Tallinna Kaubamaja Grupp AS

2020

CONSOLIDATED

ANNUAL REPORT

Translation of the Estonian original

TALLINNA KAUBAMAJA GRUPP AS
CONSOLIDATED ANNUAL REPORT 2020

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 2020, Tallinna Kaubamaja Grupp AS employed more than 4,500 employees.

Legal address:	*Kaubamaja 1*
	10143 Tallinn
	Republic of Estonia
Commercial Register no.:	*10223439*
Telephone:	*372 667 3300*
E-mail:	*tkmgroup@kaubamaja.ee*
Beginning of financial year:	*1.01.2020*
End of financial year:	*31.12.2020*
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.

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Overview of the Group’s activities

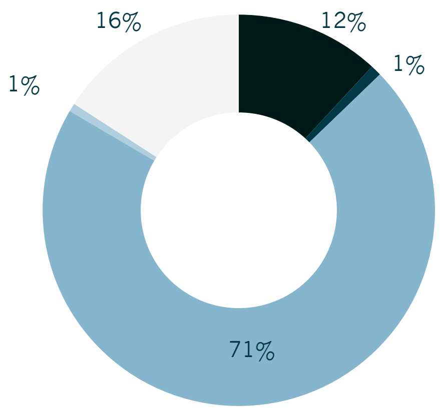
Briefly about Tallinna Kaubamaja Group

Tallinna Kaubamaja Group is the biggest retail company in Estonia. Our **4,500** employees serve customers in **112** stores, where **694,000** loyal customers make **45** million purchases a year.

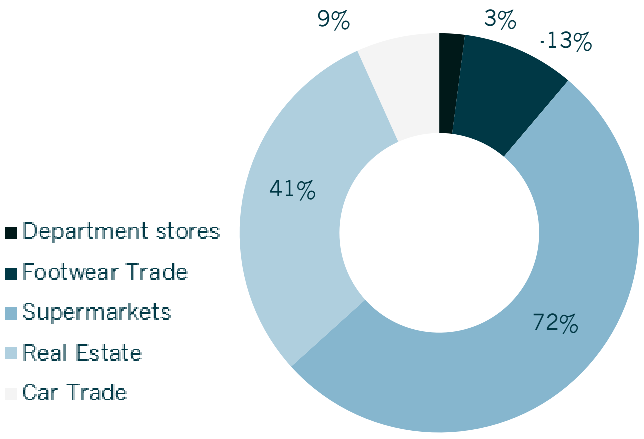
741.9
Million euros
Revenue
(2019: 717.2 million euros)

19.5
Million euros
Net profit
(2019: 31.8 million euros)

Revenue 2020



Net profit 2020



48
Cents
Net profit per share
(2019: 78 cents)

4,558
Yearly average number
Employees
(2019: 4,273)

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 businesses comply with the code of ethics. The Group has established a Code of Ethics, which summarizes and describes the most important principles that guide their activities. The Group bases its activities on laws and other legislations 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 activities The Group always 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 considers as confidential or as a business secret an information which is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; has commercial value because it is secret; and has been subject to reasonable measures under the circumstances, by the person lawfully in control of the information, to keep it secret.
- When communicating with competitors, the Group will refrain from discussing confidential information and will not use any unauthorized means or methods to obtain business secrets or other confidential information of the competitors.
- 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

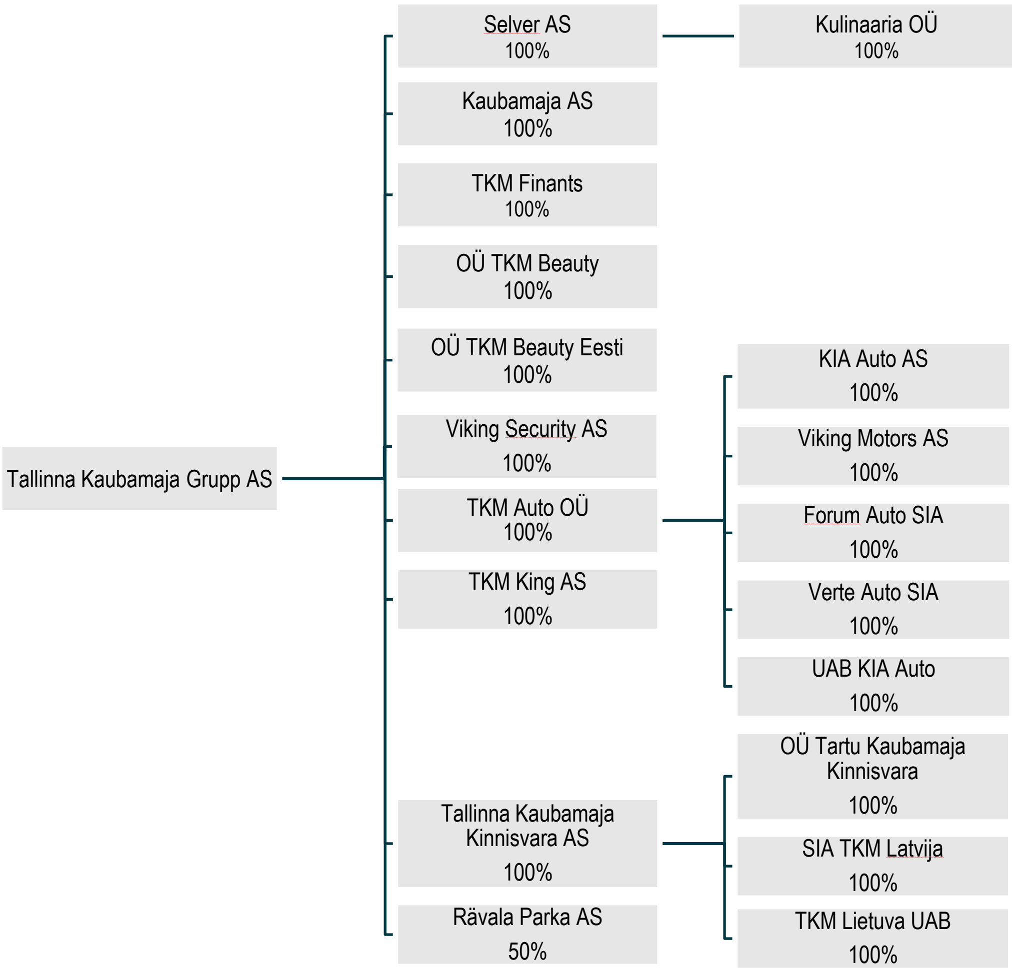
over their activity, of a situation where a conflict of interests has occurred or where there is a risk of the occurrence thereof.

- 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 a 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.

Legal structure of Tallinna Kaubamaja Group as of 31.12.2020:



The following segments may be differentiated in the activities of the Group:

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

The supermarkets segment includes the Selver store chain with 54 Selver stores, 9 Selver ABC stores, 7 Comarket stores, 2 Delice stores, the Solaris grocery store, e-Selver, the mobile store, and a café, with a total selling space of 114,500 m², as well as 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, as well as an e-store, 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 an e-store, 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 and ABC King and SHU e-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, two showrooms in Riga and one in Vilnius. In addition to KIAs, there are several car brands in the selection, such as Peugeot, Škoda, and Cadillac.

The real estate segment is involved in the management, maintenance and renting out of commercial space of real estate that belongs to the Group. The Group's real estate segment owns the sales premises of Kaubamaja in Tallinn, Tartu Kaubamaja centre, Viimsi shopping centre, 3 car showrooms and 19 Selver buildings, and several other land plots awaiting for development.

Changes during the financial year

In May 2020, 100% of the shares of ABC Supermarkets AS were acquired, which gave Selver a unique opportunity to better meet the expectations of its customers, offering customers even faster and more convenient shopping experience in additional previously uncovered locations. At the end of the reporting year, Viking Security AS entered into an agreement whereby in March 2021 it will acquire from P. DUSSMANN EESTI OÜ its security services business in Estonia together with the assets and agreements belonging to it.

With the aim of reorganising the structure of the companies of Tallinna Kaubamaja Grupp, splitting up retail sale and wholesale of beauty products and developing financial services that support retail trade, the Group's subsidiaries were restructured in 2020 and two new subsidiaries were established:

- In order to harmonise the management function and increase synergies, the Group's supermarkets were merged through a merger in which Selver AS (the acquiring company) merged its 100% owned subsidiary ABC Supermarkets AS (the acquiring company) acquired in May. The merger was entered in the Commercial Register on 01.10.2020. Following the entry of the merger in the commercial register, 16 Comarket stores will gradually be transferred to the Selver brand.
- In order to separate the operations of OÜ TKM Beauty Eesti, which is involved in the retail trade of cosmetics, from the cosmetics wholesale function (OÜ TKM Beauty), a two-stage restructuring was carried out, as a result of which Tallinna Kaubamaja Grupp AS acquired a 100% ownership in OÜ TKM Beauty Eesti. Until now, Tallinna Kaubamaja Grupp AS had an indirect participation in OÜ TKM Beauty Eesti. In the course of the restructuring, TKM Beauty Holding OÜ, a 100% subsidiary of Tallinna Kaubamaja Grupp AS, was established as an intermediate stage, which has been deleted from the Commercial Register by today.
- We aim to provide our customers more convenient purchases and have therefore decided to develop financial services that support our retail business. Group is applying for an authorisation of a creditor to develop the financial service line of business and is establishing TKM Finants AS, a subsidiary 100% owned by Group.
- The separation of wholesale and retail sales in footwear trade and the processes of establishing TKM Hulgikaubandus OÜ were suspended due to the uncertain economic environment.

