

20 Tallinna 17 Kaubamaja Grupp AS

Consolidated Annual Report
(translation of the Estonian original)

TALLINNA KAUBAMAJA GRUPP AS

CONSOLIDATED ANNUAL REPORT 2017

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 2017, Tallinna Kaubamaja Grupp AS employed more than 4,100 employees.

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<i>End of financial year:</i>	<i>31.12.2017</i>
<i>Auditor:</i>	<i>PricewaterhouseCoopers AS</i>

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

Briefly about Tallinna Kaubamaja Group

Tallinna Kaubamaja Group is the biggest retail company in Estonia. Our 4,100 employees serve customers in 89 stores, where 650,000 loyal customers make 44 million purchases a year.

651.3

Million euros

Revenue

(2016: 598.4 million euros)

29.8

Million euros

Net profit

(2016: 25.7 million euros)

73

Cents

Net profit per share

(2016: 63 cents)

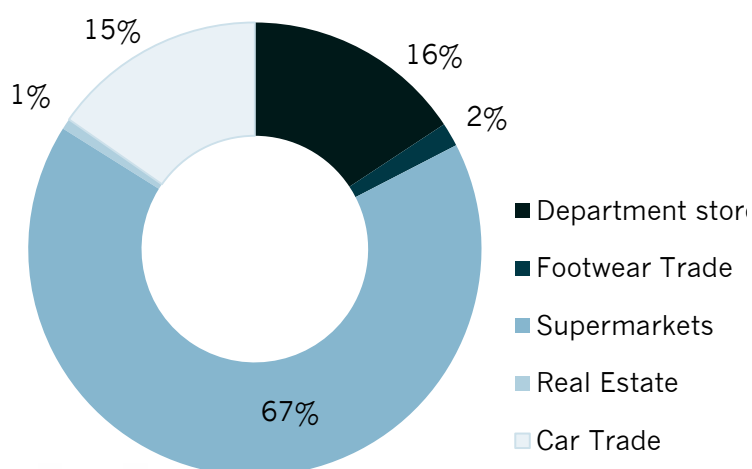
4,182

Yearly average number

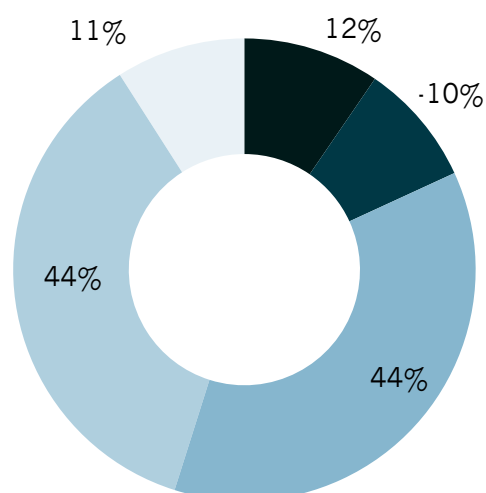
Employees

(2016: 4,079)

Revenue 2017



Net profit 2017



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 has established Code of Ethics, which summarizes and describes the most important principles that guide their activities. 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, restraining 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 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 inducement 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 52 Selver stores, e-Selver and a café with a total sales space of 95.1 thousand m². The segment also includes the largest central kitchen in the Baltic countries Kulinaaria OÜ and non-operational SIA Selver Latvia.

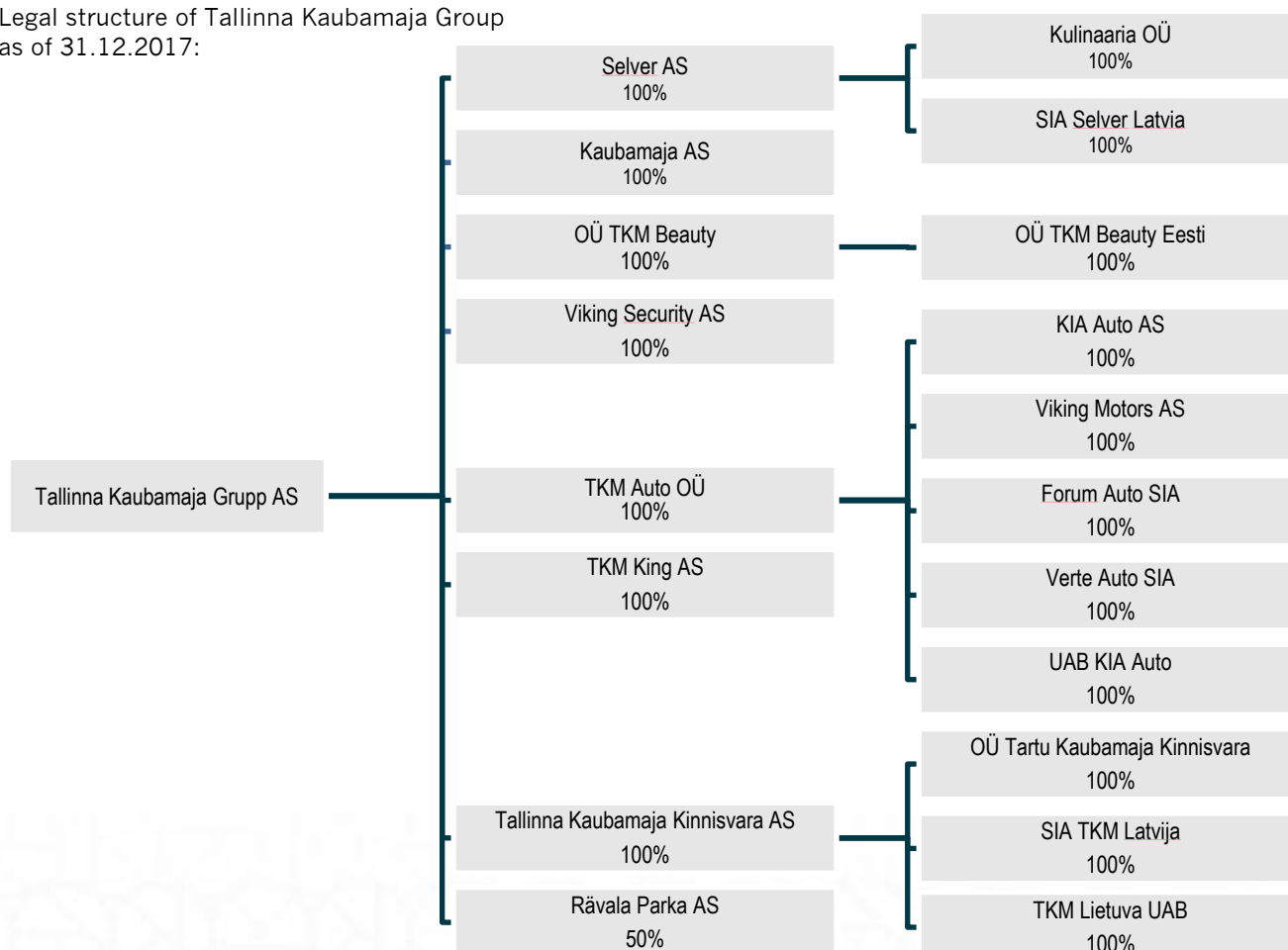
Kaubamaja operates two department stores, one in Tallinn and the other in Tartu city centre, offering a large selection of beauty and fashion products. The results of beauty product (I.L.U. and L'Occitane) sales, which includes eight stores, and the security segment (Viking Security AS), are presented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

The footwear trade segment includes 22 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 selling passenger cars in two showrooms in Tallinn, one showroom in Riga and one in Vilnius. In addition to KIAs, there are several car brands in the selection, such as OPEL and Cadillac in Estonia and Peugeot in Latvia and Estonia.

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 31.12.2017:



Overview of 2017

2017 was an active year for Tallinna Kaubamaja Group. Hundreds of thousands of customers were served on 43.6 million times, thereby achieving the highest sales and profit figures compared to the previous years. Most successful among the business segments was that of the supermarkets, which in 2017 opened five new stores and increased in terms of both profit and turnover. In addition, the department stores, car trade and real estate segments showed goods sales and profit results at the end of 2017. Given the tight competition, all three important retail segments of the Group – supermarkets, department stores and car trade – managed to increase their market share. The Group participates in the rapidly developing Estonian e-commerce with e-stores of various areas, which have doubled their turnover over the year thanks to their wide selection and award-winning user-friendly service. The most welcomed technological innovation of recent years is the self-service checkout solution, which was used by nearly one-third of our clients on a daily basis during the financial year. At the end of 2017, the Group was the first among the biggest retail companies to start offering the innovative mobile wallet mTasku payment solution. Information technology and data analysis have played an increasing role in the management of trade processes and arrangement of marketing activities. Apart from the turbulent digital development, the Group has not forgotten to improve the shopping experience of customers. In the late autumn of 2017, the winner of the architecture competition for the new department store in Tallinn was announced and the new building should be completed in the next 5–7 years. The Group invested altogether 14.8 million euros in 2017, whereas the year earlier, 13.1 million euros were invested. The investments focused mainly on the enlargement of sales premises, purchase of computer equipment and fixtures, and development of e-commerce.

The most important events for Tallinna Kaubamaja Group in 2017 and until the publication of this annual report were the following:

- At the Baltic E-commerce Summit with 159 participants, which is organised by the Estonian E-Commerce Association and business daily Äripäev, e-Selver was chosen as the 'Most user-friendly e-store 2017' in the food and convenience goods category for the second year running and ultimately also won the Grand Prix from among the e-stores operating in 9 different areas. The e-store of Kaubamaja achieved the highest recognition in the category of department stores.
- Tallinna Kaubamaja Grupp AS was named the most competitive retail company in Estonia for the sixth year in a row.
- Forum Auto SIA from the car trade segment in Latvia was awarded the prestigious KIA Platinum Prestige Dealer Award 2017.
- In Tallinn, Balti Jaama Turu (Baltic station market), Tähesaju, Sepapaja, Kotka and Laagri Selvers were opened. In addition, a Selver mobile shop was launched in Hiiu County in December 2017.
- Selver's self-service checkout solution SelveEkspress was installed in six supermarkets and customers can now use the SelveEkspress service in 33 Selver stores.
- From September 2017, the e-store of Selver began to offer courier services by themselves for the delivery of goods to customers' homes.
- In July, the car trade company Verte Auto SIA was founded with the aim to start operating in Latvia as a Škoda dealer.
- In September, 15 strong and unique competition projects were submitted to the architectural competition announced in June for the reconstruction of the Tallinna Kaubamaja quarter, i.e. the registered properties at Gonsiori 2 / Rävala 6. The winner of the competition was a project called 'CITY BREAK', which was submitted jointly by the architecture bureaus DAGOpen OÜ from Estonia and BAKPAK ARCHITECTS S.L.P from Spain.
- In December, the mTasku mobile payment solution was launched in Kaubamaja department stores, Selver stores and I.L.U stores.
- The expansion project for the plant of the central kitchen was launched.
- Two new car dealership agreements were signed. In summer, a dealership agreement was signed in Latvia for the distribution of Škoda vehicles and in autumn in Estonia, for the sale of Peugeot vehicles and for starting the development of car showrooms.
- In Vilnius, the development of a new car showroom began.
- The number of customers of the Group's Partnerkaart loyalty programme exceeded the threshold of 650 thousand, the card is now used by nearly half of Estonian residents.

Plans for 2018

In 2018, we will focus on offering our customers more added value and innovative solutions, increasing our market share as well as on the continued improvement of efficiency. Capital investments planned for the year are aimed at securing the Group's sustainability and development, which will allow us to improve quality, increase sales volumes and ensure profitability in the future.

The retail market is irreversibly changing and increasingly more purchase decisions and transactions are made via the Internet. Therefore, an important development goal of the Group is the continued development of e-commerce and above all, increasing user convenience, performance and service speed of e-stores. An important part of growing our volumes is increasing service capability and the automation of our delivery process.

Several technological changes are planned for 2018. The Group intends to invest in IT solutions, which would help personalise the purchase experience of our customers and simplify shopping. The plans for 2018 include the expansion of SelveEkspress service to all Selver stores. In addition, the digital development should facilitate making purchase decisions and enable optimising trade processes.

For years, the Partnerkaart loyalty programme for the loyal customers of the Group has been vital in the success of the companies. In 2018, the development of various convenience services of Partnerkaart will continue. In cooperation with Telia, a secure mTasku mobile payment solution was finalised at the end of the financial year, and launched in January 2018. This solution enables customers to pay for the goods and receive loyal customer benefits without carrying along a physical wallet. In addition, we are still focusing on the purchase behaviour of customers and on making attractive special offers by meeting the personalised needs of customers and developing complementary services.

Despite the globally thriving online trade, even the largest e-stores have taken up the construction of physical stores, as they believe that the Internet is not capable of offering certain retail sales experiences obtained by visitors at physical stores. In order to develop modern and attractive trade, the Group will start designing a new department store of Kaubamaja into the heart of Tallinn in 2018, along with developing a concept for the department store and planning the assortments. In addition, a new concept will be created for the first floor of Tartu department store of Kaubamaja and the sales premises on the first and second floor will be renovated. The supermarket segment will be expanded by at least two new Selver stores.

The popularity of Selver's private label trademark Selveri Köök, the products of which are made by Selver's subsidiary Kulinaaria OÜ in the largest central kitchen of the Baltic region, has grown year after year. Its plant with a daily product output of 14 tonnes will soon achieve its full production capacity and its area must be expanded to satisfy further needs and guarantee sustainability. In 2018, the planning and construction of additional production premises on the neighbouring registered immovable of the plant are on the agenda. The aim is to design an employee-friendly production building by considering the specific needs of an industrial kitchen and including modern technology.

The main innovation in the car trade segment in 2018 will be the planning and launching of new showrooms. Similar to ordinary trade, customers do a lot of homework on the Internet when making their decision to buy a car, but examining the car in person and consultation still play a decisive role in buying a new car. An increase in aftersales service, for which modern showrooms are required, played an important role in growing our market share. A change was witnessed also in consumer behaviour in Latvia and Lithuania, where in addition to the previously prevailing purchase of used cars, purchases of new cars increased in the financial year. From among the dealerships of the Group's car trade segment, the fastest growth was in Latvian and Lithuanian companies. Therefore, the establishment of a new and modern showroom in a new location began in Lithuania to replace the existing one. In Latvia, however, the plans include the construction of a sales and service centre for new and used cars by Škoda for VERTE AUTO SIA, which acquired the Škoda resale rights in 2017. Completion of both showrooms is planned for 2019. In Estonia, a new Peugeot showroom will be opened in 2019. Until then, the company will operate as the dealer and service provider for Peugeot in leased premises in Tallinn.

