Management Board member Raul Puusepp was extended on 17 February 2017 and his term of office will expire on 6 March 2020.

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 2016 to the Chairman of the Management Board amounted to 251 thousand euros (in 2015, 161 thousand euros) and the calculated fees, including social security taxes, amounted to 162 thousand euros (for 2015 the performance pay in amount of 147 thousand euros was paid).

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

## Supervisory Board

The Supervisory Board plans the activities of Tallinna Kaubamaja Group, 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 Group, 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 2016, 12 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2015, 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 26 March 2015, Andres Järving, Jüri Kão, 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 Kão, Enn Kunila, Meelis Milder and Gunnar Kraft will expire on 19 May 2018. By the decision of the Supervisory Board, Jüri Kão continued as the Chairman of the Supervisory Board, he has been a member of the Supervisory Board of Tallinna Kaubamaja Group from 1997 and has been a Chairman of the Supervisory Board in 2000-2001 and 2009-2015.

According to the decision of the annual general meeting on 26 March 2015, the monthly remuneration of the Supervisory Board member of Tallinna Kaubamaja Grupp AS is 1,000 euros; the Chairman of the Supervisory Board receives 1,200 euros monthly. In the year 2016, 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 2015, 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 2015, 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 Group. 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 Group's activities, and separately draws attention to any important changes in the business activities of Tallinna Kaubamaja Group. 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 Group 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 Grupp AS do not provide for a larger majority requirement.

## Disclosure of information

Tallinna Kaubamaja Group 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 Group and key employees, press releases and reports. The annual and interim reports include information on the strategy and financial results of the Group 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 Group 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 Group 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 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 Grupp 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.

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

The Chairman confirms that management report which consists of "Overview of the Group's activities", "Ethical business practices and corporate responsibility" and "Corporate governance report" is an integral part of the annual report and 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, 23 February 2017

# 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 Grupp AS consolidated financial statements for the year 2016 as set out on pages 30-72.

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 Grupp AS and its subsidiaries are going concerns.



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Raul Puusepp  
Chairman of the Management Board

Tallinn, 23 February 2017

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2016	31.12.2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	32,375	13,911
Trade and other receivables	6	15,396	20,191
Inventories	8	70,186	61,110
<b>Total current assets</b>		<b>117,957</b>	<b>95,212</b>
<b>Non-current assets</b>			
Long-term trade and other receivables	11	264	293
Investments in associates	10	1,762	1,778
Investment property	12	48,684	44,963
Property, plant and equipment	13	211,511	196,691
Intangible assets	14	8,505	9,043
<b>Total non-current assets</b>		<b>270,726</b>	<b>252,768</b>
<b>TOTAL ASSETS</b>		<b>388,683</b>	<b>347,980</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Borrowings	15	26,852	33,377
Trade and other payables	17	83,812	77,066
<b>Total current liabilities</b>		<b>110,664</b>	<b>110,443</b>
<b>Non-current liabilities</b>			
Borrowings	15	73,772	57,426
Provisions for other liabilities and charges		403	502
<b>Total non-current liabilities</b>		<b>74,175</b>	<b>57,928</b>
<b>TOTAL LIABILITIES</b>		<b>184,839</b>	<b>168,371</b>
<b>Equity</b>			
Share capital	19	16,292	16,292
Statutory reserve capital		2,603	2,603
Revaluation reserve		83,932	65,701
Currency translation differences		-255	-255
Retained earnings		101,272	95,268
<b>TOTAL EQUITY</b>		<b>203,844</b>	<b>179,609</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>388,683</b>	<b>347,980</b>

The notes presented on pages 35 - 72 form an integral part of these consolidated financial statements.

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

in thousands of euros

	Note	2016	2015
Revenue	20	598,414	555,447
Other operating income		3,200	5,140
Cost of sales	8	-445,424	-416,134
Other operating expenses	21	-51,808	-50,776
Staff costs	22	-56,371	-50,890
Depreciation, amortisation and impairment losses	13,14	-15,590	-15,234
Other expenses		-729	-609
<b>Operating profit</b>		<b>31,692</b>	<b>26,944</b>
Finance income	23	3	12
Finance costs	23	-871	-1,144
Finance income on shares of associates	10	159	142
<b>Profit before income tax</b>		<b>30,983</b>	<b>25,954</b>
Income tax expense	18	-5,258	-3,883
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>		<b>25,725</b>	<b>22,071</b>
<b>Other comprehensive income</b>			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Revaluation of land and buildings		19,689	0
<b>Other comprehensive income for the financial year</b>		<b>19,689</b>	<b>0</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>		<b>45,414</b>	<b>22,071</b>
Basic and diluted earnings per share (euros)	24	0.63	0.54

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

The notes presented on pages 35 - 72 form an integral part of these consolidated financial statements.



## CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit		25,725	22,071
<i>Adjustments:</i>			
Interest expense	23	871	1,144
Interest income	23	-3	-12
Depreciation, amortisation and impairment losses	13,14	15,492	15,208
Gain from fair value adjustment of investment property	12	-1,585	-4,314
Loss on sale and write-off of non-current assets	13	98	26
Profit on sale of non-current assets	13	-117	-18
Effect of equity method	10	-159	-142
Income tax on dividends paid	19	5,219	3,873
Change in inventories		-9,074	-4,227
Change in receivables and prepayments related to operating activities		-176	-1,209
Change in liabilities and prepayments related to operating activities		6,689	6,496
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>42,980</b>	<b>38,896</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment (excl. finance lease)	13	-12,991	-19,982
Proceeds from sale of property, plant and equipment	13	911	389
Proceeds from sale of investment property	12	35	0
Purchases of intangible assets	14	-157	-544
Investments in subsidiaries	9	0	-47
Change in balance of parent company's group account	26	5,000	-1,000
Dividends received	10	175	142
Interest received	23	3	12
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-7,024</b>	<b>-21,030</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	15	63,454	49,005
Repayments of borrowings	15	-54,108	-57,214
Change in overdraft balance	15	475	943
Dividends paid	19	-21,179	-16,292
Income tax on dividends paid	19	-5,259	-3,873
Interest paid	23	-875	-1,150
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>-17,492</b>	<b>-28,581</b>
<b>TOTAL CASH FLOWS</b>		<b>18,464</b>	<b>-10,715</b>
Cash and cash equivalents at the beginning of the period	5	13,911	24,626
Cash and cash equivalents at the end of the period	5	32,375	13,911
<b>Net change in cash and cash equivalents</b>		<b>18,464</b>	<b>-10,715</b>

The notes presented on pages 35 - 72 form an integral part of these consolidated financial statements.

## 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 31.12.2014</b>	<b>16,292</b>	<b>2,603</b>	<b>67,159</b>	<b>-255</b>	<b>88,031</b>	<b>173,830</b>
Net profit for the reporting period	0	0	0	0	22,071	22,071
<b>Total comprehensive income for the reporting period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,071</b>	<b>22,071</b>
Reclassification of depreciation of revalued land and buildings	0	0	-1,458	0	1,458	0
Dividends paid	0	0	0	0	-16,292	-16,292
<b>Balance as of 31.12.2015</b>	<b>16,292</b>	<b>2,603</b>	<b>65,701</b>	<b>-255</b>	<b>95,268</b>	<b>179,609</b>
Net profit for the reporting period	0	0	0	0	25,725	25,725
Revaluation of land and buildings (Note 13)	0	0	19,689	0	0	19,689
<b>Total comprehensive income for the reporting period</b>	<b>0</b>	<b>0</b>	<b>19,689</b>	<b>0</b>	<b>25,725</b>	<b>45,414</b>
Reclassification of depreciation of revalued land and buildings	0	0	-1,458	0	1,458	0
Dividends paid	0	0	0	0	-21,179	-21,179
<b>Balance as of 31.12.2016</b>	<b>16,292</b>	<b>2,603</b>	<b>83,932</b>	<b>-255</b>	<b>101,272</b>	<b>203,844</b>

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

The notes presented on pages 35 - 72 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Note 1 General information

Tallinna Kaubamaja Grupp AS (the Company) and its subsidiaries (together as the Tallinna Kaubamaja Group or Group) are entities engaged in retail trade and provision of related services. Tallinna Kaubamaja Grupp 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 Grupp AS are listed on the NASDAQ Tallinn Stock Exchange. The majority shareholder of Tallinna Kaubamaja Grupp 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 Grupp AS.

These consolidated financial statements have been authorised by the Management Board on 23 February 2017 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 Tallinna Kaubamaja Group for the year 2016 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 Tallinna Kaubamaja Group 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.

## Adoption of New or Revised Standards and Interpretations

### Effective Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 01.01.2016.

#### ***Equity Method in Separate Financial Statements - Amendments to IAS 27*** *(effective for annual periods beginning on or after 1 January 2016).*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The parent company has elected to apply IAS 27 before the effective date.

#### ***Annual Improvements to IFRSs 2014*** *(effective for annual periods beginning on or after 1 January 2016).*

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group assesses that there is no impact of application of the amendments to its financial statements.