Overview of 2020

The health crisis, which severely affected the living environment in the reporting year and meant a new reality for the entire economic environment, forced companies to show extraordinary adaptability to survive. Tallinna Kaubamaja Group still managed to achieve an increase in sales revenue thanks to a diverse business profile and maintain a large part of its profit. 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. In spring, 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, entered into an agreement whereby it will acquire from P. DUSSMANN EESTI OÜ. In the exceptional year, to meet customer 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. Of the total 28.3 million euros invested in developments in 2020, a significant part was also used for the new central kitchen production complex of Kulinaaria OÜ, which has a significantly smaller footprint thanks to state-of-the-art food technology and technical systems.

The most important events of Tallinna Kaubamaja Group in 2020 and until the publication of this annual report were the following:

- In May, Selver AS acquired a 100% holding in ABC Supermarkets AS. With this transaction, 19 stores were added to the supermarket segment, mainly in the form of small shops.
- In July, the Group launched a new functionality of the Partnerkaart loyalty card called 'Kuukaart' or 'Monthly Card', which enables the customers to pay for purchases made in the Group's retail stores within one month by a monthly invoice.
- In September, Kodumaailm with a new concept was opened in the Tallinna Kaubamaja department store.
- In September, the e-shops of ABC KING and SHU, the Group's footwear retailers, were opened to customers.
- The e-Selver service expanded to 12 out of 15 Estonian counties, thus continuing to have the largest assortment and service area in Estonia in terms of e-shops of food products.
- In the reporting year, Selver completely renovated the Suurejõe Selver in Pärnu and Mustakivi Selver and expanded its sales space in the Rannarootsi Selver in Haapsalu. The Selver store in Võru has successfully relocated to a new location in the Kagukeskus shopping mall.
- In the car trade segment, in addition to the KIA showroom, Peugeot's showroom at Tammsaare tee 51 in Tallinn was reorganised into a new modern showroom and service centre, and a new separate bodywork department was opened.
- The number of customers of the Group's loyalty programme Partnerkaart exceeded 694,000, covering more than half of the Estonian population.
- Kaubamaja celebrated its 60th year of operation.
- Selver celebrated its 25th year of operation.

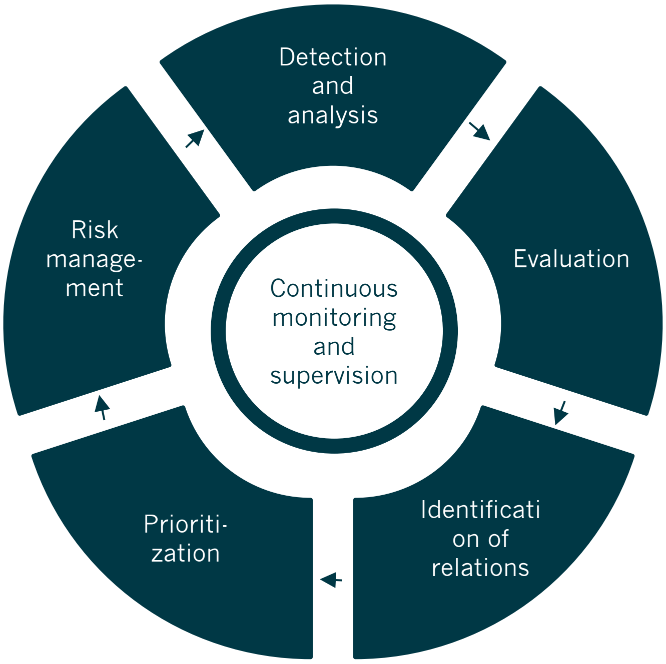
Business risks

Risk management related to the Group's business is an important and integral part of the Group's management.

The purpose of risk management is to find the optimal balance between potential losses or lost profits and the resources required to reduce risks. As a general principle, risk prevention is generally preferred to retrospective response to a risk event.

'Risk' is defined as a possible future event or scenario that may affect the achievement of the objectives of the Group and/or its companies. The Group's ability to identify, measure, and control various risks has a significant impact on the Group's profitability. Risk management in the Group is based on a common methodology that regulates the identification, assessment, prioritisation, and treatment of risks.

Risk management process:



Risk identification and assessment is performed annually in all Group companies. The Supervisory Board and the Audit Committee supervise the risk management process as a whole. The Audit Committee advises the Supervisory Board on supervision and makes proposals on the risk management process as necessary. Both the Audit Committee and the Supervisory Board receive regular reports on, among other things, the content, assessments, and mitigation measures of risks.

Executive management identifies and analyses risks, prepares mitigation plans, and, if necessary, makes proposals for allocating resources to address significant risks. The Internal Audit Department, together with the executive management, promotes risk awareness and the transfer of risk management to processes and employees. The Head of the Internal Audit Department coordinates risk management activities and regularly reports the results to the Audit Committee.

We consider the main risks to be those that may have a negative short-term and/or long-term impact on the Group's financial results, reputation, business model, and strategy. When assessing key risks, it is important for us that the Group's risks are identified as early as possible and included in the existing risk management assessment, measurement, and monitoring.

We have classified the following risks as the main risks: economic environment, competition, climate risks, risks arising from the company's operations, and IT risks. In the case of risks in the economic environment, we assess the market situation, as well as changes in macroeconomic factors and trends. The biggest factor in 2020 was COVID-19, which will have an impact on the Group in 2021 as well.

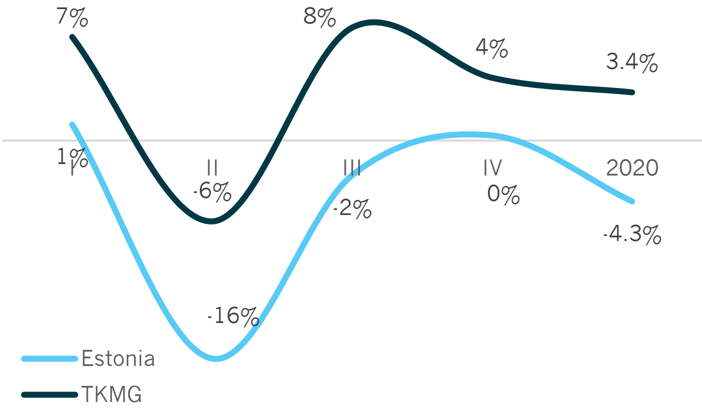
The Group's main risks include climate risks, in which we separate risks related to the transition to a climate-neutral economy (e.g. legislation, regulations, investments) and risks related to the direct effects of climate change (e.g. natural disasters, power outages, unstable situation in the country). Risks related to competition are changes in the market, such as the entry of new competing companies, a change in market preferences, and low investment in development. Risks arising from the company's operations include risks that arise in connection with work processes, management, and forecasts. In addition, it is important to pay attention to risks related to safety, quality, and the supply chain. The focus of IT risks is on cybersecurity, protection of personal data and prevention of leaks, and the smooth operation of systems.

The most important risks are described in detail below.

Economic environment

The development of retail trade is closely connected to the general economic growth and environment. The Estonian economy has managed to cope with the effects of the coronavirus relatively well. In the third quarter of 2020, the gross domestic product decreased by 1.9% in comparison with the third quarter of the previous year, while the GDP of the entire euro area decreased by 4.3%. The greatest positive contribution to the Estonian economy in the third quarter came from financial and insurance activities, with the energy and agriculture sectors also doing well. Expectedly, the economy was impacted negatively by the accommodation and catering sectors, with real estate activities also decreasing. Expenses on groceries, home furnishings, and leisure goods increased in private consumption, as well as expenses on communications and health care. On the other hand, expenses on clothing, footwear, and transport decreased. According to analysts, the annual economic downturn in Estonia in 2020 will be the smallest in Europe. According to the Bank of Estonia, an economic downturn of 2.5% is expected in 2020. The prices of services and goods started to decrease in April and continued to drop until the end of the year in Estonia. On average, prices dropped by 0.4% in 2020. One of the most important drivers of the decline in the consumer price index in Estonia was the drop in fuel prices, where the decrease in oil prices caused by global travel restrictions was accelerated further by a drop in the excise duty for diesel fuel. The prices of food and non-alcoholic beverages rose, however. This segment saw a price increase of 2.1% in the 2020. The prices of food products have been increasing rapidly in the global market in the last few months, which may result in an accelerated price growth of food products in Estonia as well. The drop in the prices of clothing and footwear gathered pace in the second half of the year; in total, however, the prices in this goods category increased by 0.1% over the year. In 2020, the prices related to leisure time increased most rapidly (3.4%). According to Statistics Estonia, the average gross salary grew by 3.2% in the third quarter of 2020 in a year-on-year comparison. According to the estimates of the Bank of Estonia, the growth of the average salary is expected to be 2.1% in 2020.