The area of staff development focuses on improving the working environment and increasing employee satisfaction. We highly value our Group's employees, and contribute to their selection, training and development. The company aims at paying the employees a competitive remuneration in the retail trade sector. The Group's employees are characterised by high commitment and long-term work experience, although staff turnover indicators throughout the world are inevitably high in retail trade. The objective of the Group is to continue developing its employees and automation of retail processes, thereby increasing labour productivity and efficiency as well as the value package of employees.

Economic environment

In the third quarter of 2017, the gross domestic product of Estonia increased by 4.2% year-on-year. In the first three quarters of 2017, Estonia's economy increased by 4.8%. Similar to previous quarters, the construction sector contributed the most to the GDP growth. Economic growth decelerated mostly due to a decrease in added value in the energy sector. Added value decreased also in the retail and wholesale sector; one of the reasons could be increased consumption of services (accounts for 40% of all private consumption). According to leading economic analysts, the economy will probably grow 4.2% in whole 2017. Analysts forecast the economic growth to be 3.5% in 2018 supported by strong domestic and foreign demand. The consumer price index increased by 3.4% in a year in Estonia. The price growth of food products and non-alcoholic beverages accelerated from one quarter to the next and it remained at 5.7% for the year. The prices of clothing and footwear increased by 1.7% yearly. For the entire 2017, the prices of alcoholic beverages and tobacco rose the fastest (8.7%). According to Statistics Estonia, the average gross salary increased year-on-year by 7.4% in the third quarter compared to the previous year. Salaries in retail and wholesale sector rose faster than average (8.0%) forcing merchants to search for new less labour intensive service models by offering more self-service and e-commerce options.

According to Statistics Estonia, the total volume of retail sale in current prices in Estonia grew by 8.1% in 2017. The fastest growth was observed in the retail sale by post or on the Internet (35.1%). The biggest growth of retail sale in terms of monetary value came from the sale of motor vehicles, their parts and auxiliary equipment. The growth of retail sale in non-specialised stores (predominantly food products) increased in total of 3.4% during the 2017. Retail sale in other non-specialised stores increased 1.4%. According to the Estonian Institute of Economic Research, the confidence indicator of consumers has continued to improve, exceeding largely the historic average. Due to accelerated inflation, the real growth of net salary of Estonian people is decreasing, which has caused a slow-down in the growth rate of the retail sector. According to analysts, the basic exemption that was increased drastically at the beginning of 2018 may improve the purchasing power of people and increase their consumption volume in 2018.

Financial performance

FINANCIAL RATIOS 2013-2017

<i>In millions of euros</i>	2013	2014	2015	2016	2017
Revenue	499	535	555	598	651
Change in revenue	7%	7%	4%	8%	9%
Gross profit	126	133	139	153	166
EBITDA	33	35	42	47	50
Operating profit	22	24	27	32	37
Profit before tax	21	22	26	31	36
Net profit	18	20	22	26	30
Change in net profit	-16%	16%	9%	17%	16%
Sales revenue per employee	0.140	0.140	0.141	0.147	0.156
Gross margin	25%	25%	25%	26%	26%
EBITDA margin	7%	6%	8%	8%	8%
Operating margin	5%	4%	5%	5%	6%
Profit before tax margin	4%	4%	5%	5%	6%
Net margin	4%	4%	4%	4%	5%
Equity ratio	51%	51%	52%	52%	52%
Return on equity (ROE)	11%	12%	13%	13%	14%
Return on assets (ROA)	6%	6%	6%	7%	8%
Current ratio	1.0	1.1	0.9	1.1	0.9
Debt ratio	0.5	0.5	0.5	0.5	0.5
Inventory turnover	7.4	7.4	7.1	6.8	8.6
Average number of employees	3,554	3,824	3,946	4,079	4,182

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 audited consolidated sales revenue of Tallinna Kaubamaja Group was 651.3, having grown by 8.8% compared to the result of 2016, when the sales revenue amounted to 598.4 million euros. The Group's net profit was 29.8 million euros in 2017, which is 16.0% better than the profit for the previous year. Profit before tax was 36.5 million euros in reporting year, showing a growth of 17.8% compared to the previous year. Net profit was influenced by a dividend payment, on which 6.7 million euros in income tax was calculated in 2017. A year before, income tax was calculated in the sum of 5.3 million euros.

The result of the Group for the entire year of 2017 was very positive. The growth in the sales revenue of the Group's main areas of activity increased faster than that of the respective market segment. The car segment showed an extremely strong sales revenue growth. The sales results of the Group's e-store doubled in a year and exceeded the respective e-commerce sales statistics in Estonia. As there has been a lack of winter weather in recent years, it has taught better management of inventories of seasonal goods, which has resulted in an improved sales margin in the fourth quarter. More efficient electricity solutions implemented in the financial year have helped save other operating expenses. The Group's labour costs have grown by 10.5% in a year with the average salary growth being 7.9%, which corresponds to the recent average salary growth in retail and wholesale sectors published by Statistics Estonia. The opening of five new Selver stores has caused an increase in the number of employees and the total salary expenses compared to previous year. The EBITDA (earnings before interest, taxes, depreciation and amortisation) of 2017 was influenced by the revaluation of investment properties. The value of investment properties increased in 2017; however, the increase was slightly lower than in 2016, which had an unfavourable effect on other revenue, affecting it by 0.5 million euros.

Selver expanded commercial space by opening two new Selver stores in the last quarter of the reporting year in Tallinn: Kotka Selver in November and Laagri Selver in December. Earlier in 2017, Baltic Station's Turu, Tähesaju and Sepapaja Selver stores were opened. Selver opened altogether five new stores in 2017. In addition, a mobile shop was opened in Hiiu County in December. 15 projects were submitted to the architecture competition announced in June for the construction of new buildings on the registered immovable in the Tallinna Kaubamaja quarter located at Gonsiori 2 / Räväla 6. The winner of the competition was a project called "CITY BREAK", which was submitted jointly by the architecture bureau DAGOpen OÜ from Estonia and BAKPAK ARCHITECTS S.L.P. from Spain.

The total assets of Tallinna Kaubamaja Group as at 31 December 2017 was 397.5 million euros, which is 2.3% more than the respective number at the end of 2016.

There were more than 654 thousand loyal customers at the end of the reporting period; the number of loyal customers increased by 10.0% in a year. The proportion of loyal customers' purchases in the Group's turnover was 83.0% (the number was 81.7% in 2016). Over 28,000 Partner Bank and Credit Cards had been issued by the end of the December.

Investments

The Group's investments in 2017 amounted to 14.8 million euros (13.1 million euros in 2016), with 14.7 million euros invested in tangible assets and 0.1 million euros in intangible assets. In the supermarkets business segment, 8.7 million euros of investments were made in 2017 (in 2016, 7.6 million euros). Investments were used for opening five new stores. Additionally, computing technology for SelveExpress self-service checkout solution were purchased and Selver stores fittings and equipment renewed. The investments of the department stores business segment amounted to 1.3 million euros (3.4 million euros in 2016), most of which were used for the Kaubamaja video display solution, development of the e-store and to replace the lighting of the beauty department. In the car trade business segment, the cost of investments was 0.7 million euros (0.5 million euros in 2016). The footwear trade segment invested 0.1 million euros to improve the sales environment of the stores (0.1 million euros in 2016). The cost of investments in

real estate business segment was 4.0 million euros (1.4 million euros in 2016). To support Group's car business expansion, real estate segment acquired a property in Vilnius, Lithuania. Building works of a gas station and store started on registered immovable, belonging to a Group's real estate business segment, in Rae rural municipality next to Peetri Selver and is planned to rent out for a long term period to an external partner.

Business segments

<i>In millions, EUR</i>	2016	2017	%	EBITDA%*	■ 2017 ■ 2016
Revenue	598.4	651.3	8.8%		
Supermarkets	400.0	433.1	8.3%	Group total	7.7% 7.9%
Department stores	98.0	102.4	4.4%	Supermarkets	5.1% 4.8%
Car Trade	82.6	99.7	20.7%	Department stores	6.4% 6.7%
Footwear Trade	12.8	11.1	-13.7%	Car Trade	4.8% 5.3%
Real Estate	5.0	5.0	1.4%	Footwear Trade	-2.4% -1.1%
EBITDA	47.3	50.5	6.7%		
Supermarkets	19.0	22.2	16.9%	Net profit%*	
Department stores	6.5	6.6	0.6%	Group total	4.6% 4.3%
Car Trade	4.4	4.8	9.6%	Supermarkets	3.1% 3.0%
Footwear Trade	-0.1	-0.3	88.7%	Department stores	3.4% 3.2%
Real Estate	17.5	17.1	-2.1%	Car Trade	3.3% 3.8%
Net profit/-loss	25.7	29.8	16.0%	Footwear Trade	-27.9% -6.6%
Supermarkets	12.1	13.2	9.5%		
Department stores	3.2	3.4	8.8%		
Car Trade	3.2	3.3	2.6%		
Footwear Trade	-0.9	-3.1	263.9%		
Real Estate	8.2	13.0	59.4%		

*ratio of revenue

Supermarkets

In 2017, the consolidated sales revenue in the business segment of supermarkets was 433.1 million euros, having increased by 8.3% on a year-on-year basis. The monthly average sales revenue of goods per sales area square metre was 0.40 thousand euros in 2017, a year-on-year growth of 1.7%. The sales revenue of goods per one square metre of comparable stores was 0.37 thousand euros in 2017, showing a growth of 2.3%. 37.7 million purchases were made at Selver stores in 2017, exceeding the result of the previous year by 4.0%.

The consolidated profit before tax of the supermarket segment was 16.8 million euros in 2017, showing a year-on-year growth of 2.1 million euros. The net profit for the same period was 13.2 million euros, having grown by 1.2 million euros year-on-year. The profit before tax in Estonia was 19.8 million euros and net profit was 16.2 million euros. The difference between the net profit and profit before tax arises from the income tax paid on dividends: in 2017, the income tax on dividends was higher by 1.0 million euros compared to the previous year. The loss incurred in Latvia was 2.1 million euros. Loss remained at the same level as the previous year.

The growth of Selvers' sales revenue increased at a faster rate than the average of the market segment. The growth of the sales revenue was primarily supported by new stores opened in 2016 and 2017. Seven new stores were opened from October 2016 to the end of 2017. E-commerce has shown good results with the sales revenue doubled in 2017. Although competition is tight, new stores have helped increase the number of purchases. The growth of the average shopping basket is influenced by successful assortment and campaign activities and accelerated inflation in the second half of the year. The generation of profit earned in Estonia has above all been influenced by the increased sales revenue. As for operating expenses, cost-effectiveness has improved compared to the previous year. As expected, investments have had a positive impact, enabling saving on operating expenses. Although salary pressure is strong, labour efficiency has remained at the level of previous year. Salary expenses increased because the over-the-counter service contract and cooperation with the partner of the e-store courier service were terminated. This enables better control of the processes, quality and expenses. The expenses incurred and investments made in 2017 include the opening expenses of five new stores and a mobile shop in Hiiu County. The reference period includes the opening expenses of three stores and renovation expenses of two stores. The profit of the reference

period is influenced by a one-time positive income of 0.4 million euros as a result of a judicial decision of the sales tax on products subject to excise duty. The net profit of the financial year is influenced by a one-time judicial decision that required Selver to pay a penalty and influenced the profit along with taxes in the amount of 0.4 million euros.

As at the end of the year, the supermarket segment includes the Selver chain with 52 stores, a mobile shop, e-Selver and cafe with total sales space of 95.1 thousand m² and the central kitchen Kulinaaria OÜ. The segment also includes non-operational SIA Selver Latvia.

Department stores

The sales revenue in the business segment of department stores was 102.4 million euros in 2017, having grown by 4.4% year-on-year. The monthly sales revenue of the department store segment per sales area square meter was 0.32 thousand euros in 2017, being 4.1% higher than the previous year. The profit before tax of the department stores segment was 4.3 million euros in 2017, which was 0.2% lower compared to the previous year's result. The sales revenue of the department stores segment was throughout the year influenced by successful sales campaigns organised. Although the beginning of the autumn season in September was very positive, expected winter weather in the last quarter did not arrive. Regardless, good inventory management helped to increase the margin in the autumn season. The sales of the e-store launched in March 2016 have doubled in reporting year and influenced the result positively. The utility cost savings compared to the previous year have positively influenced the profit of department stores in 2017, which is primarily thanks to the investments made into LED lighting in Tallinn as well as Tartu department stores over recent years. However, depreciation on investments made in previous years and labour costs increased faster and slowed down profit growth.

The sales revenue in 2017 of OÜ TKM Beauty Eesti, which operates the I.L.U. cosmetics stores, was 4.7 million euros, having decreased by 5.3% compared to the 2016. Loss earned in 2017 was 0.3 million euros, which is 0.05 million euros less than the loss of the 2016. In April 2017, the store in Tartu Lõunakeskus moved to a new section of the shopping centre. This brought about optimisation of the store's assortment, renovation of its interior design and termination of the provision of beauty services in the sales area. An outlet section was opened in Kristiine I.L.U. store in September that collects all the products removed from stores of the entire chain. Lighting was renovated in Rocca al Mare store. In February 2018, the store in Tartu Kvartal was closed because of unsatisfactory business results. In future, one store in Lõunakeskus will continue to operate in Tartu. Assortment analysis by stores is still in focus to ensure attractiveness of new goods for customers and optimal balance of inventories. The focus in 2018 is on the development of the I.L.U. e-channel.

Car Trade

The sales revenue in the car trade segment was 99.7 million euros in 2017. The sales revenue exceeded the year-on-year revenue by 20.7%; whereas, the annual sales revenue earned from the sale of KIAs increased by 24.1%. The KIA Sportage SUV and the C-class passenger car KIA Cee'd were the most popular models of KIAs sold in 2017. In the case of OPEL, the division by model was more even and strong sales results were demonstrated by passenger cars Insignia, Astra, Mokka X, Corsa as well as by commercial vehicles Vivaro and Combo. The most popular Peugeot models in Latvia were 2008, 3008, 5008, and commercial vehicles Partner and Boxer. In 2017, the altogether 4,706 new vehicles were sold in the Group's car trade segment. An increase in volume and growth occurred in the sale of KIA fleet in 2017. The company was able to offer competitive conditions to car rental companies and conclude several important transactions with the market leaders in the rental service. In addition, many bigger public procurements were won in Latvia and Lithuania. The net profit of the segment was 3.3 million euros in 2017, which is 2.6% higher than the profit earned the year before. The profit before tax of the segment was 3.9 million euros in 2017, exceeding the profit earned in 2016 by 6.8%.

