Tallinna Kaubamaja Grupp AS

2018

Consolidated Annual Report
(translation of the Estonian original)

SELVER kaubamaja I.L.U. ABC KING shu KIA KÖÖK Gurmee Catering VIKING SECURITY VIKING MOTORS tartu kaubamaja VIIMSI KESKUS

TALLINNA KAUBAMAJA GRUPP AS
CONSOLIDATED ANNUAL REPORT 2018

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 2018, Tallinna Kaubamaja Grupp AS employed more than 4,300 employees.

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Beginning of financial year:	*1.01.2018*
End of financial year:	*31.12.2018*
Auditor:	*PricewaterhouseCoopers AS*

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

Table of contents

MANAGEMENT REPORT

Overview of the Group's activities

Briefly about Tallinna Kaubamaja Group

Tallinna Kaubamaja Group is the biggest retail company in Estonia. Our 4,300 employees serve customers in 90 stores, where 670,000 loyal customers make 44 million purchases a year.

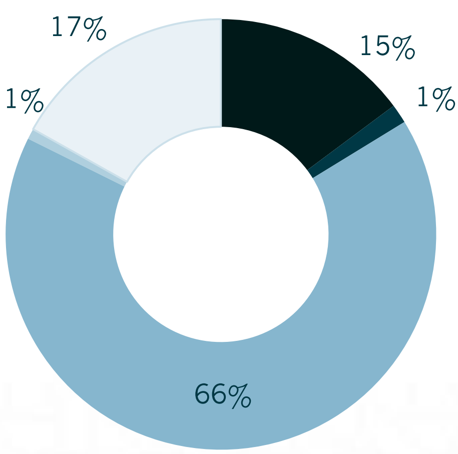
681.2
Million euros
Revenue
(2017: 651.3 million euros)

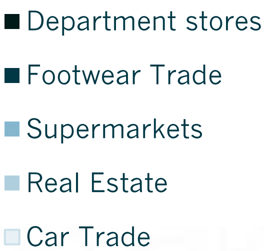
30.4
Million euros
Net profit
(2017: 29.8 million euros)

75
Cents
Net profit per share
(2017: 73 cents)

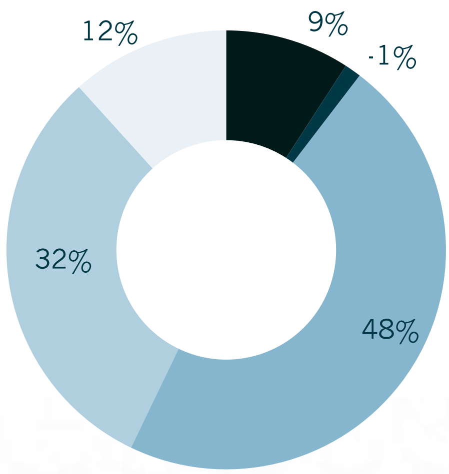
4,283
Yearly average number
Employees
(2017: 4,182)

Revenue 2018





Net profit 2018



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 53 Selver stores, e-Selver and a café with a total sales space of 99.9 thousand m². The segment also includes the largest central kitchen in the Baltic countries Kulinaaria OÜ.

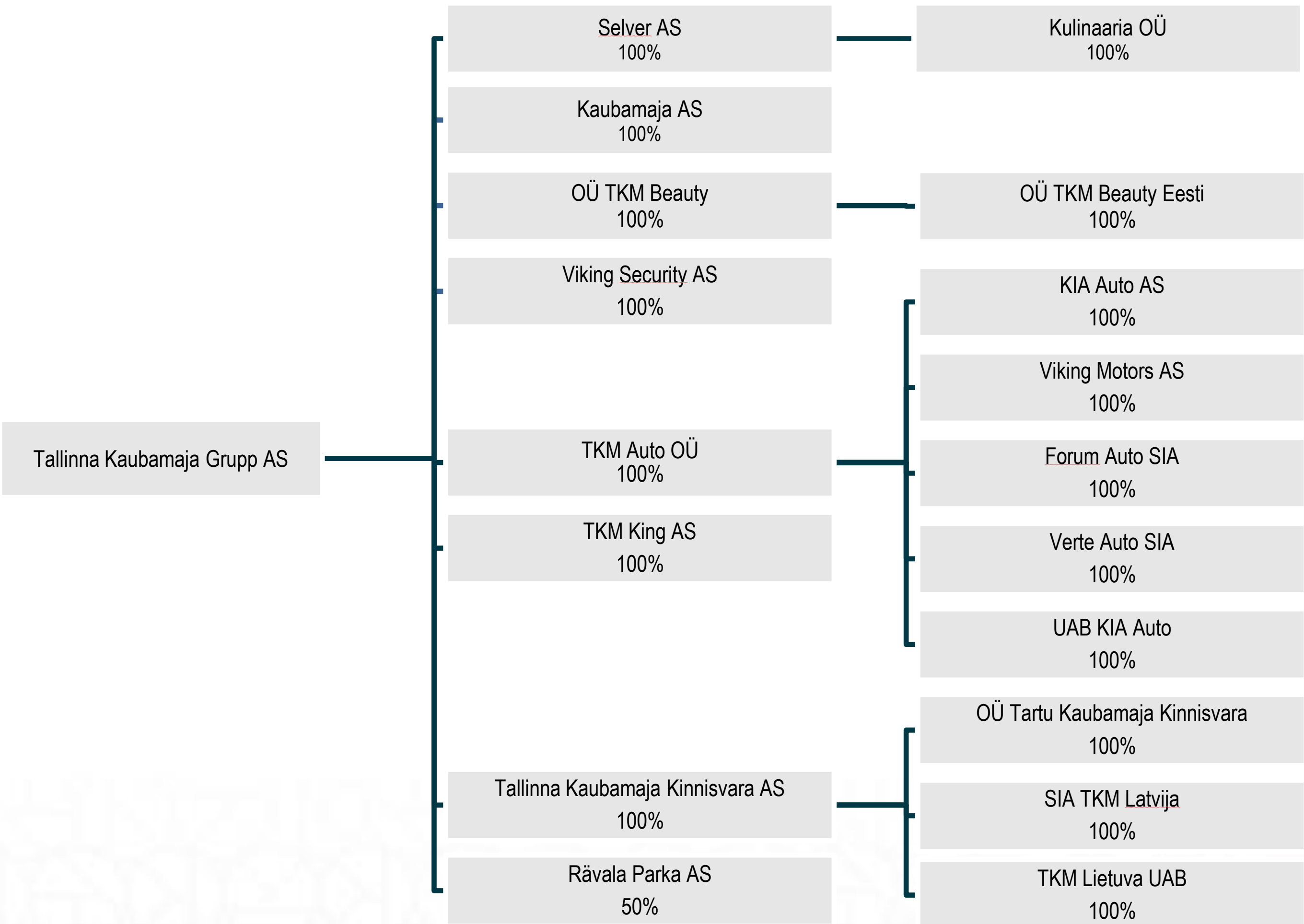
Kaubamaja operates two department stores, one in Tallinn and the other in Tartu city centre, offering a large selection of beauty and fashion products. The results of beauty product (I.L.U. and L'Occitane) sales, which includes seven stores, and the security segment (Viking Security AS), are presented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

The footwear trade segment includes 23 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 in addition selling passenger cars in three 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, Cadillac and Peugeot.

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, 2 car showrooms and 19 Selver buildings, and several other land plots awaiting for development.

Legal structure of Tallinna Kaubamaja Group as of 31.12.2018:



Overview of 2018

2018 was a remarkable year for Tallinna Kaubamaja Group, bringing the best economic result in the Group's history. The segment of supermarkets, which was expanded by two further stores in 2018 and grew in terms of both profit and turnover, remained the most successful of the business segments. The car trade segment, which is already serving customers in five showrooms, also closed 2018 with an excellent result. The development of online sales at the Group, which has been ongoing for several years, reached a point where it was necessary to bring the online grocery store to a new level and open the largest picking and packing centre of the region to serve the customers better. In addition to expanding the business and increasing the convenience for the customers, the Group did not forget to focus on environmentally aware and responsible behaviour throughout the various processes and fields of activity of the Group. The health of the employees and increasing the satisfaction of the employees were prioritised in the financial year, of which the latter is of a critical importance in the current period of labour deficit. Conclusively, we can be satisfied about achieving the significant goals set for 2018. The Group invested 16.1 million euros in 2018, with 14.8 million euros invested in the year before. The investments were mainly focussed on renovation and extending the sales premises, updating the work equipment, and developing e-commerce.

The most important events at the Tallinna Kaubamaja Group in 2018 and up to the publication of this annual report were:

- For the seventh year in a row, Tallinna Kaubamaja Group was declared the most competitive retail company in Estonia.
- Selver opened two new stores – the eighth hypermarket in the T1 shopping centre and the Kolde Selver store in Northern Tallinn.
- Fifteen new supermarkets were equipped with Selver's SelveEkspress self-service solution and the customers can now use the SelveEkspress service in 48 Selver stores.
- Kaubamaja renovated the first floor of the sales premises in Tartu, with completely renewed women's shoe department and men's department opened at the beginning of September.

- The mTasku payment solution, which the companies of Tallinna Kaubamaja Group were first to use in Estonia, won the Digitegu 2018 digital achievement award for the mobile wallet.
- In the car trade segment, the Ülemiste showroom of Viking Motors AS was declared the best after-sales service unit of KIA in the Baltic states. Viking Motors AS was also awarded the Culture Friend 2018 title by the Ministry of Culture and the title of the most learner-friendly employer in Tallinn in 2018 by the city of Tallinn. KIA Auto UAB was also declared the KIA Platinum Prestige Dealer 2018, i.e. the best distributor of KIA in the Baltic states in 2018. The Latvian dealership company, Forum Auto SIA, achieved the title of the best Peugeot dealer in the Baltic state in the new car sales segment.
- The thoroughly updated online store of I.L.U. was opened in September and received well by the customers.
- The eSelver picking and packing centre was launched in November.
- The number of the customers included in the Group's loyalty programme, Partnerkaart, exceeded the threshold of 670 thousand people, thus involving almost half of the residents of Estonia.

Directions for 2019

Development of the online stores of the Group, which is increasingly important from the perspective of the customers and one of the fastest-growing fields of activity, will remain one of the main priorities in 2019. The development plan includes launching new services as well as the continuous increasing of the convenience for the users. In the case of online purchases, the convenience of the online store and the detailed and authentic description of the products, as well as reliable visuals, are of decisive importance. In the case of selling fashion goods, quick forwarding of the new goods to the online store is of primary importance. In the case of selling groceries, the goal is the delivery of the goods from the online store to the customer on the same day. The customer prioritises quick delivery of the goods, the manner of delivery, and the quality of the customer service. Smooth and fast service is based on well-functioning internal work flows, which are of critical importance as the volumes grow. The aim is to maintain the Group's high level of services in the online stores and to exceed the expectations of the customers in this rapidly changing environment.

In the segment of supermarkets, it is planned to renovate three stores which have been serving customers for a long period of time, in addition to fully launching the eSelver picking and packing centre. The SelveEkspress service will be made available at all Selver stores in 2019 and popularising it will provide a good opportunity for providing a better service to our customers. Several technological updates are planned to ensure the better availability of the goods and for the general optimising of the trade processes. Based on volume, the largest extension in 2019 will be the extension of the central kitchen of Kulinaaria OÜ, a subsidiary of Selver. The aim is to build an employee-friendly production building which takes into consideration the specific requirements for a large-scale kitchen and fits the modern technological appliances on the plot neighbouring the current production building which could be launched in 2020.

The main directions of the segment of department stores in 2019 include developing the concept of the new sales premises of Kaubamaja in the heart of Tallinn and planning its combinations, modernisation of the Food department of Tartu store, and improvement of the convenient and personalised nature of the online store of Kaubamaja.

The car market of the Baltic states, which has been growing rapidly in the last few years, stabilised by the end of 2018. The pace of the growth of the Group's car trade segment was a bit faster than that of the market, which significantly increased the market share. In order to cover the larger volumes, adding several new car showrooms was planned in advance. The main goal for 2019 is to launch the construction of a new Škoda showroom on the property in Bikernieku, Riga, Latvia, with the 3rd quarter of 2019 as the scheduled completion date. Within the framework of the same project, it is planned to build a new showroom for selling used cars with warehouse premises and a workshop for bodywork to service all our car brands sold in Latvia. A new and modern showroom is being developed in Lithuania in the place of the current one and a new showroom of Peugeot is being launched in Estonia.

The loyal customer programme Partnerkaart involving the Group's retail segments has become very popular throughout the years, involving almost half of the population of Estonia. In 2019, development of several different convenient services for Partnerkaart will continue, which will enable offering to the customers attractive special offers and added services based on their personalised needs.

The entire value created by the Group is based on the committed and professional personnel, with the development operations directed to the personnel, including improving the satisfaction of the employees, the occupational health conditions and the working environment, and contributions to the training and development of the personnel. The employees of the companies included in the Group are above all characterised by the high level of their commitment and their long experience and it is our aim to pay to the employees a competitive remuneration in the retail sector. A new challenge manifests in the form of reorganising the work processes on the background of the deepening labour deficit, which calls for retraining the employees in the daily operations, as well as increasing cooperation to take into use new technologies. The Group strives to increase the productivity and efficiency, as well as the value package for the employees, by automation of the retail processes.

Conclusively, it is planned to offer a great selection of goods and service to the customers in 2019, as well as higher added value and innovative solutions, to keep increasing the efficiency and the Group's market share. It is important to promote and develop responsible behaviour. The capital investment planned for the year will be directed to ensuring the sustainability and development of the Group, which will enable increasing the quality and the sales volume and to ensure profitability in the future.

Economic environment

In the third quarter of 2018, the gross domestic product grew by 4.2% in Estonia compared to the same quarter of the previous year. As in previous quarters, the main contributor to the growth of the GDP was the construction sector. The growth in consumption attributed to the growth of wages and changes in the income tax regulation was lower than expected in 2018. Savings of private persons, however, grew by around 10%. Macroeconomic analysts have forecast economic growth to be 3.5% in 2018. For 2019, analysts forecast the deceleration of economic growth down to 2.0% because of a labour deficit and growing wages that will result in the loss of competitive edge of companies, especially in export. The consumer price index grew 3.4% annually. The price growth of food and non-alcoholic beverages reached 3.1% in the year-on-year. The price prices of clothes and footwear increased by 0.8% in a year. The prices of alcoholic beverages and tobacco increased the fastest (8.6%) in 2018. It is expected that the growth of prices will stop at 2.6% as a result of stabilisation of energy prices in 2019. According to the data of Statistics Estonia, average gross wages grew by 7.5% in the third quarter of the 2018 compared to the previous year. Macroeconomic analysts forecast a wage increase of 7.1% for the reporting year. In 2019, the expected growth of wages, according to the Bank of Estonia, is 6.2%.