The growth of the turnover of retail trade enterprises (Estonia) and sales revenue of Tallinna Kaubamaja Grupp AS



According to Statistics Estonia, the total sales revenue in current prices decreased by 4.3% in the 2020 in Estonia. Sales of motor vehicles and spare parts and accessories of motor vehicles showed the greatest decline, dropping throughout 2020 and decreasing by a remarkable 20.2%. According to the Estonian Association of Car Dealers and Service Companies (AMTEL), 18,750 new passenger vehicles were sold in Estonia in 2020, which is 29.5% less than in 2019. The entire Baltic car market decreased by 21%. Retail sales in non-specialised stores (primarily foodstuffs) grew by 4.4% in the 2020. Retail sales in other non-specialised stores decreased by 8.1%. Due to restrictions, the deteriorating situation in the labour market has significantly weakened consumer confidence since April.

Effects of the coronavirus

The spread of COVID-19 had the greatest impact on the economic environment of Estonia and the world, and thus on the Group’s financial results. Various measures to prevent the spread of the virus were implemented on a large scale in the Baltic States in March 2020 and they brought about drastic changes in the current way of life and the economic environment, therefore affecting the daily work of the Group’s companies.

The Group immediately took measures to ensure the safety of both its customers and employees. To ensure the safety of customers, hand disinfectants and instructions for their use were installed at the entrances of the Group’s retail units. In addition, signs and warning lines were added to make people keep a 2-metre distance from other visitors to the store, and the number of people in the store at any time was limited. Security staff and store employees instructed customers to make safe purchases. Corresponding instructions are also distributed via speakers and on the digital screens in the stores. Customers were encouraged to use self-service checkouts, which ensure a safe distance between customers. To protect the health of store employees, safety glasses were installed at checkouts and protective visors and masks were distributed to personnel who come in direct contact with customers. Thanks to the measures taken, it was possible to prevent the development of larger outbreaks among the employees of the Group’s stores. In the reporting year, the Group spent approximately 1 million euros on protective equipment and prevention activities.

In order to limit the spread of the virus, the Government of the Republic of Estonia declared an emergency situation in March, and shopping centres were closed on 27 March. As a result, all stores of the Group's footwear trade segment, the industrial goods departments of the Kaubamaja segment, and I.L.U. shops were closed. The Tartu Kaubamaja department store, Viimsi Shopping Centre, and the historic Kaubamaja building, mainly used by the Kaubamaja segment and located in the centre of Tallinn – all managed by the Group's real estate segment – were also closed. Closing the stores led to an enormous growth in the popularity of the Group's e-stores. Their performance was not immediately able to keep up with the sharp increase in demand. However, solutions were quickly found to improve the assembly capacity of e-shops. Employees of closed sales units were directed to e-shops and temporary additional labour was recruited. Fast and more efficient solutions were planned to increase supply capacity and technical capacity. The significant increase in the sales volumes of the Group's e-channels did not compensate for the decrease in sales of physical stores in the Group's fashion trade.

At the time of publishing the report, a vaccination programme had been launched in Estonia, which is reaching the main risk groups and which, with the increase in the number of vaccinated people, suggests a gradual easing of restrictions in the first half of 2021.

All in all, the Group's ability to adapt quickly and react flexibly is crucial. The Group is constantly monitoring its changing risk assessments and analysing the effects of the virus on an ongoing basis. We estimate that the economic changes caused by the virus will not affect the Group's sustainability.

Seasonality of business

There are minor seasonal fluctuations in the business operations of the Group. Characteristically for retail trade, the sales revenue of the first quarter is about 10% lower and the sales revenue of the fourth quarter is about 10% higher than the average sales revenue of the quarters. Historically, seasonality has some effect on sales revenue in the fourth quarter, when sales revenue accounts for approximately 27% of the annual sales revenue.

Traditionally, the first quarter of the year is weaker due to the seasonal discount in the fashion trade.

Competition

The Estonian retail market is highly competitive. The German discount store chain Lidl is entering the Selver supermarket segment as a new competitor. In the supermarket market segment, Estonia has the most intense competition and the lowest mark-ups of all the Baltic countries. This suggests that the entry of a new competitor will affect many market participants, as Lidl can only gain market share at the expense of other market participants. At the same time, there is a continuing increase in customers' preferences and awareness of domestic clean food, which creates the potential to maintain and grow Selver's competitiveness.

In 2020, when the e-shop traffic exploded, there was also a sharp increase in competition in the e-store market. The restrictions of the coronavirus put pressure on both large and small merchants to develop or expand their e-store sales capabilities. Thus, the Group also opened new e-shops in the Group's footwear trade segment. The Group also expanded the service area of e-Selver. Fashion e-shops compete with the global market, having advantages for the local consumer in terms of assortment, delivery speed, service quality, and reliability.

Personal Data Protection

The Group considers correct and lawful processing of personal data very important in all aspects of its operations and ensures the correctness of personal data every day through constantly monitoring and improving existing systems and processes and creating additional control mechanisms, if necessary. The Group's objective is to ensure efficient and maximum protection of the customers and employees personal data every day, and to ensure the compliance of the personal data processing with valid legislation. In collecting, storing, and processing personal data, the Group uses appropriate and sufficient technical and organisational security measures that ensure consistently correct and secure processing of personal data.

The Group's data protection specialist regularly notifies and advises the Group and its subsidiaries in relation to the rights and obligations arising from data protection legislation. In addition, the data protection specialist solves matters related to personal data protection and carries out regular data protection trainings along with thorough supervision to increase the awareness of the personnel of the Group's companies.

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

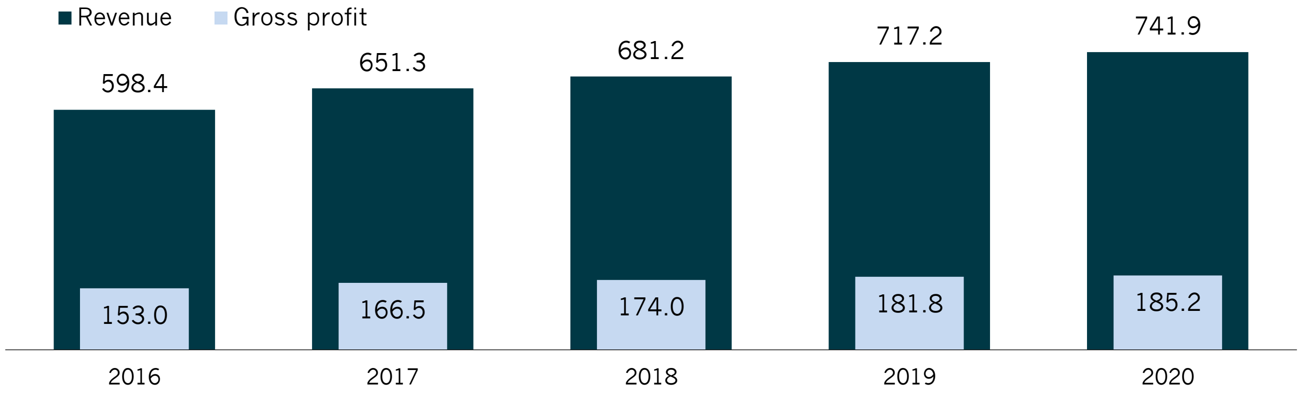
Financial performance

FINANCIAL RATIOS 2016-2020

In millions, EUR	2016	2017	2018	2019	2020
Revenue	598	651	681	717	742
Change in revenue	*8%*	*9%*	*5%*	*5%*	*3%*
Gross profit	153	166	174	182	185
EBITDA	47	50	51	71	63
Operating profit	32	37	37	40	28
Profit before tax	31	36	37	38	24
Net profit	26	30	30	32	19
Change in net profit	*17%*	*16%*	*2%*	*4%*	*-39%*
Sales revenue per employee	0.147	0.156	0.159	0.168	0,163
Gross margin	26%	26%	26%	25%	25%
EBITDA margin	8%	8%	7%	10%	9%
Operating margin	5%	6%	5%	6%	4%
Profit before tax margin	5%	6%	5%	5%	3%
Net margin	4%	5%	4%	4%	3%
Equity ratio	52%	52%	55%	43%	37%
Return on equity (ROE)	13%	14%	14%	14%	9%
Return on assets (ROA)	7%	8%	8%	7%	3%
Current ratio	1.1	0.9	1.1	1.0	0,8
Debt ratio	0.5	0.5	0.5	0.6	0,6
Inventory turnover	6.8	8.6	8.7	9.2	9,6
Average number of employees	4,079	4,182	4,283	4,273	4,558

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

Tallinna Kaubamaja Grupp AS sales revenue and gross profit 2016 - 2020 (million euros)



In the 2020, the consolidated audited sales revenue of Tallinna Kaubamaja Grupp was 741.9 million euros, showing a growth of 3.4% compared to the result of 2019, when the sales revenue was 717.2 million euros. The Group's net profit in 2020 was 19.5 million euros, which is 38.6% lower than the previous year. The pre-tax profit earned in twelve months was 24.0 million euros, showing a 36.4% decrease compared to last year.