#### ***Disclosure Initiative – Amendments to IAS 1*** *(effective for annual periods beginning on or after 1 January 2016).*

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 assesses that there is no impact of application of the amendments to its financial statements.

**IFRS 15, Revenue from Contracts with Customers**  
(effective for annual periods beginning on or after 1 January 2018).

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 assesses that amendments of IFRS 15 have no impact to financial results.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 01.01.2016 that have a material impact to the Group.

## New Accounting Pronouncements

**Disclosure Initiative - Amendments to IAS 7**  
(effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU).

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group assesses that there is no impact of application of the amendments to its financial statements.

**Annual Improvements to IFRSs 2014–2016 Cycle**  
(effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or 2018 (changes to IFRS 1 and IAS 28)); not yet adopted by the EU).

The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by-investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The Group is currently assessing the impact of the amendments on its financial statements.

**Revenue from Contracts with Customers - Amendments to IFRS 15**  
(effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU).

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The Group assesses that there is no impact of application of the amendments to its financial statements.

**Transfers of Investment Property - Amendments to IAS 40**  
(effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU).

The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The Group assesses that there is no impact of application of the amendments to its financial statements.

**IFRS 16, Leases**  
(effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting

model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

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

## Disclosures about the primary statements of the Parent

In accordance with the Accounting Act of Estonia, the separate primary statements of the consolidating entity (Parent) are to be disclosed in the notes to the consolidated financial statements. The Parent's primary statements, disclosed in Note 31, have been prepared using the same accounting methods and measurement bases as those that have been used for preparing the consolidated financial statements.

Investments into subsidiaries and associates are reported in the separate primary statements using the equity method starting from this reporting year. The parent company has elected to apply IAS 27 before the effective date, the amendment of which allows companies to use the equity method when reporting investments in subsidiaries, jointly controlled companies and associates in non-consolidated statements.

## 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

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

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

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

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

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

## Property, plant and equipment

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

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

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

reserve” to “Retained earnings”.

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

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

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

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

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

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

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

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

## Intangible assets

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

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

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



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

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

## Impairment of assets

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

## Goodwill

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

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

## Finance and operating leases

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

### The Group as the lessee

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

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

### The Group as the lessor

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

## Financial liabilities

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

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

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

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

## Provisions and contingent liabilities

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

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

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

## Corporate income tax and deferred corporate income tax

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

### Group's Estonian entities

In accordance with applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on profits. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. As of 01 January 2015 the current tax rate is 20/80 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 10<sup>th</sup> 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.
- *As a result of the valuation performed in the end of reporting year, the value of land and buildings located in Estonia (carrying value: 151,800 thousand euros as at 31.12.2016) increased by 19,689 thousand euros, which was recognised through revaluation reserve.* As a result of the impairment test performed in 2015 the carrying value of land and buildings located in Estonia was reduced by 239 thousand euros. Land and buildings located in Latvia with carrying value of 12,656 thousand euros as at 31.12.2016 (31.12.2015: 13,075 thousand euros) no significant differences were recognised between fair values and carrying value. As at 31.12.2016 the carrying value of land and buildings using revaluation method was 164,456 thousand euros (31.12.2015: 146,755 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. As a result of the impairment test performed in the end of 2016 buildings under construction located in Estonia (carrying value: 8,692 thousand euros as at 31.12.2016) was impaired by 502 thousand euros. Buildings under construction located in Latvia (carrying value: 14,516 thousand euros as at 31.12.2016) were impaired by 3,242 thousand euros. As a result of the impairment test performed in the end

of 2015 buildings under construction located in Estonia (carrying value: 12,142 thousand euros as at 31.12.2015) was impaired by 1,448 thousand euros. Buildings under construction located in Latvia (carrying value: 17,732 thousand euros as at 31.12.2015) were impaired by 587 thousand euros. 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 31.12.2016, the carrying value of goodwill was 5,373 thousand euros (2015: 5,373 thousand euros). In 2016 no recognition of impairment of goodwill was necessary. The results of the impairment tests performed in 2015 showed that recognition of impairment of goodwill was necessary in footwear segment in the amount of 1,441 thousand euros. 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 2016 would have decreased by 300 thousand euros (356 thousand euros for 2015).

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

Managing risks associated with the Group's business is an important and integral part of the Group's management. The supervisory boards of companies in cooperation with the managements and audit committee of the Group regularly analyse the risks of companies and the risk mitigation. The audit committee analyses the management plans of identified risks and the assessed risk levels. The executive managements identify and assess risks, prepare risk management plans and make proposals for the allocation of resources to deal with the most important risks, if necessary. The internal audit department together with managements promote risk awareness and introduction of risk management into the processes and to the employees.

The Group's ability to identify, measure and manage various risks has a significant effect on the profitability of the Group. In the Group, risk management is arranged by applying a common method that governs identification, assessment, prioritising and handling of risks. A risk is defined as a possible future event or scenario that may influence the achievement of objects of the Group and/or its companies. Every year, risks are identified and assessed in all Group companies. Risk management involves assessing the effect and likelihood of realisation of risks, and classifying and categorising risks. Risk management is coordinated by the head of the internal audit department that reports regularly to the audit committee. The tasks of the audit committee include risk-related monitoring and preparing a risk report.

### Management of financial risks

The Group's activity may be associated with exposure to several financial risks, of which liquidity risk, credit risk and market risk (including foreign exchange rate risk, interest rate risk and price risk) have the most significant impact. Managing financial risks falls within the competence of the management board of the parent company, and it involves identification, measurement and management of risks. The objective of financial risk management is the mitigation of financial risks and reducing the volatility of financial performance results. The supervisory board of the parent company oversees that measures are taken by the management board to manage 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, in managing liquidity risk and interest rate risk. Managements and financial units of subsidiaries also analyse and manage risks. Assistance of the specialists of the principle shareholder NG Investeeringud OÜ is used in risk management.

All the financial assets of the Group are included in the category "Loans and receivables" and they comprise 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 gathered under the category "Other financial liabilities" and they include loan liabilities (Note 15), trade creditors (Note 17), interest payable, other accrued expenses and rental prepayments of tenants (Note 17).

## Market risk

### Foreign currency risk

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

The Group operates through its subsidiaries both in Latvia and Lithuania. Latvia joined the euro zone on 1st of January 2014 and Lithuania joined the euro zone of 1st of January 2015. Accordingly the Group has no foreign exchange risk related to Latvian and Lithuanian subsidiaries.

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

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

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

In 2016, the 6-month EURIBOR decreased from -0.041% at the beginning of the year to the year-end -0.0221%. In the beginning of 2017, EURIBOR has been continued small decline. Business analysts estimate that EURIBOR will not rise in 2017 enough to significantly affect the Group's financial performance results.

Had the interest rates for financial liabilities with a floating interest rate been 1 percentage point higher as at 31 December 2016 (31 December 2015: 1 percentage point), the Group's financial cost would have increased by 957 thousand euros (2015: 944 thousand euros). Had the interest rates been 0.1 percentage point lower as at 31 December 2016, the Group's financial cost would have decreased by 96 thousand euros (2015: as at 31 December 2015 changed by 0.1 percentage point and by 94 thousand euros).

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

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

in thousands of euros

	31.12.2016	31.12.2015
Rates changing during 3 months	22,774	16,399
Rates changing during 3 – 6 months	54,873	74,404
<b>Total borrowings at floating interest rate</b>	<b>77,647</b>	<b>90,803</b>
<b>Total borrowings</b>	<b>100,624</b>	<b>90,803</b>

## Credit risk

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

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

- Deposits and cash in bank accounts in domestic credit institutions – the domestic credit institution has an activity licence as required by the Credit Institutions Act and the credit rating of its parent bank by Moody's rating agency is at least A2 and the rating perspective is set at least as stable or equivalent;
- Deposits and cash in bank accounts in foreign credit institutions – the credit rating of the foreign credit institution as provided by Moody's rating agency is at least A2 and the rating perspective is set at least as stable or equivalent.

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:

	31.12.2016	31.12.2015
Aa3	31,785	13,329
<b>Total</b>	<b>31,785</b>	<b>13,329</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 2016, the maximum credit risk arising from receivables is in the amount of 11,327 thousand euros (2015: 17,809 thousand euros).

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

	31.12.2016	31.12.2015
Not due	10,578	16,862
<i>Incl. receivables from the group account</i>	0	5,000
<i>Incl. receivables from card payments</i>	1,979	2,083
<i>Incl. trade receivables</i>	8,199	7,254
<i>Incl. other receivables</i>	400	2,525
Overdue < 3 months	643	878
Overdue 3 - 6 months	73	36
Overdue 6 - 12 months	15	28
Overdue > 12 months	18	5
<b>Total receivables</b>	<b>11,327</b>	<b>17,809</b>

With regard to receivables not yet overdue, the claims against the group account is secured by the group account contract of 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.