In 2018, many car models will be upgraded, for example, in the KIA model range, the popular KIA Cee'd will be replaced with a completely new model. In addition, another bestseller – KIA Sportage – will undergo a significant model upgrade. The SUV version Country Tourer of the popular medium class passenger car Insignia will be added to the OPEL model range. Furthermore, a completely new commercial vehicle – OPEL Combo – will be put on sale. The new models of Peugeot in 2018 will include a new medium-class saloon Peugeot 508 and a brand-new commercial vehicle Peugeot Partner. The main development goal in 2018 is launching the new Peugeot showroom in Tallinn. In addition, the construction of new showrooms in Riga and Vilnius will begin.

Footwear trade

The sales revenue in the business segment of footwear trade was 11.1 million euros in 2017, having decreased by 13.7% on a year-on-year basis. The segment ended the year with a loss of 3.1 million euros, of which a substantial part, 2.2 million euros, formed the definitive write-down of the goodwill. In 2017, attention was paid to optimising the sales space and lowering the cost base of a square meter and increasing the revenue base. At the end of 2017, the sales space used was 18.2% smaller compared to the year before. During the year, the focus was also on finding

more appropriate procurement channels to improve the margin. The first results were realised in the autumn season of the reporting year.

Real estate

The external sales revenue of the real estate segment was 5.0 million euros in 2017. The sales revenue increased by 1.4% on a year-on-year basis. The profit before tax of the real estate segment was 14.5 million euros in 2017, surpassing the year-on-year result by 58.9%. The sales revenue increased in all real estate companies during the financial year. The sales revenue growth was driven by Viimsi shopping centre that customers have received well. Tartu Kaubamaja Centre has been successful in keeping up with the sales revenue growth although competition has increased in the centre of Tartu. The profit of the real estate segment was influenced by the revaluation of assets in the segment which resulted in a growth of the profit of the 2017 by 3.2 million euros (revaluation made in 2016 resulted in profit lower by 2.2 million euros). One of the largest development projects in 2017 was the arranging of a successful architectural competition for the reconstruction of building at Gonsiori Street 2 and Rävala Avenue 6.

In January 2018, a gas station and a station store will be completed for an external partner in Rae rural municipality close to Peetri Selver. To facilitate real estate management, it is planned to continue with the introduction of new software.

E-stores

It is natural in the development of retail trade that an increasing share of sales volumes will move into e-channels. The Group started the development of e-stores a couple of years ago and today, we have four e-stores that are frequently visited by our customers.

Selver's e-store has the biggest sales turnover and the largest number of visits, and the demand for the convenient and high-quality service of e-Selver is increasing. During the second year in operation, the sales turnover, order volumes as well as the number of buyers increased. Continuous work on improving the user convenience of the e-store has resulted in a worthwhile recognition in Estonia as well as outside Estonia. At the Baltic E-commerce Summit, organised by the Estonian E-Commerce Association and business daily Äripäev, e-Selver was chosen as the 'Most user-friendly e-store 2017' in the food and convenience goods category for the second year running and ultimately also won the Grand Prix among e-stores operating in nine different areas. The biggest strategical change in 2017 was the transfer to a self provided courier service, which enables offering more flexible service to the customers in Tallinn and Harju County. In addition, the customers can pick up their pre-packaged orders at the suitable time in Selver's delivery centres. Delivery centres number in Tallinn has already increased to nine and more will be added. We consider customer satisfaction and quality service highly important, and despite the daily range of more than 16 thousand different food, convenience, gourmet and fresh products, we are constantly working on expanding the assortment as well as on increasing user convenience in the e-store.

The Kaubamaja e-store has gained great popularity; here, one can find beauty, fashion, home and children's products as well as gourmet products of brands rated highly throughout the world. Shopping is easy, convenient and secure, and goods are delivered all across Estonia. The Kaubamaja e-store is unique in that the variety is great and the range of goods is updated daily. Such an amazing assortment is made possible by a software solution used by world's leading e-commerce platforms and its product photos are taken by unique photo robots, which enables quickly producing large quantities of high-quality product photos. The e-store of Kaubamaja is not just any other e-store but a dynamic part of Kaubamaja. This is demonstrated also by the average buyer's profile of the e-store, which is very similar to that of the department stores of Kaubamaja. Similar to e-Selver, the e-store of Kaubamaja achieved the highest recognition in the category of department stores.

One of the oldest e-stores of the Group, the sales revenue of which has remained high, is the order portal of Kulinaaria OÜ, the subsidiary of Selver AS, with its trademark Selveri Köök, the product range of which includes a large variety of salads, pre-cooked meals, deserts and pastry products. Clients can pick up their ordered products from the Selver store network all over the Estonia.

The fourth e-store is that of I.L.U, which is a convenient addition for the visitors of stores thanks to its nationwide delivery options.

As one of the fastest growing areas, the development of the Group's e-stores is a key issue in 2018. The development plans include launching new services as well as continued improvement of user convenience. In addition, the goal is to expand the possibilities of delivering different goods. This concerns the extension of the courier service areas as well as various ways of how and when the client can receive their goods ordered from the e-store. The way the client receives the goods and what kind of service quality we can offer is important. The key to smooth and fast service is well-functioning internal workflows, which will be critically important when volumes grow.

Security

The professional and efficient security service that emerged from the security department of Kaubamaja became the separate company Viking Security AS in 2012, contributing a lot to reducing deficiencies in the retail trade of the entire Group and saving on security costs. Today, the company has become a universal security company, whose product portfolio includes several security services and surveillance solutions, from simpler manned and technical surveillance services to the design, installation and maintenance of more complex surveillance and video systems. Viking Security is the official representative of Morse Watchman in Estonia and the gold partner of Axis. As a new service, a high-quality and independent stock taking service was launched recently, which was previously performed by our own employees and often at the expense of sleep hours. Larger customers include several major trade companies and especially high quality expectations to us the Ministry of Foreign Affairs and the Ministry of Defence.

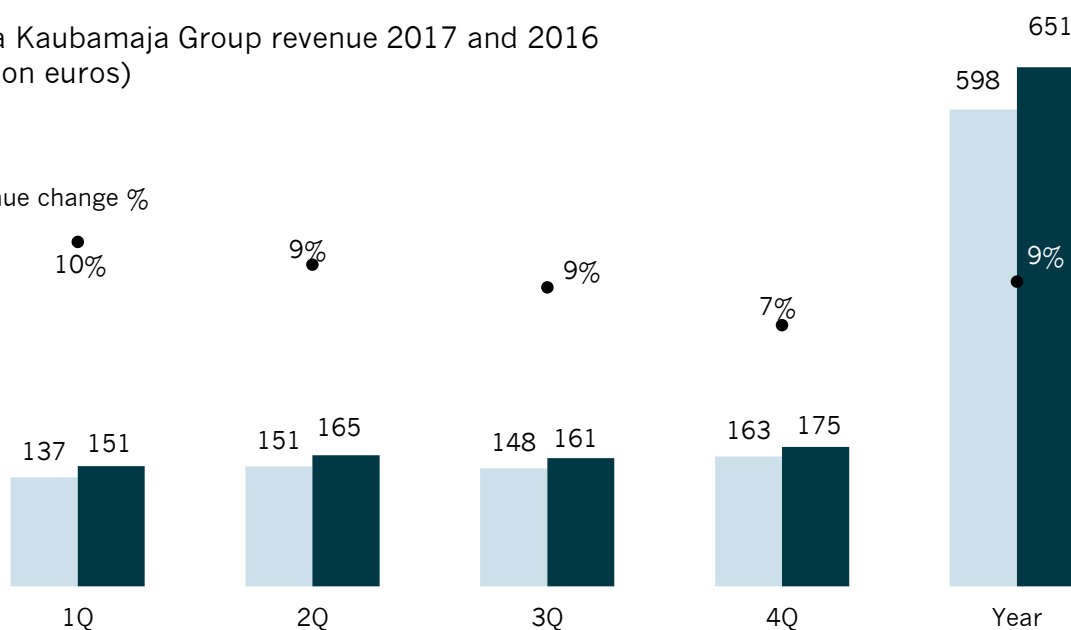
The growth of security company included in the department store segment, continued in 2017 in all security areas with an increase in both the turnover and market share. Today, Viking Security has grown into a profitable and fast-developing security company with 8.5 million euro turnover, holding the fourth position on the Estonian market and employing 300 people. Nearly 45% of the sales revenue is earned outside the Group. The fastest growth was demonstrated by the stock taking services area, where several new customers were added and the turnover more than doubled. An important achievement in surveillance services was a contract concluded with the Ministry of Foreign Affairs, where the demands and expectations for quality are very high. The biggest project in the history of the company was completed in the security technology area in the public sector, and in acknowledgement of the high professionalism of the employees of the company, a senior technician of Viking Security was elected as the Security Technician of the Year. In 2018, we intend to grow in all areas and develop new services.

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. Historically, seasonality has slight effect on sales revenue in the fourth quarter, when revenue accounts for around 27% of total sales revenue.

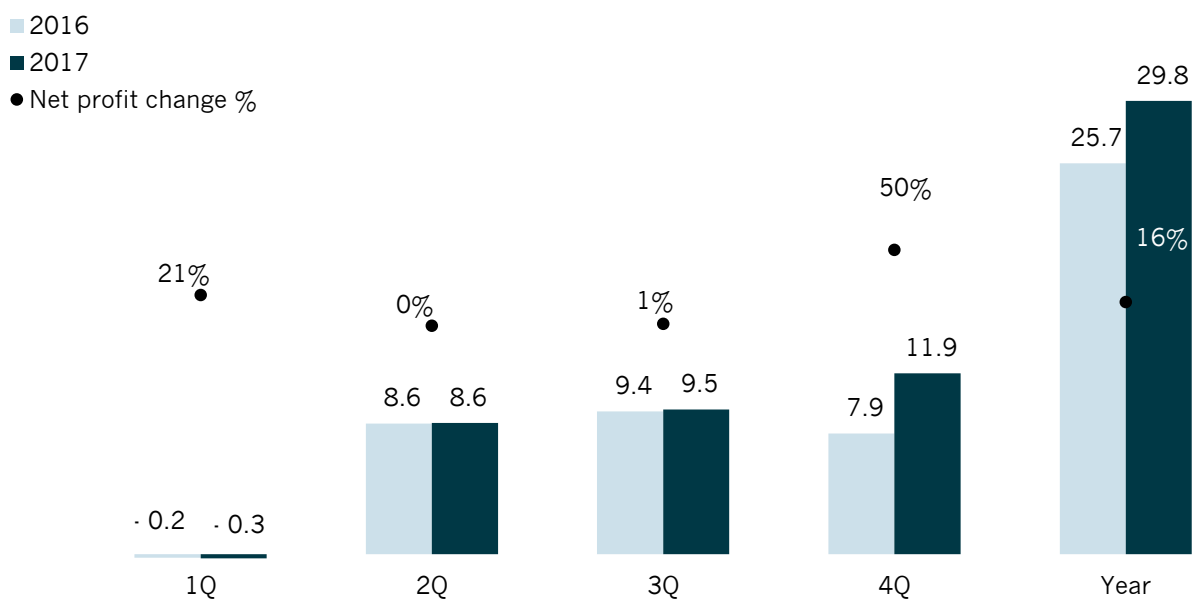
Tallinna Kaubamaja Group revenue 2017 and 2016
(in million euros)

- 2016
- 2017
- Revenue change %

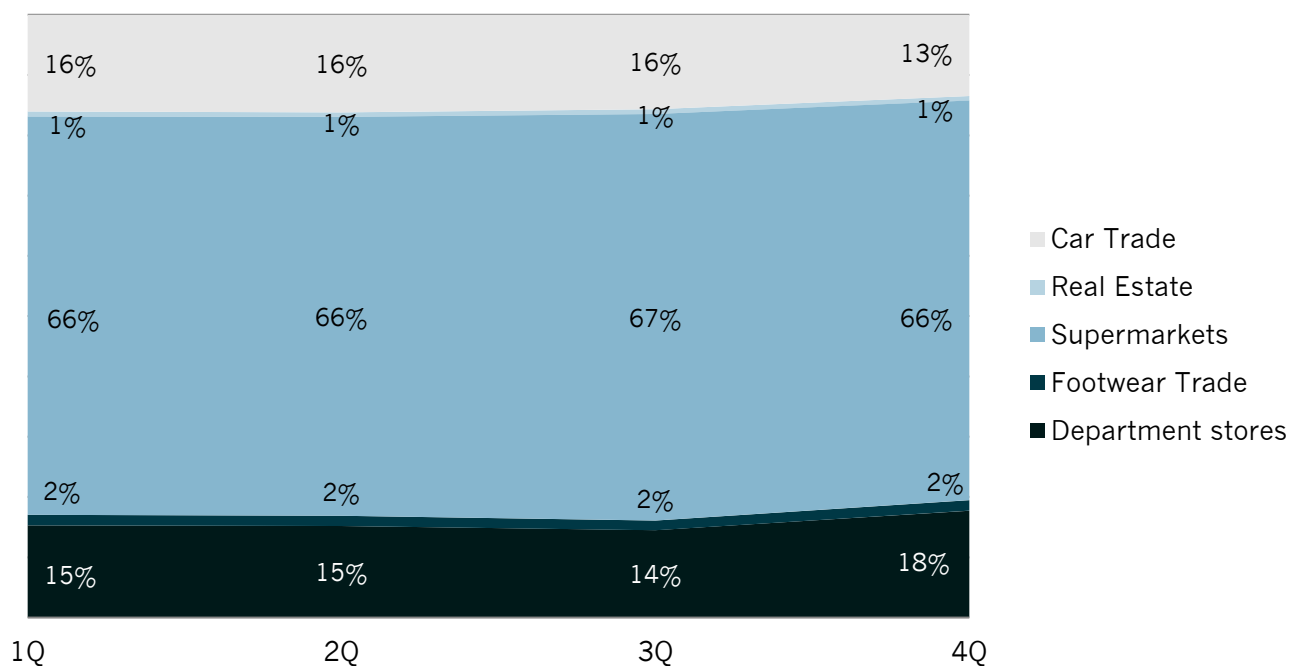


It is possible to identify a certain structural change in the Group entities' contribution to the results of operations by quarter.

Tallinna Kaubamaja Group net profit 2017 and 2016 (in million euros)



Tallinna Kaubamaja Group revenue distribution for 2017



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

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.