The year 2020, which began in a favourable economic environment, suddenly turned into a year of difficult challenges as a result of the coronavirus in February. In spring, the Group's fashion and beauty stores were closed for 1.5 months. In summer, the virus receded slightly, but autumn brought about a second wave of infections. Stores remained open in autumn, but the customers' purchasing behaviour had changed significantly compared to the year before. People visit stores less frequently, buy more during one visit, and their shopping carts are dominated by essential household goods. For the retail segments of the Group, this has meant a decline in the number of visits to the city centre stores, as well as a significant decrease in the sale of fashion goods, which is evident from the weaker results of the Kaubamaja department store and the footwear segment. On the other hand, the popularity of the Group's online stores has increased, with the sales volumes multiplied in 2020. The supermarket segment showed great growth, supported by the stores which were added by the acquisition of ABC Supermarkets AS in spring. In spite of the declined revenues, the car trade segment optimised its operations and was able to improve its profitability in the fourth quarter. A key issue during the crisis for the fashion retail was to prevent stockpiling. The Group started optimizing inventories right at the beginning of the pandemic and ended the 2020 with the optimal inventory volumes aligned with current demand. The financial year has called for unexpected and rapid changes in the business operations, and the annual profit has been influenced by several one-time events or extraordinary expenses. Roughly, 1 million euros was spent to ensure the safety of customers and employees during the spread of the coronavirus. In the footwear segment, the value of the ABC King trademark acquired during the acquisition of stores, was written down by 0.5 million euros. In the real estate segment, the comparison of the profit for 2020 was affected by a one-time sales revenue of 3.8 million euros earned from transaction involving an immovable property in the end of 2019. Net profit decreased by 2.4 million euros because of the calculated loss from lease contracts in accordance with IFRS 16 (in 2019, the respective figure was 1.5 million euros). Net profit increased due to an income tax adjustment of 1.4 million euros in 2020, as well as 0.6 million euros retrospectively for 2019, which were brought about by changes in the calculation principles arising from the IFRS standards that entered into force in the financial year. Based on the standards, the profit or loss will now feature a calculated amount of income tax (see Notes 1 and 18) instead of the actual amount of income tax paid from distributed profits, which was the standard in Estonia previously.

As at 31 December 2020, the volume of the assets of Tallinna Kaubamaja Group was 597.3 million euros – an increase of 31.7 million euros or 7.5% compared to the results at the end of 2019 without the impact of IFRS 16. The balance sheet of the Group was impacted by a revaluation of the land and buildings, as a result of which the value of the fixed assets of the Group increased by 11.2 million euros. The same amount was added to the equity revaluation reserve.

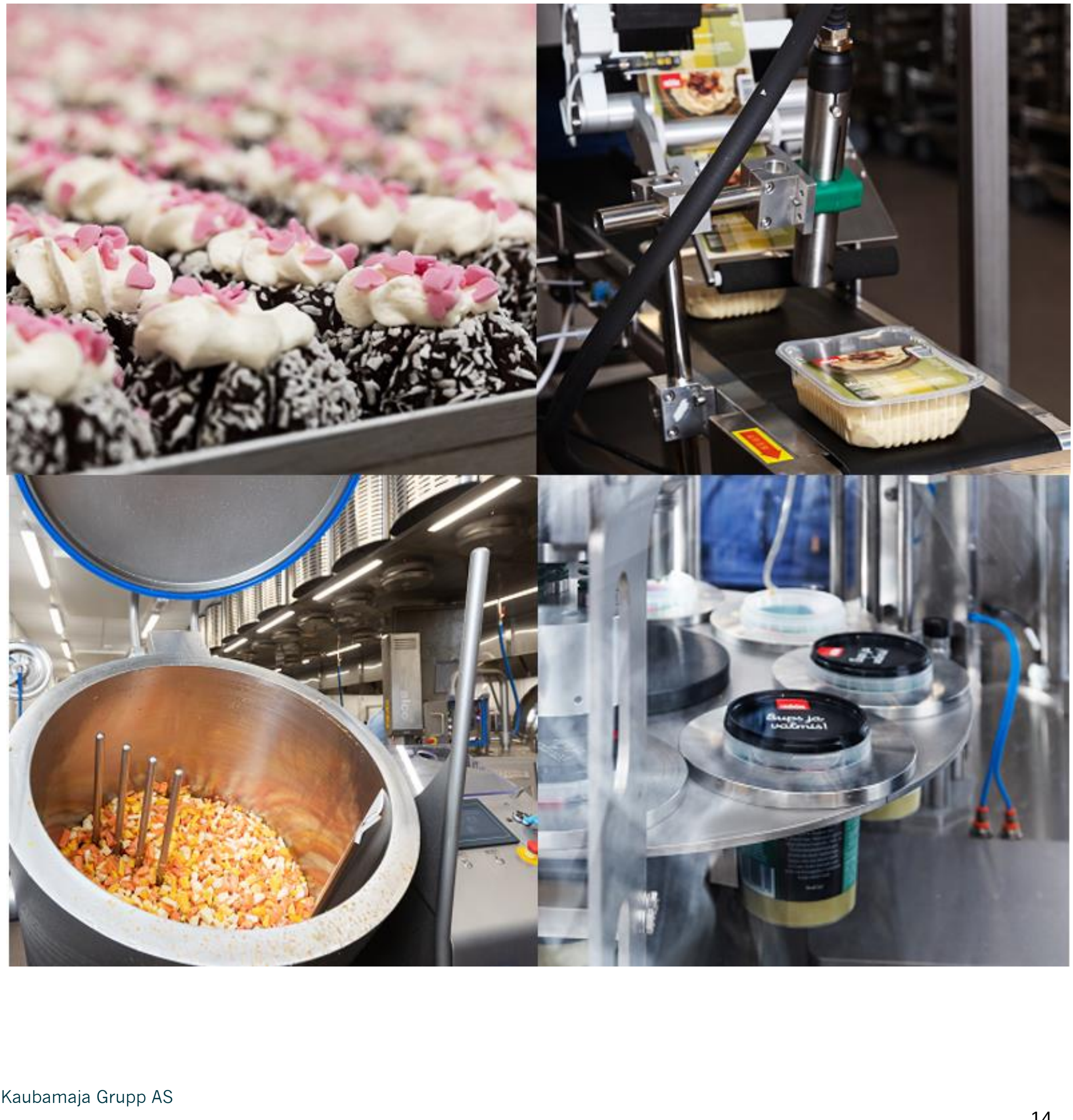
At the end of the reporting period, the number of loyal customers was more than 694,000, which is 1.8% more than the year before. The proportion of loyal customers in the Group's turnover was 86.7% (in 2019, it was 85.0%). In July, the Group launched a new functionality of the Partnerkaart loyalty card called 'Kuukaart' or 'Monthly Card', which enables the customers to pay for purchases made in the Group's retail stores within one month by a monthly invoice. The Monthly Card is especially convenient for making purchases from the online stores of the Group where the customer can skip several bothersome authorisation stages in paying for their purchases.

Investments

The Group invested 28.3 million euros in the acquisition of fixed assets in 2020 (23.2 million euros in 2019). Of this, 27.5 million euros were invested in tangible assets and 0.8 million euros in intangible assets.

Investments in the supermarket business segment amounted to 22.1 million euros in 2020 (12.0 million euros in 2019).

The construction of a new production building and the renovation of the existing production building of Kulinaaria OÜ, a subsidiary of Selver AS, continued, as a result of which the production capacity will approximately double. The existing equipment will be completely renewed. During the expansion and increase of production volumes, the focus will be on product development in both new and existing food categories. The production lines and equipment introduced in the new production building, which was completed in April, have created favourable preconditions for the product development process. The new equipment of Kulinaaria OÜ also provides growth potential for the confectionery and dessert assortment. In addition to expanding production opportunities, investments have also been made in packaging lines, which supports the development of Selver Köök products, which in turn makes it clearer for consumers to make a purchase decision and products can be more easily distinguished from one another. The renovation of the old factory building of Kulinaaria OÜ will be completed in the beginning of 2021. After that, Kulinaaria OÜ will continue its activities in both production buildings at the same time.



In the financial year, Selver thoroughly renovated the Suurejõe Selver store in Pärnu and the Merimetsa and Mustakivi Selver stores in Tallinn. The stores were closed to customers during the renovation works. The sales area of the Rannarootsi Selver in Haapsalu was expanded. In Võru, Selver moved to new premises at the Kagukeskus shopping mall. In July, Selver opened a new store at the WOW mall in Saaremaa. Due to the state of emergency, the Sepapaja Selver and the Puhvet café at the Kadaka Selver were temporarily closed. The volume of e-Selver assembly and home delivery to customers increased rapidly. By the end of 2020, the service area of e-Selver covered all of Harju and Tartu County, Hiiu County, Saare County, Järva County, Rapla County, Lääne County, Jõgeva County, Põlva County, Lääne-Viru County, Ida-Viru County, and a large part of Pärnu County and Lääne County. The turnover of e-Selver increased approximately 2.5 times during the year. In addition to regional extensions, we also introduced a solution in the reporting year with which the customer can track the order ordered from e-Selver on the map. Due to the coronavirus, the ideology of the assembly of e-Selver orders completely changed over the course of the year. Before, this was done in one e-Selver collection centre. In 2020, 13 Selver stores were added across Estonia where goods are assembled and from which they are delivered.

Investments in the Kaubamaja business segment amounted to 2.9 million euros (1.6 million euros in 2019). In addition to the renovation of the buildings and the modernisation of the interior and computer equipment, investments were made in armoured cash vehicles to enable Viking Security AS, which is reported in the Kaubamaja department store segment, to enter the cash-in-transit market.

The cost of the car segment's investments in 2020 was 1.8 million euros (1.5 million euros in 2019), as part of which the Peugeot showroom in Tallinn was reorganised into a new modern showroom and service centre and a new separate bodywork department was opened.

The cost of investments in the real estate business segment was 0.8 million euros (6.0 million euros in 2019).