## 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 Grupp AS. 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 mem-

bers 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:

In thousands of euros	< 3 months	3-12 months	1-3 years	3-5 years	after 5 years	Total 31.12.2016
Borrowings	2,767	22,594	71,179	5,338	0	101,878
Financial liabilities (Note 17)	69,791	0	0	0	0	69,791
<b>Total</b>	<b>72,558</b>	<b>22,594</b>	<b>71,179</b>	<b>5,338</b>	<b>0</b>	<b>171,669</b>

In thousands of euros	< 3 months	3-12 months	1-3 years	3-5 years	after 5 years	Total 31.12.2015
Borrowings	6,530	25,473	41,795	18,606	0	92,404
Financial liabilities (Note 17)	64,503	0	0	0	0	64,503
<b>Total</b>	<b>71,033</b>	<b>25,473</b>	<b>41,795</b>	<b>18,606</b>	<b>0</b>	<b>156,907</b>

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2016 and 31.12.2015, have been used.

As at the end of the financial year, the Group had available funds in the amount of 32,375 thousand euros (2015: 13,911 thousand euros). The Group follows its established credit risk management strategy when investing its cash flow surplus. As at 31 December 2016, the Group had placed no deposits into the joint group account through its parent company NG Investeeringud OÜ (5,000 euros as at 31.12.2015 was deposited).

Working capital was positive by 7,293 thousand euros as at 31 December 2016 (2015: negative by 15,231 thousand euros). The positive change in working capital was due to the decrease of investments made in accounting period and restructuring of certain loans during the reporting period. Therefore, the quick ratio of the Group (current assets minus inventories / current liabilities) increased to 0.43 in 2016, whereas the ratio was 0.31 in 2015. In the estimate of the management, the Group does not have liquidity issues and there is no difficulty in the performance of duties.

## 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 2016, the ratio was 25% and compared to 31 December 2015 when the ratio was 30%, it has significantly improved due to increase of available funds in accounting period.



in thousands of euros

	31.12.2016	31.12.2015
Interest-bearing liabilities (Note 15)	100,624	90,803
Cash and cash equivalents (Note 5)	-32,375	-13,911
<b>Net debt</b>	<b>68,249</b>	<b>76,892</b>
Equity	203,844	179,609
<b>Total equity and net debt</b>	<b>272,093</b>	<b>256,501</b>
Debt to equity ratio*	25%	30%

\*Debt to equity ratio = Net debt / Total equity and interest-bearing 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

	31.12.2016	31.12.2015
Cash on hand	590	582
Bank accounts	29,178	11,488
Cash in transit	2,607	1,841
<b>Total cash and cash equivalents</b>	<b>32,375</b>	<b>13,911</b>

## Note 6 Trade and other receivables

in thousands of euros

	31.12.2016	31.12.2015
Trade receivables (Note 7)	10,927	10,284
Receivables from Parent (Note 26)	0	5,000
Other short-term receivables	365	2,490
<b>Total financial assets from balance sheet line "Trade and other receivables"</b>	<b>11,292</b>	<b>17,774</b>
Prepayment for inventories	3,461	1,741
Other prepaid expenses	585	590
Prepaid rental expenses	35	77
Prepaid taxes (Note 18)	23	9
<b>Total trade and other receivables</b>	<b>15,396</b>	<b>20,191</b>

## Note 7 Trade receivables

in thousands of euros

	31.12.2016	31.12.2015
Trade receivables	8,036	7,211
Provision for impairment of trade receivables	-6	-37
Receivables from related parties (Note 26)	918	1,027
Credit card payments (receivables)	1,979	2,083
<b>Total trade receivables</b>	<b>10,927</b>	<b>10,284</b>

## Note 8 Inventories

in thousands of euros

	31.12.2016	31.12.2015
Goods purchased for resale	69,434	60,358
Raw materials and materials	752	752
<b>Total inventories</b>	<b>70,186</b>	<b>61,110</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

	2016	2015
Write-down and write-off of inventories	8,681	7,995
Inventory stocktaking deficit	1,729	1,843
<b>Total materials and consumables used</b>	<b>10,410</b>	<b>9,838</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 2016, the allowance account amounted to 968 thousand euros (31.12.2015: 815 thousand euros).

The Group's cost of goods sold in 2016 amounted 445 424 thousand euros (2015: 416,134 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 partially pledged as part of the commercial pledge; information on pledged assets is disclosed in Note 25.

## Note 9 Subsidiaries

Tallinna Kaubamaja Grupp AS as at 31.12.2016 consists of:

Name	Location	Area of activity	Ownership 31.12.2016	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 Latvija	Riga Ieriku iela 3	Real estate management	100%	2006
SIA Selver Latvia	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
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 Tammsaare tee 62	Security activities	100%	2014

In 2016 there were no business combinations. Ownership as at 31.12.2016 has remained the same as at 31.12.2015.

## Note 10 Investments in associates

in thousands of euros

Tallinna Kaubamaja Grupp AS has ownership of 50% (2015: 50%) interest in the entity AS Rävåla Parkla which provides the services of a parking house in Tallinn.

	31.12.2016	31.12.2015
<b>Investment in the associate at the beginning of the year</b>	<b>1,778</b>	<b>1,778</b>
Profit for the reporting period under equity method	159	142
Dividends received	-175	-142
<b>Investment in the associate at the end of the year</b>	<b>1,762</b>	<b>1,778</b>

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

	31.12.2016	31.12.2015
Current assets	66	58
Non-current assets	3,509	3,547
Current liabilities	51	48
Revenue	487	460
Net profit	317	284

## Note 11 Long-term trade and other receivables

in thousands of euros

	31.12.2016	31.12.2015
Prepaid rental expenses	50	48
Deferred tax asset	179	210
Other long-term receivables	35	35
<b>Total long-term trade and other receivables</b>	<b>264</b>	<b>293</b>

## Note 12 Investment property

in thousands of euros

<b>Carrying value as at 31.12.2014</b>	<b>3,035</b>
Reclassification (Note 13)	37,614
Net gain from fair value adjustment	4,314
<b>Carrying value as at 31.12.2015</b>	<b>44,963</b>
Reclassification (Note 13)	2,171
Disposal	-35
Net gain from fair value adjustment	1,585
<b>Carrying value as at 31.12.2016</b>	<b>48,684</b>

Investment properties comprise constructions in progress and immovables improved with commercial buildings.

In 2015, immovables improved with commercial buildings (Viimsi shopping centre and Tartu Kaubamaja Shopping Centre), which the Group maintains predominantly for earning rental income, were partially classified as investment properties and partially as property, plant and equipment. In Latvia, Rezekne commercial building and property was reclassified as investment property from property, plant and equipment. Also property in Rae municipal Peetri was reclassified as investment property from property, plant and equipment. Therefore in 2015, reclassification from the property, plant and equipment group "Land and buildings" to investment properties was made in the amount of 37,614 thousand euros. At the moment of reclassification there were no differences between the carrying value and fair value of the properties.

In the reporting period Tartu Kaubamaja Shopping Centre renovation amounted to 2,153 thousand euros and Viimsi shopping centre renovation work amounted to 18 thousand euros.

## Assessment of fair value of the item "Investment properties"

At the end of 2016, the fair value of "Investment properties" was assessed. Fair values were determined based on the management's judgement, using the assessments of certified independent real estate experts for determining the inputs. To determine fair values, income approach (the discounted cash flow method) and market data (comparable transactions, rental income etc.) were used. An opinion of a certified independent real estate expert was used as basis for the valuation of one completed object and for remaining two objects the same expert provided an expert opinion with regard to the discount and capitalisation rates of "Investment properties" in Estonia as at 31 December 2016. Discount rates 8.2%–10.0% (2015: 8.5% · 10.0%) depending on the location of the property and rental income growth rates 1.0–2.0% (2015: 2.0% · 2.4%) were used for valuation. When determining the rental price input in the assessment of "Investment properties", the current rental agreements have been used, which in the estimation of the management correspond to the market conditions.

For estimating the value of "Investment properties" located in Latvia, the valuations of a certified independent real estate expert were used. The same expert provided an expert opinion with regard to the discount and capitalisation rates. The discount and capitalisation rates compared to 2015 remained unchanged. The discount rate 10.0% (2015: 10.0%) and rental income growth rates 1.5%–2.5% (2015: 1.5% · 2.5%) were used in valuation. When determining the rental price input in valuation, the current rental agreement has been taken into account, which in the estimation of the management corresponds to the market conditions.

As a result of the valuation in 2016, the net fair value adjustment of investment property in Estonia in the amount of 1,585 thousand euros (2015: 3,852 thousand euros) was recorded in the income statement line "Other

operating income". No fair value change of investment property in Latvia was identified in 2016. One item of investment property located in Latvia was adjusted upwards for 462 thousand euros in 2015.

Group management has prepared fair value sensitivity analysis for investment properties. Accordingly if rental income would change +/- 10% then the fair value of investment properties would change +4,874/-4,874 thousand euros (2015: +4,700/-4,699 thousand euros). If the discount rates used for determining fair value would change +/- 0.5% then the fair value of investment properties would change -884/+907 thousand euros (2015: -860/+884 thousand euros).