According to Statistics Estonia, the total sales revenue generated by the retail sector in current prices in Estonia grew by 6.8% in the 2018. The car sales that have shown great growth for a long time have accelerated the activity of the motor vehicle maintenance and repair segment, which grew by 18.8 (nearly one fifth) in 2018 compared to the previous year. The sales revenue of retail companies grew by 664 million euros in current prices during the 2018, where the largest share, 276 million euros, was attributed to the sales of motor vehicles as well as their parts and accessories, although the number of new cars sold grew only by 2.7% in the 2018. Retail sales in non-specialised stores (predominantly grocery) grew altogether by 3.4% during the 2018. Retail sales in other specialised stores grew by 7.1%. According to the Estonian Institute of Economic Research, consumer confidence has weakened in the end of 2018. According to analysts, the sales growth in car sales and real estate is decelerating; however, the growth of domestic consumption will continue on account of growing wages and tax returns resulting from the income tax reform.

Financial performance

FINANCIAL RATIOS 2014-2018

In millions of euros	2014	2015	2016	2017	2018
Revenue	535	555	598	651	681
Change in revenue	7%	4%	8%	*9%*	*5%*
Gross profit	133	139	153	166	174
EBITDA	35	42	47	50	51
Operating profit	24	27	32	37	37
Profit before tax	22	26	31	36	37
Net profit	20	22	26	30	30
Change in net profit	16%	9%	17%	*16%*	2%
Sales revenue per employee	0.140	0.141	0.147	0.156	0.159
Gross margin	25%	25%	26%	26%	26%
EBITDA margin	6%	8%	8%	8%	7%
Operating margin	4%	5%	5%	6%	5%
Profit before tax margin	4%	5%	5%	6%	5%
Net margin	4%	4%	4%	5%	4%
Equity ratio	51%	52%	52%	52%	55%
Return on equity (ROE)	12%	13%	13%	14%	14%
Return on assets (ROA)	6%	6%	7%	8%	8%
Current ratio	1.1	0.9	1.1	0.9	1.1
Debt ratio	0.5	0.5	0.5	0.5	0.5
Inventory turnover	7.4	7.1	6.8	8.6	8.7
Average number of employees	3,824	3,946	4,079	4,182	4,283

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

In the 2018, the audited consolidated sales revenue of Tallinna Kaubamaja Group was s was 681.2 million euros, showing an increase of 4.6% compared to the result of 2017, when the sales revenue was 651.3 million euros. The net profit of the Group was 30.4 million euros in 2018, which is 2.0% better compared to the previous year. The pre-tax profit of the reporting year was 36.7 million euros, showing a growth of 0.7% compared to the previous year. The size of the net profit was influenced by the dividend payment, on which income tax of 6.3 million euros was accrued in the first quarter of 2018, whereas a year earlier, income tax was accrued in the amount of 6.7 million euros.

In the 2018, the Group continued to produce strong sales results. The car trade and supermarket segments had a very good year and were able to increase the sales and improve the profit numbers. The sales results of the Group's e-stores grew strongly more than one third in 2018, showing a growth in numbers that still exceed the sales statistics of Estonian e-commerce sector. The labour costs of the Group increased by 8.7% in a year and the average salary of the Group's employees grew by 6.1%. The profit earned in the 2018 was influenced by the re-evaluation of investment property. The value of investment property grew in 2018; however, the growth was smaller compared to the growth in 2017, as a result of which positive impact on earnings before interest, taxes, depreciation, and amortisation (EBITDA) was 1.0 million euros lower in 2018.

During 2018, SelveEkspress areas were extended in Selver stores and the service was available already in 48 Selver stores by the end of the reporting year. In September, a thoroughly renewed I.L.U. web store was launched successfully. An ABC King store set up in accordance with the new concept was opened at Kristiine Centre in the third quarter. The designing of the extension of the Kulinaaria plant, which is becoming too small to meet the current customer needs, was initiated. The new plant is planned to be built on the plot adjacent to the current plant. At the beginning of November, Selver opened its eight hypermarket in the T1 shopping centre and Kolde Selver was opened in the Põhja-Tallinn city district. The development work of Estonian, Latvian, and Lithuanian car centres and the Kaubamaja Tallinn department store is ongoing.

The volume of assets of Tallinna Kaubamaja Group as at 31 December 2018 was 411.1 million euros, which is 3.4% more than the respective number at the end of 2017. The balance sheet of the Group was influenced by the re-evaluation of land and buildings in 2018, which resulted in a growth of the value of land and buildings by 15.3 million euros. The same amount was added to the revaluation reserve of equity.

There were more than 674 thousand loyal customers at the end of the reporting period; the number of loyal customers increased by 3.0% in a year. The relative importance of regular customers in the turnover of the Group was 84.6% (the percentage was 83.0% in the 2017). Over 30,000 Partner Bank and Credit Cards had been issued by the end of December.

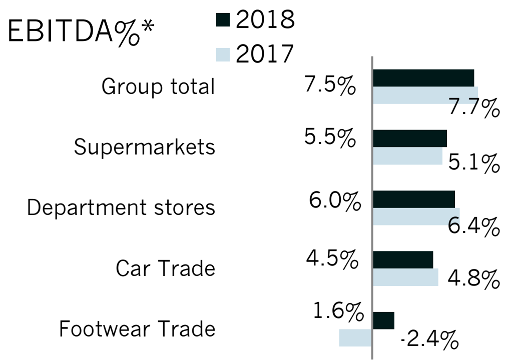
Investments

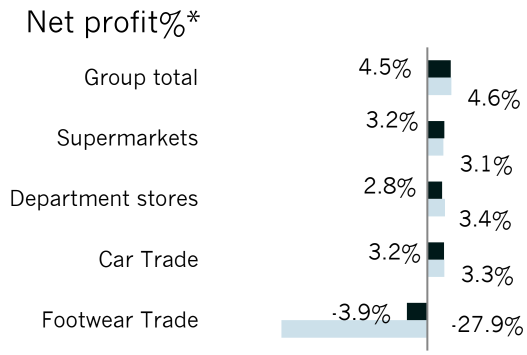
The Group's investments in 2018 amounted to 16.1 million euros (14.8 million euros in 2017), with 16.0 million euros invested in tangible assets and real estate and 0.1 million euros in intangible assets. In the supermarkets business segment, 8.8 million euros of investments were made in 2018 (in 2017, 8.7 million euros). Investments were used for opening one new regular size store and one hypermarket. Additionally, the construction works were carried out for the e-store warehouse, computing technology for SelveEkspress self-service checkout solution were purchased and Selver stores fittings and equipment renewed. The investments of the department stores business segment amounted to 2.4 million euros (1.3 million euros in 2017), most of which were used for the renovation of the women's shoe department and men's department in Tartu store. In the car trade business segment, the cost of investments was 0.7 million euros (0.7 million euros in 2017). The footwear trade segment invested 0.2 million euros in concept upgrade for ABC King stores (0.1 million euros in 2017). The cost of investments in real estate business segment was 3.8 million euros (4.0

million euros in 2017). The real estate segment completed the construction work of the gas station in Rae rural municipality in the accounting year, performed in Tallinn, Sõle Street 31, the construction work of the Kolde Selver store building and renovated the first floor of Tartu Kaubamaja Centre.

Business segments

In millions, EUR	2017	2018	%
Revenue	**651.3**	**681.2**	**4.6%**
Supermarkets	433.1	450.1	3.9%
Department stores	102.4	100.9	-1.5%
Car Trade	99.7	114.9	15.3%
Footwear Trade	11.1	9.8	-11.2%
Real Estate	5.0	5.4	8.1%
EBITDA	**50.5**	**50.8**	**0.6%**
Supermarkets	22.2	24.6	10.5%
Department stores	6.6	6.1	-7.2%
Car Trade	4.8	5.1	6.4%
Footwear Trade	-0.3	0.2	-159.8%
Real Estate	17.1	14.8	-13.5%
Net profit/-loss	**29.8**	**30.4**	**2.0%**
Supermarkets	13.2	14.6	10.2%
Department stores	3.4	2.9	-16.9%
Car Trade	3.3	3.7	11.9%
Footwear Trade	-3.1	-0.4	-87.6%
Real Estate	13.0	9.7	-25.1%





**ratio of revenue*

Supermarkets

The annual consolidated sales revenue of the supermarkets business segment was 450.1 million euros in 2018, showing a growth of 3.9% in the year-on-year comparison. In 2018, the monthly average sales revenue of goods per square metre of selling space was 0.40 thousand euros, growing by 0.7% in the year-on-year comparison. In terms of comparable stores, the average sales revenue of goods per square metre of selling space was 0.37 thousand euros in 2018, showing a growth of 0.2%. In 2018, 38.8 million purchases were made in Selver supermarkets, which exceeded the result of last year by 3.1%.

In 2018, the consolidated pre-tax profit of the supermarkets segment was 18.6 million euros, increasing by 1.8 million euros compared to the previous year. The net profit earned in 2018 was 14.6 million euros, increasing by 1.4 million euros compared to the previous year. The difference between the net profit and profit before income tax is due to income tax paid on dividends – the income tax paid on dividends was by 0.4 million euros higher in 2018 compared to the year earlier. In the second half-year of 2018, SIA Selver Latvia was liquidated and as at the end of the year, the company has been deleted from the Latvian commercial register.

The growth of the sales revenue in Selver supermarkets continued at a higher pace than in the non-specialised stores market segment. The growth trend was visible in the number of purchases as well as the amount of an average purchase. The growth of sales revenue of comparable stores was more rapid in the last quarter of the year. The growth of sales revenue in e-commerce was 40%.

The profit earned in the supermarkets segment was primarily influenced by the growth of the sales revenue. In terms of operating costs, the cost efficiency level was improved compared to the previous year. The main reason behind the growth of labour costs in the second half of the year is a strong pressure on wages and recruitment new employees to new opening stores.

The comparison basis of 2018 does not include five new supermarkets opened in Tallinn last year and a mobile store in Hiiumaa; however, the comparison basis is larger on account of a supermarket closed in Tallinn.

As at the end of December, the supermarket segment includes the Selver chain with 53 Selver stores, e-Selver, a mobile store, and a café with a total selling space of 99,900 m², as well as Kulinaaria OÜ, the largest central kitchen in the Baltic States.

Department stores

In 2018, the department stores business segment earned a sales revenue of 100.9 million euros, which is 1.5% less than last year in the same period. The sales revenue of the department stores segment per square metre of selling space was 0.31 thousand euros per month in reporting year, which was 1.2% less than in the 2017. In 2018, the pre-tax profit of the department stores segment was 3.8 million euros, which is 12.2% lower on the year-on-year basis. The sales revenue of the Kaubamaja department stores segment was influenced by a longer and stronger summer discount campaign, because the long winter and early summer did not help with the sale of spring goods. The repair works on Gonsiori Street and the renovation of Tammsaare Park, which disturbed the traffic and movement of pedestrians in downtown Tallinn, influenced the summer sales, restricted access to and reduced the number of customers that visited the store in Tallinn. In addition, renovation works were undertaken on the first floor of the Tartu department store in July and August and the completely renewed women's shoe department and men's department were opened at the beginning of September. The sales revenue in the second half of the year was greatly influenced by the best Osturalli campaign throughout the years and a strong Christmas campaign. Taking into account the location of the department store in downtown Tallinn, the structural changes in the number of tourists in 2018, showing a lower number of Finnish tourists, had a significant impact on the result of 2018. The changes in the excise policy have influenced the purchase behaviour of Finnish tourists, resulting in not only in the decrease of sales of alcoholic beverages, but also decreased sales in other groups of goods, such as perfumery products, clothes, footwear, and children's goods.

The sales revenue of OÜ TKM Beauty Eesti, which operates the I.L.U. cosmetics stores, was 4.6 million euros in 2018, decreasing by 0.7% compared to the sales revenue earned in 2017. The loss was 0.2 million euros in 2018, which was 0.1 million euros less than the loss earned in 2017. In February of the reporting year, the store in Kvartal shopping centre in Tartu was closed because of unsatisfactory business results. During the year, attention was paid to the assortment analyses by stores for the purpose of offering customers new attractive goods as well as ensuring an optimal balance of inventories. In September, completely renewed I.L.U. e-store was opened, which was well accepted by the customers.

Car Trade

In 2018, the sales revenue of the car trade segment was 114.9 million euros. The sales revenue exceeded the year-on-year revenue by 15.3%, whereas the annual increase in the sales revenue of KIAs was 1.7%. Peugeots made a strong sales result. In the Group's car trade segment, a total of 5,050 new vehicles were sold in 2018. In 2018, the net profit of the car trade segment was 3.7 million euros, which is 11.9% higher than the profit earned in the previous year. The pre-tax profit of the segment was 4.4 million euros in 2018, exceeding the profit of 2017 by 13.4%.

The success of the car trade segment in 2018 is primarily due to a very successful year of subsidiaries that operate as resellers. All three retail sellers – Viking Motors AS in Tallinn, Forum Auto SIA in Riga, and KIA Auto UAB in Vilnius – fulfilled the profit expectations. The economic results of KIA Auto AS, the company that imports KIAs, were as expected, although the very high results of the previous year were not exceeded. In summary, it can be said that 2018 was a year of records for the car trade segment in terms of turnover, profit, and the number of new cars sold.

A significant driver of the sales growth of new cars is the general growth of the car trade market in the Baltics, especially in Latvia and Lithuania. In Latvia, several large procurements where KIAs were offered were won, which significantly increased the market share of KIAs in Latvia. Active marketing and effectively directed media campaigns by the importer of KIAs supported the growth of sales of KIAs. Still, the best-selling KIA models are crossover SUV Sportage and the family hatchback Ceed. In addition, the sale of new Opel cars has been successful. The bestselling OPEL models that customers have well accepted are the completely new mid-size passenger car OPEL Insignia, the crossover SUV Mokka X, and the small compact car Astra. Turnover was significantly influenced by achieving the status of a Peugeot reseller at the end of 2017 and the resulting added business to the car trade segment. It can be said that the launch of the Peugeot business exceeded expectations in both the visits to the service and turnover generated by the sale of new cars. The bestselling models of Peugeot are crossover SUVs 2008, 3008, and 5008 as well as commercial vans Peugeot Traveller/Expert and Partner.

Footwear trade

The sales revenue of the footwear trade segment was 9.8 million euros in 2018, decreasing by 11.2% on the year-on-year basis. Sales revenue was influenced by the optimization of sales areas, as a result of which in 2018 footwear trade segment operated almost by a tenth lower sales area compared to year 2017. The pre-tax loss was significantly lower in 2018 compared to 2017. Altogether, the result improved by 2.7 million euros, of which 2.2 million euros accounted for the decrease in goodwill in 2017. In 2018, the footwear trade segment launched a new visual concept in ABC King stores. Two new ABC King stores with the renewed concept, which has been well accepted by customers, were opened in Ülemiste and Kristiine Shopping Centres in the second half of the reporting year. Along with the changed concept, more attention was paid to the training of personnel, which resulted in a lower turnover of employees and improved service. New supply channels supported the improvement of the margin compared to 2017.