Tallinna Kaubamaja Group was elected as the best Baltic stock exchange enterprise. The research company CE Services has prepared the ranking of Baltic listed companies since 2008. In 2017, Tallinna Kaubamaja Group was elected as the best stock exchange enterprise. In the assessment, the success of the company in terms of governance as well as turnover is taken into account. Tallinna Kaubamaja Group has undergone a significant development over the recent years thanks to loyal customers and employees.

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 27 February 2017, the Management Board proposed to pay 25.7 million euros as dividends that is 0.63 euros per share. The general meeting of shareholders approved the proposal. The amount of a dividend distribution has been determined by reference to:

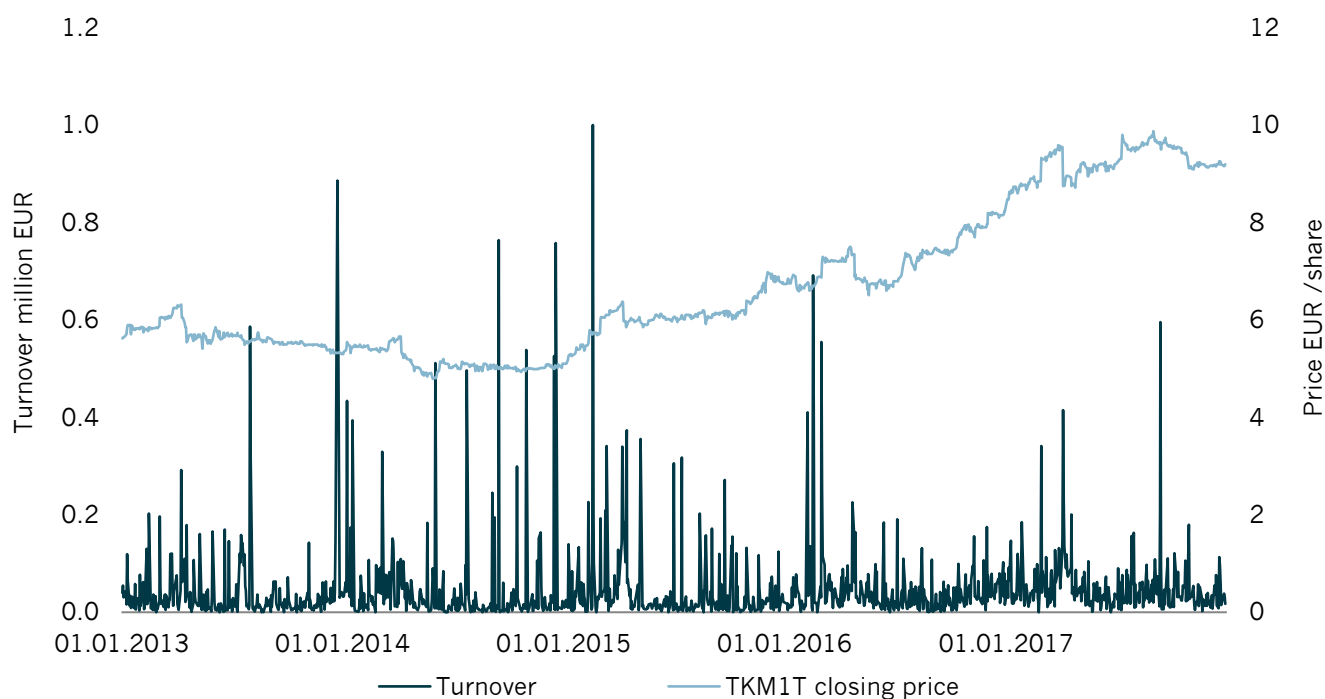
- The optimal structure capital that is required for the Group's sustainable development;
- The overall rate of return on the local securities market;
- The dividend expectations of the majority shareholders.

At the end of the 2017, the Group had 5,203 shareholders and division of shares is following:

Ownership structure	Number of shareholders	Shareholders%	Shares%	Votes%
Private persons	4,651	89.4%	11.3%	11.3%
Companies (Estonian)	486	9.3%	2.8%	2.8%
Financial institutions (Estonian)	13	0.2%	3.4%	3.4%
Companies (other countries)	1	0.0%	0.0%	0.0%
Financial institutions (other countries)	50	1.0%	8.6%	8.6%
ING LUXEMBOURG S.A.	1	0.0%	6.9%	6.9%
OÜ NG INVESTEERINGUD	1	0.0%	67.0%	67.0%
Total	5,203	100.0%	100.0%	100.0%

Number of shares	Number of shareholders	Shareholders%	Shares%	Votes%
1–100	1,619	31.1%	0.2%	0.2%
101–1,000	2,535	48.7%	2.5%	2.5%
1,001–10,000	957	18.4%	6.2%	6.2%
10,001–100,000	73	1.4%	4.5%	4.5%
100,001–1,000,000	17	0.3%	12.8%	12.8%
1,000,001– ...	2	0.0%	73.9%	73.9%
Total	5,203	100.0%	100.0%	100.0%

Share price and trading statistics in Tallinn Stock Exchange during 01.01.2013 – 31.12.2017



Share trading history

In euros

	2013	2014	2015	2016	2017
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (pcs)	1,757,026	2,368,070	1,933,408	1,647,752	1,452,599
Dividend / net profit	35%	80%	96%	100%	94%*
P/E	12.4	10.2	12.4	13.0	12.6
P/BV	1.3	1.2	1.5	1.6	1.8
Opening price	5.5	5.35	5.1	6.72	8.29
Share price, highest	6.37	5.69	7.0	8.30	9.90
Share price, lowest	5.3	4.79	5.03	6.49	8.27
Share price, at the year-end	5.3	5.1	6.74	8.23	9.20
Share price, yearly average	5.67	5.15	6.07	7.25	9.23
Turnover (million)	9.95	12.19	11.60	11.87	13.38
Capitalisation (million)	215.86	207.72	274.51	335.20	374.71
Earnings per share	0.4	0.5	0.5	0.6	0.7
Dividend per share	0.15	0.40	0.52	0.63	0.69*
Equity per share	4.1	4.3	4.4	5.0	5.1

* according to profit allocation proposal

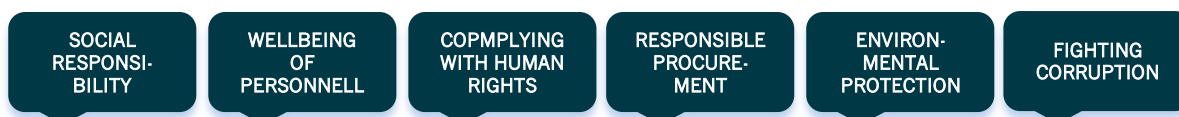
P/E = share price at the year-end / earnings per share

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

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 endorse 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.

- 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. To ensure that 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, organizing procurements, recruitment of staff, risk management, business administration and document management.
- 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 neighbor 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.

Code of Ethics

To promote the above way of thinking, Tallinna Kaubamaja Group has implemented the Code of Ethics in 2017, which consolidates and describes the more important principles from which the employees, members of the Executive Board and Board of Directors, and partners can follow in their activities.

The Code of Ethics have been prepared in accordance with national and international guidelines and principles, including the Corporate Governance Code of the Financial Supervision Authority and OECD Guidelines for Multinational Enterprises, as well as the United Nations Guiding Principles on Business and Human Rights.

The Code of Ethics have been published on the website of Tallinna Kaubamaja Group at www.tkmgroup.ee.

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 centers where we have assembled several public services important for the society.
- If possible, especially in grocery 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 programs and organise various charity campaigns.
- We support the popularization 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 labor market.
- We help the state in creating jobs and contribute to its tax revenues.

In 2017, Tallinna Kaubamaja Group companies paid to the state and local authorities a total of 62.2 million euros in taxes, a growth of 9.0% in a year (2016: 57.1).

Tallinna Kaubamaja Group taxes paid in 2015, 2016 and 2017 (in million euros)



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

- Tallinna Kaubamaja Group is one of the initiators and major supporters of the opinion competition 'Successful Estonia', held since 2013. The main goal of the opinion articles published in the business daily Äripäev within the competition is to bring ideas into public discussion for increasing Estonia's economic growth and improving the well-being of people.

- 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 13 years.
- Kaubamaja has conducted several campaigns in cooperation with 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 2017 and donated half of the revenues to Estonian Women's Shelters Union to support their services.
- 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 2017 as well.
- 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.
- 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 fifteenth 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 2017, 110,000 euros were raised.
- 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 2017, 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.
- Selver supports smaller and larger cultural projects, mainly outside of larger cities. In 2017, we supported, for example, the concert of The Sonorous Sounds of the Organs of Saaremaa, Sõru Jazz Festival, Järvi Festival, The Saaremaa Opera Festival, Hiiumaa Homecoming Festival, Hiiu Folk. As well as Pärnu Grillfest, food fair 'Sööma!' at the Tallinn Song Festival Grounds, choosing the best domestic dishes in cooperation with the Food Academy and supporting Teatribuss in cooperation with the Estonian National Opera.

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.

LOYALTY

COMMITMENT

ETHICAL

RESULT-ORIENTED

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 2017, our Group employed an average of 4,182 people and compared to 2016, the number of employees grew by 2.5% (2016: 4,079).

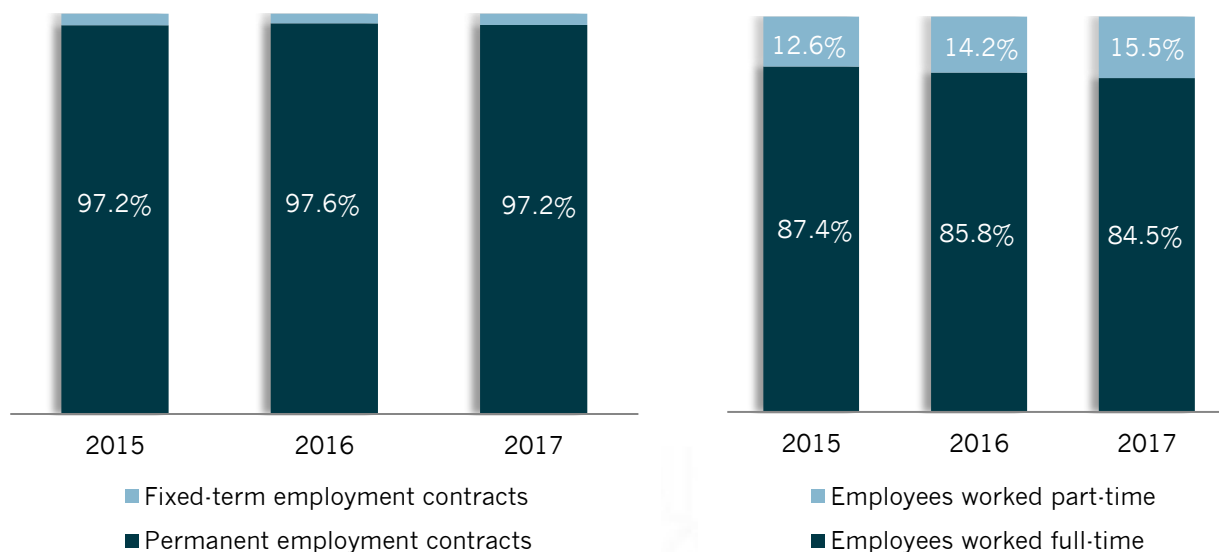
Tallinna Kaubamaja Group values long-term and lasting work relationships that provide our employees with stability in their everyday life and develop their competence over the years, thereby improving the Group's competitiveness.

As at the end of 2017, almost 97% of our employees were employed under permanent employment contracts and 3% 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 2017, over 15% of our employees worked part-time. The popularity of part-time working has grown year by year in Group, in 2017 growth also can be noticed.

4,182
Yearly average
number employees
(2016: 4,079)

97.2%
Employees with
permanent contracts
(2016: 97.6%)

15.5%
Part-time
employees
(2016: 14.2%)



Valuing development opportunities

The Group highly values the experiences of its employees, supporting a long-term stable career of employees (both vertical and horizontal) within the company. Various training and evaluation programmes and other incentives support employees' readiness to serve, their focus on results and commitment to our companies.



Employees are offered specialised refresher trainings in Estonia as well as abroad. The Group's total number of training hours exceeded 18 thousand in 2017, which is 19% more than the year before. The number of training hours per employee, which was on an average 4.4 hours in 2017 (2016: 3.7) 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.

18.2 th
Training hours
in total
(2016: ca 15.3 th)

4.4 hour
Training hours
per employee
(2016: 3.7)

71
Practice opportunities
for young interns
(2016: 108)

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 2017. Experienced managers, specialists and Service Club members that share their experiences act as internal trainers.

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 2017, a total of 1,481 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 2017, 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 2017, we offered practical training opportunities to a total of 71 young interns. 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 2017, 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.

Valued working environment

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 2017, there were a total of 56 occupational accidents in the Group (2016: 66).

SAFE WORKING
ENVIRONMENT

JOINTEVENTS

HEALTHY
LIFESTYLE

DIVERSITY

We organise joint events that build a foundation for a good atmosphere and cooperation in teams. In 2017, Selver continued with Culture Club project launched in 2016, 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 bear in mind and value their contribution, Kaubamaja organized a reception at the newly renovated Maarjamäe Palace, 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. We support healthy lifestyle among employees and offer the employees benefits related to taking care of their family and health. 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.

Labour costs

Tallinna Kaubamaja Group's labour costs increased altogether 10.5% (wage costs and social tax cost), which was 62.3 million euros in 2017. The average labour cost per employee was 936 euros in 2017, growing by 7.8% compared to 2016. 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 2015, 2016 and 2017 (in millions 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).

PRODUCT-SPECIFIC
QUALITY REQUIREMENTS

NON-DISCRIMINATION
PRINCIPLES

HONOURING OF
LABOUR AND HUMAN RIGHTS

In 2017, over 2,900 suppliers provided products to Tallinna Kaubamaja Group. 64% of the purchases of Tallinna Kaubamaja Group have been made via domestic suppliers.