The Group's investment properties carried at fair value as at 31.12.2015 and 31.12.2016 are measured at level 3.

In 2016, the Group's rental income on investment properties amounted to 3,273 thousand euros (2015: 548 thousand euros). Direct property management expenses amounted to 1,374 thousand euros (2015: 419 thousand euros).

Future operating lease rentals receivable under non-cancellable contracts break down as follows:

In thousands of euros	31.12.2016	31.12.2015
due in less than 1 year	3,239	1,435
due between 1 and 5 years	10,620	5,194
due after 5 years	5,999	1,224
<b>Total</b>	<b>19,858</b>	<b>7,853</b>

Investment property was partially used as collateral for the borrowings. More detailed information is disclosed in Note 25.

## 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>31.12.2014</b>					
Cost or revalued amount	181,815	28,728	29,527	50,630	290,700
Accumulated depreciation and decrease in value	-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>
<b>Changes occurred in 2015</b>					
Purchases and improvements	20	187	132	19,643	19,982
Acquired through business combinations (Note 9)	0	0	7	0	7
Reclassification	4,650	3,047	3,076	-10,773	0
Reclassification to investment property (Note 12)	-26,294	0	0	-11,320	-37,614
Disposals	0	-174	-197	0	-371
Write-offs	0	-9	-17	0	-26
Depreciation	-239	0	0	-2,035	-2,274
Decrease in value	-5,326	-2,256	-3,345	0	-10,927
<b>31.12.2015</b>					
Cost or revalued amount	156,799	30,688	30,577	48,180	266,244
Accumulated depreciation and decrease in value	-10,044	-22,141	-19,583	-17,785	-69,553
<b>Carrying value</b>	<b>146,755</b>	<b>8,547</b>	<b>10,994</b>	<b>30,395</b>	<b>196,691</b>
<b>Changes occurred in 2016</b>					
Purchases and improvements	17	442	147	12,385	12,991
Reclassification	5,453	4,862	5,375	-15,690	0
Reclassification to investment property (Note 12)	-2,171	0	0	0	-2,171
Disposals	-645	-133	-16	0	-794
Write-offs	-21	-9	-68	0	-98
Decline/increase in value through profit or loss	0	0	0	-3,744	-3,744
Increase in value through revaluation reserve	19,689	0	0	0	19,689
Depreciation	-4,621	-2,658	-3,774	0	-11,053
<b>31.12.2016</b>					
Cost or revalued amount	164,456	33,797	34,978	44,315	277,546
Accumulated depreciation and decrease in value	0	-22,746	-22,320	-20,969	-66,035
<b>Carrying value</b>	<b>164,456</b>	<b>11,051</b>	<b>12,658</b>	<b>23,346</b>	<b>211,511</b>

### Investments in non-current assets

The cost of investments in 2016 amounted to 13,148 thousand euros (including purchases of property, plant and equipment in the amount of 12,991 thousand euros and purchases of intangible assets amounted to 157 thousand euros).

The cost of investments made in 2016 in the supermarket business segment was 7,603 thousand euros. In the reporting period new Selver stores in Lasnamäe Kärberi shopping centre, in Kalamaja Arsenali Centre and in Maardu were opened. Extensive renovation was carried out in Tondi Selver and Veeriku Selver. Additionally computing technology for SelverEkspress self-service cash registers were purchased and store fittings were

renewed.

The size of the investment in the business segment of Department store amounted to 3,414 thousand euros. In the reporting period was renewed beauty and women's department in Tartu, also women's and man's departments in Tallinn. Kaubamaja e-store was launched.

The cost of investments in the accounting period was 484 thousand euros in the car trade business segment.

The cost of investments made in the reporting period in the footwear trade segment was 94 thousand euros.

The cost of the real estate business segment investment amounted to 1,396 thousand euros. In the reporting period renovation of Tartu Kaubamaja centre took place.

In the end of 2016 and 2015 Tallinna Kaubamaja Grupp AS companies had no commitments to purchase fixed assets.

At the year-end 2016, 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 and fair value less selling expenses) 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 where market information is used (transactions, rental income, etc.) and/or market approach were both used for determining fair values as well as recoverable amounts.

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

For estimating the value of "Land and buildings" located in Estonia, the valuations of a certified independent real estate expert were used in respect of 4 properties in 2016 (2015: 6 properties). The same expert also provided an expert opinion with regard to the discount and capitalisation rates in respect of 18 properties (2015: 16 properties). The discount rates used for estimation were 8.2% -12.0% (2015: 8.5% - 12.0%) depending on the location of the property and the rental growth rates were 1.0% - 2.5% (2015: 1.0% - 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 estimating the value of "Land and buildings" located in Latvia, the valuation of a certified independent real estate expert was used in respect of one property in 2016. For determining the value of three properties of "Land and buildings" located in Latvia as at 31.12.2016, 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 2015 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% - 12.0% (2015: 10.0% - 12.0%) and the growth rates of rental income were 1.0% - 2.5% (2015: 1.0% - 2.5%).

Revaluation of „Land and buildings" was previously performed in 2013. The evaluation of non-current assets has been performed every year. In a view of stabilization of global economy management of the Group evaluated the results of the valuation in the end of reporting period sufficiently reliable for recording revaluation of non-current assets.

As a result of the revaluation the value of "Land and buildings" located in Estonia increased by 19,689 thousand euros, which was recognized through revaluation reserve. As a result of valuation, the book value of "Land and buildings" located in Estonia was not adjusted upwards in 2015. The adjustment downwards in 2015 amounted to 239 thousand euros of "Land and buildings" located in Estonia. As a result of valuation, the book value of "Land and buildings" located in Latvia was not adjusted in 2015.

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 (properties) carried at fair value as at 31.12.2016 are classified as level 3.

In thousands of euros	Fair value at 31 December 2016	Valuation method	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	39,524	Discounted cash flow method	Price per square metre	8.0-18.3	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	106,330	Discounted cash flow method	Price per square metre	9.0-13.6	The higher the price per square metre, the higher the fair value
Remaining PPE items in Estonia	5,946	Discounted cash flow method	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	2,657	Discounted cash flow method	Price per square metre	8.47	The higher the price per square metre, the higher the fair value
Remaining PPE items in Latvia	9,999	Discounted cash flow method	Price per square metre	7.3 -12.4	The higher the price per square metre, the higher the fair value
<b>Total</b>	<b>164,456</b>				

The Group's non-financial assets (properties) carried at fair value as at 31.12.2015 are classified as level 3.

In thousands of euros	Fair value at 31 December 2015	Valuation method	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	18,752	Discounted cash flow method	Price per square metre	6.3-12.5	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	109,293	Discounted cash flow method	Price per square metre	7.8-17.7	The higher the price per square metre, the higher the fair value
Remaining PPE items in Estonia	5,635	Discounted cash flow method	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	5,199	Comparable transactions method, discounted cash flow method	Price per square metre	12.6	The higher the price per square metre, the higher the fair value
PPE items in Latvia	7,876	Discounted cash flow method	Price per square metre	7.1 -13.0	The higher the price per square metre, the higher the fair value
<b>Total</b>	<b>146,755</b>				



## Determination of recoverable amounts of buildings under construction

In 2016, 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 three items and in 2015 in respect of three items. For determining the investment value, market approach (comparison method) was used in respect of two items and income approach (the discounted cash flow method) was used in respect of one item. For valuation purposes, the discount rates used were 9.7% (2015: 10.6%) and the growth rate was 1.5% (2015: 2.0%).

The buildings under construction located in Latvia, the valuations of a certified independent real estate expert was used in respect of 4 items and the rest objects were valued internally based on the value in use. In 2015 the valuations of a certified independent real estate expert was used in respect of 3 items and the rest objects were valued internally. For valuation purposes, the discount rates used were 9.0%- 10.0% (2015: 9.0%-12.5%) depending on the location of the item, and the growth of rental income rates were 1.0% - 2.4% (2015: 1.0%-1.5%). For determining the investment value, the discounted cash flow method was used. 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	Number of items 31.12.2016	31.12.2016	Number of items 31.12.2015	31.12.2015
PPE items in Estonia, for which an expert opinion was provided	3	3,339	3	4,248
PPE items in Estonia, for which an internal estimate was provided	12	5,320	13	7,894
Remaining PPE items in Estonia	2	33	0	0
PPE items in Latvia, for which an expert opinion was provided	4	6,501	3	8,571
PPE items in Latvia, for which an internal estimate was provided	9	8,015	8	7,473
Remaining PPE items in Latvia	0	0	2	1,688
<b>Total</b>	<b>30</b>	<b>23,208</b>	<b>29</b>	<b>29,874</b>

Based on the results of valuation in 2016, impairment in the amount of 502 thousand euros (2015: 1,448 thousand euros) was recognised through profit and loss in respect of Estonian buildings under construction and in the amount of 3,242 thousand euros (2015: 587 thousand euros) in respect of Latvian buildings under construction (unimproved land) due to economic slowdown in Latvia.