Business segments

In millions, EUR	2019	2020	%
Revenue	**717.2**	**741.9**	**3.4%**
Supermarkets	469.4	524.4	11.7%
Department stores	102.8	88.1	-14.3%
Car Trade	130.4	117.6	-9.8%
Footwear Trade	8.9	6.7	-24.4%
Real Estate	5.8	5.1	-11.2%
EBITDA	**71.2**	**63.1**	**-11.3%**
Supermarkets	24.6	25.1	1.8%
Department stores	5.9	3.3	-43.6%
Car Trade	4.8	3.1	-35.9%
Footwear Trade	-0.6	-1.3	134.3%
Real Estate	19.4	14.5	-25.4%
IFRS 16	17.0	18.5	8.9%
Net profit/-loss	**31.8**	**19.5**	**-38.6%**
Supermarkets	16.0	14.0	-12.4%
Department stores	2.9	0.6	-81.0%
Car Trade	3.3	1.8	-46.0%
Footwear Trade	-1.2	-2.5	111.4%
Real Estate	12.2	8.0	-34.1%
IFRS 16	-1.5	-2.4	62.4%

Supermarkets

The consolidated sales revenue of the supermarkets business segment was 524.4 million euros in 2020, increasing by 11.7% in comparison with last year. Disregarding the ABC Supermarket stores which were added, the growth of the segment amounted to 5.0%. In 2020, the monthly average sales revenue of goods per square metre of selling space was 0.39 thousand euros, increasing by 3.2% compared to last year. The average sales revenue per square metre of selling space of comparable stores was 0.40 thousand euros in 2020 growing by 5.2% compared to the year before. In 2020, 40.8 million purchases were made from the stores, which was 1.1% higher than in the reference year.

The consolidated pre-tax profit of the segment was 15.5 million euros in 2020, decreasing by 2.5 million euros in comparison with the year before; the net profit was 14.0 million euros, decreasing by 2.0 million euros compared to the year before. As of 1 June, the results of the supermarket segment include the results of ABC Supermarkets, which was acquired by a purchase transaction in spring. The profit was earned thanks to the increased sales revenue, the investments made in increasing the efficiency of daily processes, and the warmer beginning to the winter, which enabled saving on administrative expenses. In the first quarter, the SelveEkspress service was expanded to all Selver stores which had been opened by that point, which had a positive effect on the labour efficiency. The economic results have been significantly impacted by the emergency situation which was established due to COVID-19 in spring, which considerably increased the company's expenses on personal protective equipment and reshaped the customers' purchase behaviour and consumption habits. The spread of the virus has steeply increased the demand in the area of e-commerce. The results of 2020 were also influenced by the one-time expenses which were related to the purchase transactions of ABC Supermarkets, as well as by the one-time expenses on the renovation of the stores.

Department stores

In 2020, the Kaubamaja department stores business segment earned a sales revenue of 88.1 million euros, which is 14.3% less than previous year. The average sales revenue of the Kaubamaja department stores per square metre of selling space was 0.3 thousand euros per month in the twelve months, which is 17.3% lower than in the same period last year. The pre-tax profit of the Kaubamaja department stores in 2020 was 1.0 million euros, showing a decrease of 70.9% in the year-on-year comparison.

The sales result of the Kaubamaja department stores in 2020 was influenced by the emergency situation declared by the Government of the Republic of Estonia due to the pandemic in the first quarter, which resulted in a decrease in the number of visitors to the Kaubamaja department stores from the middle of March. On 27 March, the Government of the Republic of Estonia ordered the closing of all shopping malls and Kaubamaja also closed all selling spaces of manufactured goods in Tallinn and Tartu. Only the grocery stores remained open. The department stores were fully reopened on 11 May. In the last months of the year, when Estonia was hit by the second wave of the coronavirus, shopping centres remained open, but the number of visitors decreased considerably.

The spread of the virus has significantly changed customers' purchase behaviour. Even more value is placed on quality and such products are sought and purchased. Customers have remained more modest in purchasing fashion goods, but household goods have been very popular. Redesigned Kodumaailm with a new concept was opened in the department store in Tallinn in autumn, which had a positive impact on the sales results. Kodumaailm achieved its best result in the last ten years in 2020. Ilumaailm's 'Ilu Aeg' campaign in autumn was the most successful in recent years. On the other hand, due to its central location, Tallinna Kaubamaja has been strongly affected by the significantly lower number of tourists, the lower number of people working in the offices in the city centre, as well as the general decline in the visitation of the city centre, especially in the summer period, which has had a negative impact on the sales result of the 2020. The online store of Kaubamaja grew by 123% in the year, but this has failed to compensate for the decline in the sales of the physical department stores.

In the 2020, the sales revenue of OÜ TKM Beauty Eesti, which operates I.L.U. cosmetics stores, was 5.0 million euros, which is 0.7% more than 2019. The profit of 2020 was 0.1 million euros, which is 0.2 million euros more than in the 2019. Key activities of 2020 were updating the product selection, development of the sales and service processes of the online store, and active digital marketing. The COVID-19 crisis had a negative impact on the customer flows and sales results of the stores in shopping malls, but the remarkable growth of the online store enabled to finish the year with expected results.

Viking Security AS, reported in the Kaubamaja department store segment, is the third security company in Estonia in terms of market share. Its areas of activity include the creation of security solutions, the design, construction, and maintenance of security systems, manned and technical surveillance services, cash-in-transit, fire safety services, and inventory services. The sales revenue of 2020 was 12.3 million euros, which is 28.0% more than in 2019. At the end of the reporting year, Viking Security entered into an agreement whereby in March 2021 it will acquire from P. DUSSMANN EESTI OÜ its security services business in Estonia.

Car trade

The sales revenue of the car trade segment was 117.6 million euros in 2020, which was 9.8% less than the sales revenue of 2019. The sales revenue for KIAs decreased by 31.1%. Throughout the year, a total of 4,846 new vehicles were sold. The net profit of the segment in 2020 was 1.8 million euros, which was 1.5 million euros less than the profit of the year before. The pre-tax profit of the segment in 2020 was 2.2 million euros, which is 1.9 million euros less than the profit of 2019.

The supply chain disruptions of the car manufacturers have hampered the delivery of new vehicles, resulting in a decline in the Group's automotive sales in the last months of the year. Sales were possible to some extent thanks to the stock in trade, which had, however, been below the normal level throughout all of 2020. The result of the car trade segment was improved by follow-up services, i.e. by vehicle maintenance and repair services, where the turnover increased. The investments and changes made in the course of 2020 were finalised and launched. The showroom at 51 Tammsaare tee in Tallinn was reorganised into a new, modern showroom and service centre and a new separate bodyworks department was opened. Another success which can be highlighted is the fact that the Škoda business in Riga had been launched as planned by the end of the year, in spite of the complicated year. The factories and importers are hoping to resume the deliveries of new vehicles in 2021.

Footwear trade

The sales revenue of the footwear segment was 6.7 million euros in 2020, which is 24.4% less than in 2019. The loss of 2020 was 2.5 million euros, which is 1.3 million euros more than in the year before. Writing down of the value of the ABC King brand influenced the result in the extent of 0.5 million euros. The results of 2020 were significantly affected by the coronavirus crisis and the modest customer flows in the shopping centres resulting from said crisis, as well as by a general lower interest in fashion goods. The results for 2020 were also affected by higher-than-usual write-downs made at the beginning of the year to improve the inventory structure. The SHU store in Haapsalu was closed in September, while the SHU store in Jõhvi was moved to another location, which has more perspective. Taking into consideration the changes in consumer behaviour and the development of e-commerce, online stores of ABC KING and SHU were developed and opened to customers in the middle of September.

Real estate

The sales revenue earned in the real estate segment outside the Group was 5.1 million euros in 2020. Sales revenue decreased by 11.2% in comparison with the previous year. The pre-tax profit earned in the real estate segment was 10.1 million euros in 2020. Compared to the reference period, profit decreased by 31.0%. The main reason for the decline in profit was the one-time sales revenue from the sale of an immovable property with residential property development potential in Tallinn in the end of 2019 reported in the reference data.

The sales revenue earned in the segment outside the Group decreased by 19% in the first six months due to the emergency situation declared by the Government of the Republic of Estonia and due to the 1.5-month compulsory closure of department stores. In the second half of the year, however, the sales revenue recovered and the sales revenue earned in the segment outside the Group only dropped by 3%. As a responsible and caring lessor, the segment has been flexible in its rental relationships. The lockdown period had a greater effect on the Tartu Kaubamaja shopping centre, where the attendance of the mall decreased by 27% over the year. The emergency situation only had a short-term effect on the Viimsi shopping centre and the attendance of the centre decreased by less than 10% over the year. The success of the centres arises from rapid implementation of the measures to stop the spread of the virus. Measures were immediately taken to ensure the safety of both customers and employees. Within the segment, the Latvian real estate company improved its results. The company is renting a new, fully functional Škoda showroom, which is the most modern in Eastern Europe, and a used vehicle showroom to the car trade segment of the Group in Riga. The annual evaluation of the fair value of the real estate investments which was conducted at the end of year did not have a significant impact on the profit of the segment.

The coronavirus epidemic will continue to affect the results of the lessees of the shopping centres in the first half of 2021. As the economic impact of the epidemic is not yet clear, the volumes of and schedule for future developments will be adjusted as and when needed.