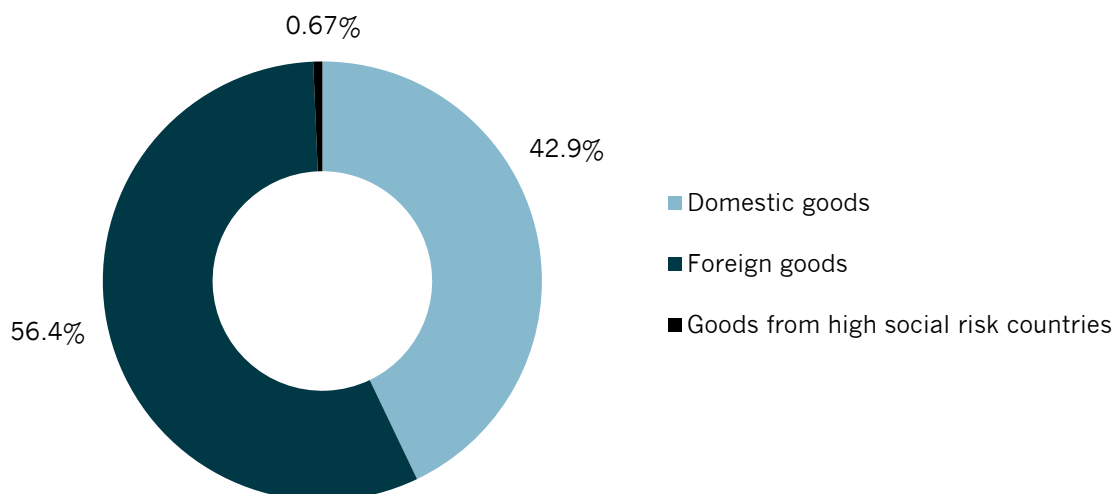
In terms of social responsibility, Tallinna Kaubamaja Group has suppliers also from high social risk countries, such as some countries in Africa, Asia, South America and Central America. Purchase amounts from these countries are very small and accounted for about 0.7% of all purchases in 2017.

2,900
Suppliers
in total
(2016: ca 2,800)

64%
Purchases via
domestic suppliers
(2016: 63%)

43%
Goods of
local origin
(2016: 43%)

Tallinna Kaubamaja Group origin of products in 2017



Private label products

1.1% of products purchased by Tallinna Kaubamaja Group are private label products, 13.4% 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 groceries. To meet this expectation, we have been increasing the selection of domestic goods in our department stores and stores every year. In 2017, 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 as clearly as possible. We have supplied the packaging of private label products and groceries 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 special trainings in purpose to raise awareness of our employees. If possible, 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 2017, there were 24 product recall incidents in the Group's companies, (2016: 54 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 2017, there were 2 such incidents (2016: 0 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 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.

Tallinn 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, still ensuring sufficient light throughout the store. Based on the above, we have already achieved notable efficiency in energy costs and we will continue this process in 2018.

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, CO₂-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 112 thousand pieces were sold in 2017, being 17% more compared to the previous year. Notable increase can also be seen in the purchases of paper bags, with more than 1,810 thousand bags sold last year, being 116% 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 year-to-year decrease in the amount of small plastic bags distributed for free, decrease compared to 2016 was 24%.

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.

AVOIDING CONFLICT
OF INTERESTS

ENSURING
TRANSPARENCY

INCREASING
AWARENESS

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 2017 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 general meeting is competent to change the articles of association and share capital, 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. The law allows the articles of association to be amended only at the general meeting of shareholders. At least 2/3 of the votes represented at a general meeting of shareholders are required to amend the articles of association.

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 27 February 2017 and through a daily newspaper Eesti Päevaleht on 28 February 2017. 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 27 February 2017.

The general meeting of shareholders of Tallinna Kaubamaja Group was held in the conference centre of Nordic Hotel Forum, Viru väljak 3, Tallinn, on 23 March 2017 beginning at 11.00 a.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 2017 was Estonian and the meeting was chaired by the general lawyer of the Tallinna Kaubamaja Group Helen Tulve. The Chairman of the Supervisory Board Jüri Kõo also attended the meeting, members Andres Järving, Meelis Milder and Gunnar Kraft, member of the Management Board Raul Puusepp and auditors Tiit Raimla and Lembi Uett from PricewaterhouseCoopers AS. 80.90% of the votes represented by shares were present at the general meeting. At the general meeting, allocation of profit was discussed as a separate topic and a separate resolution was adopted with regard to it.

The articles of association of Tallinna Kaubamaja Group do not provide it expedient to use the internet to organise its monitoring and participation in the general meeting, as shareholders of the company have not considered it necessary so far. The general meeting of Tallinna Kaubamaja Group must take part in person and, in accordance with the articles of association, the general meeting may adopt resolutions if the general meeting is attended by shareholders who hold more than half of the votes represented by shares.

Considering the aforementioned descriptions of general meetings held in 2017, 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. The member of the Management Board of Tallinna Kaubamaja Group is selected on the basis of gender neutrality and evaluating the actual competence of the persons. 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 once in a year accordance with the specific, comparable and predefined objectives of the Group's economic results for the previous year. The remuneration, including social security taxes and performance pay for the previous year, paid for 2017 to the Chairman of the Management Board amounted to 262 thousand euros (in 2016, 251 thousand euros) and the calculated fees, including social security taxes, amounted to 131 thousand euros (for 2016 the performance pay, including social security taxes, in amount of 162 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 and additionally extraordinary if necessary, but not less than once every three months. In 2017, 12 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2016, 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.

By the resolution of the general meeting held on 26 March 2015, Andres Järving, Jüri Kõo, Enn Kunila, Meelis Milder and Gunnar Kraft were elected as the members of the Supervisory Board. Authorities of the current members of the Supervisory Board: Andres Järving, Jüri Kõo, Enn Kunila, Meelis Milder and Gunnar Kraft will expire on 19 May 2018. By the decision of the Supervisory Board, Jüri Kõo 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 continuously since 2009. He has also been a Chairman of the Supervisory Board in 2000-2001.

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 2017, 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 2016, 83 thousand euros, of which the remuneration of the Chairman of the Supervisory Board was 19 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.

Shareholders with a significant shareholding

As of 31.12.2017 the share capital of Tallinna Kaubamaja Group in amount of 16,292 thousand euros consists of 40,729,200 registered shares, each with the nominal value of 0.40 euros. All issued shares have been paid. According to the articles of association, the maximum number of shares allowed to be issued is 162,916,800 shares.

The shareholder with a significant shareholding is OÜ NG Investeeringud owning 67.0% of the Group's shares.

Shares granting special rights to their owners and would lead to unequal treatment of shareholders in voting, have not been issued.

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 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

It is the duty of the Executive Board of Tallinna Kaubamaja Grupp to organise the internal control and risk management of the Group in a manner that ensures the accuracy of the published financial reports. Each year, the Group publishes the consolidated audited annual reports and quarterly interim reports consolidated during the financial year, which have been disclosed through the NASDAQ Tallinn Stock Exchange information system and are publicly available on the Group's website. In addition to the disclosed financial reports, management information is gathered in symbiosis with high-quality and accurate financial indicators, and management reports are prepared to ensure adequate governance of the Group's companies.

The purpose of the internal control and risk management systems connected with the financial reporting process is to ensure harmonised and trustworthy reporting of the Group's financial performance in conformity with the applicable laws, regulations, adopted accounting policies and the reporting principles approved by the Group. The principles of risk management and internal control have been defined in the Group's risk management framework, which describes the more important activities for risk management relating to identification, assessment, prioritisation and mitigation of risks and the definitions, roles and areas of responsibility related to the field. In addition, the risk management and internal control activities are organised with the work organisation rules of the Group and its subsidiaries, which describe the functioning of various processes.

The Group's financial area together with accounting and management reporting is the area of responsibility of the Group's chief financial officer (CFO) being responsible for the identification and assessment of risks in financial reporting, arranging the principles in relation to financial reporting, organises the tools that are required for accounting and reporting and prepares the officially published financial reports of the Group. The financial reporting processes and systems are developed on a continuous basis. Risk analysis is conducted annually. This risk analysis serves as a basis for the further development of supervision and control measures and checkpoints in reporting to prevent the realisation of risks. The Group's internal audit supervises the operation of the internal control system, including, among other things, financial reporting processes. The Group's accounting, funding, IT administration and insuring have been centralised.

The Group's financial processes and reports are subject to an annual financial audit, conducted generally by an auditor selected by the Board of Directors as a result of a competition and approved by the general meeting. The audit of consolidated financial report is conducted by following the accordance with the Auditors Activities Standards International Standards on Auditing. With the resolution of the general meeting from 2015, the financial auditor of the financial years 2015–2017 was AS PricewaterhouseCoopers (PwC). The responsibility for the audit of consolidated accounts lies with statutory auditor Tiit Raimla as the executive auditor.

During 2017, the auditor of the Group has provided to the Group a limited assurance engagement in respect of packaging report, tax advice and some other advisory services that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia. In our opinion, the financial audit conducted in 2017 has been in conformity with the regulatory provisions, international standards and the set expectations. PwC has introduced the results of the work during the interim audit and for the final audit before issuing the auditor's report. The independent auditor's report is presented on pages 78–84.



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.

The tasks and remuneration of the members of the Group's Audit Committee are defined in the Agency Agreements concluded by the Council with the members of the Committee.



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.



Raul Puusepp
Chairman of the Management Board

Tallinn, 23 February 2018

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 2017 as set out on pages 34-77.

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.



Raul Puusepp
Chairman of the Management Board

Tallinn, 23 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2017	31.12.2016
ASSETS			
Current assets			
Cash and cash equivalents	5	33,662	32,375
Trade and other receivables	6	16,127	15,396
Inventories	8	75,816	70,186
Total current assets		125,605	117,957
Non-current assets			
Long-term trade and other receivables	11	114	264
Investments in associates	10	1,724	1,762
Investment property	12	49,902	48,684
Property, plant and equipment	13	214,475	211,511
Intangible assets	14	5,675	8,505
Total non-current assets		271,890	270,726
TOTAL ASSETS		397,495	388,683
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	15	54,818	26,852
Trade and other payables	17	85,569	83,812
Total current liabilities		140,387	110,664
Non-current liabilities			
Borrowings	15	48,732	73,772
Provisions for other liabilities and charges		360	403
Total non-current liabilities		49,092	74,175
TOTAL LIABILITIES		189,479	184,839
Equity			
Share capital	19	16,292	16,292
Statutory reserve capital		2,603	2,603
Revaluation reserve		82,124	83,932
Currency translation differences		-255	-255
Retained earnings		107,252	101,272
TOTAL EQUITY		208,016	203,844
TOTAL LIABILITIES AND EQUITY		397,495	388,683

The notes presented on pages 39 - 77 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	Note	2017	2016
Revenue	20	651,257	598,414
Other operating income		2,239	3,200
Cost of sales	8	-484,760	-445,424
Other operating expenses	21	-54,611	-51,808
Staff costs	22	-62,289	-56,371
Depreciation, amortisation and impairment losses	13,14	-13,356	-15,590
Other expenses		-1,373	-729
Operating profit		37,107	31,692
Finance income	23	1	3
Finance costs	23	-773	-871
Finance income on shares of associates	10	162	159
Profit before income tax		36,497	30,983
Income tax expense	18	-6,666	-5,258
NET PROFIT FOR THE FINANCIAL YEAR		29,831	25,725
Other comprehensive income			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Revaluation of land and buildings		0	19,689
Other comprehensive income for the financial year		0	19,689
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		29,831	45,414
Basic and diluted earnings per share (euros)	24	0.73	0.63

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

The notes presented on pages 39 - 77 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		29,831	25,725
<i>Adjustments:</i>			
<i>Interest expense</i>	23	773	871
<i>Interest income</i>	23	-1	-3
<i>Depreciation, amortisation and impairment losses</i>	13,14	13,317	15,492
<i>Gain from fair value adjustment of investment property</i>	12	-1,081	-1,585
<i>Loss on sale and write-off of non-current assets</i>	13	39	98
<i>Profit on sale of non-current assets</i>	13	-203	-117
<i>Effect of equity method</i>	10	-162	-159
Income tax on dividends paid	18,19	6,371	5,219
Change in inventories		-5,630	-9,074
Change in receivables and prepayments related to operating activities		-582	-176
Change in liabilities and prepayments related to operating activities		1,718	6,689
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		44,390	42,980
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment (excl. finance lease)	13	-14,778	-12,991
Proceeds from sale of property, plant and equipment	13	1,403	911
Proceeds from sale of investment property	12	20	35
Purchases of intangible assets	14	-69	-157
Change in balance of parent company's group account	26	0	5,000
Dividends received	10	200	175
Interest received	23	1	3
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-13,223	-7,024
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	15	63,719	63,454
Repayments of borrowings	15	-65,587	-54,108
Change in overdraft balance	15	4,794	475
Dividends paid	19	-25,659	-21,179
Income tax on dividends paid	18,19	-6,371	-5,259
Interest paid	23	-776	-875
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-29,880	-17,492
TOTAL CASH FLOWS		1,287	18,464
Cash and cash equivalents at the beginning of the period	5	32,375	13,911
Cash and cash equivalents at the end of the period	5	33,662	32,375
Net change in cash and cash equivalents		1,287	18,464

The notes presented on pages 39 - 77 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
Balance as of 31.12.2015	16,292	2,603	65,701	-255	95,268	179,609
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
Total comprehensive income for the reporting period	0	0	19,689	0	25,725	45,414
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
Balance as of 31.12.2016	16,292	2,603	83,932	-255	101,272	203,844
Net profit for the reporting period	0	0	0	0	29,831	29,831
Total comprehensive income for the reporting period	0	0	0	0	29,831	29,831
Reclassification of depreciation of revalued land and buildings	0	0	-1,808	0	1,808	0
Dividends paid	0	0	0	0	-25,659	-25,659
Balance as of 31.12.2017	16,292	2,603	82,124	-255	107,252	208,016

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

The notes presented on pages 39 - 77 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 2017 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 01.01.2017.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12

(effective for annual periods beginning on or after 1 January 2017).

The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group assesses that there is no impact of application of the amendments to its financial statements.

Disclosure Initiative - Amendments to IAS 7

(effective for annual periods beginning on or after 1 January 2017).

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group has disclosed required information according to the standard requirements in the Note 15.

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 01.01.2017 that have a material impact to the Group.

New Accounting Pronouncements

IFRS 9, Financial Instruments

(effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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 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).

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 assesses as the result application of the amendments Group's total assets in the balance sheet as at 01.01.2019 will increase approximately 106 million euros and liabilities will increase approximately 106 million euros. Amendment will not have an influence on loan covenants.

Amendments to IFRS 15, Revenue from Contracts with Customers

(effective for annual periods beginning on or after 1 January 2018).

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.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

(effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU).

The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The Group assesses that there is no impact of application of the amendments to its financial statements.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28

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

The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Group assesses that there is no impact of application of the amendments to 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 30, have been prepared using the same accounting methods and measurement bases as those that have been used for preparing the consolidated financial statements except for investments into subsidiaries that are reported in the separate primary statements using the equity method. 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

The exchange rate differences that have arisen from the time when subsidiaries had different functional currency, 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 associates 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 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".