Real estate

The sales revenue earned in the real estate segment outside the Group was 5.4 million euros in 2018. The sales revenue grew by 8.1% compared to 2017. The pre-tax profit of the real estate segment was 10.2 million euros in 2018, which is 29.4% lower than the result earned in the same period last year. Tartu Kaubamaja Centre, which is showing good results despite strong competition, was the primary driver of the growth of the segment's sales revenue. During the year, the gas station and store that opened in close proximity to Peetri Selver has supported the growth of sales. At the end of the year, Ogre building in Latvia was partially rented to parties outside of the Group. The decrease in profit of the real estate segment was affected by previous contracts concluded inside the Group, related to Latvian real estate, which have ended by now. The revaluation of investment property played a role in the decrease of the profit, which remained below extent the revaluations in 2017.

Online stores

Development of the Group's online stores will be one of the greatest priorities in 2019, with special attention paid to continuous increasing of the convenience for the users and development of new service solutions. The aim is to preserve the high level of services of the companies of Kaubamaja Group in the online stores and to exceed the expectations of the customers in this extremely rapidly changing field of activity.

The irreversible development of retail trade in the last decade has arisen from the rapid development of e-channels. The transfer of an increasing share of sales volume to the e-channels has been a natural part of the development. The Group started developing its online stores a few years ago and there are four stores operating today which are frequently visited by customers.

The largest sales revenue and number of visits are enjoyed by the online store of Selver where the demand for the convenient and high-quality service of eSelver continues to grow. In the third year in operation of eSelver, the sales revenue increased by approx. 40% and the volume of the orders placed by the customers, as well as the number of customers making purchases, also increased. The main strategical change in 2018 was establishing the largest picking and packing centre of an online grocery store in the Baltic states at the end of the year, which enables increasing the efficiency and volume of the service and serving the customers more quickly. The aim is to deliver the goods ordered by the customers on the same day. In April, the service area of eSelver expanded to Pärnu County and the expansion in Harju County has also been ongoing throughout the year. Customers can also pick up packed orders from the delivery points of Selvers at a time convenient for them. Four new delivery points of eSelver were added: at the Selver stores of Kotka, Laagri, T1, and Kolde. Customers can pick up the goods ordered through eSelver from eleven delivery points located at the information desks of Selver stores in Tallinn. Two new cooperation partners and delivery methods were added this year: the Cleveron/Cleverpod personal parcel terminals and the Starship robot courier in the Mustamäe area in Tallinn. eSelver has won several acknowledgements – the 'Kliendid kiidavad' acknowledgement for the most-praised e-service in the Good Service Month and the convincing first place in the survey on using online stores conducted within the framework of monitoring the retail market. The satisfaction of the customers and high-quality service are very important to us and we are continuously working on expanding the selection, as well as making using the online store more convenient, even though the selection of already includes 16 thousand different food products, commodities, gourmet and fresh food products.

The online store of Kaubamaja continued to grow rapidly in 2018. In addition to the increased number of purchases, the selection also grew significantly and a number of new, popular trademarks from the areas of beauty, fashion, home, children's, and gourmet products reached the online store. The online store of Kaubamaja focussed on fashion goods and beauty products and the customers have received the continuously expanding selection well. The online store of Kaubamaja makes the goods easily accessible for those who do not often visit the sales premises of Kaubamaja in Tallinn and Tartu in person. It is convenient and safe to purchase products and the goods are delivered everywhere in Estonia.

One of the oldest online stores of the Group which has been generating considerable sales revenues so far is the portal for ordering the food for festive events from Selveri Köök, the brand of Kulnaaria OÜ, a subsidiary of Selver AS, the selection of which includes various salads, ready-made dishes, desserts, and confectionery and bakery products. The goods can be picked up from the nationwide network of Selver stores in Estonia.

The fourth online store is the online store of I.L.U., which was taken to a completely new platform at the end of the financial year, which enables offering the entire selection of I.L.U. in a modern and quick purchasing environment.

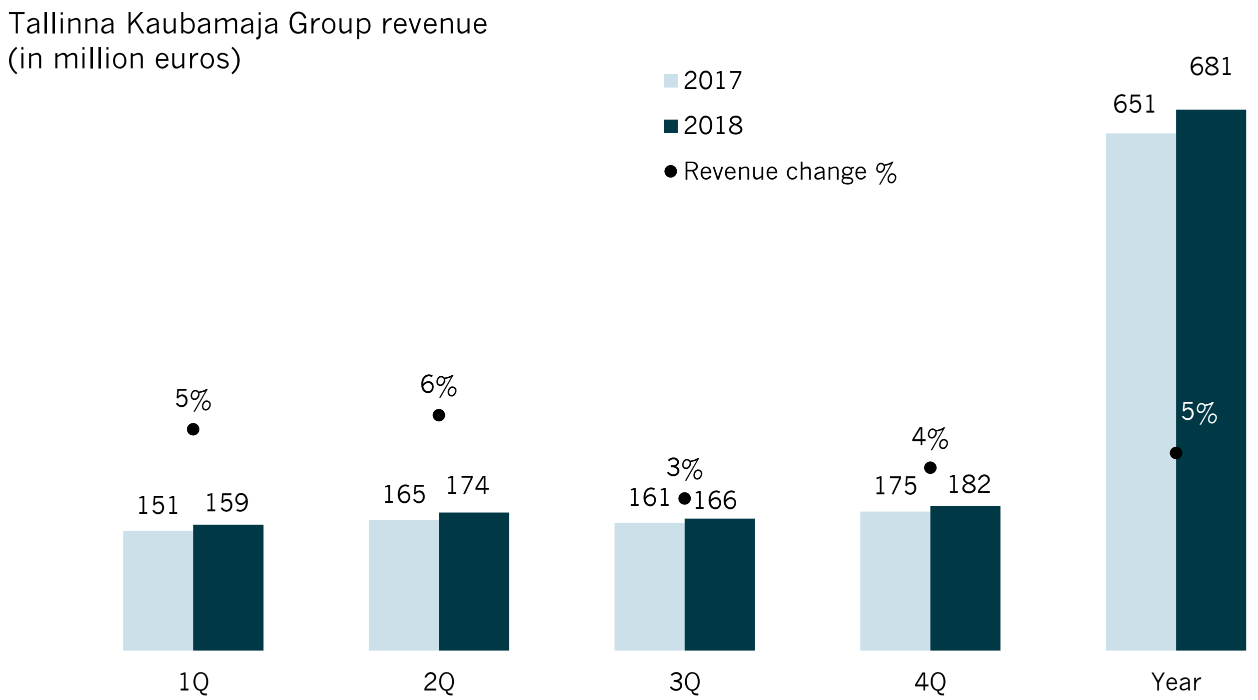
Security business

The security service, which grew out of the security department of Kaubamaja, was transferred to a separate company, Viking Security AS, in 2012, which has from then on greatly helped to reduce the number of the incidents of deficits in the retail segment of the Group and decrease the expenses on security thanks to the best security solutions. Today, the company has developed into a universal security company whose product portfolio includes various security services and surveillance solutions from simpler manned and technical surveillance services to the designing, installation, and maintenance of more complex surveillance and video systems. The company also provides stocktaking services for retail businesses as a separate field of activity. Viking Security is a member of the Estonian Security Association. Its largest clients include several large commercial undertakings, as well as the Ministry of Foreign Affairs and the Ministry of Defence, which require a higher level of security.

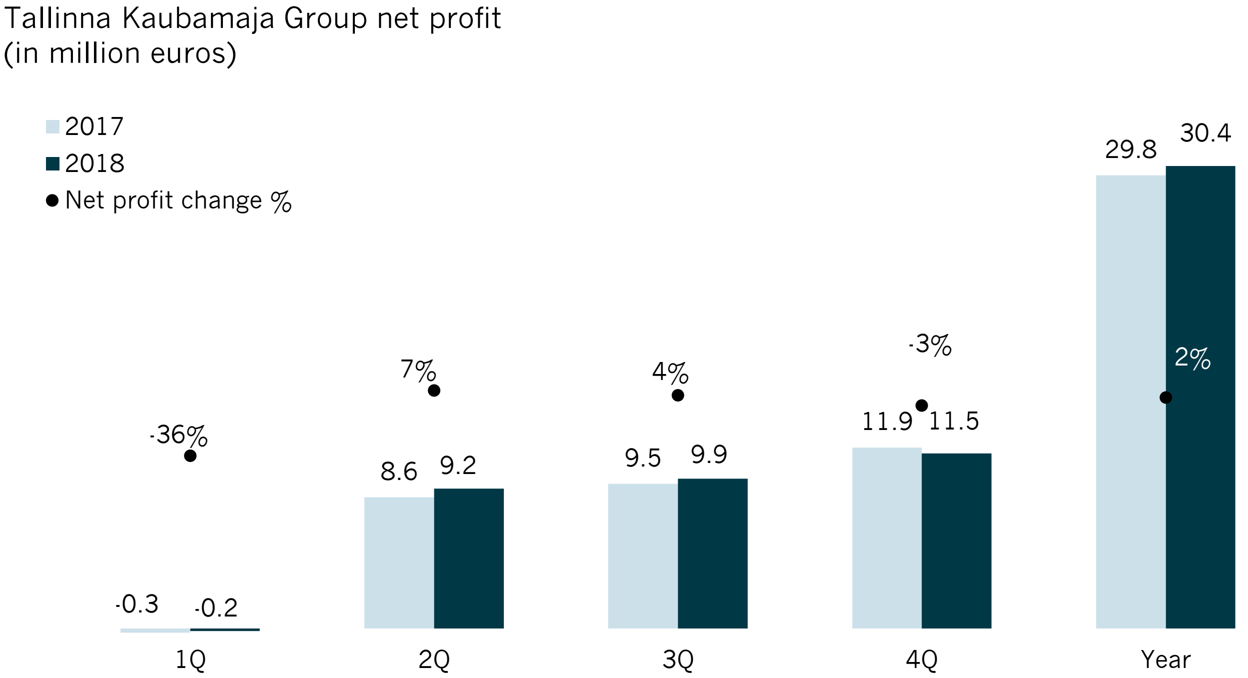
The growth of the security company, which is reported under the segment of Kaubamaja, continued in 2018 in all fields of the security business, with an increasing turnover as well as profit and market share. Today, Viking Security has grown into a profitable and rapidly developing security company with 320 employees, ranking fourth in Estonia with its turnover of 8.9 million euros. More than half of the sales revenue comes from outside of the Group. The fastest-growing area was the area of stocktaking services, in which several new clients were added and the turnover increased by 45%. The important events in the field of security services included several combined service contracts and the development of the management centre. Viking Security also won the Security Solution of the Year award. The field of security technology entered into several important contracts and expanded the field of activity. In 2019, it is planned to grow in all fields of activity and develop new services.

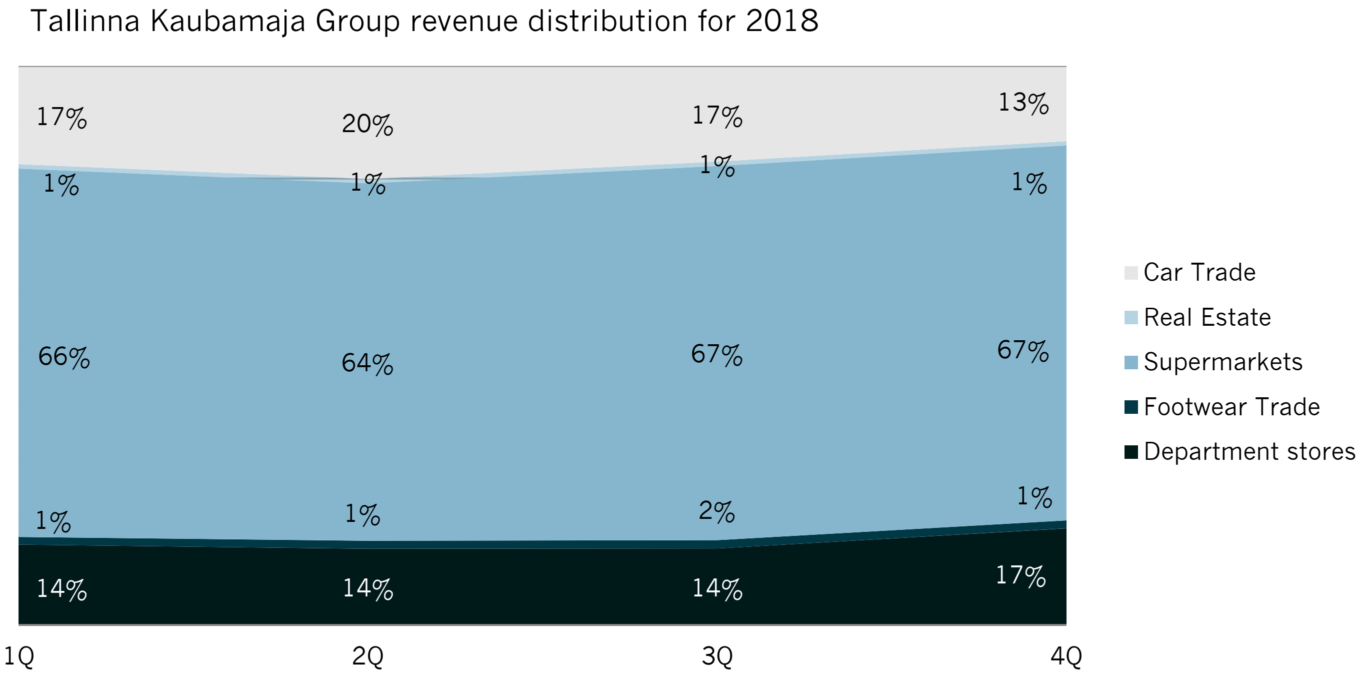
Seasonality of business and risks

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.



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





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	TKM1T
Nominal value	0.40 EUR
Total number of securities	40,729,200
Number of listed securities	40,729,200
Listing date	06.09.1996

The shares of Tallinna Kaubamaja Grupp 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 participate in the distribution of profits. Each ordinary share gives one vote at the general meeting of shareholders of Tallinna Kaubamaja Grupp. 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 have no right to issue or buy back shares of Tallinna Kaubamaja Grupp. 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.

