



## Report of the supervisory board of Tallinna Kaubamaja Grupp AS regarding the annual report of 2020

*Translation of the Estonian original*

22 February 2020

In 2020, a complex and challenging year, Tallinna Kaubamaja Group (hereinafter the Group) managed to achieve an increase in sales revenue and maintain a large part of its profit thanks to a diverse business profile. The supermarket segment, which forms the main part of the Group's business, increased sales revenue and the three most important retail segments made a profit in demanding conditions. The supervisory board finds that the Group achieved the 2020 goals set by the supervisory board for the management.

In the spring of 2020, the Group acquired the former competitor ABC Supermarkets AS with 19 mainly small-format food stores as an important long-planned strategic step. With this step, the supermarket segment expanded its operations to previously uncovered locations and increased its market share. At the end of the reporting year, the Group expanded the operations of the security company Viking Security, which is reported in the department store business segment, by entering into an agreement whereby it will acquire the enterprise engaged in the provision of security services from P. DUSSMANN EESTI OÜ. In this exceptional year, to meet customers expectations, the Group's e-channels had to show an explosive growth of service capacity, which required a sudden and flexible reorganisation of work and additional investments. An important investment was the development of the new kitchen production complex of Kulinaaria OÜ, which enables to increase product volumes and quality, expand the product portfolio, increase customer satisfaction and occupy new markets with the help of state-of-the-art food technology and technical systems.

In 2021, several developments are planned as part of the Group's long-term profit and market share growth strategy, where in addition to meeting customer expectations and streamlining processes, we are paying more and more attention to responsibility and reducing our ecological footprint. In order to speed up the fulfilment of customer orders and ensure the reliability of e-shops, it is planned to upgrade the e-commerce software platform, which will also open several important new development opportunities. We plan to renovate up to 4 and expand up to 2 Selver stores, where cooling and refrigeration systems, lighting, and ventilation and heating equipment will be replaced with new and more energy-efficient ones during the renovation of the sales premises. By the end of the first half of 2021, it is planned to convert all Comarkets into Selver ABC stores and the Delice grocery stores will have switched to the Selver system. The final completion of the new Kulinaaria production building and the full implementation of the central kitchen business software is planned for the same period. In 2021, Kaubamaja will face significant investments in sales premises located in Viru Keskus. Developments for the Food, Beauty, and Women's Fashion Departments have been planned for the autumn of 2021. Viking Security's goals for 2021 are to expand operations in all of today's business lines, of which the integration of the part of P. Dussmann Eesti security services purchased at the end of the reporting year is important. The loyalty programme Partnerkaart, which unites the Group's companies, will focus on the development of financial services supporting retail and the creation of digital solutions to replace the physical card in 2021. The Group has considered the sustainability issues important for many years and is committed to setting both short-term and long-term goals, where the main directions for 2021 are the mapping of the Group's environmental impact, the final fixing of the Group's sustainability focus issues, and the introduction of the United Nations' Sustainable Development Goals.



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The more important activities and development plans, as listed above have been carried out in close cooperation with the supervisory board of the Group. The management board and supervisory board work closely together to protect the best interests of the Group. The management board, administrations and the supervisory board work together to develop the company's strategy. The management board and administrations follow the strategic guidelines issued by the supervisory board in management decisions. The members of the supervisory board supervise over the actions of the management board. The term of office of the Management Board member Raul Puusepp was extended on 21 February 2020 and his term of office will expire on 6 March 2023. In 2020, the supervisory board has held 12 ordinary meetings and 1 extraordinary meeting. The planning activities of the supervisory board have included the discussion and approval of the budgets and investments prepared by the management board, as well as the establishment of activity objectives and priorities. As regards the execution of supervision over the actions of the management board, the supervisory board's monthly meetings have included discussions about the economic results of the company by months, and specifications related to further action plans. In its supervisory functions, the supervisory board is supported by the audit committee of the Group, focusing on its activities mainly on risk management and the improvement of the internal control system. The audit committee also helps to coordinate the activities of internal and external auditors and discusses all the significant auditors' reports. In its monitoring activities, emphasis is put on the effectiveness of follow-up monitoring. Support to the management board and administrations are also provided. The audit committee works on a monthly basis and documents its activities in accordance with good practice.

The supervisory board of the Group is of the opinion that the management board of the Group has fulfilled its contractual obligations. The goals set by the supervisory board of the Group to the management board are increasing the Group's revenue and market share, sustainable and responsible development of areas of activity, continuous improvement of effectiveness, and maintaining customer loyalty and increasing customer satisfaction. In the new financial year, the supervisory board focuses on the organisation and management of important areas of the activity of Group.

The supervisory board of the enterprise has approved the 2020 annual report, which was prepared by the management board.

Jüri Kào

Chairman of the supervisory board

Tallinna Kaubamaja Grupp AS

(signed digitally)