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. improvements of buildings 12-23 years
- Machinery and equipment 3-7 years
- Other fixtures and fittings
 - IT equipment and software 3-7 years
 - Vehicles and fixtures 5 years
 - Capitalised improvements on rental premises 4-10 years

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

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

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

Intangible assets

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

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

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

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

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

Impairment of assets

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

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units or groups of units which are expected to generate economic benefits from a specific business combination. An independent cash-generating unit (group of units) is the smallest identifiable group of assets which is not larger than an operating segment used for segment reporting. Impairment is determined by estimating the recoverable amount of the cash-generating unit. When the recoverable amount of the cash-generating unit is lower than its carrying amount (incl. goodwill), an impairment loss for goodwill and proportionally other assets 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. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account. As income tax is paid on dividends and not on profit, no temporary differences arise between the tax bases of assets and liabilities and the carrying amounts of assets and liabilities which may give rise to deferred income tax assets and liabilities.

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

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

Corporate income tax in Lithuania

In Lithuania, corporate profits are subject to income tax. The corporate income tax rate is 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 Lithuanian 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.

Corporate income tax in Latvia

In accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian subsidiaries and their carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognised by 31 December 2017.

Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognised in 2017 and related income tax expense/income was recorded in the statement of profit or loss [or in other comprehensive income/equity in respect of deferred income tax assets/liabilities recognised through other comprehensive income/equity.

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 advertising

The provision of marketing services arising from contractual relations is recorded as income from 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.

Loyalty program

The Group implemented a 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, no significant differences were recognised between fair values and carrying value of land and buildings located in Estonia (carrying value: 149,181 thousand euros as at 31.12.2017).* As a result of the valuation performed in 2016, 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 other comprehensive income. Land and buildings located in Latvia with carrying value of 12,250 thousand euros as at 31.12.2017 (31.12.2016: 12,656 thousand euros) and Land and buildings located in Lithuania with carrying value of 1,877 thousand euros as at 31.12.2017 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 163,308 thousand euros (31.12.2016: 164,456 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. Internal and external valuers were used for determining the value in use. As a result of the impairment test performed in the end of 2017 buildings under construction located in Estonia (carrying value: 9,638 thousand euros as at 31.12.2017) showed no significant differences between fair values and carrying value. 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: 16,685 thousand euros as at 31.12.2017) was reversed impairment made in previous years in value by 2,144 thousand euros. In 2016 buildings under construction located in Latvia (carrying value: 14,516 thousand euros as at 31.12.2016) were impaired by 3,242 thousand euros. Buildings under construction located in Lithuania (carrying value: 25 thousand euros as at 31.12.2017) showed no significant differences between fair values and carrying value. 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 31.12.2017, the carrying value of goodwill was 3,260 thousand euros (2016: 5,373 thousand euros). The results of the impairment tests performed in 2017 showed that recognition of impairment of goodwill was necessary in footwear segment in the amount of 2,113 thousand euros. In 2016 no recognition of impairment of goodwill was necessary. 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 2017 would have decreased by 335 thousand euros (300 thousand euros for 2016).

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 supervise the whole process of risk management. The audit committee receives

regular reporting on risk management, advises supervisory boards on supervisory activities and, as appropriate, makes proposals for the risk management process. 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.

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. Also, all loan agreements are denominated in euro and are therefore considered to be free of foreign exchange risk. 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 2017, the 6-month EURIBOR decreased from -0.220% at the beginning of the year to the year-end -0.271%. In the beginning of 2018, EURIBOR has been continued small decline. Business analysts estimate that EURIBOR will not rise in 2018 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 2017 (31 December 2016: 1 percentage point), the Group's financial cost would have increased by 1,021 thousand euros (2016: 957 thousand euros). Had the interest rates been 0.1 percentage point lower as at 31 December 2017, the Group's financial cost would have decreased by 102 thousand euros (as at 31 December 2016 changed by 0.1 percentage point and by 96 thousand euros).

During the interest rate analysis, different options to hedge risks are considered. Such options include refinancing, renewal of existing positions, fixed interest loans 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

	31.12.2017	31.12.2016
Rates changing during 3 months	26,208	22,774
Rates changing during 3 – 6 months	51,850	54,873
Total borrowings at floating interest rate	78,058	77,647
Total borrowings	103,550	100,624

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:

	31.12.2017	31.12.2016
Aa3	33,016	31,785
A1	3	0
Total	33,019	31,785

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 2017, the maximum credit risk arising from receivables is in the amount of 12,398 thousand euros (2016: 11,327 thousand euros).

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

	31.12.2017	31.12.2016
Not due	11,473	10,578
<i>Incl. receivables from card payments</i>	<i>1,923</i>	<i>1,979</i>
<i>Incl. trade receivables</i>	<i>8,913</i>	<i>8,199</i>
<i>Incl. other receivables</i>	<i>637</i>	<i>400</i>
Overdue < 3 months	789	643
Overdue 3 - 6 months	69	73
Overdue 6 - 12 months	14	15
Overdue > 12 months	53	18
Total receivables	12,398	11,327

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. 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 members of the group accounts to use the monetary funds of the Group within the limit established by the Parent. In its turn, this group as a subgroup has joined the contract of the group account of NG Investeeringud OÜ. 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 31.12.2017
Borrowings	2,154	53,262	45,660	3,370	0	104,446
Financial liabilities (Note 17)	69,451	0	0	0	0	69,451
Total	71,605	53,262	45,660	3,370	0	173,897
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
Total	72,558	22,594	71,179	5,338	0	171,669

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2017 and 31.12.2016, have been used.

As at the end of the financial year, the Group had available funds in the amount of 33,662 thousand euros (2016: 32,375 thousand euros). The Group follows its established credit risk management strategy when investing its cash flow surplus. As at 31 December 2017, the Group had placed no deposits into the joint group account through its parent company NG Investeeringud OÜ (0 euros as at 31.12.2016 was deposited).

Working capital was negative by 14,782 thousand euros as at 31 December 2017 (2016: positive by 7,293 thousand euros). Negative changes in working capital occurred on the one hand due to the decrease in the financial recourses in 2017 mainly due to the investment made on account of own resources. On the other hand, at the end of the year, the volume of short-term loan liabilities grew significantly due to the final payments of a number of long-term loans in the amount of 26,296 thousand euros, which were recorded as a short term liabilities. The loans ending in 2018 are scheduled to be refinanced in 2018. The refinancing process has started at the time of publication of the report. The quick ratio of the Group (current assets minus inventories / current liabilities) have decreased in 2017 and is 0.35. In 2016, the corresponding figure was 0.43. In addition, the Group has a strong daily operating cash flow as a source of covering short-term liabilities. In the assessment 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 2017, the ratio was 25% and compared to 31 December 2016 when the ratio was 25%, it has not changed.

in thousands of euros

	31.12.2017	31.12.2016
Interest-bearing liabilities (Note 15)	103,550	100,624
Cash and cash equivalents (Note 5)	-33,662	-32,375
Net debt	69,888	68,249
Equity	208,016	203,844
Total equity and net debt	277,904	272,093
Debt to equity ratio*	25%	25%

*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. According to management's opinion, the Group's risk margins have not significantly changed compared to the time when the loans were received and the Group's interest rates on borrowings correspond to market conditions. 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

	31.12.2017	31.12.2016
Cash on hand	643	590
Bank accounts	29,866	29,178
Cash in transit	3,153	2,607
Total cash and cash equivalents	33,662	32,375

Note 6 Trade and other receivables

in thousands of euros

	31.12.2017	31.12.2016
Trade receivables (Note 7)	11,761	10,927
Other short-term receivables	602	365
Total financial assets from balance sheet line "Trade and other receivables"	12,363	11,292
Prepayment for inventories	2,993	3,461
Other prepaid expenses	701	585
Prepaid rental expenses	34	35
Prepaid taxes (Note 18)	36	23
Total trade and other receivables	16,127	15,396

Note 7 Trade receivables

in thousands of euros

	31.12.2017	31.12.2016
Trade receivables	9,450	8,036
Provision for impairment of trade receivables	-4	-6
Receivables from related parties (Note 26)	392	918
Credit card payments (receivables)	1,923	1,979
Total trade receivables	11,761	10,927

Note 8 Inventories

in thousands of euros

	31.12.2017	31.12.2016
Goods purchased for resale	75,068	69,434
Raw materials and materials	748	752
Total inventories	75,816	70,186

The income statement line "Cost of sales" includes the allowances and write-off expenses of inventories and inventory stocktaking deficit which in 2017 amounted to 10,918 thousand euros (2016: 10,410 thousand euros).

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 2017, the allowance account amounted to 1,123 thousand euros (31.12.2016: 968 thousand euros).

The Group's cost of goods sold in 2017 amounted 484,760 thousand euros (2016: 445,424 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 31.12.2017 consists of:

Name	Location	Area of activity	Ownership 31.12.2017	Year of acquisition or foundation
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, Perkunkiemo 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
UAB TKM Lietuva	Vilnius Lvovo G. 25	Real estate management	100%	2017
Verte Auto SIA	Marupes nov., Marupe, Karla Ulmana gatve 101	Retail trade	100%	2017

In 2017 and 2016 there were no business combinations. New subsidiaries in 2017 are founded by parent company. Ownership as at 31.12.2017 has remained the same as at 31.12.2016.

Equity and voting rights of significant subsidiaries of Tallinna Kaubamaja Grupp AS.

<i>Subsidiaries and associates:</i>	<i>Equity as at 31.12.2017</i>	<i>Voting rights 31.12.2017</i>
<i>Kaubamaja AS</i>	<i>14,435 TEUR</i>	<i>100%</i>
<i>Selver AS</i>	<i>27,006 TEUR</i>	<i>100%</i>
<i>Kulinaaria OÜ</i>	<i>5,816 TEUR</i>	<i>100%</i>
<i>KIA Auto AS</i>	<i>6,916 TEUR</i>	<i>100%</i>
<i>Tallinna Kaubamaja Kinnisvara AS</i>	<i>165,718 TEUR</i>	<i>100%</i>
<i>Tartu Kaubamaja Kinnisvara OÜ</i>	<i>37,000 TEUR</i>	<i>100%</i>

Note 10 Investments in associates

in thousands of euros

Tallinna Kaubamaja Grupp AS has ownership of 50% (2016: 50%) interest in the entity AS Rävåla Parkla which provides the services of a parking house in Tallinn.

	31.12.2017	31.12.2016
Investment in the associate at the beginning of the year	1,762	1,778
Profit for the reporting period under equity method	162	159
Dividends received	-200	-175
Investment in the associate at the end of the year	1,724	1,762

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

	31.12.2017	31.12.2016
Current assets	29	66
Non-current assets	3,471	3,509
Current liabilities	53	51
Revenue	507	487
Net profit	323	317

Note 11 Long-term trade and other receivables

in thousands of euros

	31.12.2017	31.12.2016
Prepaid rental expenses	52	50
Deferred tax asset	27	179
Other long-term receivables	35	35
Total long-term trade and other receivables	114	264

Note 12 Investment property

in thousands of euros

Carrying value as at 31.12.2015	44,963
Reclassification (Note 13)	2,171
Disposal	-35
Net gain from fair value adjustment	1,585
Carrying value as at 31.12.2016	48,684
Reclassification (Note 13)	157
Disposal	-20
Net gain from fair value adjustment	1,081
Carrying value as at 31.12.2017	49,902

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

Property with commercial buildings (Viimsi shopping centre and Tartu Kaubamaja Shopping Centre), which the Group maintains predominantly for earning rental income in Estonia, are partially classified as investment properties and partially as property, plant and equipment in 31.12.2017 and 31.12.2016. In Latvia, Rezekne commercial building and property is classified as investment property which the Group maintains for earning rental income. Property in Rae municipal Peetri was reclassified as investment property from property, plant and equipment in current year.

In 2017 Tartu Kaubamaja Shopping Centre renovation amounted to 157 thousand euros. In 2016 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

Management assesses the fair value of Investment properties every year. 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 four completed object (2016: one object) and for remaining two objects (2016: 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 2017. Discount rates 8.5%–10.0% (2016: 8.2% - 10.0%) depending on the location of the property and rental income growth rates 1.0–2.0% (2016: 1.0% - 2.0%) 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 2016 remained unchanged. The discount rate 10.0% (2016: 10.0%) and rental income growth rates 1.5%–2.5% (2016: 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 2017, the net fair value adjustment of investment property in Estonia in the amount of 1,081 thousand euros (2016: 1,585 thousand euros) was recorded in the income statement line "Other operating income". No fair value change of investment property in Latvia was identified in 2017 and 2016.

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 +4,887/-4,729 thousand euros (2016: +4,874/-4,874 thousand euros). If the discount rates used for determining fair value would change +/- 0.5% then the fair value of investment properties would change -804/+985 thousand euros (2016: -884/+907 thousand euros).

The Group's investment properties carried at fair value as at 31.12.2016 and 31.12.2017 are measured at level 3.

In 2017, the Group's rental income on investment properties amounted to 3,353 thousand euros (2016: 3,273 thousand euros). Direct property management expenses amounted to 1,120 thousand euros (2016: 1,374 thousand euros).

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

In thousands of euros	31.12.2017	31.12.2016
due in less than 1 year	3,362	3,239
due between 1 and 5 years	10,603	10,620
due after 5 years	3,589	5,999
Total	17,554	19,858

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
31.12.2015					
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
Carrying value	146,755	8,547	10,994	30,395	196,691
Changes occurred in 2016					
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
Decrease/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
31.12.2016					
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
Carrying value	164,456	11,051	12,658	23,346	211,511
Changes occurred in 2017					
Purchases and improvements	1,893	356	134	12,395	14,778
Reclassification	2,173	4,500	3,838	-10,511	0
Reclassification to investment property (Note 12)	-157	0	0	0	-157
Disposals	-8	-379	-18	-795	-1,200
Write-offs	0	-1	-38	0	-39
Decrease/increase in value through profit or loss	0	0	0	2,144	2,144
Depreciation	-5,049	-3,243	-4,270	0	-12,562
31.12.2017					
Cost or revalued amount	167,890	37,114	37,634	44,584	287,222
Accumulated depreciation and decrease in value	-4,582	-24,830	-25,330	-18,005	-72,747
Carrying value	163,308	12,284	12,304	26,579	214,475

Investments in non-current assets

The cost of investments for the 12 months of 2017 amounted to 14,847 thousand euros (including purchases of property, plant and equipment in the amount of 14,778 thousand euros and purchases of intangible assets amounted to 69 thousand euros).