In 2018, Tallinna Kaubamaja Grupp was selected as the second best stock company in the Baltic region. The research company CE Services has prepared the ranking of Baltic listed companies since 2008. In 2017, Tallinn Kaubamaja Grupp was selected as the best listed company. 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 26 February 2018, the Management Board proposed to pay 28.1 million euros as dividends that is 0.69 euros per share. The general meeting of shareholders approved the proposal. The amount of a dividend distribution has been determined by reference to:

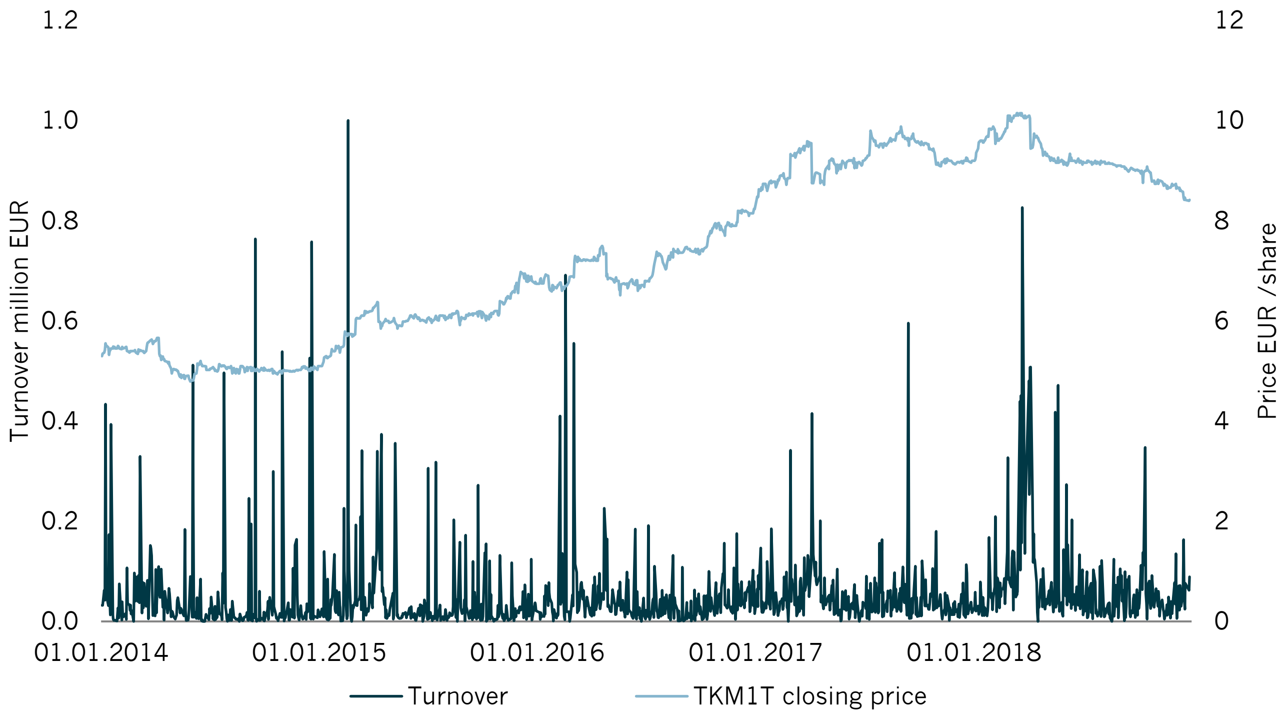
- The optimal structure capital that is required for the Group's sustainable development;
- The overall rate of return on the local securities market;
- The dividend expectations of the majority shareholders.

At the end of the 2018, the Group had 6,253 shareholders and division of shares is following:

Ownership structure	Number of shareholders	Shareholders%	Shares%	Votes%
Private persons	5,628	90.0%	13.4%	13.4%
Companies (Estonian)	559	8.9%	3.1%	3.1%
Financial institutions (Estonian)	13	0.2%	3.4%	3.4%
Companies (other countries)	2	0.0%	0.0%	0.0%
Financial institutions (other countries)	49	0.8%	7.5%	7.5%
ING LUXEMBOURG S.A.	1	0.0%	5.6%	5.6%
OÜ NG INVESTEERINGUD	1	0.0%	67.0%	67.0%
Total	6,253	100.0%	100.0%	100.0%

Number of shares	Number of shareholders	Shareholders%	Shares%	Votes%
1–100	2,008	32.1%	0.3%	0.3%
101–1,000	3,017	48.2%	2.9%	2.9%
1,001–10,000	1,116	17.8%	7.3%	7.3%
10,001–100,000	95	1.5%	5.6%	5.6%
100,001–1,000,000	15	0.2%	11.3%	11.3%
1,000,001– ...	2	0.0%	72.6%	72.6%
Total	6,253	100.0%	100.0%	100.0%

Share price and trading statistics in Tallinn Stock Exchange during 01.01.2014 – 31.12.2018



Share trading history

In euros

	2014	2015	2016	2017	2018
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (pcs)	2,368,070	1,933,408	1,647,752	1,452,599	2,017,514
Dividend / net profit	80%	96%	100%	94%	95%*
P/E	10.2	12.4	13.0	12.6	11.3
P/BV	1.2	1.5	1.6	1.8	1.5
Opening price	5.35	5.1	6.72	8.29	9.28
Share price, highest	5.69	7.0	8.30	9.90	10.25
Share price, lowest	4.79	5.03	6.49	8.27	8.32
Share price, at the year-end	5.1	6.74	8.23	9.20	8.42
Share price, yearly average	5.15	6.07	7.25	9.23	9.26
Turnover (million)	12.19	11.60	11.87	13.38	19.03
Capitalisation (million)	207.72	274.51	335.20	374.71	342.94
Earnings per share	0.5	0.5	0.6	0.7	0.7
Dividend per share	0.40	0.52	0.63	0.69	0.71*
Equity per share	4.3	4.4	5.0	5.1	5.5

*according to profit allocation proposal
P/E = share price at the year-end / earnings per share
P/BV = share price at the year-end / equity per share

Protection of personal data

The Group priorities the proper and lawful processing of personal data in all aspects of its activities and works daily, ensuring that personal data are processed properly. In connection with the new General Data Protection Regulation, which entered into force in the European Union on 25 May 2018, a further thorough process of mapping the processes of processing personal data was conducted at the Group. The results of the mapping convinced that the processes of processing personal data used by the Group are secure and appropriate and all the requirements for processing personal data arising from legislation are properly observed.

Due to the new obligations applicable to the Group after the entry into force of the General Data Protection Regulation, a group-wide data protection officer was appointed whose main purpose is to notify and advise the Group and its subsidiaries on the obligations arising from data protection legislation and the solving of data protection-related issues. The Group's privacy policy was published on the website of the Group, establishing the principles based on which the Group and its subsidiaries process personal data. An overview of processing personal data was also drawn up for all companies included in the Group, which consists of mapping the data processing operations used and an overview of the data protection agreements entered into by the Group. Data protection trainings were organised at the companies of the Group to increase the awareness of the personnel and the data protection officer of the Group will continue this activity simultaneously with thorough daily instructing of the personnel.

In connection with the amendment of the General Data Protection Regulation, the terms and conditions of using the Partnerkaart loyalty programme of the Group and the Group's online stores were complemented with the aim of offering convenient and secure solutions for the customers for exercising the rights related to their personal data.

The Group regularly works on maintaining the high level of the protection of personal data by regular inspection and improvement of the current systems and processes and, if necessary, by creating additional control mechanisms. The Group uses appropriate and sufficient technical and organisational security measures in the collection, storing, and processing of personal data, ensuring consistently proper and secure processing of the personal data. The Group aims to ensure efficient, maximum protection of the personal data of the customers and the personnel, and compliance of the processing of personal data with the applicable legislation on the daily basis.

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.

SOCIAL RESPONSI-BILITY	WELLBEING OF PERSONNELL	COPMPLYING WITH HUMAN RIGHTS	RESPONSIBLE PROCURE-MENT	ENVIRON-MENTAL PROTECTION	FIGHTING CORRUPTION

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 organize 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 2018, Tallinna Kaubamaja Group companies paid to the state and local authorities a total of 62.6 million euros in taxes, a growth of 0.6% in a year (2017: 62.2). The increase in taxes paid slowed down due to changes in tax laws.

Tallinna Kaubamaja Group taxes paid in 2016, 2017 and 2018 (in million euros)

Some examples of the activities of Tallinna Kaubamaja Grupp AS companies implementing the principles of social responsibility:

- 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 14 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 2018. Half of the revenue was donated to support the 'Art Against Bullying' project of the Art Museum of Estonia.
- 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. In 2018, a novel recycling environment, Emmy, was launched to support recycling and donating to the charity of fashion goods.
- 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" and are the main sponsor of Kuldnõel, the most prestigious fashion design award in Estonia.
- 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. In 2018, Kaubamaja was one of the first companies in Estonia to win the Respecting Differences diversity label.
- For the sixteenth 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 2018, 113,000 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 2018, Selver continued to support the football club FC Flora.
- Selver is the title sponsor of Linnajooks (City Run). The series include a total of nine runs organised all over Estonia.
- Selver supports smaller and larger cultural projects, mainly outside of larger cities. In 2018, we helped to bring to life various events, such as the Sonorous Sounds of the Organs of Saaremaa concert, Sõru Jazz, the Järvi Festival, the Saaremaa Opera Festival, the Hiiumaa Homecoming Festival, Hiiu Folk, the Intsikurmu Festival, the Luige Nokk humour festival, as well as the Grillfest in Pärnu, the Theatre Bus tour in cooperation with the Estonian National Opera, and the media partnership with ERSO. The most important cultural projects of 2019 will be supporting the Song and Dance Festival and new cooperation with Birgitta Festival.

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 organization that learns from the experience and knowledge of every employee.

Tallinna Kaubamaja Group is one of the biggest employers in Estonia. In 2018, our Group employed an average of 4,283 people and compared to 2017, the number of employees grew by 2.4% (2017: 4,182).

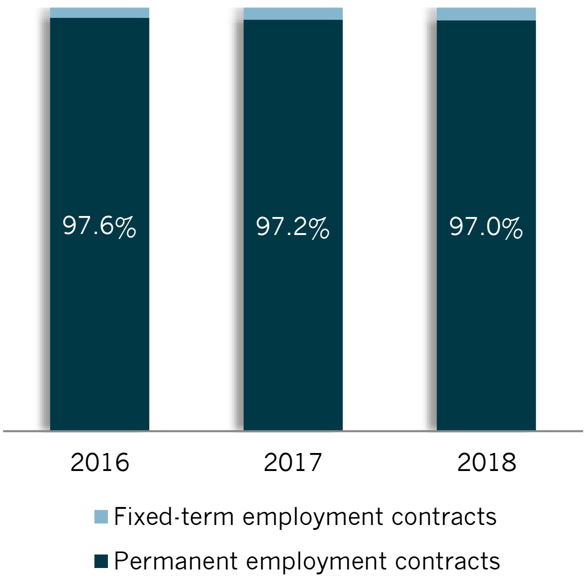
Tallinna Kaubamaja Group values long-term and lasting work relationships that provide our employees with stability in their everyday life and develop their competence over the years, thereby improving the Group's competitiveness.

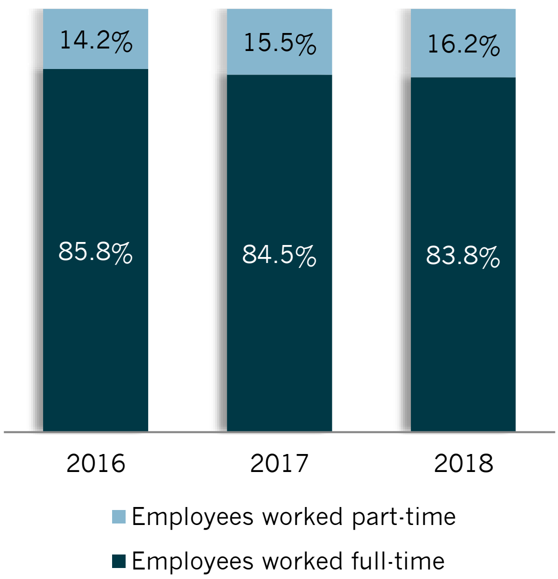
As at the end of 2018, almost 97% of our employees were employed under permanent employment contracts and 3% under fixed-term employment contracts. Tallinna Kaubamaja Group also offers an option to work part-time in response to employees' wishes and opportunities. As at the end of 2018, over 16% of our employees worked part-time. The popularity of part-time working has grown year by year in Group, in 2018 growth also can be noticed.

4,283
Yearly average number employees
(2017: 4,182)

97.0%
Employees with permanent contracts
(2017: 97.2%)

16.2%
Part-time employees
(2017: 15.5%)





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.

TRAINING PROGRAMMES

MENTOR PROGRAMMES

DEVELOPMENT OF MANAGERIAL COMPETENCES

INCLUSION OF DISABLED PERSONS

CREATION OF PRACTICE OPPORTUNITIES

Employees are offered specialised refresher trainings in Estonia as well as abroad. The Group's total number of training hours exceeded 19.2 thousand in 2018, which is 2.1% more than the year before. Somewhat decreased the number of training hours per employee, which was on an average 4.6 hours in 2018 (2017: 4.7). 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.

19.9 th
Training hours in total
(2017: ca 19.5 th)

4.6 hour
Training hours per employee
(2017: 4.7)

71
Practice opportunities for young interns
(2017: 71)

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 2018. 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 2018, a total of 1,282 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 2018, several interesting lecturers made presentations to Kaubamaja's managers to share their remarkable practical managerial experience. In order to provide to the management team and specialists of the Group an opportunity to take part in the Nordic Business Forum, one of the best business conferences in the world, the means were found for watching live transmission of the conference over a video bridge.

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 2018, 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 2018, 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 2018, there were a total of 44 occupational accidents in the Group (2017: 56).

SAFE WORKING ENVIRONMENT

JOINTEVENTS

HEALTHY LIFESTYLE

DIVERSITY

We organise joint events that build a foundation for a good atmosphere and cooperation in teams. In 2018, Selver continued with Culture Club project, aimed at organising joint visits for the company staff to different cultural events, such as museums, theatre performances, concerts, etc. We celebrate the most important holidays together with our employees. To bear in mind and value their contribution, Kaubamaja organized a reception at Kumu Art Museum, inviting all the employees of the company.

The Group promotes healthy lifestyle among its employees by increasing their knowledge of how to care for their health and creating a safe and healthy working environment, providing opportunities to be involved in sports, for recreational activities and healthy lunch and rest breaks in a comfortable environment (rest areas), using the family physician service and blood pressure measuring devices, massage stools and massage services. The Group's employees can use individual and team sports opportunities. Our teams participate in various non-professional sports events. 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 8.7% (wage costs and social tax cost), which was 67.7 million euros in 2018. The average labour cost per employee was 993 euros in 2018, growing by 6.1% compared to 2017. 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 2016, 2017 and 2018 (in millions euros)

Complying with human rights and responsible procurement

Tallinna Kaubamaja Group honours 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 2018, over 3,000 suppliers provided products to Tallinna Kaubamaja Group. 74% of suppliers of Tallinna Kaubamaja Group are local businesses and 42% of the goods are of domestic origin.