Directions for 2021

The key to the company's success is flexibility and keeping up with the customers' wishes. In 2021, several developments are planned as part of the Group's long-term 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 2020, the volume of orders in the Group's e-shops multiplied and their fulfilment required rapid and radical restructuring both in the collection processes and in the delivery of goods to the customer. The service area of the online orders of the supermarket segment selling food products expanded to 12 out of 15 Estonian counties. The uncovered part of Estonia includes Võru, Valga, and Viljandi counties and parts of Pärnu County and Lääne County. The goal for 2021 is to reach all Estonian residents with e-Selver home delivery. 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 in 2021, which will also open several important new development opportunities.

In 2021, 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. We will map new attractive locations to open potential new stores.

In the autumn of 2020, the transition to the new concept of the Comarket stores acquired in the spring began. A new small store concept was born – Selver ABC, which is used to designate small stores with a smaller assortment than supermarkets and hypermarkets, but with a significant selection of food and consumer goods. At the heart of the concept is a customer-friendly location with a fast and convenient shopping experience that includes a fresh selection and professional service. The end date of the project is the beginning of March 2021, by which time all Comarket stores will have been converted into Selver ABC stores and the Delice grocery stores will have switched to the Selver system. By then, the Tallinn Kaubamaja Group's loyalty programme Partnerkaart will also be valid in all the added stores.

The construction of the production building of the Kulinaaria central kitchen, known as Selveri Köök, is in the final phase. The final completion of the new Kulinaaria production building and the full implementation of the central kitchen business software is planned for the first quarter of 2021. The area of the new production complex is nearly 8,000 square metres. As production expands, new products are expected in the ready-to-eat food category under the Selveri Köök brand, which is very popular among Estonians, and new exciting confectionery products under the Van Kook brand. Relaunched in 2020 with the innovative cookie dough product, the Van Kook brand and the development of the new brand product portfolio open up opportunities to enter new markets. Under the Selveri Köök brand, functional ready-made meals are developed for sale, which have been developed in cooperation with researchers from the Food and Fermentation Technology Development Centre. The new products have an added value, consisting of significant amounts of vitamins and minerals, which in turn justifies the designation of the product as having a health-promoting function.

The development of e-commerce, the store chain, and the branded finished products loved by customers and a wide range of Estonian products provide a stronger point of support for staying competitive when a new competitor enters the supermarket segment.

The Group's car trade segment has withstood the decline of the sector well and has been able to earn a profit despite large sales declines. In 2021, the investments made will continue to be launched in accordance with the business plans. The focus is also on continuously raising the level of customer service and promoting responsible business.

It has been more than three years since the successful architectural competition of the new building of the Tallinna Kaubamaja department store, but it will only be possible to start building after the city of Tallinn has issued the necessary design conditions, so the start of construction work on Kaubamaja's new building is still up in the air. 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. The integration of the part of Dussmann Estonia's security services purchased at the end of the reporting year is important. Growth potential is seen in both technical and manned security, as well as in the cash-in-transit and inventory services business lines. The design, construction, and maintenance of security, access, and video surveillance systems will continue.

The goal of the I.L.U. cosmetics stores in 2021 is to expand the assortment of physical stores, as well as investments and process innovations for more efficient operation of the e-store to realise the potential sales growth of the e-channel.

The main goal of ABC KING and SHU in 2021 is to increase profitability through the optimisation of the store network and the successful launch of the corresponding e-shops through effective digital marketing.

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, which has considered the importance of sustainability for many years, started to create a comprehensive sustainability strategy in 2020, which focuses on setting both short-term and long-term goals. 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. One of the biggest tasks will be to draw up a long-term carbon footprint reduction plan, a process for which we want to introduce science-based targets and which will be monitored by a third party. In our activities, we take into account the climate plan of the European Union and Estonia, and we want to contribute to the transition to a carbon-neutral economy. Over the years, companies have made large investments to increase energy and resource efficiency, and this has managed to reduce both costs and the negative footprint. Implementing the Greenhouse Gas Protocol methodology, we measured the Group's carbon footprint in transport (scope 1) and electricity and heat and cooling (scope 2) in 2020, and plan to measure and report the carbon footprint in future reports. In addition to the above, the Group has been assigned an energy audit obligation by the Ministry of Economic Affairs and Communications, which we will perform during 2021 and during which the Group's energy consumption and savings potential will be mapped.

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.

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 25 February 2020, the Management Board proposed to pay 29.7 million euros as dividends that is 0.73 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 2020, the Group had 12,992shareholders and division of shares is following:

Ownership structure	Number of shareholders	Shareholders%	Shares%	Votes%
Private persons	11,826	91.0%	15.0%	15.0%
Companies (Estonian)	1,102	8.5%	4.6%	4.6%
Financial institutions (other countries)	46	0.4%	6.5%	6.5%
Financial institutions (Estonian)	14	0.1%	4.6%	4.6%
Companies (other countries)	2	0.0%	0.1%	0.1%
Marie Vaino	1	0.0%	2.2%	2.2%
OÜ NG INVESTEERINGUD	1	0.0%	67.0%	67.0%
Total	**12,992**	**100.0%**	**100.0%**	**100.0%**

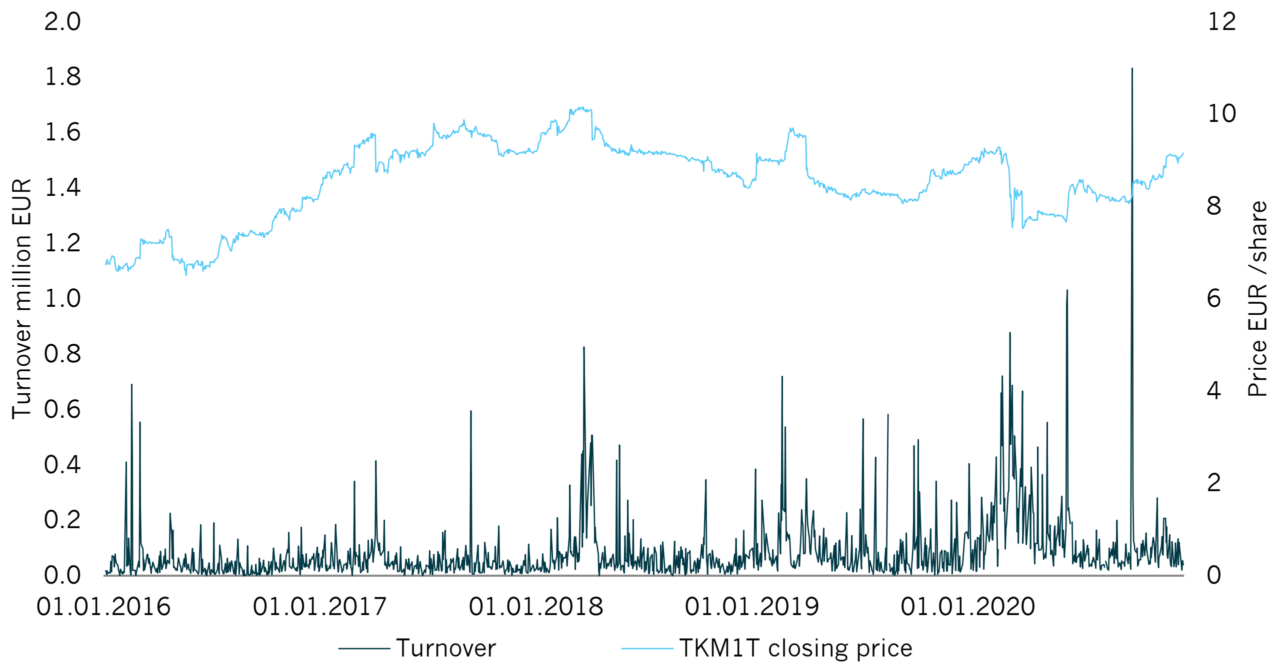
Number of shares	Number of shareholders	Shareholders%	Shares%	Votes%
1–100	6,292	48.4%	0.6%	0.6%
101–1,000	5,144	39.6%	4.6%	4.6%
1,001–10,000	1,421	10.9%	9.2%	9.2%
10,001–100,000	117	0.9%	7.0%	7.0%
100,001–1,000,000	17	0.1%	11.6%	11.6%
1,000,001– …	1	0.0%	67.0%	67.0%
Total	**12,992**	**100.0%**	**100.0%**	**100.0%**

As at the end of 2020, Tallinna Kaubamaja Grupp AS has 12,992 shareholders (7,897 in 2019) – the number of shareholders increased by 5,095 people or 60.8% during the year. One of the reasons is the decision of the banks to waive transaction fees on Nasdaq Baltic, which in turn meant a positive and rapid increase in trading volume to investment enthusiasts. Increased volatility in Estonia has been caused by the growing popularity of Nasdaq Baltic among younger investors.

Of the shareholders of Tallinna Kaubamaja Group, 91.0% were private individuals, 8.5% Estonian companies, 0.4% foreign financial institutions, and 0.1% Estonian financial institutions. Estonian shareholders and related companies clearly dominate among the shareholders. Tallinna Kaubamaja Group is mainly based on Estonian capital. The majority share of shares and votes belongs to the company NG Investeeringud OÜ, which owns 27,288,636 ordinary shares or 67.0% of the listed securities. The company is followed in terms of the number of shares and votes by private individuals (15.0%), foreign financial institutions (6.5%), Estonian financial institutions (4.6%), Estonian companies (4.6%), and Marie Vaino (2.2%). At the end of the year, foreign companies owned 0.1% of the shares and votes.