The cost of purchases of property, plant and equipment made in 12 months of 2017 in the supermarket business segment was 8,662 thousand euros. In the reporting period, new supermarkets were opened in Tähesaju Selver in Tallinn Lasnamäe, Turu Selver in Balti Jaam and in Ülemiste City, near airport, was opened Sepapaja Selver. In Kristiine district, Kotka Selver was opened in Kotka Tervisemaja, which is considered the most modern private medicine centre in Baltics. In Laagri between railway and Pärnu road was opened the 52th Selver store in Estonia,

Laagri Selver. In December in Hiiumaa new Selver store bus started to deliver goods to all residents of Hiiumaa. Additionally was purchased computing technology for SelveExpress self-service cashers and renewed store fittings.

The cost of purchases of property, plant and equipment in the business segment of department store amounted to 1,257 thousand euros. In the reporting period, store fittings and computing technology were purchased and new video displays introduced.

The cost of purchases of property, plant and equipment in the accounting period was 728 thousand euros in the car trade business segment.

The cost of purchases of property, plant and equipment in the reporting period in the footwear segment was 94 thousand euros.

The cost of purchases of property, plant and equipment in the real estate business segment amounted to 4,037 thousand euros. With aim to develop car trade business in Lithuania Group purchased a land plot in Vilnius, Lithuania. In the reporting period the construction of the gas station started in Rae municipality, Raudkivi road and at the intersection of the Tartu road, next to Selver store in Peetri municipality. Gas station is a part of developments of Peetri Selver and is planned to rent out to Circle K long term. In the reporting period, renovation of Tartu Kaubamaja centre took place.

In the end of 2017 and 2016 Tallinna Kaubamaja Grupp AS companies had no commitments to purchase fixed assets.

At the year-end 2017, 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"

Revaluation of „Land and buildings" was previously recorded in 2016. The evaluation of non-current assets has been performed every year end. In a view of stabilization of global economy the management of the Group reached to a point that the value of "Land and buildings" has not changed significantly. As the result of the valuation, the book value of "Land and buildings" located in Estonia and in Lithuania was not adjusted in 2017. As a result of the revaluation in 2016 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 change in the fair value of "Land and buildings" located in Latvia was not identified in 2017 and 2016.

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

To determine the value of "Land and buildings" located in Estonia, the valuations of a certified independent real estate expert were used in respect of 5 properties in 2017 (2016: 4 properties). The same expert also provided an expert opinion with regard to the discount and capitalisation rates in respect of 19 properties (2016: 18 properties). The discount rates used for estimation were 8.5% - 11.5% (2016: 8.2% - 12.0%) depending on the location of the property and the rental growth rates were 1.0% - 2.5% (2016: 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 2017 (2016: one object). For determining the value of three properties of "Land and buildings" located in Latvia as at 31.12.2017 (2016: one object), 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 2016 remained unchanged. The discount rate used for valuation was 10.0% - 12.0% (2016: 10.0% - 12.0%) and the growth rates of rental income were 1.1% - 2.5% (2016: 1.0% - 2.5%).

"Land and buildings" in Lithuania were purchased in 2017 at fair value. Therefore no valuation was made to this object.

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

In thousands of euros	Fair value at 31 December 2017	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	18,106	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	131,075	Discounted cash flow method	Price per square metre	9.0-13.6	The higher the price per square metre, the higher the fair value
PPE items in Latvia, for which an expert opinion was provided	2,165	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	10,085	Discounted cash flow method	Price per square metre	7.3 -12.4	The higher the price per square metre, the higher the fair value
Item in Lithuania	1,877	Purchased at fair value on 2017			
Total	163,308				

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
Total	164,456				

Determination of recoverable amounts of buildings under construction

In 2017, for determining the value of the buildings under construction located in Estonia, no valuations if a certified independent real estate expert were used (in 2016, were used in respect of three items). For determining the investment value, market approach (comparison method) in 2016 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% (2016: 9.7%) and the growth rate was 1.5% (2016: 2.0%).

In 2017, in respect of 7 items of the buildings under construction located in Latvia, Group has entered into pre-selling contracts which comprise the market value. Consequently, in the reporting period, the impairment from previous years of "Construction in progress" located in Latvia was reversed by 2,388 thousand euros which was recognized through profit and loss. And also impairment by 244 thousand euros was additionally recognised through profit and loss. 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 2016. For valuation purposes, the discount rates used were 9.0% - 10.0% depending on the location of the item, and the growth of rental income rates were 1.0% - 2.4%. For determining the fair 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.

Based on the results of valuation in 2017, the book value of Estonian buildings under construction was not adjusted. In 2016, impairment in the amount of 502 thousand euros was recognised through profit and loss in respect of Estonian buildings under construction and in the amount of 3,242 thousand euros in respect of Latvian buildings under construction (unimproved land).

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:

31.12.2017	93,063 thousand euros
31.12.2016	94,461 thousand euros

Carrying amounts of buildings under construction:

In thousands of euros	Number of items 31.12.2017	31.12.2017	Number of items 31.12.2016	31.12.2016
PPE items in Estonia, for which an expert opinion was provided	0	0	3	3,339
PPE items in Estonia, for which an internal estimate was provided	14	9,592	12	5,320
Remaining PPE items in Estonia	3	46	2	33
PPE items in Latvia, for which an expert opinion was provided	0	0	4	6,501
PPE items in Latvia, for which an internal estimate was provided	6	8,080	9	8,015
Remaining PPE items in Latvia	7	8,605	0	0
PPE item in Lithuania	1	25	0	0
Total	31	26,348	30	23,208

As at 31.12.2017 the cost of fully amortized non-current assets (machinery, equipment and other fittings) in use was 30,570 thousand euros (2016: 27,096 thousand euros).

As at 31.12.2017, property, plant and equipment with the carrying value of 137,436 thousand euros (2016: 147,897 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 31.12.2017 the recoverable amount of the non-current assets of I.L.U. beauty stores (carrying value: 224 thousand euros, in 2016: 303 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 3.0% in 2018-2022 (2016: 2017 – 2021 is estimated to be 2.5%). In the end of 2017 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 10.8% (2016: 7.4%) and the future growth rate (after year 5) is 2.5%. No impairment loss was identified as a result of the impairment test.

Note 14 Intangible assets

in thousands of euros

	Goodwill	Trademark	Beneficial contracts	Development expenditure	Total
31.12.2015					
Cost	6,814	5,277	1,080	1,160	14,331
Accumulated amortisation and impairment	-1,441	-2,543	-1,080	-224	-5,288
Carrying value	5,373	2,734	0	936	9,043
Changes occurred in 2016					
Purchases and improvements	0	0	0	157	157
Amortisation	0	-487	0	-208	-695
31.12.2016					
Cost	6,814	5,277	1,080	1,317	14,488
Accumulated amortisation and impairment	-1,441	-3,030	-1,080	-432	-5,983
Carrying value	5,373	2,247	0	885	8,505
Changes occurred in 2017					
Purchases and improvements	0	0	0	69	69
Amortisation	0	-487	0	-233	-720
Impairment	-2,113	-66	0	0	-2,179
31.12.2017					
Cost	3,260	5,277	1,080	1,386	11,003
Accumulated amortisation and impairment	0	-3,583	-1,080	-665	-5,328
Carrying value	3,260	1,694	0	721	5,675

In the reporting period, the Group capitalised costs of a web page update and e-shop as development expenditure in the amount of 69 thousand euros (2016: 157 thousand euros).

As a trademark, the Group has recognised the image of ABC King at cost value 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. In the reporting period, a trademark of ABC King as adjusted downwards in the amount of 66 thousand euros (2016: 0 euros). Carrying value of a trademark as at 31.12.2017 amounted to 1,221 thousand euros (31.12.2016: 1,522 thousand euros).

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 2017 and 2016.

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

in thousands of euros	31.12.2017	31.12.2016
Car trade	3,156	3,156
Footwear trade	0	2,113
Department store	104	104
Total	3,260	5,373

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

In 2017 in footwear trade, it was evident that the present value of cash flows does not cover the value of goodwill. Accordingly goodwill in footwear trade was adjusted downwards in the amount of 2,113 thousand euros (2016: 0 euros). Other assets in footwear trade amounted to 1,518 thousand euros as at 31.12.2017 (31.12.2016: 1,950 thousand euros).

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

	Car trade		Footwear trade	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Operating profit margin during next 5 years	3.51% - 3.96%	5.2% - 5.4%	-4.85% - 0.49%	-2.1% - 2.6%
Discount rate	7.2%	5.7%	10.3%	9.7%
Sales growth during next 5 years	3.0% - 5.0%	3.0% - 5.0%	-5.9% - 3.0%	3.0% - 4.0%
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.

Management estimates that the assumptions used in the impairment test are realistic and rather conservative.

Note 15 Interest bearing borrowings

in thousands of euros

	31.12.2017	31.12.2016
Short-term borrowings		
Overdraft	7,811	3,017
Bank loans	45,002	21,716
Other borrowings	2,005	2,119
Total short-term borrowings	54,818	26,852
	31.12.2017	31.12.2016
Long-term borrowings		
Bank loans	48,570	73,596
Other borrowings	162	176
Total long-term borrowings	48,732	73,772
Total borrowings	103,550	100,624

Borrowings received

	2017	2016
Overdraft	4,794	475
Bank loans	60,392	60,055
Other borrowings	3,327	3,399
Total borrowings received	68,513	63,929

Borrowings repaid

	2017	2016
Bank loans	62,132	49,608
Other borrowings	3,455	4,500
Total borrowings repaid	65,587	54,108

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 31.12.2017, the repayment dates of bank loans are between 30.04.2018 and 15.11.2022 (2016: between 15.02.2017 and 27.03.2020), interest is tied both to 3-month and 6-month EURIBOR as well as EONIA. Weighted average interest rate was 0.93% (2016: 0.96%). Also see Note 29.

Net debt reconciliation in thousands of euros

	31.12.2017	31.12.2016
Cash and cash equivalents (Note 5)	33,662	32,375
Short-term borrowings	-54,818	-26,852
Long-term borrowings	-48,732	-73,772
Net debt	-69,888	-68,249
Cash and cash equivalents (Note 5)	33,662	32,375
Gross debt – fixed interest rates	-25,493	-22,977
Gross debt – variable interest rates	-78,057	-77,647
Net debt	-69,888	-68,249

	Cash and cash equivalents	Overdraft	Borrowings due within 1 year	Borrowings due after 1 year	Total
Net debt 01.01.2016	13,911	-2,542	-30,835	-57,426	-76,892
Cash flows	18,464	-475	7,000	-16,346	8,643
Net debt 31.12.2016	32,375	-3,017	-23,835	-73,772	-68,249
Cash flows	1,287	-4,794	-23,172	25,040	-1,639
Net debt 31.12.2017	33,662	-7,811	-47,007	-48,732	-69,888

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	31.12.2017	31.12.2016
due in less than 1 year	17,158	15,663
due between 1 and 5 years	59,789	50,437
due after 5 years	50,018	39,341
Total	126,965	105,440

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	31.12.2017	31.12.2016
due in less than 1 year	2,352	2,057
due between 1 and 5 years	7,396	5,073
due after 5 years	2,815	3,429
Total	12,563	10,559

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	31.12.2017	31.12.2016
due in less than 1 year	3,639	3,469
due between 1 and 5 years	10,133	10,586
due after 5 years	2,668	3,646
Total	16,440	17,701

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

	31.12.2017	31.12.2016
Trade payables	61,919	63,170
Payables to related parties (Note 26)	3,750	4,409
Other accrued expenses	116	102
Prepayments by tenants	3,666	2,110
Total financial liabilities from balance sheet line "Trade and other payables"	69,451	69,791
Taxes payable (Note 18)	7,896	6,847
Employee payables	6,461	5,689
Prepayments	1,671	1,372
Short-term provisions*	90	113
Total trade and other payables	85,569	83,812

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

Note 18 Taxes

in thousands of euros

	31.12.2017		31.12.2016	
	Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Prepaid taxes (Note 6)	36	0	23	0
Value added tax	0	3,949	0	3,324
Personal income tax	0	970	0	1,026
Social security taxes	0	2,498	0	2,204
Corporate income tax	0	192	0	31
Unemployment insurance	0	164	0	147
Mandatory funded pension	0	123	0	115
Total taxes	36	7,896	23	6,847

Group's deferred income tax asset as at 31 December 2017 and 31 December 2016 is recorded in the balance sheet in the amount of 27 thousand euros and 179 thousand euros respectively. As at 31 December 2017 and 31 December 2016 the Group did not have deferred income tax liabilities.

in thousands of euros

	2017	2016
Corporate income tax expense from payments to owners:		
- Dividends declared (Note 19)	6,371	5,219
Corporate income tax expense arising from foreign subsidiaries:		
- Corporate income tax payable	295	39
Total corporate income tax	6,666	5,258

Note 19 Share capital

As at 31.12.2017 and 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. 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 2017, dividends were declared and paid to the shareholders in the amount of 25,659 thousand euros, or 0.63 euros per share (2016: 21,179 thousand euros, 0.52 euros per share). Related income tax expense on dividends amounted to 6,371 thousand euros (2016: 5,219 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 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

2017	Super markets	Depart- ment store	Car trade	Footwear trade	Real estate	Inter- segment transactions	Total seg- ments
External revenue	433,111	102,375	99,673	11,068	5,030	0	651,257
Inter-segment revenue	1,127	6,305	73	147	12,798	-20,450	0
Total revenue	434,238	108,680	99,746	11,215	17,828	-20,450	651,257
EBITDA	22,226	6,566	4,815	-266	17,122	0	50,463
Depreciation and amortisation (Note 13, 14)	-5,534	-2,612	-525	-2,639	-2,046	0	-13,356
Operating profit/loss	16,692	3,954	4,290	-2,905	15,076	0	37,107
Finance income (Note 23)	262	652	12	1	134	-1,060	1
Finance income on shares of associates (Note 10)	0	162	0	0	0	0	162
Finance costs (Note 23)	-113	-440	-386	-189	-705	1,060	-773
Corporate income tax* (Note 18)	-3,607	-888	-654	0	-1,517	0	-6,666
Net profit/loss	13,234	3,440	3,262	-3,093	12,988	0	29,831
incl. in Estonia	15,348	3,440	2,868	-3,093	10,100	0	28,663
incl. in Latvia	-2,114	0	204	0	2,925	0	1,015
incl. in Lithuania	0	0	190	0	-37	0	153
Segment assets	94,473	74,658	38,682	6,275	242,700	-59,293	397,495
Segment liabilities	67,476	40,413	28,687	10,184	83,114	-40,395	189,479
Segment investments in property, plant and equipment (Note 14)	8,662	1,257	728	94	4,037	0	14,778
Segment investments in intangible assets (Note 13)	1	52	0	0	16	0	69
Increase in value of property, plant and equipment through profit or loss (Note 14)	0	0	0	0	2,388	0	2,388
Impairment of property, plant and equipment through profit or loss (Note 14)	0	0	0	0	-244	0	-244
Impairment of intangible assets (Note 13)	0	0	0	-2,179	0	0	-2,179
Fair value adjustment of investment property (Note 12)	0	0	0	0	1,081	0	1,081

in thousands of euros

2016	Super markets	Depart- ment store	Car trade	Footwear trade	Real estate	Inter- segment transactions	Total seg- ments
External revenue	400,017	98,021	82,587	12,828	4,961	0	598,414
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
EBITDA	19,017	6,529	4,395	-141	17,482	0	47,282
Depreciation and amortisation (Note 13, 14)	-4,544	-2,412	-513	-608	-7,513	0	-15,590
Operating profit/loss	14,473	4,117	3,882	-749	9,969	0	31,692
Finance income (Note 23)	236	549	16	1	193	-992	3
Finance income on shares of associates (Note 10)	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
Net profit/loss	12,083	3,163	3,179	-850	8,150	0	25,725
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
Segment assets	92,585	51,477	29,980	8,331	252,739	-46,429	388,683
Segment liabilities	64,393	16,947	21,358	9,147	100,526	-27,532	184,839
Segment investments in property, plant and equipment (Note 14)	7,603	3,414	484	94	1,396	0	12,991
Segment investments in intangible assets (Note 13)	92	65	0	0	0	0	157
Increase in value of property, plant and equipment through revaluation reserve (Note 13)	0	0	0	0	19,689	0	19,689
Impairment of property, plant and equipment through profit or loss (Note 14)	0	0	0	0	-3,744	0	-3,744
Fair value adjustment of investment property (Note 12)	0	0	0	0	1,585	0	1,585

*- 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 1,684 thousand euros (2016: 4,077 thousand euros), loans granted in the amount of 38,712 thousand euros (2016: 23,455 thousand euros) and investments in subsidiaries in the amount of 18,897 thousand euros (2016: 18,897 thousand euros).