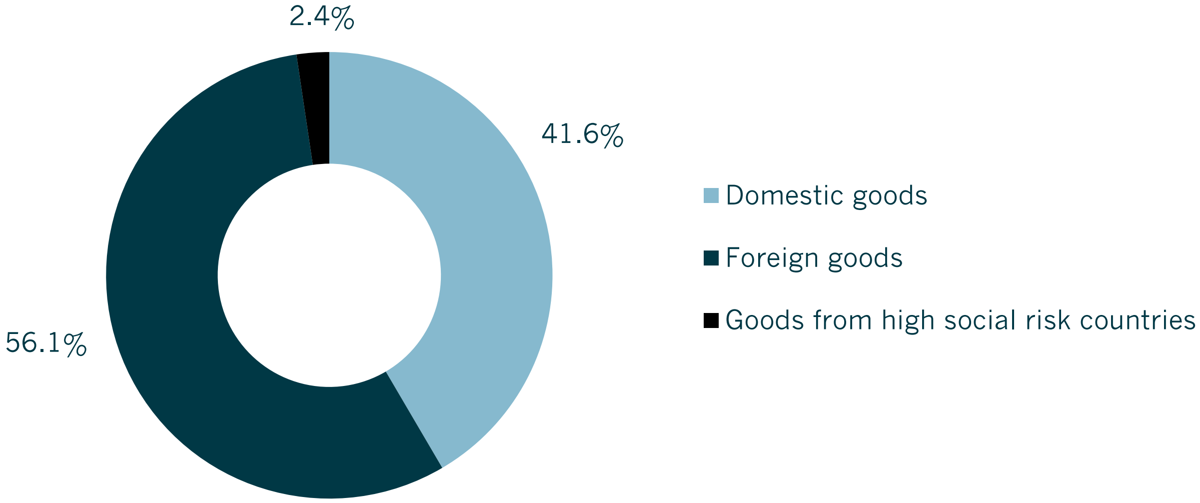
In terms of social responsibility, Tallinna Kaubamaja Group has suppliers also from high social risk countries, such as some countries in Africa, Asia, South America and Central America. Purchase amounts from these countries are very small and accounted for about 2.4% of all purchases in 2018.

3,000
Suppliers in total
(2017: ca 2,900)

74%
Purchases via domestic suppliers
(2017: 64%)

42%
Goods of local origin
(2017: 43%)

Tallinna Kaubamaja Group origin of products in 2018



Private label products

0.8% of products purchased by Tallinna Kaubamaja Group are private label products, 18.7% of which have been purchased from high social risk countries. The volume of high-risk products varies depending on product category; it is higher for textile products and consumer goods and lower for food products.

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

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

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

Traceability and origin of products

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

- Value domestic high-quality food and offer it to our clients as much as possible;
- If possible, prefer local manufactures, including small-manufactures;
- Disclose the place of origin of products and the raw materials used therein to clients as clearly and simply as possible;
- Monitor working conditions and the honouring of human rights in our supply chain.

We are aware of our clients' growing preference to consume primarily domestic production and groceries. To meet this expectation, we have been increasing the selection of domestic goods in our department stores and stores every year. In 2018, goods of local origin accounted for almost 42% 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 2018, there were 31 product recall incidents in the Group's companies, (2017: 24 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 2018, there were 2 such incidents (2017: 2 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. The table below highlights the energy and water consumption figures of the sales premises of the Group, the amount of waste generated, the carbon emission, and the expenses with an environmental impact.

Tallinna Kaubamaja Group Ecobalance *Consumption and costs per square meter of selling space	2 016	2 017	2 018
Electricity consumption (KWh/m2)	518	343	339
Consumption of heating energy (KWh/m2)	193	145	157
Consumption of reactive energy (Kvarh/m2)	142	68	71
Water consumption (m3/m2)	0.5	0.4	0.4
Waste (kg/m2)	50.1	33.2	28.5
Carbon dioxide emissioon to the atmosphere (kg/m2)	2.3	2.7	2.8
Costs with environmental impact (EUR/m2)	61	37	38

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 or 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 2019.

The energy-efficiency of cooling and refrigerating systems in the Group's department stores and stores has notably increased. To achieve this, we are gradually introducing new, CO_2-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 round about 112 thousand pieces were sold in 2018, remaining at the same level as in the previous year. Notable increase can also be seen in the purchases of paper bags, with more than 2,142 thousand bags sold last year, being 18% 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.

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 2018 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.

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 26 February 2018 and through a daily newspaper Eesti Päevaleht on 27 February 2018. 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 Kaubamaja 1, Tallinn, starting from 26 February 2018.

The general meeting of shareholders of Tallinna Kaubamaja Group was held in the conference centre of Nordic Hotel Forum, Viru väljak 3, Tallinn, on 22 March 2018 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 2018 was Estonian and the meeting was chaired by the general lawyer of the Tallinna Kaubamaja Group Helen Tulve. The meeting was also attended by members of Supervisory Board Andres Järving and Gunnar Kraft, Management Board member Raul Puusepp and auditors Eva Jansen-Diener and Lembi Uett from PricewaterhouseCoopers AS. 80.38% of the votes represented by shares were present at the general meeting. At the general meeting, allocation of profit was discussed as a separate 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 2018, 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 2018 to the Chairman of the Management Board amounted to 278 thousand euros (in 2017, 262 thousand euros) and the calculated fees, including social security taxes, amounted to 140 thousand euros (for 2017 the performance pay, including social security taxes, in amount of 131 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 and Supervisory Board of the company. Under the direction of the Tallinna Kaubamaja Grupp, 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 2018, 12 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2017, 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 22 March 2018, Andres Järving, Jüri Käo, Enn Kunila, Meelis Milder and Gunnar Kraft were elected as the members of the Supervisory Board. Authorities of the current members of the Supervisory Board will expire on 19 May 2021. By the decision of the Supervisory Board, Jüri Käo 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 held on 22 March 2018, the monthly remuneration of the Supervisory Board member of Tallinna Kaubamaja Grupp AS is 2,000 euros; the Chairman of the Supervisory Board receives 2,400 euros monthly. In the year 2018, the remuneration for the members of the Supervisory Board, payroll tax included, was 134 thousand euros, of which the remuneration of the Chairman of the Supervisory Board was 31 thousand euros (in 2017, 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.

Changes in Articles of Association

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, unless a larger majority is required by articles of association. The articles of association of Tallinna Kaubamaja Grupp AS do not provide for a larger majority requirement. A resolution on amending the articles of association shall enter into force as of the making of a respective entry in the commercial register.

Shareholders with a significant shareholding

As of 31.12.2018 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.

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 2018, the financial auditor of the financial year 2018 was AS PricewaterhouseCoopers (PwC).

During 2018, 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 2018 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 82-88.

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;
- independence, sufficiency and legality of performing an external audit;
- effectiveness of an internal control system and risk management;
- monitoring of the legality of the Group's operations.

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, who are appointed by the Supervisory Board for three years. In 2018, the members of the audit committee were Andres Järving (the Chairman), Gunnar Kraft, Jüri Käo, Kaia Salumets and Kristo Anton.

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. In 2018, the Audit Committee proposed, among other things, to the Supervisory Board on the appointment of an audit company.

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

Chairman's confirmation of and signature to the management report

The Chairman confirms that management report which consists of "Overview of the Group's activities", "Ethical business practices and corporate responsibility" and "Corporate governance report" is an integral part of the annual report and gives a true and fair view of the key events occurred in the reporting period and their impact on the financial statements, contains a description of key risks and uncertainties of the financial year and provides an overview of important transactions with the related parties.

Raul Puusepp
Chairman of the Management Board

Tallinn, 22 February 2019

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 2018 as set out on pages 35-91.

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, 22 February 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2018	31.12.2017
ASSETS			
Current assets			
Cash and cash equivalents	5	37,235	33,662
Trade and other receivables	6	16,093	16,127
Inventories	8	78,212	75,816
Total current assets		**131,540**	**125,605**
Non-current assets			
Long-term trade and other receivables	11	113	114
Investments in associates	10	1,738	1,724
Investment property	12	59,866	49,902
Property, plant and equipment	13	212,687	214,475
Intangible assets	14	5,133	5,675
Total non-current assets		**279,537**	**271,890**
TOTAL ASSETS		**411,077**	**397,495**

LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	15	26,002	54,818
Trade and other payables	17	90,775	85,569
Total current liabilities		**116,777**	**140,387**
Non-current liabilities			
Borrowings	15	68,313	48,732
Provisions for other liabilities and charges		370	360
Total non-current liabilities		**68,683**	**49,092**
TOTAL LIABILITIES		**185,460**	**189,479**
Equity			
Share capital	19	16,292	16,292
Statutory reserve capital		2,603	2,603
Revaluation reserve		95,587	82,124
Currency translation differences		-149	-255
Retained earnings		111,284	107,252
TOTAL EQUITY		**225,617**	**208,016**
TOTAL LIABILITIES AND EQUITY		**411,077**	**397,495**

The notes presented on pages 40- 91 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	Note	2018	2017
Revenue	20	681,181	651,257
Other operating income		1,494	2,239
Cost of sales	8	-507,182	-484,760
Other operating expenses	21	-56,033	-54,611
Staff costs	22	-67,710	-62,289
Depreciation, amortisation and impairment losses	13,14	-13,426	-13,356
Other expenses		-992	-1,373
Operating profit		**37,332**	**37,107**
Finance income	23	1	1
Finance costs	23	-810	-773
Finance income on shares of associates	10	214	162
Profit before income tax		**36,737**	**36,497**
Income tax expense	18	-6,299	-6,666
NET PROFIT FOR THE FINANCIAL YEAR		**30,438**	**29,831**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Revaluation of land and buildings	13	15,266	0
Other comprehensive income for the financial year		**15,266**	**0**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**45,704**	**29,831**
Basic and diluted earnings per share (euros)	24	0.75	0.73

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

The notes presented on pages 40 - 91 form an integral part of these consolidated financial statements.

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CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		30,438	29,831
Adjustments:			
Interest expense	23	810	773
Interest income	23	-1	-1
Depreciation, amortisation and impairment losses	13,14	13,329	13,317
Gain from fair value adjustment of investment property	12	-42	-1,081
Loss on sale and write-off of non-current assets	13	97	39
Profit on sale of non-current assets	13	-398	-203
Profit on sale of investment property	12	-39	0
Effect of equity method	10	-214	-162
Income tax on dividends paid	18,19	6,249	6,371
Change in inventories	8	-2,026	-5,630
Change in receivables and prepayments related to operating activities	6	36	-582
Change in liabilities and prepayments related to operating activities	17	5,216	1,718
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		53,455	44,390
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment (excl. finance lease)	13	-15,991	-14,778
Proceeds from sale of property, plant and equipment	13	9,723	1,403
Proceeds from sale of investment property	12	676	20
Purchases of intangible assets	14	-95	-69
Dividends received	10	200	200
Interest received	23	1	1
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-5,486	-13,223
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	15	84,060	63,719
Repayments of borrowings	15	-92,838	-65,587
Change in overdraft balance	15	-457	4,794
Dividends paid	19	-28,102	-25,659
Income tax on dividends paid	18,19	-6,249	-6,371
Interest paid	23	-810	-776
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-44,396	-29,880
TOTAL CASH FLOWS		3,573	1,287
Cash and cash equivalents at the beginning of the period	5	33,662	32,375
Cash and cash equivalents at the end of the period	5	37,235	33,662
Net change in cash and cash equivalents		3,573	1,287

The notes presented on pages 40 - 91 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Revaluation reserve	Currency translation differences	Retained earnings	Total
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**
Net profit for the reporting period	0	0	0	0	30,438	30,438
Revaluation of land and buildings	0	0	15,266	0	0	15,266
Currency translation differences	0	0	0	106	-106	0
Total comprehensive income for the reporting period	**0**	**0**	**15,266**	**106**	**30,332**	**45,704**
Reclassification of depreciation of revalued land and buildings	0	0	-1,803	0	1,803	0
Dividends paid	0	0	0	0	-28,103	-28,103
Balance as of 31.12.2018	**16,292**	**2,603**	**95,587**	**-149**	**111,284**	**225,617**

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

The notes presented on pages 40 - 91 form an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General information

Tallinna Kaubamaja 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 22 February 2019 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 2018 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

Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements. The application of IFRS 15 and IFRS 9 did not have any material effect on the Group's financial statements as at 01.01.2018.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. The Group has adopted IFRS 15 using modified retrospective approach which requires that the cumulative effect of initially applying this standard is recognised in retained earnings at the date of initial application (i.e. 1 January 2018) and the information presented for 2017 is recognised, as previously reported, under IAS 18, IAS 11 and related interpretations. There were no material impact of adoption of IFRS 15 to the retained earnings as at 1 January 2018, therefore no adjustments to the equity have been made. When assessing the effects of IFRS 15, the group analysed the different types of income of the Group and the loyalty program of the customers related to the revenue and assessed that the resulting effect on the Group's report is insignificant. The majority of the Group's sales revenue is the retail sale of goods for which there are no changes in recognition as a result of the entry into force of IFRS 15.

IFRS 9, Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value with changes recognised in other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value with changes recognised in profit or loss (FVTPL).

The following table explains the measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

in thousands of euro	Original classification under IAS 39	New classification under IFRS 9	31.12.2017 Carrying amount under IAS 39	01.01.2018 Carrying amount under IFRS 9
Trade and other receivables	Loans and receivables	Amortised cost	12,363	12,363
Cash and cash equivalents	Loans and receivables	Amortised cost	33,662	33,662
Total financial assets			**46,025**	**46,025**

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. Group has valued expected impairment loss, as at 01.01.2018 and according to valuation, impairment losses are not substantially higher than losses recognised under IAS 39 as at 31.12.2017.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied without restating comparative figures; impact on adoption has been recorded in initial balance sheet as at 01.01.2018. Figures as at 31.12.2017 are recorded under IAS 39.

Effective Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 01.01.2018.

Transfers of Investment Property - Amendments to IAS 40

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

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).

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.

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 01.01.2018 that have a material impact to the Group.

New Accounting Pronouncements

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 109 million euros and liabilities will increase approximately 109 million euros. Lease payments are discounted using an alternative borrowing rate of 1.54% on average. The alternative interest rate is the interest rate that the Group would have to pay if it financed the purchase of a similar right to use the asset with a loan. The determination of the lease period is based on the guidance in IFRS 16. The leased asset ("right of use of the asset") is recognised by the acquisition cost minus depreciation method. The depreciation period is usually equal to the lease period. Amendment will not have an influence on loan covenants.

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.

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 arised 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 associated are carried using the equity method; under this method, the initial investment is adjusted with the profit/loss received from the entity and the dividends collected.

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

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

Segment reporting

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

Cash and cash equivalents

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

Financial assets

Accounting policies from 1 January 2018

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus (unless it is trade receivable that does not have a material financing component and is initially measured at transaction price), in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest rate method. Impairment losses are deducted from amortised cost. Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses).

As at 1 January 2018 and 31 December 2018 and during 2018, all the Group's financial assets were classified in this category.

Equity instruments

The Group has no investments in equity instruments.

Impairment of financial assets

Impairment loss model is used for financial assets measured at amortised cost. Financial assets measured at amortised cost include receivables, cash and cash equivalents.

Expected credit losses are a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive discounted at the original effective interest rate.