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:

31.12.2016 94,461 thousand euros

31.12.2015 90,010 thousand euros

As at 31.12.2016 the cost of non-current assets in use with a zero carrying value was 27,096 thousand euros (2015: 26,638 thousand euros).

As at 31.12.2016, property, plant and equipment with the carrying value of 147,897 thousand euros (2015: 127,303 thousand euros) was used as collateral for the borrowings. More detailed information is disclosed in Note 25.

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

As at 31.12.2016 the recoverable amount of the non-current assets of I.L.U. beauty stores (carrying value: 303 thousand euros, in 2015: 470 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 2.5% in 2017-2021 (2015: 2016 – 2020 is estimated to be 2.5%). In the end of 2016 I.L.U. chain owned six stores. The sales growth was forecast on the basis of Group's long-term sales experience. The discount rate applied is 7.4% (2015: 8.6%) 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 31.12.2016 the recoverable amount of the non-current assets in footwear trade segment was estimated. No impairment loss was identified as a result of the impairment test of non-current assets in the carrying value of 429 thousand euros (2015: 710 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>31.12.2014</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>
<b>Changes occurred in 2015</b>					
Purchases and improvements	0	5	0	539	544
Acquired through business combinations (Note 9)	104	0	0	0	104
Amortisation	0	-486	0	-80	-566
Impairment	-1,441	0	0	0	-1,441
<b>31.12.2015</b>					
Cost	6,814	5,277	1,080	1,160	14,331
Accumulated amortisation and impairment	-1,441	-2,543	-1,080	-224	-5,288
<b>Carrying value</b>	<b>5,373</b>	<b>2,734</b>	<b>0</b>	<b>936</b>	<b>9,043</b>
<b>Changes occurred in 2016</b>					
Purchases and improvements	0	0	0	157	157
Amortisation	0	-487	0	-208	-695
<b>31.12.2016</b>					
Cost	6,814	5,277	1,080	1,317	14,488
Accumulated amortisation and impairment	-1,441	-3,030	-1,080	-432	-5,983
<b>Carrying value</b>	<b>5,373</b>	<b>2,247</b>	<b>0</b>	<b>885</b>	<b>8,505</b>

In the reporting period the Group capitalised costs of a web page update and e-shop as development expenditure in the amount of 157 thousand euros.

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 180 thousand euros was acquired in 2014 through purchase of Viking Security AS shares. Trademark will be amortised during 7 years.

Impairment tests of goodwill and other intangible assets were carried out as at 31 December 2016 and 2015.

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

in thousands of euros	31.12.2016	31.12.2015
Car trade	3,156	3,156
Footwear trade	2,113	2,113
Department store	104	104
<b>Total</b>	<b>5,373</b>	<b>5,373</b>

The recoverable amount (based on value in use) was determined taking into account the specificities of the business segments on the basis of future cash flows for the next five years. In 2016 it was evident that the present value of cash flows covers the value of goodwill and trademark and other assets related to the unit.

In footwear trade unit it was evident that the present value of cash flows does not cover the value of goodwill in 2015. Accordingly goodwill in footwear trade was adjusted downwards in the amount of 1,441 thousand euros.

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

	Car trade		Footwear trade	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Operating profit margin during next 5 years	5.2% · 5.4%	4.3% · 4.4%	-2.1% · 2.6%	-4.6% · 1.1%
Discount rate	5.7%	7.1%	9.7%	8.6%
Sales growth during next 5 years	3% · 5%	3% · 19%	3% · 4%	3% · 14%
Future growth rate*	2.5%	2.5%	2.5%	2.5%

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

Pre-tax discount rates reflecting the risks associated with the relevant business segment have been used. The used weighted average growth rates are based on the experience of the Group and assessment of the economic environment. In 2016, the car business showed a sales growth of 35.9% (2015: 5.3%). While we expect to see the sales growth slowdown in 2017 to 3.6%, the annual sales growth will stabilise at 3% to 5% per year after that. The five year average sales growth in the car business is estimated to be 3.5% (5.7% in 2015). In the footwear segment, the five year average sales growth is planned to be 3.2% (2015:5.8%). The gross profit margin used in the footwear business recoverable amount tests is -0.3% (-0.7% in 2015). Margin expectations for both segments were slightly increased due to better management of goods and more effective business operations organization in these segments.

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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Difference between the carrying amount and recoverable amount of the cash generating unit (in thousands of euros)	84,077	38,437	446	0
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	-4,1%	-2.0%	-8,10%	0%
Decrease of the average operating profit margin	-3,88 pp	-2.91 pp	-0,29 pp	0 pp

## Note 15 Interest bearing borrowings

in thousands of euros

	31.12.2016	31.12.2015
<b>Short-term borrowings</b>		
Overdraft	3,017	2,542
Bank loans	21,716	28,007
Other borrowings	2,119	2,828
<b>Total short-term borrowings</b>	<b>26,852</b>	<b>33,377</b>
	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Long-term borrowings</b>		
Bank loans	73,596	56,858
Other borrowings	176	568
<b>Total long-term borrowings</b>	<b>73,772</b>	<b>57,426</b>
<b>Total borrowings</b>	<b>100,624</b>	<b>90,803</b>

## Borrowings received

	2016	2015
Overdraft	475	943
Bank loans	60,055	47,224
Other borrowings	3,399	1,781
<b>Total borrowings received</b>	<b>63,929</b>	<b>49,948</b>

## Borrowings repaid

	2016	2015
Bank loans	49,608	53,889
Other borrowings	4,500	3,325
<b>Total borrowings repaid</b>	<b>54,108</b>	<b>57,214</b>

Bank loans 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 (Note 4).

As of 31.12.2016, the repayment dates of bank loans are between 15.02.2017 and 27.03.2020 (2015: between 28.01.2016 and 27.03.2020), interest is tied both to 3-month and 6-month EURIBOR as well as EONIA. Weighted average interest rate was 0.96% (2015: 1.14%).

## 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	31.12.2016	31.12.2015
due in less than 1 year	15,663	14,735
due between 1 and 5 years	50,437	53,468
due after 5 years	39,341	45,593
<b>Total</b>	<b>105,440</b>	<b>113,796</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	31.12.2016	31.12.2015
due in less than 1 year	2,057	2,175
due between 1 and 5 years	5,073	6,158
due after 5 years	3,429	5,169
<b>Total</b>	<b>10,559</b>	<b>13,502</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	31.12.2016	31.12.2015
due in less than 1 year	3,469	2,142
due between 1 and 5 years	10,586	7,733
due after 5 years	3,646	0
<b>Total</b>	<b>17,701</b>	<b>9,875</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

	31.12.2016	31.12.2015
Trade payables	63,170	57,901
Payables to related parties (Note 26)	4,409	4,579
Other accrued expenses	102	79
Prepayments by tenants	2,110	1,944
<b>Total financial liabilities from balance sheet line "Trade and other payables"</b>	<b>69,791</b>	<b>64,503</b>
Taxes payable (Note 18)	6,847	6,284
Employee payables	5,689	4,944
Prepayments	1,372	1,215
Short-term provisions*	113	120
<b>Total trade and other payables</b>	<b>83,812</b>	<b>77,066</b>

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

## Note 18 Taxes

in thousands of euros

	31.12.2016		31.12.2015	
	Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Prepaid taxes (Note 6)	23	0	9	0
Value added tax	0	3,324	0	3,014
Personal income tax	0	1,026	0	943
Social security taxes	0	2,204	0	2,017
Corporate income tax	0	31	0	67
Unemployment insurance	0	147	0	137
Mandatory funded pension	0	115	0	106
<b>Total taxes</b>	<b>23</b>	<b>6,847</b>	<b>9</b>	<b>6,284</b>

Group's deferred income tax asset as at 31 December 2016 and 31 December 2015 is disclosed in note 11. As at 31 December 2016 and 31 December 2015 the Group did not have deferred income tax liabilities.

in thousands of euros

	2016	2015
<b>Corporate income tax expense from payments to owners:</b>		
- Dividends declared (Note 19)	5,219	3,873
<b>Corporate income tax expense arising from foreign subsidiaries:</b>		
- Corporate income tax payable	39	10
<b>Total corporate income tax</b>	<b>5,258</b>	<b>3,883</b>

## Note 19 Share capital

As at 31.12.2016, 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 31.12.2015 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). 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 2016, dividends were declared and paid to the shareholders in the amount of 21,179 thousand euros, or 0.52 euros per share (2015: 16,292 thousand euros, 0.40 euros per share). Related income tax expense on dividends amounted to 5,219 thousand euros (2015: 3,873 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. 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), EBITDA (earnings before interest, taxes, depreciation and amortisation) and net profit or loss.