The following charts provide an overview of the movement of the share price of Tallinna Kaubamaja Group, the Tallinn Stock Exchange index, daily turnover, as well as the market value based on market data, and the price-to-earnings ratio as at the end of 2020.

Share price and trading statistics in Tallinn Stock Exchange during 01.01.2016 – 31.12.2020



Tallinna Kaubamaja Group has been listed on the NASDAQ Tallinn Main List since 19 August 1997 under the trading code TKM1T and ISIN EE0000001105. The shares are freely transferable and there are no restrictions under the Articles of Association. The highest share price in the financial year 2020 was 9.34 euros and the lowest 7.46 euros. At the beginning of the year, the volume of transactions with the Group's shares was higher. Due to the spread of the coronavirus in Estonia, the industrial departments and footwear and cosmetics stores of the Group's department store segment were closed for 1.5 months, which is why we can clearly see the increased volatility for fear of a decline in the share price.

Price change of Tallinna Kaubamaja Group share and OMX Tallinn index from 01.01.2020 to 31.12.2020.

Index/share	Opening price	Closing price	Change %
OMX Tallinn_GI	1 279,70	1 343,72	5%
TKM1T - Tallinna Kaubamaja Grupp	8,9	9,16	2,92%

The most traded Baltic stock exchange shares of Estonian investors in 2020 were Tallink Grupp, Tallinna Kaubamaja, Šiauliu bankas, and the Port of Tallinn. At the end of the year, the share price of Tallinna Kaubamaja Group closed at 9.12 euros (8.90 euros in 2019), gaining 2.92% year-on-year. Taking into account the complexity of the economic situation, by the end of the year, the changes in the index of both Tallinna Kaubamaja Group and OMX Tallinn Stock Exchange were positive. In 2020, the OMX Tallinn Stock Exchange index rose more than the shares of Tallinna Kaubamaja Group (5%), meaning that the volatility was similar. There is no benchmark or company on the Nasdaq Baltic stock market that can be compared to the Group on an equivalent basis.

Share trading history

In euros	2016	2017	2018	2019	2020
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (pcs)	1,647,752	1,452,599	2,017,514	2,763,674	4,654,856
Dividend / net profit	100%	94%	95%	95%	125*
P/E	13.0	12.6	11.3	11.6	19.1
P/BV	1.6	1.8	1.5	1.59	1.67
Opening price	6.72	8.29	9.28	8.46	8.98
Share price, highest	8.30	9.90	10.25	9.72	9.34
Share price, lowest	6.49	8.27	8.32	8.06	7.46
Share price, at the year-end	8.23	9.20	8.42	8.90	9.16
Share price, yearly average	7.25	9.23	9.26	8.60	8.44
Turnover (million)	11.87	13.38	19.03	23.89	38.71
Capitalisation (million)	335.20	374.71	342.94	362.49	373.08
Earnings per share	0.6	0.7	0.7	0.8	0.5
Dividend per share	0.63	0.69	0.71	0.73	0.60*
Equity per share	5.0	5.1	5.5	5.6	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

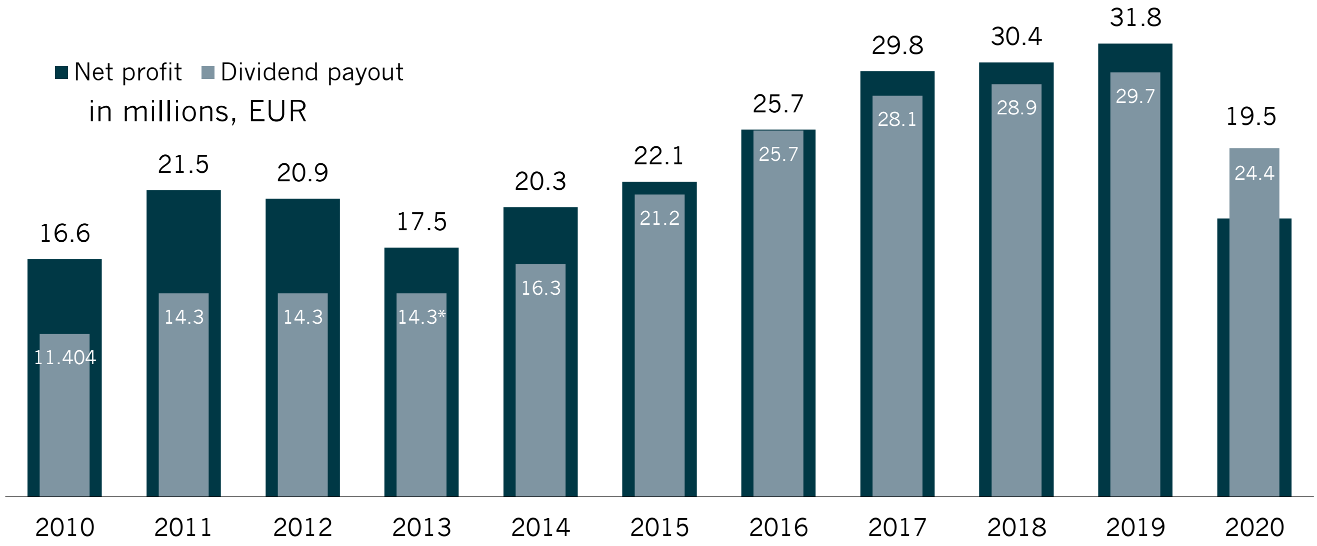
The volume of share transactions in 2020 totalled 38.7 million euros (23.9 million euros in 2019), meaning an increase of 62.0% year-on-year. The total number of traded shares was 4,654,856 (2,763,674 in 2019), meaning an increase of more than half, or more precisely 59.4%, compared to 2019.

Based on the share price, the market value of Tallinna Kaubamaja Group was 373.1 million euros (362.5 million euros in 2019). The year 2020 required rapid restructuring of business operations, as well as unforeseen or extraordinary expenses, including the provision of various protection measures to ensure the security of customers and employees, as well as one-time expenses for store renovations, which increased Tallinna Kaubamaja's market value but decreased earnings per share.

The price-to-earnings ratio was 19.1 at the end of 2020 (11.4 in 2019), an increase of 59.6% compared to 2019 due to the unprecedented global epidemic of the coronavirus and the negative impact on corporate profits.

Earnings per share was 0.5 euros: a decrease of 62% during the year. The dividend yield was 6.6% in 2020 and the Group's average dividend yield for the last three years was 7.7%, which has been higher than inflation.

Dividend payout history



Dividend obligation to shareholders is recognised in the financial statements from the moment the payment of dividends and the distribution of profits are approved by the general meeting of shareholders. The general meeting of shareholders was held on 25 February 2020 and the amount of the dividend payment of 0.73 euros per share from the net profit was approved.

The Group has no ongoing litigation that could adversely affect net profit in the future and, as a result, reduce dividend payments.

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.

Our six pillars for sustainability are:

SOCIAL RE-SPONSIBIL-ITY	PERSONNEL WELLBEING	HUMAN RIGHTS	RESPONSI-BLE PRO-CUREMETN	ENVIRON-MENTALLY FRIENDLY	FIHTING CORRUP-TION

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 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, including in the Group's supply chain.
- We tackle corruption, proceeding from honest and transparent business conduct.
- We ensure transparent procedures. To this end, we have organized the Group's internal procedures and established policies and instructions concerning, among other things, the use of company cars, declaration of financial interests, insider dealing, securities transactions, investment management, procurement, personnel recruitment, risk management, administration and document management.
- We 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 companies 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. Long-term success can be achieved only with an honest and open dialogue and collaboration with all stakeholders.

Our response to COVID-19

In addition to global warming, 2020 also presented the world with another major challenge - the coronavirus. The health and well-being of both employees and customers have always been very important to the Tallinna Kaubamaja Group and all our subsidiaries. We responded quickly to help stop the virus from spreading and restore stability.

On March the 12th, the Government of Estonia declared a state of emergency due to the virus, and from March 27 to May 11, the sales and service halls of shopping centres were closed.

Health and safety of employees and customers:

- We tightened cleaning schedules, paying special attention to employees' premises and checkout zones (including self-service checkouts).
- Kaubamaja changed its opening hours and inner operations in a way that people belonging to the risk group could work from home and/or without contact with customers, if possible.
- Plexiglas were installed at checkouts and customer service points.
- Customer service representatives wear masks or visors. Security staff and store staff instruct customers to make safe purchases, and instructions are also distributed on the indoor radio and on-store digital screens.
- Disinfectants, safety and guidance information is available at store and office entrances and at store checkouts.
- Option to work from home and dispersal of the people working in the office.
- Several companies temporarily did not allow any guest visits in their office premises.
- Since the spread of the virus in February until the end of 2020, investments in protective equipment have exceeded one million euros across the Group.