The measurement of expected credit losses shall take into account: (i) an unbiased and probability-weighted amount, the determination of which shall assess a number of possible different outcomes, (ii) the time value of the money and (iii) reasonable and justified information available at the end of the reporting period, without excessive cost or effort, on past events, current conditions and forecasts of future economic conditions.

The Group measures loss allowances as follows:

- for trade receivables at an amount equal to lifetime ECLs;
- for cash and cash equivalents that are determined to have low credit risk at the reporting date (the management considers 'low credit risk' to be an investment grade credit rating with at least one major rating agency) at an amount equal to 12-month ECLs
- for all other financial assets at an amount of 12-month ECLs, if the credit risk (i.e. the risk of default occurring over the expected life of the financial asset) has not increased significantly since initial recognition; if the risk has increased significantly, the loss allowance is measured at an amount equal to lifetime ECLs.

Accounting policies applied until 31 December 2017

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 it its own operations, is recorded as investment property. Investment property is initially recognised in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would have not taken place). Investment property is subsequently measured at fair value, based on the market price determined annually, 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 profit or loss and other comprehensive income.

Intangible assets

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

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

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

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

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

Impairment of assets

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

Goodwill

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

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

Accounting policies from 1 January 2018

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a good or service to a customer.

<u>Sale of goods – retail</u>

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, by credit card or with bank transfer. The probability of returning goods is estimated at a portfolio level (expected value method), based on prior experience, and returns are recognised in the period of the sales transaction as a reduction of revenue, by recognising a contract liability (refund liability) and a right to the returned goods. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision. As at 31.12.2017 and 31.12.2018 there is no material guarantee provision.

If the Group provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Sale of goods – wholesale

The Group's wholesale mainly consist of car sales to the dealers and other wholesale. Sales are recognised when control of the products has transferred, being when the products are delivered to the dealers, the dealer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the dealer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the dealer, and the dealer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision. As at 31.12.2017 and 31.12.2018 there is no material guarantee provision.

If the Group provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Sale of services

The Group provides security and car services under fixed-price and variable price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the contract includes an hourly fee, revenue is recognised in the amount to which the Company has a right to invoice. Customers are invoiced on a monthly basis or at the completion of works and consideration is payable when invoiced. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Accounting for customer loyalty programme

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. The Company operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. A contract liability for the award points is recognised at the time of the sale. Revenue is recognised and contract liability derecognised when the points are redeemed or when they expire. The transaction price is allocated to the goods sold and the award points on the basis of their relative stand-alone selling prices.

Financing component

Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

Revenue recognition - accounting policy until 31 December 2017

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.

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 internal and external 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 2018, the value of land and buildings located in Estonia (carrying value: 165,179 thousand euros as at 31.12.2018) increased by 14,280 thousand euros, which was recognised through other comprehensive income and through profit and loss by 171 thousand euros. As the result of the valuation in 2017 "Land and buildings" located in Estonia (carrying value: 149,181 thousand euros as at 31.12.207) was not adjusted. As a result of the valuation performed in 2018, the value of land and buildings located in Latvia (carrying value: 3,520 thousand euros as at 31.12.2018) increased by 986 thousand euros, which was recognised through other comprehensive income. As a result of valuation, the change in the fair value of "Land and buildings" located in Latvia was not identified in 2017 (carrying value: 12,250 thousand euros as at 31.12.2017). Land and buildings located in Lithuania with carrying value of 1,877 thousand euros as at 31.12.2018 (31.12.2017: 1,877 thousand euros) no significant differences were recognised between fair values and carrying value. As at 31.12.2018 the carrying value of land and buildings using revaluation method was 170,576 thousand euros (31.12.2017: 163,308 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 also 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 2018 and 2017 buildings under construction located in Estonia with carrying value of 6,768 thousand euros (carrying value: 9,638 thousand euros as at 31.12.2017) showed no significant differences between fair values and carrying value. Buildings under construction located in Latvia (carrying value: 8,396 thousand euros as at 31.12.2018) impairment made in previous years was reversed in value by 161 thousand euros and as three objects were impaired in the amount of 184 thousand euros, in accounting period. Buildings under construction located in Latvia (carrying value: 16,685 thousand euros as at 31.12.2017) impairment made in previous years was reversed in value by 2,144 thousand euros. Buildings under construction located in Lithuania with carrying value of 103 thousand euros as at 31.12.2018 (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 31.12.2018, the carrying value of goodwill was 3,260 thousand euros (2017: 3,260 thousand euros). In 2018, no recognition of impairment of goodwill was necessary. 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. More detailed information is disclosed in Note 14.
- *Estimation of the useful lives of property, plant and equipment:* the Group owns several sales areas completed in the recent past, 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 2018 would have decreased by 327 thousand euros (335 thousand euros for 2017).

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.

Financial assets of the Group 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 2018, the 6-month EURIBOR increased from -0.271% at the beginning of the year to the year-end -0.237%. In the beginning of 2019, EURIBOR has been continued small decline. Business analysts estimate that EURIBOR will not rise in 2019 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 2018 (31 December 2017: 1 percentage point), the Group's financial cost would have increased by 989 thousand euros (2017: 1,021 thousand euros). Had the interest rates been 0.1 percentage point lower as at 31 December 2018, the Group's financial cost would have decreased by 99 thousand euros (as at 31 December 2017 changed by 0.1 percentage point and by 102 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

	31.12.2018	31.12.2017
Rates changing during 3 months	8,765	26,208
Rates changing during 3 – 6 months	74,013	51,850
Total borrowings at floating interest rate	**82,778**	**78,058**
Total borrowings	**94,315**	**103,550**

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 70% 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 credit risk.

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

	31.12.2018	31.12.2017
Aa2	35,987	0
Aa3	0	33,016
A1	0	3
A3	32	3
Total	**36,019**	**33,019**

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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 2018, the maximum credit risk arising from receivables is in the amount of 13,432 thousand euros (2017: 12,398 thousand euros).

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

	31.12.2018	31.12.2017
Not due	11,916	11,473
Incl. receivables from card payments	*2,342*	*1,923*
Incl. trade receivables	*8,925*	*8,913*
Incl. other receivables	*649*	*637*
Overdue < 3 months	1,273	789
Overdue 3 - 6 months	58	69
Overdue 6 - 12 months	40	14
Overdue > 12 months	145	53
Total receivables	**13,432**	**12,398**

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.

Customers with overdue receivables are also the Group's suppliers whose liabilities exceed the amount of receivables.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses (ECLs), the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking (including macroeconomic) information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The discount on cash and bank accounts and receivables at 31 December 2018 and 1 January 2018 (date of application of IFRS 9) on the basis of the principles described above was insignificant.

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 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 31.12.2018
Borrowings	2,003	24,791	16,523	53,558	0	96,875
Financial liabilities (Note 17)	74,058	0	0	0	0	74,058
Total	**76,061**	**24,791**	**16,523**	**53,558**	**0**	**170,933**

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**

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2018 and 31.12.2017, have been used.

As at the end of the financial year, the Group had available funds in the amount of 37,235 thousand euros (2017: 33,662 thousand euros). The Group follows its established credit risk management strategy when investing its cash flow surplus. As at 31 December 2018, the Group had placed no deposits into the joint group account through its parent company NG Investeeringud OÜ (0 euros as at 31.12.2017 was deposited).

Working capital was positive by 14,762 thousand euros on 31 December 2018 (2017: negative 14,782 thousand euros). The positive change in working capital was due to a slight decrease in investments and the restructuring of loans in the accounting year. The quick ratio of the Group (current assets minus inventories / current liabilities) have increased in 2018 and is 0.46. In 2017, the corresponding figure was 0.35. 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 pre-serve 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 2018, the ratio was 20% and compared to 31 December 2017 when the ratio was 25%, it has improved further due to the increase in available funds and the decrease in loan liabilities during the reporting period.

in thousands of euros

	31.12.2018	31.12.2017
Interest-bearing liabilities (Note 15)	94,315	103,550
Cash and cash equivalents (Note 5)	-37,235	-33,662
Net debt	**57,080**	**69,888**
Equity	225,617	208,016
Total equity and net debt	**282,697**	**277,904**
Debt to equity ratio*	20%	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

	31.12.2018	31.12.2017
Cash on hand	1,216	643
Bank accounts	35,006	29,866
Cash in transit	1,013	3,153
Total cash and cash equivalents	**37,235**	**33,662**

Note 6 Trade and other receivables

in thousands of euros

	31.12.2018	31.12.2017
Trade receivables (Note 7)	12,782	11,761
Other receivables form related parties (Note 26)	1	0
Other short-term receivables	614	602
Total financial assets from balance sheet line "Trade and other receivables"	**13,397**	**12,363**
Prepayment for inventories	2,008	2,993
Other prepaid expenses	633	701
Prepaid rental expenses	39	34
Prepaid taxes (Note 18)	16	36
Total trade and other receivables	**16,093**	**16,127**

Note 7 Trade receivables

in thousands of euros

	31.12.2018	31.12.2017
Trade receivables	10,157	9,450
Provision for impairment of trade receivables	-7	-4
Receivables from related parties (Note 26)	290	392
Credit card payments (receivables)	2,342	1,923
Total trade receivables	**12,782**	**11,761**

Note 8 Inventories

in thousands of euros		
	31.12.2018	31.12.2017
Goods purchased for resale	77,418	75,068
Raw materials and materials	794	748
Total inventories	**78,212**	**75,816**

The income statement line "Cost of sales" includes the allowances and write-off expenses of inventories and inventory stocktaking deficit which in 2018 amounted to 11,798 thousand euros (2017: 10,918 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 2018, the allowance account amounted to 1,070 thousand euros (31.12.2017: 1,123 thousand euros).

The Group's cost of goods sold in 2018 amounted 507,182 thousand euros (2017: 484,760 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 and a security deposit of inventories was set as a pledge for the financing agreements; information on pledged assets is disclosed in Note 25.

Note 9 Subsidiaries

Tallinna Kaubamaja Grupp AS as at 31.12.2018 consists of:

Name	Location	Area of activity	Ownership 31.12.2018	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
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, Perkunkiemio g.2	Retail trade	100%	2007
TKM Beauty OÜ	Tallinn Gonsiori 2	Retail trade	100%	2007
TKM Beauty Eesti OÜ	Tallinn Gonsiori 2	Retail trade	100%	2007
TKM King AS	Tallinn Betooni 14	Retail trade	100%	2008
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 2018 and 2017, there were no business combinations. In 2018, SIA Selver Latvia was liquidated. New subsidiaries in 2017 are founded by parent company. Ownership as at 31.12.2018 has remained the same as at 31.12.2017.

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

Subsidiaries and associates:	*Equity as at 31.12.2018*	*Voting rights 31.12.2018*
Kaubamaja AS	*13,522 TEUR*	*100%*
Selver AS	*25,386 TEUR*	*100%*
Kulinaaria OÜ	*5,905 TEUR*	*100%*
KIA Auto AS	*6,966 TEUR*	*100%*
Tallinna Kaubamaja Kinnisvara AS	*178,340 TEUR*	*100%*
Tartu Kaubamaja Kinnisvara OÜ	*37,506 TEUR*	*100%*

Note 10 Investments in associates

in thousands of euros

Tallinna Kaubamaja Grupp AS has ownership of 50% (2017: 50%) interest in the entity AS Rävala Parkla which provides the services of a parking house in Tallinn.

	31.12.2018	31.12.2017
Investment in the associate at the beginning of the year	1,724	1,762
Profit for the reporting period under equity method	214	162
Dividends received	-200	-200
Investment in the associate at the end of the year	1,738	1,724

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

	31.12.2018	31.12.2017
Current assets	58	29
Non-current assets	3,521	3,471
Current liabilities	104	53
Revenue	605	507
Net profit	428	323

Note 11 Long-term trade and other receivables

in thousands of euros

	31.12.2018	31.12.2017
Prepaid rental expenses	53	52
Deferred tax asset	25	27
Other long-term receivables	35	35
Total long-term trade and other receivables	113	114

Note 12 Investment property

in thousands of euros

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**
Reclassification (Note 13)	10,559
Disposal	-637
Net gain from fair value adjustment	42
Carrying value as at 31.12.2018	**59,866**

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 as at 31.12.2018 and 31.12.2017. Property in Rae municipal Peetri was reclassified as investment property from property, plant and equipment in 2017. In Latvia, Rezekne commercial building and property classified as investment property, which the Group maintains for earning rental income.

In current year, three objects in Latvia were reclassified as investment property in the amount of 9,388 thousand euros. Properties with commercial buildings, which the Group maintains predominantly for earning rental income.

In 2018, Tartu Kaubamaja Shopping Centre renovation amounted to 201 thousand euros (2017: 157 thousand euros). Gas station at Peetri Selver was completed and classified as investment property at value of 970 thousand euros (Note 10). In the reporting period in Harju county, in Peetri, Veesaare road 5 a property was sold.

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 not used as basis for the valuation in 2018 (2017: four objects) and for three objects (2017: 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 2018. Discount rates 8.5%–10.0% (2017: 8.5% - 10.0%) depending on the location of the property and rental income growth rates 1.5–2.0% (2017: 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 rate 9.0% - 11% (2017: 10.0%) and rental income growth rates 1.0%–2.5% (2017: 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 2018 in Estonia, the net fair value adjustment of investment property resulted in gain in the amount of 97 thousand euros and loss in the amount of 11 thousand euros (2017: gain in 1,081 thousand euros). As a result of the valuation in 2018 in Latvia, the net fair value adjustment of investment property resulted in gain in the amount of 626 thousand euros and loss in the amount of 670 thousand euros. No fair value change of investment property in Latvia was identified in and 2017. Net fair value adjustment of investment property is recorded in the income statement line "Other operating income" in the amount of 42 thousand euros.

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 +5,715/-5,715 thousand euros (2017: +4,887/-4,729 thousand euros). If the discount rates used for determing fair value would change +/- 0.5% then the fair value of investment properties would change -1,055/+1,083 thousand euros (2017: -804/+985 thousand euros).

The Group's investment properties carried at fair value as at 31.12.2018 and 31.12.2017 are measured at level 3.

In 2018, the Group's rental income on investment properties amounted to 3,523 thousand euros (2017: 3,353 thousand euros). Direct property management expenses amounted to 1,124 thousand euros (2017: 1,120 thousand euros).