Inter-segment transactions in line segment liabilities comprise inter-segment short-term liabilities in the amount of 1,684 thousand euros (2016: 4,077 thousand euros) and inter-segment borrowings in the amount of 38,712 thousand euros (2016: 23,455 thousand euros).

External revenue according to types of goods and services sold

in thousands of euros

	2017	2016
Retail revenue	592,768	546,895
Wholesale revenue	28,731	25,204
Rental income	9,317	8,960
Revenue for rendering services	20,441	17,355
Total revenue	651,257	598,414

External revenue by client location

in thousands of euros

	2017	2016
Estonia	606,723	563,651
Latvia	31,421	24,369
Lithuania	13,113	10,394
Total	651,257	598,414

Distribution of non-current assets* by location of assets

in thousands of euros

	31.12.2017	31.12.2016
Estonia	236,060	238,189
Latvia	32,112	30,662
Lithuania	1,994	113
Total	270,166	268,964

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

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

Note 21 Other operating expenses

in thousands of euros

	2017	2016
Rental expenses	16,288	15,506
Heat and electricity expenses	7,644	8,141
Operating costs	6,730	6,291
Cost of services and materials related to sales	5,542	5,317
Marketing expenses	7,512	7,021
Miscellaneous operating expenses	3,899	3,238
Computer and communication costs	4,071	3,428
Personnel expenses	2,925	2,866
Total other operating expenses	54,611	51,808

Note 22 Staff costs

in thousands of euros

	2017	2016
Wages and salaries	46,988	42,473
Social security taxes	15,301	13,898
Total staff costs	62,289	56,371
Average wages per employee per month (euros)	936	868
Average number of employees in the reporting period	4,182	4,079

Staff costs also include accrued holiday pay as well as bonuses for 2017 but not yet paid.

Note 23 Finance income and costs

in thousands of euros

Finance income

	2017	2016
Interest income on NGI Group's group account (Note 26)	0	2
Other finance income	1	1
Total finance income	1	3

Finance costs

	2017	2016
Interest expense of bank loans	-678	-787
Interest expense of other loans	-21	-19
Other finance costs	-74	-65
Total finance costs	-773	-871

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.

	2017	2016
Net profit (in thousands of euros)	29,831	25,725
Weighted average number of shares	40,729,200	40,729,200
Basic and diluted earnings per share (euros)	0.73	0.63

Note 25 Loan collateral and pledged assets

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

in thousands of euros

	31.12.2017	31.12.2016
Land and buildings	137,244	145,028
Other non-current assets	192	2,869
Investment property	44,737	44,445
Inventories	13,971	4,065
Cash and cash equivalents	100	0
Financial assets	158	165

As at 31 December 2017 land and buildings in carrying value of 137,436 thousand euros (as at 31.12.2016 carrying value of 147,897 thousand euros) and investment property in carrying value of 44,737 thousand euros (31.12.2016: 44,445 thousand euros) was mortgaged. Inventories at balance sheet value of 4,566 thousand euros (as at 31.12.2016 at balance sheet value of 4,065 thousand euros), cash and cash equivalents at balance sheet value of 100 thousand euros (as at 31.12.2016: 0 euros) and financial assets at balance sheet value of 158 thousand euros (as at 31.12.2016 at balance sheet value of 165 thousand euros) were set under commercial pledge. A security deposit of inventories, with a balance sheet value of 9,405, was set as a pledge for the financing agreements (31.12.2016: 0 euros).

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 2017	Sales 2017	Purchases 2016	Sales 2016
Parent	501	38	236	12
Entities in the Parent's consolidation group	25,918	4,214	30,023	7,609
Members of management and supervisory boards	0	87	20	6
Other related parties	811	133	998	106
Total	27,230	4,472	31,277	7,733

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:

	31.12.2017	31.12.2016
Receivables from entities in the Parent's consolidation group (Note 7)	392	918
Total receivables from related parties	392	918

	31.12.2017	31.12.2016
Parent	19	17
Entities in the Parent's consolidation group	3,696	4,243
Other related parties	35	149
Total liabilities to related parties (Note 17)	3,750	4,409

Receivables from and liabilities to related parties are unsecured and carry no interest because they have regular payment terms.

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. During 12 months of 2017, the Group has not earned interest income on its deposits of available funds (2016: 2 thousand euros).

As at 31 December 2017 and 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. 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 1,815 thousand euros (2016: 1,637 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 565 thousand euros (2016: 561 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 31.12.2017, 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 31.12.2016, 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

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

	31.12.2017	31.12.2016
Shareholders	Ownership interest	Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%
ING Luxembourg S.A.	6.92%	6.92%

As at 31 December 2017, 68.75% of the shares (31 December 2016: 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 2017, the retained earnings of Tallinna Kaubamaja Grupp AS were 107,252 thousand euros (31 December 2016: 101,272 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 85,802 thousand euros as dividends (31 December 2016: 81,018 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 21,450 thousand euros (31 December 2016: 20,254 thousand euros).

Contingent liabilities relating to bank loans

Regarding the loan agreements in the amount of 52,055 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 2017, there is a breach in the financial covenants in one loan agreement amounted to 2,947 thousand euros.

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 2016 and 2017 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.

Note 30 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

	31.12.2017	31.12.2016
ASSETS		
Current assets		
Cash and cash equivalents	10,233	368
Trade and other receivables	11,266	3,172
Total current assets	21,499	3,540
Non-current assets		
Shares of subsidiaries	217,789	204,932
Share of associates	1,724	1,762
Long-term trade and other receivables	0	10,000
Property, plant and equipment	131	78
Intangible assets	323	372
Total non-current assets	219,967	217,144
TOTAL ASSETS	241,466	220,684
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	1,488	13,708
Trade and other payables	911	971
Total current liabilities	2,399	14,679
Non-current liabilities		
Borrowings	25,125	1,612
Total non-current liabilities	25,125	1,612
TOTAL LIABILITIES	27,524	16,291
Equity		
Share capital	16,292	16,292
Statutory reserve capital	2,603	2,603
Retained earnings	195,047	185,498
TOTAL EQUITY	213,942	204,393
TOTAL LIABILITIES AND EQUITY	241,466	220,684

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	2017	2016
Revenue	3,087	2,910
Other operating income	2	1
Other operating expenses	-806	-577
Staff costs	-2,588	-2,461
Depreciation, amortisation and impairment	-159	-154
Other expenses	-16	-16
Operating loss	-480	-297
Interest income and expenses	343	172
Other finance income and costs	35,345	30,979
Total finance income and costs	35,688	31,151
Profit before income tax	35,208	30,854
NET PROFIT FOR THE FINANCIAL YEAR	35,208	30,854
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	35,208	30,854
Basic and diluted earnings per share (euros)	0.86	0.76

CASH FLOW STATEMENT

in thousands of euros

	2017	2016
CASH FLOWS FROM/USED IN OPERATING ACTIVITIES		
Net profit	35,208	30,854
<i>Adjustments:</i>		
<i>Interest expense</i>	442	495
<i>Interest income</i>	-785	-667
<i>Effect of equity method</i>	-35,345	-30,979
<i>Depreciation, amortisation</i>	159	154
Change in receivables and prepayments related to operating activities	2,715	4,760
Change in liabilities and prepayments related to operating activities	-60	-26
TOTAL CASH FLOWS FROM/USED IN OPERATING ACTIVITIES	2,334	4,591
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-113	-22
Interest received	785	667
Change in the receivable of group account	-26,200	-181
Investments in subsidiaries	0	-1,910
Loans granted to subsidiaries	0	-1,000
Repayment of loans granted to subsidiaries	10,000	0
Purchases of intangible assets	-52	-65
Proceeds from sale of property, plant and equipment	0	7
Dividends received	25,685	21,210
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	10,105	18,706
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of borrowings	-1,473	-1,456
Proceeds from borrowings from subsidiaries	25,000	0
Interest paid	-442	-495
Dividends paid	-25,659	-21,179
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES	-2,574	-23,130
TOTAL CASH FLOWS	9,865	167
Cash and cash equivalents at beginning of the period	368	201
Cash and cash equivalents at end of the period	10,233	368
Net increase/decrease in cash and cash equivalents	9,865	167

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as of 31.12.2015	16,292	2,603	175,823	194,718
Dividends paid	0	0	-21,179	-21,179
Profit for the reporting period	0	0	30,854	30,854
Balance as of 31.12.2016	16,292	2,603	185,498	204,393
Dividends paid	0	0	-25,659	-25,659
Profit for the reporting period	0	0	35,208	35,208
Balance as of 31.12.2017	16,292	2,603	195,047	213,942

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



Independent auditor's report

To the Shareholders of Tallinna Kaubamaja Grupp AS

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tallinna Kaubamaja Grupp AS and its subsidiaries (together the Group) as at 31 December 2017, 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.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- 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.

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.

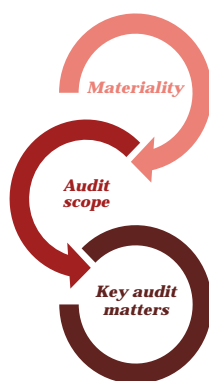
Independence

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 the 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.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59¹ of the Auditors Activities Act of the Republic of Estonia.

Our audit approach

Overview



Materiality

Overall group materiality is 6.5 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.

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.

Key audit matters

- Valuation of investment properties and property, plant and equipment

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 judgments; 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.

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 judgment, 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.

Overall group materiality	Overall Group materiality is 6.5 million euros. Specific materiality of 3.9 million euros is applied to property, plant and equipment and investment properties
How we determined it	Overall Group materiality is approximately 1% of consolidated revenue. Specific materiality is approximately 1% of consolidated total assets.
Rationale for the materiality benchmark applied	<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 judgment, 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.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of property, plant and equipment and investment properties</p> <p>Refer to pages 43 to 44 (Accounting Policies) and pages 55 to 61 (Notes).</p> <p>The Group's property portfolio includes:</p> <ul style="list-style-type: none"> Property, plant and equipment, including shopping centres in the carrying amount of 163.3 million euros (accounted for using the revaluation method) and construction in progress in the carrying amount of 26.3 million euros (accounted for at cost). Total revaluation profit recognised in 2017 profit or loss statement was 2.1 million euros. Investment properties in the carrying amount of 49.9 million euros (carried at fair value). Total revaluation gain recognised in 2017 profit or loss statement was 1.0 million euros. <p>The group measures the fair value (or assesses the</p>	<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>

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.

Other information

The Management Board is responsible for the other information contained in the Group's Annual Report in addition to the consolidated financial statements and our auditor's report 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.

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.



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 judgment 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.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of Tallinna Kaubamaja Grupp AS, as a public interest entity, on 20 May 2009 for the financial year ended 31 December 2009. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Tallinna Kaubamaja Grupp AS, as a public interest entity, of 9 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Tallinna Kaubamaja Grupp AS can be extended for up to the financial year ending 31 December 2028.

AS PricewaterhouseCoopers

A blue ink signature of Tiit Raimla, written in a cursive style.

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

A blue ink signature of Eva Jansen-Diener, written in a cursive style.

Eva Jansen-Diener
Auditor's certificate no.501

23 February 2018

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

PROFIT ALLOCATION PROPOSAL

The retained earnings of Tallinna Kaubamaja Group AS are:

Total retained earnings 31 December 2017

107,252 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 28,103 thousand euros out of retained earnings accumulated until 31 December 2017.



Raul Puusepp
Chairman of the Management Board

Tallinn, 26 February 2018

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2017

The supervisory board of Tallinna Kaubamaja Group AS has reviewed the 2017 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.

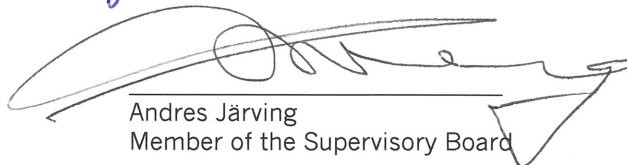
Hereby we confirm the correctness of information presented in the consolidated annual report 2017 of Tallinna Kaubamaja Group AS:



Raul Puusepp
Chairman of the Management Board



Jüri Kõo
Chairman of the Supervisory Board



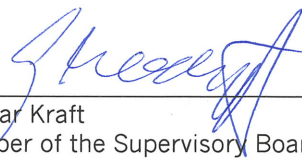
Andres Järving
Member of the Supervisory Board



Enn Kunila
Member of the Supervisory Board



Meelis Milder
Member of the Supervisory Board



Gunnar Kraft
Member of the Supervisory Board

Tallinn, 26 February 2018

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

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

in thousands of euros per year

EMTAK code	Title of EMTAK Group	2017
64201	Holding company's activities	3,087
Total revenue		3,087