in thousands of euros

2016	Super markets	Department store	Car trade	Footwear trade	Real estate	Inter-segment transactions	Total segments
<b>External revenue</b>	<b>400,017</b>	<b>98,021</b>	<b>82,587</b>	<b>12,828</b>	<b>4,961</b>	<b>0</b>	<b>598,414</b>
Inter-segment revenue	1,062	5,860	45	200	12,697	-19,864	0
Total revenue	401,079	103,881	82,632	13,028	17,658	-19,864	598,414
<b>EBITDA</b>	<b>19,017</b>	<b>6,529</b>	<b>4,395</b>	<b>-141</b>	<b>17,482</b>	<b>0</b>	<b>47,282</b>
Depreciation and amortisation (Note 13, 14)	-4,544	-2,412	-513	-608	-7,513	0	-15,590
<b>Operating profit/loss</b>	<b>14,473</b>	<b>4,117</b>	<b>3,882</b>	<b>-749</b>	<b>9,969</b>	<b>0</b>	<b>31,692</b>
Finance income (Note 23)	236	549	16	1	193	-992	3
Finance income on shares of associates	0	159	0	0	0	0	159
Finance costs (Note 23)	-10	-487	-233	-102	-1,031	992	-871
Corporate income tax* (Note 18)	-2,616	-1,175	-486	0	-981	0	-5,258
<b>Net profit/loss</b>	<b>12,083</b>	<b>3,163</b>	<b>3,179</b>	<b>-850</b>	<b>8,150</b>	<b>0</b>	<b>25,725</b>
incl. in Estonia	14,145	3,163	2,856	-850	10,504	0	29,818
incl. in Latvia	-2,062	0	193	0	-2,354	0	-4,223
incl. in Lithuania	0	0	130	0	0	0	130
<b>Segment assets</b>	<b>92,585</b>	<b>51,477</b>	<b>29,980</b>	<b>8,331</b>	<b>252,739</b>	<b>-46,429</b>	<b>388,683</b>
<b>Segment liabilities</b>	<b>64,393</b>	<b>16,947</b>	<b>21,358</b>	<b>9,147</b>	<b>100,526</b>	<b>-27,532</b>	<b>184,839</b>
Segment investment in non-current assets (Note 13, 14)	7,696	3,478	484	94	1,396	0	13,148

in thousands of euros

2015	Super markets	Department store	Car trade	Footwear trade	Real estate	Inter-segment transactions	Total segments
<b>External revenue</b>	<b>383,441</b>	<b>95,581</b>	<b>60,765</b>	<b>11,933</b>	<b>3,727</b>	<b>0</b>	<b>555,447</b>
Inter-segment revenue	1,024	5,267	29	217	12,228	-18,765	0
Total revenue	384,465	100,848	60,794	12,150	15,955	-18,765	555,447
<b>EBITDA</b>	<b>14,543</b>	<b>6,136</b>	<b>2,971</b>	<b>-398</b>	<b>18,926</b>	<b>0</b>	<b>42,178</b>
Depreciation and amortisation (Note 13, 14)	-4,049	-1,946	-751	-2,080	-6,408	0	-15,234
<b>Operating profit/loss</b>	<b>10,494</b>	<b>4,190</b>	<b>2,220</b>	<b>-2,478</b>	<b>12,518</b>	<b>0</b>	<b>26,944</b>
Finance income (Note 23)	297	666	33	1	150	-1,135	12
Finance income on shares of associates	0	142	0	0	0	0	142
Finance costs (Note 23)	-30	-570	-250	-160	-1,269	1,135	-1,144
Corporate income tax* (Note 18)	-2,222	-1,150	-511	0	0	0	-3,883
<b>Net profit/loss</b>	<b>8,539</b>	<b>3,278</b>	<b>1,492</b>	<b>-2,637</b>	<b>11,399</b>	<b>0</b>	<b>22,071</b>
incl. in Estonia	10,899	3,278	1,532	-2,637	10,510	0	23,582
incl. in Latvia	-2,360	0	-90	0	889	0	-1,561
incl. in Lithuania	0	0	50	0	0	0	50
<b>Segment assets</b>	<b>87,311</b>	<b>53,497</b>	<b>23,912</b>	<b>8,542</b>	<b>226,884</b>	<b>-52,166</b>	<b>347,980</b>
<b>Segment liabilities</b>	<b>60,742</b>	<b>17,286</b>	<b>16,519</b>	<b>10,309</b>	<b>98,584</b>	<b>-35,069</b>	<b>168,371</b>
Segment investment in non-current assets (Note 13, 14)	4,886	2,468	251	84	12,837	0	20,526

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

Inter-segment transactions in line segment assets comprise inter-segment receivables in the amount of 4,077 thousand euros (2015: 3,526 thousand euros), loans granted in the amount of 23,455 thousand euros (2015: 31,543 thousand euros) and investments in subsidiaries in the amount of 18,897 thousand euros (2015: 17,098 thousand euros).

Inter-segment transactions in line segment liabilities comprise inter-segment short-term liabilities in the amount of 4,077 thousand euros (2015: 3,526 thousand euros) and inter-segment borrowings in the amount of 23,455 thousand euros (2015: 31,543 thousand euros).

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

in thousands of euros

	2016	2015
Retail revenue	546,895	512,260
Wholesale revenue	25,204	20,061
Rental income	8,960	7,827
Revenue for rendering services	17,355	15,299
<b>Total revenue</b>	<b>598,414</b>	<b>555,447</b>

## External revenue by client location

in thousands of euros

	2016	2015
Estonia	563,651	533,329
Latvia	24,369	14,868
Lithuania	10,394	7,250
<b>Total</b>	<b>598,414</b>	<b>555,447</b>

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

in thousands of euros

	31.12.2016	31.12.2015
Estonia	238,189	216,439
Latvia	30,662	34,410
Lithuania	113	141
<b>Total</b>	<b>268,964</b>	<b>250,990</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

	2016	2015
Rental expenses	15,506	15,393
Heat and electricity expenses	8,141	8,288
Operating costs	6,291	6,301
Cost of services and materials related to sales	5,317	5,921
Marketing expenses	7,021	6,302
Miscellaneous operating expenses	3,238	3,066
Computer and communication costs	3,428	3,397
Personnel expenses	2,866	2,108
<b>Total other operating expenses</b>	<b>51,808</b>	<b>50,776</b>



## Note 22 Staff costs

in thousands of euros

	2016	2015
Wages and salaries	42,473	38,295
Social security taxes	13,898	12,595
<b>Total staff costs</b>	<b>56,371</b>	<b>50,890</b>
Average wages per employee per month (euros)	868	809
Average number of employees in the reporting period	4,079	3,946

Staff costs also include accrued holiday pay as well as bonuses and termination benefits for 2016 but not yet paid.

## Note 23 Finance income and costs

in thousands of euros

### Finance income

	2016	2015
Interest income on NGI Group's group account (Note 26)	2	5
Other finance income	1	7
<b>Total finance income</b>	<b>3</b>	<b>12</b>

### Finance costs

	2016	2015
Interest expense of bank loans	-787	-997
Interest expense of other loans	-19	-39
Other finance costs	-65	-108
<b>Total finance costs</b>	<b>-871</b>	<b>-1,144</b>

## 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 during the year. As the Company does not have potential ordinary shares, the diluted earnings per share equal basic earnings per share.

	2016	2015
Net profit (in thousands of euros)	25,725	22,071
Weighted average number of shares	40,729,200	40,729,200
Basic and diluted earnings per share (euros)	0.63	0.54

## Note 25 Loan collateral and pledged assets

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

in thousands of euros

	31.12.2016	31.12.2015
Land and buildings	145,028	123,534
Other non-current assets	2,869	3,769
Investment property	44,445	26,756
Inventories	4,065	3,703
Financial assets	165	211

As at 31 December 2016 land and buildings in carrying value of 147,897 thousand euros (as at 31.12.2015 carrying value of 127,303 thousand euros) and investment property in carrying value of 44,445 thousand euros (31.12.2015: 26,756 thousand euros) was mortgaged. Inventories at balance sheet value of 4,065 thousand euros (as at 31.12.2015 at balance sheet value of 3,703 thousand euros) and financial assets at balance sheet value of 165 thousand euros (as at 31.12.2015 at balance sheet value of 211 thousand euros) were set under commercial pledge.

## Note 26 Related party transactions

in thousands of euros

In preparing the consolidated annual report of Tallinna Kaubamaja Grupp AS, 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.

Parent company of Tallinna Kaubamaja Grupp 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 Grupp AS.

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

	Purchases 2016	Sales 2016	Purchases 2015	Sales 2015
Parent	236	12	322	19
Entities in the Parent's consolidation group	30,023	7,609	27,365	7,495
Members of management and supervisory boards	20	6	16	5
Other related parties	998	106	943	100
<b>Total</b>	<b>31,277</b>	<b>7,733</b>	<b>28,646</b>	<b>7,619</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:

	31.12.2016	31.12.2015
Interest receivable from Parent (Note 7)	0	1
Receivable from Parent (Note 6)	0	5,000
Receivables from entities in the Parent's consolidation group (Note 7)	918	1,016
Members of management and supervisory boards (Note 7)	0	10
<b>Total receivables from related parties</b>	<b>918</b>	<b>6,027</b>

	31.12.2016	31.12.2015
Parent	17	0
Entities in the Parent's consolidation group	4,243	4,463
Other related parties	149	116
<b>Total liabilities to related parties (Note 17)</b>	<b>4,409</b>	<b>4,579</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 Grupp AS has been keeping its available funds at the head group account, earning interest income on its deposits. In 2016, the Group earned interest income on its deposits of available funds in the amount of 2 thousand euros (2015: 5 thousand euros).