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

In thousands of euros	31.12.2018	31.12.2017
due in less than 1 year	3,898	3,362
due between 1 and 5 years	10,257	10,603
due after 5 years	6,264	3,589
Total	**20,419**	**17,554**

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

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Note 13 Property, plant and equipment

in thousands of euros

	Land and buildings	Machinery and equipment	Other fixtures and fittings	Construction in progress and prepayments	Total
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 among property, plant and equipment groups	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**
Changes occurred in 2018					
Purchases and improvements	700	1,277	1,459	12,555	15,991
Reclassification among property, plant and equipment groups	5,379	3,146	3,638	-12,163	0
Reclassification to intangible assets (Note 14)	0	0	0	-140	-140
Reclassification to investment property (Note 12)	-9,388	0	0	-1,171	-10,559
Reclassification to inventory	0	-372	0	0	-372
Disposals	-10	-25	-5	-9,285	-9,325
Write-offs	-40	-22	-34	-1	-97
Decrease/increase in value through profit or loss	171	0	0	-23	148
Increase in value through revaluation reserve	15,266	0	0	0	15,266
Depreciation	-4,810	-3,529	-4,361	0	-12,700
31.12.2018					
Cost or revalued amount	170,576	40,456	41,235	27,579	279,846
Accumulated depreciation and decrease in value	0	-27,697	-28,234	-11,228	-67,159
Carrying value	**170,576**	**12,759**	**13,001**	**16,351**	**212,687**

Investments in non-current assets

The cost of investments for the 2018 amounted to 16,086 thousand euros (including purchases of property, plant and equipment in the amount of 15,991 thousand euros and purchases of intangible assets amounted to 95 thousand euros).

The cost of purchases of property, plant and equipment made in 2018 in the supermarkets business segment was 8,842 thousand euros. In the reporting period, in Tallinn T1 shopping centre T1 Selver and in Põhja-Tallinn Kolde Selver were opened. Additionally, construction of e-shop storage continued, computing technology for SelveEkspress self-service cashers and renewed store fittings were purchased.

The cost of purchases of property, plant and equipment in the business segment of department stores amounted to 2,415 thousand euros. In the reporting period, renovation of department store in Tartu took place and store fittings and computing technology was purchased.

The cost of purchases of property, plant and equipment in the reporting period was 659 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 242 thousand euros.

The cost of purchases of property, plant and equipment in the real estate business segment amounted to 3,833 thousand euros. In the reporting period the construction work of the gas station in Rae municipality, Raudkivi road and at the intersection of the Tartu road, next to Selver store in Peetri municipality were finished. According to the lease contract, part of the cost of the gas station was sold to the lessee. Gas station is a part of developments of Peetri Selver and was leased out to Circle K for a long term. Gas station is accordingly reclassified as investment property (Note 13). In the reporting period in Tallinn, Sõle 31, Kolde Selver construction work were carried out. Additionally renovation of Tartu Kaubamaja centre took place.

In the reporting period, seven items of the “Buildings under construction” located in Latvia were sold at selling price of 9,000 thousand euros, profit on sale 395 thousand euros is recorded on other operating income line.

As of 31.12.2018 and 31.12.2017 Tallinna Kaubamaja Grupp AS companies had no commitments to purchase fixed assets.

At the year-end 2018, the fair value of “Land and buildings” and recoverable amount of “Buildings under construction” 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”

The evaluation of non-current assets has been performed every year end. In a view of changes of global economy and growth the management of the Group reached to a point that the value of “Land and buildings“ has changed significantly.

As a result of the revaluation the value of “Land and buildings” located in Estonia increased by 14,280 thousand euros in 2018, which was recognized through revaluation reserve and through profit and the impairment from previous years was reversed by 171 thousand euros which was recognized through profit and loss. As the result of the valuation in 2017, the book value of “Land and buildings” located in Estonia was not adjusted in 2017. As a result of the revaluation the value of “Land and buildings” located in Latvia increased by 986 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. As a result of valuation, the change in the fair value of “Land and buildings” located in Lithuania was not identified in 2018 and 2017.

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 six properties in 2018 (2017: 5 properties). The same expert also provided an expert opinion with regard to the discount and capitalisation rates in respect of 18 properties (2017: 19 properties). The discount rates used for estimation were 8.0% -11.5% (2017: 8.5% - 11.5%) depending on the location of the property and the rental growth rates were 1.0% - 2.5% (2017: 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 2018 (2017: one object). For determining the value of three properties of "Land and buildings" located in Latvia as at 31.12.2017, valuation of a certified independent real estate expert was used with regard to the discount and capitalisation rates used. The discount rate used for valuation was 9.5% (2017: 10.0% - 12.0%) and the growth rates of rental income were 2.5% (2017: 1.1% - 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 2018	Valuation method	Unobser-vable inputs	Range of unobservable inputs (eur)	Relationship of unobservable inputs to fair value
PPE items in Estonia, for which an expert opinion was provided	28,354	Discounted cash flow method	Price per square metre	6.0-13.1	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	136,825	Discounted cash flow method	Price per square metre	8.5-18.2	The higher the price per square metre, the higher the fair value
PPE items in Latvia, for which an expert opinion was provided	3,520	Discounted cash flow method	Price per square metre	7.45	The higher the price per square metre, the higher the fair value
Item in Lithuania	1,877	Purchased at fair value on 2017			
Total	**170,576**				

In thousands of euros	Fair value at 31 December 2017	Valuation method	Unobser-vable inputs	Range of unobservable inputs (eur)	Relationship of unobservable inputs to fair value
PPE items in Estonia, for which an expert opinion was provided	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**				

Determination of recoverable amounts of “Buildings under construction”

In 2018 and 2017, the value of the “Buildings under construction” located in Estonia were valued internally based on the value in use.

The “Buildings under construction” located in Latvia, the valuations of a certified independent real estate expert was used in respect of two items (2017: 0 objects) and the rest five objects (2017: 6 objects) were valued internally based on the value in use in 2018. For valuation purposes, the discount rates used were 11.0%- 12.5% depending on the location of the item, and the growth of rental income rates were 1.0% - 1.5% in 2018. 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 2018 and 2017, the book value of Estonian “Buildings under construction” was not adjusted. In 2018, the impairment from previous years of “Buidings under construction” located in Latvia was reversed by 161 thousand euros which was recognized through profit and loss. An impairment in the amount of 184 thousand euros was recognised through profit and loss in respect of Latvian “Buildings under construction” in 2018.

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 2017, the impairment from previous years of “Buildings under construction” located in Latvia was reversed by 2,388 thousand euros which was recognized through profit and loss. In addition, impairment by 244 thousand euros was additionally recognised through profit and loss.

“Buildings under contruction” located in Lithuania with carrying value of 103 thousand euros as at 31.12.2018 (carrying value: 25 thousand euros as at 31.12.2017) showed no significant differences between fair values and carrying value.

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:

31.12.2018 83,527 thousand euros

31.12.2017 93,063 thousand euros

Carrying amounts of “Buildings under construction”:

In thousands of euros	Number of items 31.12.2018	31.12.2018	Number of items 31.12.2017	31.12.2017
PPE items in Estonia, for which an internal estimate was provided	10	6,605	14	9,592
Remaining PPE items in Estonia	2	163	3	46
PPE items in Latvia, for which an expert opinion was provided	2	816	0	0
PPE items in Latvia, for which an internal estimate was provided	5	7,580	6	8,080
PPE items in Latvia, for which pre-selling contracts concluded	0	0	7	8,605
PPE item in Lithuania	1	103	1	25
Total	**20**	**15,267**	**31**	**26,348**

As at 31.12.2018 the cost of fully amortized non-current assets (machinery, equipment and other fittings) in use was 34,409 thousand euros (2017: 30,570 thousand euros).

As at 31.12.2018, property, plant and equipment with the carrying value of 104,958 thousand euros (2017: 137,436 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 31.12.2018 the recoverable amount of the non-current assets of I.L.U. beauty stores (carrying value: 125 thousand euros, in 2017: 224 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 2019-2023 (2017: 2018 – 2022 is estimated to be 3.0%). In the end of 2018 I.L.U chain owned five stores. The sales growth was forecast on the basis of Group's long-term sales experience of beauty products. The discount rate applied is 8.5% (2017: 10.8%) 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
31.12.2016					
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**
Changes occurred in 2018					
Purchases and improvements	0	0	0	95	95
Reclassification (Note 13)	0	0	0	140	140
Amortisation	0	-497	0	-280	-777
31.12.2018					
Cost	3,260	5,277	0	1,602	10,139
Accumulated amortisation and impairment	0	-4,080	0	-926	-5,006
Carrying value	**3,260**	**1,197**	**0**	**676**	**5,133**

In the reporting period, the Group capitalised costs of a web page update and e-shop as development expenditure in the amount of 95 thousand euros (2017: 69 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 2017, a trademark of ABC King was impaired in the amount of 66 thousand euros. Carrying value of a trademark as at 31.12.2018 amounted to 977 thousand euros (31.12.2017: 1,221 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 2018 and 2017.

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

in thousands of euros	31.12.2018	31.12.2017
Car trade	3,156	3,156
Department stores	104	104
Total	**3,260**	**3,260**

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

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. Other assets in footwear trade amounted to 1,340 thousand euros as at 31.12.2018 (31.12.2017: 1,518 thousand euros).

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

	Car trade		Footwear trade	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Operating profit margin during next 5 years	3,87% - 4,09%	3.51% -3.96%	2,82% - 3,95%	-4.85% - 0.49%
Discount rate	5,93%	7.2%	7,6%	10.3%
Sales growth during next 5 years	3% - 5%	3.0% - 5.0%	3% - 13,7%	-5.9% - 3.0%
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. Management estimates that any reasonable change in assumptions does not materially affect the results of value in use calculations.

Note 15 Interest bearing borrowings

in thousands of euros

	31.12.2018	31.12.2017
Short-term borrowings		
Overdraft	7,354	7,811
Bank loans	16,424	45,002
Other borrowings	2,224	2,005
Total short-term borrowings	**26,002**	**54,818**

	31.12.2018	31.12.2017
Long-term borrowings		
Bank loans	68,202	48,570
Other borrowings	111	162
Total long-term borrowings	**68,313**	**48,732**
Total borrowings	**94,315**	**103,550**

Borrowings received

	2018	2017
Overdraft	0	4,794
Bank loans	79,020	60,392
Other borrowings	5,040	3,327
Total borrowings received	**84,060**	**68,513**

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Borrowings repaid

	2018	2017
Overdraft	457	0
Bank loans	87,965	62,132
Other borrowings	4,873	3,455
Total borrowings repaid	**93,295**	**65,587**

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 31.12.2018, the repayment dates of bank loans are between 28.01.2019 and 12.12.2023 (2017: between 30.04.2018 and 15.11.2022), interest is tied both to 3-month and 6-month EURIBOR as well as EONIA. Group has also contracts with fixed interest rate. Weighted average interest rate was 1.06% (2017: 0.93%). Also see Note 29.

Net debt reconciliation
in thousands of euros

	31.12.2018	31.12.2017
Cash and cash equivalents (Note 5)	37,235	33,662
Short-term borrowings	-26,002	-54,818
Long-term borrowings	-68,313	-48,732
Net debt	**-57,080**	**-69,888**
Cash and cash equivalents (Note 5)	37,235	33,662
Gross debt – fixed interest rates	-11,537	-25,493
Gross debt – variable interest rates	-82,778	-78,057
Net debt	**-57,080**	**-69,888**

	Cash and cash equivalents	Overdraft	Borrowings due within 1 year	Borrowings due after 1 year	Total
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**
Cash flows	3,573	457	28,359	-19,581	12,808
Net debt 31.12.2018	**37,235**	**-7,354**	**-18,648**	**-68,313**	**-57,080**

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	31.12.2018	31.12.2017
due in less than 1 year	17,815	17,158
due between 1 and 5 years	57,233	59,789
due after 5 years	45,389	50,018
Total	**120,437**	**126,965**

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	31.12.2018	31.12.2017
due in less than 1 year	2,444	2,352
due between 1 and 5 years	7,533	7,396
due after 5 years	1,712	2,815
Total	**11,689**	**12,563**

Group as the lessor – operating lease agreements

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	31.12.2018	31.12.2017
due in less than 1 year	3,366	3,639
due between 1 and 5 years	8,064	10,133
due after 5 years	5,627	2,668
Total	**17,057**	**16,440**

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

	31.12.2018	31.12.2017
Trade payables	67,266	61,919
Payables to related parties (Note 26)	3,965	3,750
Other accrued expenses	145	116
Prepayments by tenants	2,682	3,666
Total financial liabilities from balance sheet line “Trade and other payables”	**74,058**	**69,451**
Taxes payable (Note 18)	8,089	7,896
Employee payables	6,916	6,461
Prepayments	1,630	1,671
Short-term provisions*	82	90
Total trade and other payables	**90,775**	**85,569**

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

Note 18 Taxes

in thousands of euros

	31.12.2018		31.12.2017	
	Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Prepaid taxes (Note 6)	16	0	36	0
Value added tax	0	4,022	0	3,949
Personal income tax	0	948	0	970
Social security taxes	0	2,737	0	2,498
Corporate income tax	0	74	0	192
Unemployment insurance	0	180	0	164
Mandatory funded pension	0	128	0	123
Total taxes	**16**	**8,089**	**36**	**7,896**

Group's deferred income tax asset as at 31 December 2018 and 31 December 2017 is recorded in the balance sheet in the amount of 25 thousand euros and 27 thousand euros respectively. As at 31 December 2018 and 31 December 2017 the Group did not have deferred income tax liabilities.

in thousands of euros

	2018	2017
Corporate income tax expense from payments to owners:		
· Dividends declared (Note 19)	6,249	6,371
Corporate income tax expense arising from foreign subsidiaries:		
· Corporate income tax payable	50	295
Total corporate income tax	**6,299**	**6,666**

Note 19 Share capital

As at 31.12.2018 and 31.12.2017, 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 2018, dividends were declared to the shareholders in the amount of 28,103 thousand euros, or 0.69 euros per share (2017: 25,659 thousand euros, 0.63 euros per share). Related income tax expense on dividends amounted to 6,249 thousand euros (2017: 6,371 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 stores, supermarkets, 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 stores 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. Among the others, 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 development, 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

2018	Super markets	Depart-ment store	Car trade	Footwear trade	Real estate	Inter-segment transactions	Total seg-ments
External revenue	**450,098**	**100,883**	**114,934**	**9,828**	**5,438**	**0**	**681,181**
Inter-segment revenue	1,201	6,452	83	126	12,900	-20,762	0
Total revenue	451,299	107,335	115,017	9,954	18,338	-20,762	681,181
EBITDA	**24,562**	**6,095**	**5,125**	**159**	**14,817**	**0**	**50,758**
Depreciation and amortisation (Note 13, 14)	-6,089	-2,566	-336	-415	-4,020	0	-13,426
Operating profit/loss	**18,473**	**3,529**	**4,789**	**-256**	**10,797**	**0**	**37,332**
Finance income (Note 23)	302	396	0	1	28	-726	1
Finance income on shares of associates (Note 10)	0	214	0	0	0	0	214
Finance costs (Note 23)	-140	-341	-347	-128	-580	726	-810
Corporate income tax* (Note 18)	-4,050	-939	-792	0	-518	0	-6,299
Net profit/loss	**14,585**	**2,859**	**3,650**	**-383**	**9,727**	**0**	**30,438**
incl. in Estonia	14,603	2,859	3,009	-383	11,303	0	31,391
incl. in Latvia	-18	0	377	0	-1,532	0	-1,173
incl. in Lithuania	0	0	264	0	-44	0	220
Segment assets	**99,816**	**72,081**	**33,432**	**5,069**	**263,158**	**-62,479**	**411,077**
Segment liabilities	**74,434**	**38,914**	**22,758**	**8,218**	**83,575**	**-42,439**	**185,460**
Segment investments in property, plant and equipment (Note 13)	8,842	2,415	659	242	3,833	0	15,991
Segment investments in intangible assets (Note 14)	93	0	2	0	0	0	95
Reversal of the impairment from previous years of property, plant and equipment through profit or loss (Note 13)	0	0	171	0	0	0	171
Impairment of property, plant and equipment through profit or loss (Note 13)	0	0	0	0	-23	0	-23
Increase in value through revaluation reserve of property, plant and equipment (Note 13)	81	0	0	0	15,185	0	15,266
Fair value adjustment of investment property (Note 12)	0	0	0	0	42	0	42

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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 13)	8,662	1,257	728	94	4,037	0	14,778
Segment investments in intangible assets (Note 14)	1	52	0	0	16	0	69
Increase in value of property, plant and equipment through profit or loss (Note 13)	0	0	0	0	2,388	0	2,388
Impairment of property, plant and equipment through profit or loss (Note 13)	0	0	0	0	-244	0	-244
Impairment of intangible assets (Note 14)	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

*- 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 1,704 thousand euros (2017: 1,684 thousand euros), loans granted in the amount of 40,734 thousand euros (2017: 38,712 thousand euros) and investments in subsidiaries in the amount of 20,040 thousand euros (2017: 18,897 thousand euros).