As at 31 December 2016 Tallinna Kaubamaja Grupp AS had not deposited any funds through parent company NG Investeeringud OÜ and had not used available funds of parent company. As at 31 December 2015 Tallinna Kaubamaja Grupp AS deposited through parent company NG Investeeringud OÜ 5,000 thousand euros. Deposit matured on 26.01.2016 with interest rate of 0.4%. In 2016 and in 2015 the group has not deposited neither used available funds of NG Investeeringud OÜ nor paid any interest for using available funds of NG Investeeringud OÜ. 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 1,637 thousand euros (2015: 1,412 thousand euros). Short term benefits to supervisory boards' members of the companies belonging to Tallinna Kaubamaja Grupp AS in reporting year including social taxes amounted to 578 thousand euros (2015: 321 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 31.12.2016, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja Grupp AS:

Andres Järving	Represents 4,795,909 (11.78%) shares of Tallinna Kaubamaja Grupp AS
Jüri Kõo	Represents 4,768,606 (11.71%) shares of Tallinna Kaubamaja Grupp AS
Enn Kunila	Represents 4,692,346 (11.52%) shares of Tallinna Kaubamaja Grupp AS
Raul Puusepp	Owens 10,002 (0.0246%) shares of Tallinna Kaubamaja Grupp AS

As at 31.12.2015, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja Grupp AS:

Andres Järving	Represents 4,795,909 (11.78%) shares of Tallinna Kaubamaja Grupp AS
Jüri Käo	Represents 4,768,606 (11.71%) shares of Tallinna Kaubamaja Grupp AS
Enn Kunila	Represents 4,692,346 (11.52%) shares of Tallinna Kaubamaja Grupp AS
Raul Puusepp	Owns 10,002 (0.0246%) shares of Tallinna Kaubamaja Grupp AS

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

Shareholders	31.12.2016	31.12.2015
	Ownership interest	Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%
ING Luxembourg S.A.	6.92%	6.92%

As at 31 December 2016, 68.75% of the shares (31 December 2015: 68.75%) of NG Investeeringud OÜ are owned by NG Kapital OÜ which is the ultimate controlling party of Tallinna Kaubamaja Grupp AS.

## Note 29 Contingent liabilities

### Contingent liability relating to income tax on dividends

As of 31 December 2016, the retained earnings of Tallinna Kaubamaja Grupp AS were 101,272 thousand euros (31 December 2015: 95,268 thousand euros). Payment of dividends to owners is accompanied by income tax expense 20/80 on the amount paid as net dividends. Hence, of the retained earnings existing as of the balance sheet date, the owners can be paid 81,018 thousand euros as dividends (31 December 2015: 76,214 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 20,254 thousand euros (31 December 2015: 19,054 thousand euros).

### Contingent liabilities relating to bank loans

Regarding the loan agreements in the amount of 56,195 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 2016, there has been no breach in the financial covenants in the loan agreements.

### Contingent liabilities relating to the Tax Board

The tax authorities may at any time inspect the books and records of the Group within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties. In 2015 and 2016 the tax authority did not conduct any inspections. 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

On 29 April 2015, Harju County Court found Selver AS guilty of committing a crime qualified under Subsection 400 (2) of the Penal Code, (starting from 27 February 2010, Subsection 400 (4) of the Penal Code) and imposed a pecuniary punishment of 2 950 000 euros. Harju County Court left the punishment partially unenforced and assigned that only 295 600 euros should be served immediately. Rest of the pecuniary punishment shall not be enforced unless Selver AS shall not commit another intentional crime within 1 year of probation time. Selver AS has filed an appeal against the respective judgement with the District Court. The Tallinn District Court did not satisfy the appeal of Selver AS and left the county court decision unchanged with its judgement from 15 December 2016. On 12 January 2017, Selver AS filed an appeal in cassation with the Supreme Court against the district court judgement within the entire part concerning them and accordingly, the decision of the Tallinn District Court has not entered into force by today. The Supreme Court will now decide on either accepting or rejecting the appeal in cassation.

According to the charge, Selver AS, Rimi Eesti Food AS, Maxima Eesti OÜ, Prisma Peremarket AS, AS Helter-R and AS Liviko agreed on raising the retail prices of certain vodkas in 2009. Selver AS has, throughout the process, considered the charge of the prosecutor's office groundless and incomprehensible, as Selver AS has never signed any price agreements with competitors.

### Note 30 Events after the balance sheet date

Tallinna Kaubamaja Group founded a new subsidiary in January 2017 with the aim to develop the group's automotive business in Lithuania. Tallinna Kaubamaja Kinnisvara AS, a 100% subsidiary of Tallinna Kaubamaja Grupp AS, founded a 100% subsidiary with the business name UAB TKM Lietuva in the Republic of Lithuania. The area of activity of the new subsidiary will be property development.

### 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 equity method.

### STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2016	31.12.2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	368	201
Trade and other receivables	3,172	7,933
<b>Total current assets</b>	<b>3,540</b>	<b>8,134</b>
<b>Non-current assets</b>		
Shares of subsidiaries	204,932	193,563
Share of associates	1,762	1,778
Long-term trade and other receivables	10,000	9,000
Property, plant and equipment	78	131
Intangible assets	372	392
<b>Total non-current assets</b>	<b>217,144</b>	<b>204,864</b>
<b>TOTAL ASSETS</b>	<b>220,684</b>	<b>212,998</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Borrowings	13,708	17,283
Trade and other payables	971	997
<b>Total current liabilities</b>	<b>14,679</b>	<b>18,280</b>
<b>Non-current liabilities</b>		
Borrowings	1,612	0
<b>Total non-current liabilities</b>	<b>1,612</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>	<b>16,291</b>	<b>18,280</b>
<b>Equity</b>		
Share capital	16,292	16,292
Statutory reserve capital	2,603	2,603
Retained earnings	185,498	175,823
<b>TOTAL EQUITY</b>	<b>204,393</b>	<b>194,718</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>220,684</b>	<b>212,998</b>

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	2016	2015
Revenue	2,910	2,809
Other operating income	1	55
Other operating expenses	-577	-484
Staff costs	-2,461	-2,336
Depreciation, amortisation and impairment	-154	-140
Other expenses	-16	-17
<b>Operating loss</b>	<b>-297</b>	<b>-113</b>
Interest income and expenses	172	163
Other finance income and costs	30,979	32,217
<b>Total finance income and costs</b>	<b>31,151</b>	<b>32,380</b>
<b>Profit before income tax</b>	<b>30,854</b>	<b>32,267</b>
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>	<b>30,854</b>	<b>32,267</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	<b>30,854</b>	<b>32,267</b>
Basic and diluted earnings per share (euros)	0.76	0.79

## CASH FLOW STATEMENT

in thousands of euros

	2016	2015
<b>CASH FLOWS FROM/USED IN OPERATING ACTIVITIES</b>		
Net profit	30,854	32,267
<i>Adjustments:</i>		
<i>Interest expense</i>	495	587
<i>Interest income</i>	-667	-750
<i>Effect of equity method</i>	-30,979	-32,217
<i>Dividend received</i>	154	140
Change in receivables and prepayments related to operating activities	4,760	-460
Change in liabilities and prepayments related to operating activities	-26	226
<b>TOTAL CASH FLOWS FROM/USED IN OPERATING ACTIVITIES</b>	<b>4,591</b>	<b>-207</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	-22	-27
Interest received	667	750
Change in the receivable of group account	-181	11,393
Investments in subsidiaries	-1,910	-1,680
Loans granted to subsidiaries	-1,000	-9,000
Purchases of intangible assets	-65	-51
Proceeds from sale of property, plant and equipment	7	180
Dividends received	21,210	16,332
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>18,706</b>	<b>17,897</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Repayments of borrowings	-1,456	-1,821
Interest paid	-495	-587
Dividends paid	-21,179	-16,292
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>-23,130</b>	<b>-18,700</b>
<b>TOTAL CASH FLOWS</b>	<b>167</b>	<b>-1,010</b>
Cash and cash equivalents at beginning of the period	201	1,211
Cash and cash equivalents at end of the period	368	201
<b>Net increase/decrease in cash and cash equivalents</b>	<b>167</b>	<b>-1,010</b>

## STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Retained earnings	Total
<b>Adjusted balance as of 31.12.2014</b>	<b>16,292</b>	<b>2,603</b>	<b>159,848</b>	<b>178,743</b>
Dividends paid	0	0	-16,292	-16,292
Profit for the reporting period	0	0	32,267	32,267
<b>Balance as of 31.12.2015</b>	<b>16,292</b>	<b>2,603</b>	<b>175,823</b>	<b>194,718</b>
Dividends paid	0	0	-21,179	-21,179
Profit for the reporting period	0	0	30,854	30,854
<b>Balance as of 31.12.2016</b>	<b>16,292</b>	<b>2,603</b>	<b>185,498</b>	<b>204,393</b>

Adjusted unconsolidated equity is used as the basis for verifying compliance with equity requirements set forth in the Commercial Code.





## INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)\*

To the Shareholders of Tallinna Kaubamaja Grupp AS

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### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tallinna Kaubamaja Grupp AS (the Company) and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### *What we have audited*

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

### *Independence*

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

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## Our audit approach

### Overview



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#### Materiality

Overall group materiality is 6.0 million euros, which represents approximately 1% of consolidated revenues. Specific materiality applied to property, plant and equipment and investment properties is 3.9 million euros, which represents approximately 1% of consolidated total assets.

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#### Audit scope

For five large entities, a full scope audit was performed by the Group audit team. Statutory audits for remaining entities were performed by component auditors. We performed specific audit procedures in all components where statutory audits or reviews were conducted by component auditors.

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#### Key audit matter

- Valuation of investment properties and property, plant and equipment

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



<b>Materiality</b>	Overall Group materiality is 6.0 million euros. Specific materiality of 3.9 million euros is applied to property, plant and equipment and investment properties.
<b>How we determined it</b>	Overall Group materiality is approximately 1% of consolidated revenue. Specific materiality is approximately 1% of consolidated total assets.
<b>Rationale for the materiality benchmark applied</b>	<p>We consider revenue and revenue based market share to be a key determinant of the Group's value and a key metric used by management, investors, analysts and lenders.</p> <p>In addition, we set a specific materiality level of approximately 3.9 million euros for property, plant and equipment and investment properties. This equates approximately to 1% of the Group's assets. Specific materiality was set considering the significance of the valuation of property, plant and equipment and investment properties to the Group's financial statements and also to the scope of audit.</p>

### Key audit matters

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

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Valuation of property, plant and equipment and investment properties</b></p> <p>Refer to pages 39 to 40 (Accounting Policies) and pages 44 to 45, 52 to 57 (Notes).</p> <p>The Group's property portfolio includes:</p> <ul style="list-style-type: none"> <li>Property, plant and equipment, including shopping centres in the carrying amount of 164.5 million euros (accounted for using the revaluation method) and construction in progress in the carrying amount of 23.2 million euros (accounted for at cost). Total revaluation loss recognised in 2016 profit or loss statement was 3.7 million euros and gain recognised in other comprehensive income was 19.7 million euros.</li> <li>Investment properties in the carrying amount of 48.7 million euros (carried at fair value).</li> </ul>	<p>Given the inherent subjectivity involved in the valuation of properties and the need for deep market knowledge and valuation expertise, we engaged our internal valuation specialists to assist us in our audit of this area.</p> <p>We obtained and read the valuation reports and valuation inputs for all the properties and assessed whether the valuation approach for each property was in accordance with the principles of measuring fair value under IFRS. We found the methods be consistent with the guidance in IFRS.</p> <p>We assessed the qualifications and expertise of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We found that the valuers performed their work in accordance with the respective professional valuation</p>

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Total revaluation gain recognised in 2016 profit or loss statement was 1.6 million euros.

The group measures the fair value (or assesses the impairment loss) for the above mentioned assets using the discounted cash flow method, based on the rental rates of these properties, using the existing rental rates for properties leased out, and determining the market level of rental rates for properties in own use or in development stage.

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental rates for that particular property. Management engages experts to determine the fair values on a systematic basis ensuring that a complete valuation is carried out by a certified third party independent real estate valuers for each property at least every four years and key inputs for valuations are obtained from the valuers in the intervening years.

In determining a property's fair value the valuers and management take into account property-specific information such as the current tenancy agreements and rental income. They apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions. For properties under development, the residual appraisal method is used, by estimating the fair value of the completed project using a capitalisation method less estimated costs to completion.

The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material impact, warranted specific audit focus in this area.

standards and that they have considerable experience in the markets in which the Group operates. We found no evidence to suggest that the objectivity of the valuers was compromised.

We focused our work on the largest properties by value and those where the assumptions used had a higher risk of differing from market data.

We compared the major assumptions such as rental rates, discount rates, capitalisation rates and vacancy rates used by the valuers with our internally developed estimated ranges, determined via reference to published benchmarks when applicable. Where assumptions were outside the expected range or otherwise deemed unusual, or valuations showed unexpected movements not consistent with general trends in the market, we undertook further investigations and challenged the valuers and Group management by requesting additional information and explanations on inputs and assumptions used. We concluded that the data and assumptions used by management were reasonable.

It was evident from our interaction with management and the Valuers, and from our procedures in respect of the valuation reports that close attention had been paid to each property's individual characteristics, such as considering the overall quality, geographic location and cash flow potential of the property as a whole. We also found that the impact of recent and significant market transactions on each individual property's valuation, given its unique characteristics were appropriately considered for when determining the assumptions used in the valuation. We saw evidence that alternative assumptions had been considered and evaluated by management and the valuers before determining the final fair value. We concluded that the assumptions used in the valuations were supportable in light of available and comparable market evidence.

We also considered whether the disclosures made in note 12 and 13 to the financial statements met the requirements set out in IFRS and noted no issues.



### *How we tailored our audit scope*

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's financial statements consolidate 17 reporting units. Based on our risk and materiality assessments, we determined which entities were required to be audited at full scope considering the relative significance of each entity to the Group and the overall coverage obtained over each material line item in the consolidated financial statements. For five of these entities, Tallinna Kaubamaja Grupp AS, Selver AS, Kulinaaria OÜ, Kaubamaja AS, KIA Auto AS, full scope statutory audits were performed by Group audit team. Statutory audits for remaining entities were performed by component auditors. In respect of these entities, we performed full scope audit procedures on selected areas, relating primarily to valuation of investment properties, and land and buildings, impairment testing of goodwill and trademark arising on consolidation, giving us the evidence we needed for our opinion on the Group financial statements as a whole. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

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### **Other information**

Management is responsible for the other information that is disclosed in the Group's Annual Report, in addition to the consolidated financial statements and our auditor's reports thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### **Responsibilities of the Management Board and those charged with governance for the consolidated financial statements**

The Management Board is responsible for the preparation and fair presentation of the 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.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.



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## **Auditor's responsibilities for the audit of the consolidated financial statements**

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AS PricewaterhouseCoopers

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

Tiit Raimla  
Auditor's Certificate No.287

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

Eva Jansen-Diener  
Auditor's Certificate No.501

23 February 2017

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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.*

*This independent auditor's report (translation of the Estonian original) should only be used with an annual report initialled for identification purposes by AS PricewaterhouseCoopers.*

## PROFIT ALLOCATION PROPOSAL

The retained earnings of Tallinna Kaubamaja Group AS are:

Total retained earnings 31 December 2016 101 272 thousand euros

The Chairman of the Management Board of Tallinna Kaubamaja Group AS proposes to the General Meeting of Shareholders to pay dividends in the amount of 25,659 thousand euros out of retained earnings accumulated until 31 December 2016.



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Raul Puusepp  
Chairman of the Management Board

Tallinn, 27 February 2017



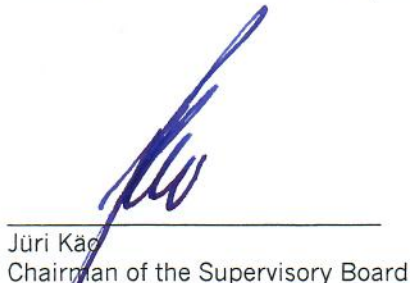
## SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2016

The supervisory board of Tallinna Kaubamaja Group AS has reviewed the 2016 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.

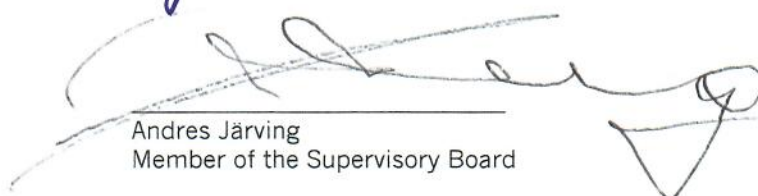
Hereby we confirm the correctness of information presented in the consolidated annual report 2016 of Tallinna Kaubamaja Group AS:



Raul Puusepp  
Chairman of the Management Board



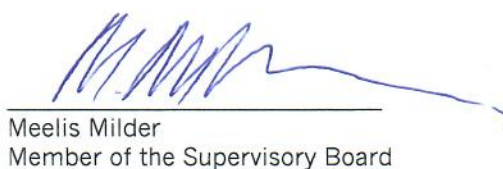
Jüri Kää  
Chairman of the Supervisory Board



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, 27 February 2017

## 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>2016</b>
64201	Holding company's activities	2,910
	<b>Total revenue</b>	<b>2,910</b>