Inter-segment transactions in line segment liabilities comprise inter-segment short-term liabilities in the amount of 1,704 thousand euros (2017: 1,684 thousand euros) and inter-segment borrowings in the amount of 40,734 thousand euros (2017: 38,712 thousand euros).

External revenue according to types of goods and services sold

in thousands of euros

	2018	2017
Retail revenue	620,048	592,768
Wholesale revenue	32,736	28,731
Rental income	9,737	9,317
Revenue for rendering services	18,660	20,441
Total revenue	**681,181**	**651,257**

External revenue by client location

in thousands of euros

	2018	2017
Estonia	637,332	606,723
Latvia	28,703	31,421
Lithuania	15,146	13,113
Total	**681,181**	**651,257**

Distribution of non-current assets* by location of assets

in thousands of euros

	31.12.2018	31.12.2017
Estonia	253,506	236,060
Latvia	22,218	32,112
Lithuania	2,075	1,994
Total	**277,799**	**270,166**

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

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

Note 21 Other operating expenses

in thousands of euros

	2018	2017
Rental expenses	17,236	16,288
Heat and electricity expenses	7,576	7,644
Operating costs	7,394	6,730
Cost of services and materials related to sales	5,466	5,542
Marketing expenses	7,720	7,512
Miscellaneous operating expenses	3,770	3,899
Computer and communication costs	4,209	4,071
Personnel expenses	2,662	2,925
Total other operating expenses	**56,033**	**54,611**

Note 22 Staff costs

in thousands of euros

	2018	2017
Wages and salaries	51,057	46,988
Social security taxes	16,653	15,301
Total staff costs	**67,710**	**62,289**
Average wages per employee per month (euros)	993	936
Average number of employees in the reporting period	4,283	4,182

Staff costs also include accrued holiday pay as well as bonuses for 2018 but not yet paid.

Note 23 Finance income and costs

in thousands of euros

Finance income

	2018	2017
Other finance income	1	1
Total finance income	**1**	**1**

Finance costs

	2018	2017
Interest expense of bank loans	-703	-678
Interest expense of other loans	-31	-21
Other finance costs	-76	-74
Total finance costs	**-810**	**-773**

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.

	2018	2017
Net profit (in thousands of euros)	30,438	29,831
Weighted average number of shares	40,729,200	40,729,200
Basic and diluted earnings per share (euros)	0.75	0.73

Note 25 Loan collateral and pledged assets

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

in thousands of euros

	31.12.2018	31.12.2017
Land and buildings	104,838	137,244
Other non-current assets	120	192
Investment property	54,298	44,737
Inventories	4,970	13,971
Cash and cash equivalents	0	100
Financial assets	153	158

As at 31 December 2018 land and buildings in carrying value of 104,958 thousand euros (as at 31.12.2017 carrying value of 137,436 thousand euros) and investment property in carrying value of 54,298 thousand euros (31.12.2017: 44,737 thousand euros) was mortgaged. Inventories at balance sheet value of 3,549 thousand euros (as at 31.12.2017 at balance sheet value of 4,566 thousand euros), cash and cash equivalents at balance sheet value of 0 euros (as at 31.12.2017: 100 thousand euros) and financial assets at balance sheet value of 153 thousand euros (as at 31.12.2017 at balance sheet value of 158 thousand euros) were set under commercial pledge. A security deposit of inventories, with a balance sheet value of 1,421 thousand euros, was set as a pledge for the financing agreements (31.12.2017: 9,405 thousand 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:

a. owners (Parent and the persons controlling or having significant influence over the Parent);
b. associates;
c. other entities in the Parent's consolidation group;
d. management and supervisory boards of Group companies;
e. 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 2018	Sales 2018	Purchases 2017	Sales 2017
Parent	325	16	501	38
Entities in the Parent's consolidation group	26,135	3,298	25,918	4,214
Members of management and supervisory boards	10	40	0	87
Other related parties	498	16	811	133
Total	**26,968**	**3,370**	**27,230**	**4,472**

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.

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Balances with related parties:

	31.12.2018	31.12.2017
Receivables from entities in the Parent's consolidation group (Note 7)	290	392
Members of management and supervisory boards (Note 6)	1	0
Total receivables from related parties	**291**	**392**

	31.12.2018	31.12.2017
Parent	19	19
Entities in the Parent's consolidation group	3,934	3,696
Other related parties	12	35
Total liabilities to related parties (Note 17)	**3,965**	**3,750**

Receivables from and liabilities to related parties, arisen in the normal course of business, 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, the Group as a subgroup is a member of the group account of NG Investeeringud OÜ (hereinafter head group). From 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 2018, the Group has not earned interest income on its deposits of available funds (2017: 0 euros).

As at 31 December 2018 and 31 December 2017 Tallinna Kaubamaja Grupp AS had not deposited any funds through head group and had not used available funds of head group. 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 1,990 thousand euros (2017: 1,815 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 628 thousand euros (2017: 565 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 31.12.2018, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja Grupp AS:

Andres Järving	Represents 4,795,909 (11.78%) shares of Tallinna Kaubamaja Grupp AS
Jüri Käo	Represents 4,768,606 (11.71%) shares of Tallinna Kaubamaja Grupp AS
Enn Kunila	Represents 4,692,346 (11.52%) shares of Tallinna Kaubamaja Grupp AS
Raul Puusepp	Owns 10,542 (0.0259%) shares of Tallinna Kaubamaja Grupp AS

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

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

Shareholders	31.12.2018 Ownership interest	31.12.2017 Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%
ING Luxembourg S.A.	5.57%	6.92%

As at 31 December 2018, 68.75% of the shares (31 December 2017: 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 2018, the retained earnings of Tallinna Kaubamaja Grupp AS were 111,284 thousand euros (31 December 2017: 107,252 thousand euros). Payment of dividends to owners is accompanied by income tax expense 20/80 on the amount paid as net dividends. From 2019, it is possible to use more beneficial tax rate, 14/86, for the dividends regularly paid out. Hence, of the retained earnings existing as of the balance sheet date, the owners can be paid 89,589 thousand euros as dividends (31 December 2017: 85,802 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 21,695 thousand euros (31 December 2017: 21,450 thousand euros), taking into account possibility to use more beneficial tax rate.

Contingent liabilities relating to bank loans

Regarding the loan agreements in the amount of 83,205 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 2018, there is a breach in the financial covenants in one loan agreement amounted to 2,947 thousand euros. Loan in the amount of 2,947 thousand euros is recorded as short-term liability as at 31.12.2018.

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 2017 and 2018 the tax authority did not conduct any inspections. The management of the Group is not aware of any circumstances which may give rise to a potential material liability in this respect.

Contingent liabilities relating to lease company

AS Viking Motors, a subsidiary of the group, has potential liabilities for the repurchase of vehicles from leasing companies at the end of the leasing period for an amount of 15,638 thousand euros (10,831 thousand euros at the end of 2017). AS Viking Motors is obliged to buy the vehicle back if the lessee and the leasing company do not wish to realise the preferential purchasing rights arising from their contract. The book value of the asset (repurchase price) is agreed according to the forecast mileage and the car brand. The group management estimates that the probability of realisation of the obligation to buy back vehicles is low and the market price of vehicles is higher than the cost, so the obligation to buy back does not have a negative impact on the Group. In 2018 and 2017, the Group has not made any loss-making repurchases.

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

	31.12.2018	31.12.2017
ASSETS		
Current assets		
Cash and cash equivalents	5,599	10,233
Trade and other receivables	13,909	11,266
Total current assets	**19,508**	**21,499**
Non-current assets		
Shares of subsidiaries	228,296	217,789
Share of associates	1,738	1,724
Property, plant and equipment	68	131
Intangible assets	321	323
Total non-current assets	**230,423**	**219,967**
TOTAL ASSETS	**249,931**	**241,466**
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	125	1,488
Trade and other payables	1,001	911
Total current liabilities	**1,126**	**2,399**
Non-current liabilities		
Borrowings	25,000	25,125
Total non-current liabilities	**25,000**	**25,125**
TOTAL LIABILITIES	**26,126**	**27,524**
Equity		
Share capital	16,292	16,292
Statutory reserve capital	2,603	2,603
Retained earnings	204,910	195,047
TOTAL EQUITY	**223,805**	**213,942**
TOTAL LIABILITIES AND EQUITY	**249,931**	**241,466**

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	2018	2017
Revenue	3,287	3,087
Other operating income	1	2
Other operating expenses	-538	-806
Staff costs	-2,810	-2,588
Depreciation, amortisation and impairment	-170	-159
Other expenses	-19	-16
Operating loss	-249	-480
Interest income and expenses	143	343
Other finance income and costs	38,072	35,345
Total finance income and costs	38,215	35,688
Profit before income tax	37,966	35,208
NET PROFIT FOR THE FINANCIAL YEAR	37,966	35,208
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	37,966	35,208
Basic and diluted earnings per share (euros)	0.93	0.86

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CASH FLOW STATEMENT

in thousands of euros

	2018	2017
CASH FLOWS FROM/USED IN OPERATING ACTIVITIES		
Net profit	37,966	35,208
Adjustments:		
Interest expense	*340*	*442*
Interest income	*-483*	*-785*
Effect of equity method	*-38,072*	*-35,345*
Depreciation, amortisation	*170*	*159*
Change in receivables and prepayments related to operating activities	-43	2,715
Change in liabilities and prepayments related to operating activities	89	-60
TOTAL CASH FLOWS FROM/USED IN OPERATING ACTIVITIES	-33	2,334
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-105	-113
Interest received	483	785
Change in the receivable of group account	-2,027	-26,200
Investments in subsidiaries	-1,142	0
Repayment of loans granted to subsidiaries	0	10,000
Purchases of intangible assets	0	-52
Dividends received	28,120	25,685
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	25,329	10,105
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of borrowings	-1,488	-1,473
Proceeds from borrowings from subsidiaries	0	25,000
Interest paid	-340	-442
Dividends paid	-28,102	-25,659
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES	-29,930	-2,574
TOTAL CASH FLOWS	-4,634	9,865
Cash and cash equivalents at beginning of the period	10,233	368
Cash and cash equivalents at end of the period	5,599	10,233
Net increase/decrease in cash and cash equivalents	-4,634	9,865

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STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Retained earnings	Total
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
Dividends paid	0	0	-28,103	-28,103
Profit for the reporting period	0	0	37,966	37,966
Balance as of 31.12.2018	16,292	2,603	204,910	223,805

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 2018, 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 2018;
- 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

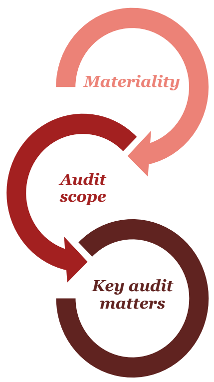
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities 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 § 59^1 of the Auditors Activities Act of the Republic of Estonia.

The non-audit services that we have provided to the Group, in the period from 1 January 2018 to 31 December 2018, are disclosed in the management report.

Our audit approach

Overview



Materiality

Overall group materiality is 6.8 million euros, which represents 1% of consolidated revenues.
Specific materiality applied to property, plant and equipment and investment properties is 3.9 million euros, which represents 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 property, plant and equipment and investment properties

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 6.8 million euros. Specific materiality of 4.1 million euros is applied to property, plant and equipment and investment properties.
How we determined it	Overall Group materiality is 1% of consolidated revenue. Specific materiality is 1% of consolidated total assets.
Rationale for the materiality benchmark applied	We have applied this benchmark, as 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. In addition, we set a specific materiality level of 4.1 million euros for property, plant and equipment and investment properties. This equates 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.

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*
Valuation of property, plant and equipment and investment properties Refer to pages 45 to 46 (Accounting Policies), page 52 (Critical accounting estimates and judgements) and pages 60 to 65 (Notes). The Group's real estate portfolio includes: • Property, plant and equipment, including land and buildings in the carrying amount of 170.6 million euros (accounted for using the revaluation method) and construction in progress in the carrying amount of 16.4 million euros (accounted for at cost) as at 31 December 2018. Total increase in value through revaluation reserve from these assets in 2018 was 15.2 million euros and the impairment from previous years was reversed through profit or loss statement by 0.2 million euros. • Investment properties in the carrying amount of 59.9 million euros (carried at fair value). Total revaluation gain recognised in 2018 profit or loss statement was 42 thousand euros.	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. 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. 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 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.

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

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

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

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

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 18 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, Viking Motors 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 and testing of material cash and cash equivalents and borrowings balances, 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 consolidated 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 being 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 10 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

Eva Jansen-Diener
Certified auditor in charge, auditor's certificate no.501

Diana Tamme
Auditor's certificate no.680

22 February 2019

* *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 2018	111,284 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 28,918 thousand euros out of retained earnings accumulated until 31 December 2018.

Raul Puusepp
Chairman of the Management Board

Tallinn, 25 February 2019

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2018

The supervisory board of Tallinna Kaubamaja Group AS has reviewed the 2018 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 2018 of Tallinna Kaubamaja Group AS:

Raul Puusepp
Chairman of the Management Board

Jüri Käo
Chairman of the Supervisory Board

Andres Järving
Member of the Supervisory Board

Enn Kunila
Member of the Supervisory Board

Meelis Milder
Member of the Supervisory Board

Gunnar Kraft
Member of the Supervisory Board

Tallinn, 25 February 2019

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	2018
64201	Holding company's activities	3,287
	Total revenue	**3,287**