Quick adaptation to the changes:

- We direct and encourage customers to actively use the e-shop, for example, Kaubamaja also increased the assortment of e-shop goods in the selection of basic consumer goods and food products right at the beginning of the crisis.
- Contactless solutions, such as Viking Motors 24/7 service, allows customer to receive the car from maintenance or service contactless and at a time convenient to the customer.
- Microsoft Teams platform is used for holding meetings to have as little contact as possible.
- During the mandatory lock-down during spring, Kaubamaja's e-store warehouse moved to the sales hall, allowing employees to be dispersed while the extra space provided an opportunity to work faster and more efficiently. During the lock-down, almost 80% of the employees were working on e-store orders.
- Due to the increased online orders, Selver had to significantly change its work processes. For example, at the beginning of 2020, Selver had 1 assembly point, home delivery partly in four counties with a total of nearly 0.7 million customers. Today, instead of one assembly point, e-Selver has 11 locations, there are 12 counties in the home delivery area with a total of nearly 1.2 million customers.
- Action plans have been prepared in the event of an employee becoming infected, for example thorough disinfection of the work environment and a staff replacement plan for the rapid reopening of the sales unit.

Support and cooperation:

- From spring, Kaubamaja toilets will be free for all people to offer people the opportunity to wash their hands often.
- To prevent layoffs, companies have provided retraining for employees for redirection to departments that were not affected by the crises. Employees were also exchanged within the companies, for example, the number of online orders in the e-Selver increased two to four times compared to the beginning of the year and employees of the Group's companies came to help to assemble orders, Selver also hired almost 300 people outside the Group.

Code of Conduct

Tallinna Kaubamaja Group has implemented the Code of Conduct, which consolidates and describes the values and main principles that we expect the employees, members of the Executive Board and Board of Directors, and partners to follow in their activities.

The Code of Conduct (established in 2017 and updated in March 2020) 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 Conduct have been published on the website of Tallinna Kaubamaja Group at www.tkmgroup.ee.

Social responsibility

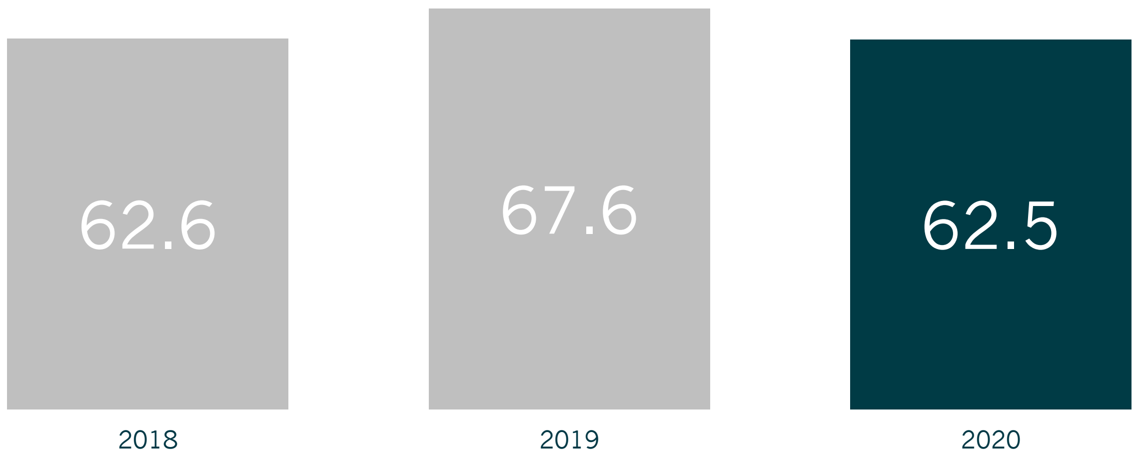
Tallinna Kaubamaja Group feels its role and responsibility in the society and is aware that through its activities, the Group also influences the society around us.

These are reflected in the social responsibility principles accepted throughout the Group:

- We consider the Group's Selver chain stores as regional centers where we have assembled several public services important for the society.
- If possible, especially in grocery items, we prefer domestic products and small Estonian manufacturers.
- We hold events to promote local design and manufacturers at the Group's department stores and stores.
- We are active in sponsoring activities and programs and organise various charity campaigns.
- We support the popularization of sports through promoting youth work and professional sports.
- We support several smaller and larger cultural projects, mainly outside of larger cities.
- We contribute to improving the employment of people with disabilities and offer jobs to those 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 2020, Tallinna Kaubamaja Group companies paid to the state and local authorities a total of 62.5 million euros in taxes, a decline of 7.6% in a year (2019: 67.6).

Tallinna Kaubamaja Group taxes paid in 2018, 2019 and 2020 (in million euros)



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

- Tallinna Kaubamaja Group is one of the initiators and major supporters of the opinion competition 'Successful Estonia', held since 2013. The main goal of the opinion articles published in the business daily Äripäev within the competition is to bring ideas into public discussion for increasing Estonia's economic growth and improving the well-being of people.
- Through years 1994-2020, Tallinna Kaubamaja was a godparent for white-tailed eagles at the Tallinn Zoo.
- Tallinna Kaubamaja has supported the Male Choir of Tallinn University of Technology for over 15 years.
- Over the time, Kaubamaja has supported a wide variety of social projects that help to improve the general well-being of the local people. It doesn't matter if the business or project is small or large - its idea, high-quality implementation and suitability for our main areas of support are important. The ways of supporting are very different: we help to spread information about the activities launched with our support or initiative in Kaubamaja's sales hall, internal radio, e-channels, podcast or in the customer magazine Hooaeg, we organize charity sales or help cover the costs. Traditionally, charity cooperation is an integral part of Kaubamaja's Christmas campaign. At the end of 2020, Kaubamaja conducted a Christmas sale of charity products, the profit was donated to the non-profit organization Peaasjad, to raise awareness about mental health so it would be noticed in society and treated more openly and consciously.
- 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. Cooperation with the re-use e-store Emmy that commenced in 2018 has been successful and will continue to support re-using fashion goods and donating to charity.
- 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 to Kaubamaja – we encourage schools to organise fashion shows and help them with awards. For example, we support young people´s fashion events Estonian Fashion Festival and Roosad Käärid. Kaubamaja is also the main sponsor of Kuldnõel, the most prestigious fashion design award in Estonia.
- Kaubamaja held a campaign „KooliAeg", which main goal is to collect school supplies and financial aid to Estonian families with many children.
- 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.
- In 2020, Kaubamaja became the owner of the Family-Friendly Employer label of the Ministry of Social Affairs and joined the corresponding development program. The program lasts a total of 2.5 years and then goes through a company evaluation process to earn a recognition mark - gold, silver or bronze.
- 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 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;
    - Rannavolle harrastamine: Caparoli Rannavolle Keskus.
- Selver continues 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.

Wellbeing and motivation of personnel

The objective of the HR policy of the Group is to value, develop and keep our employees based on common principles, involving HR management and planning, well thought out recruitment and selection processes, followed by purposeful and motivational development and the establishment of supporting environment. We are guided by the principle that success is based on loyal, committed, ethical and result-oriented employees.

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

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

Tallinna Kaubamaja Group is one of the biggest employers in Estonia. In 2020, our Group employed an average of 4,558 people and compared to 2019, the number of employees increased by 6.7% (2019: 4,273).

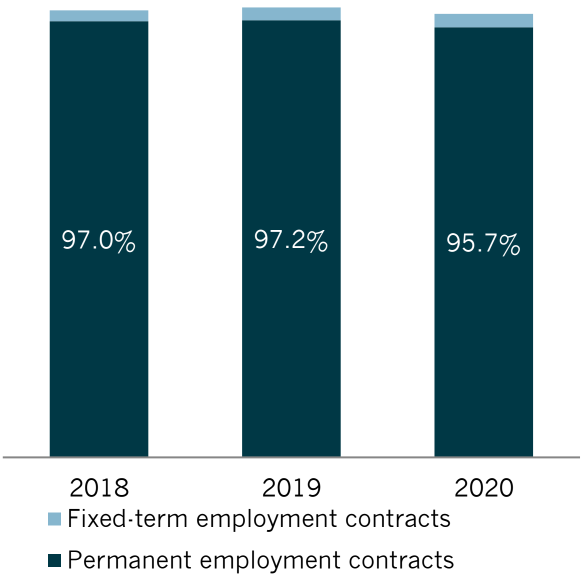
Tallinna Kaubamaja Group values long-term and lasting work relationships that provide our employees with stability in their everyday life and develop their competence over the years, thereby improving the Group's competitiveness.

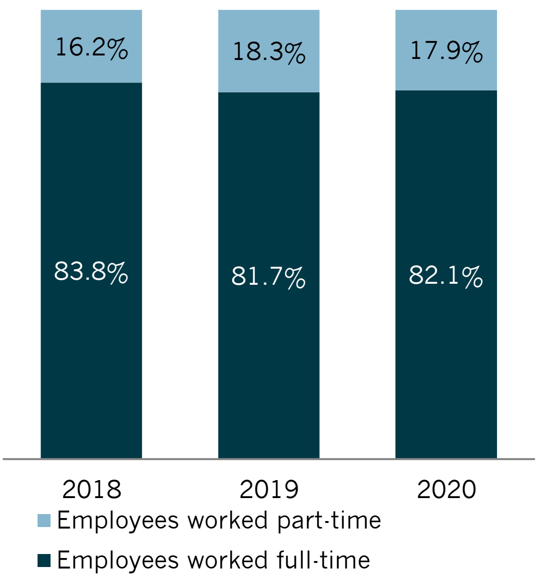
As at the end of 2020, over 95.7% of our employees were employed under permanent employment contracts and almost 4.3% under fixed-term employment contracts. Tallinna Kaubamaja Group also offers an option to work part-time in response to employees' wishes and opportunities. As at the end of 2020, 17.9% of our employees worked part-time (2019: 18.3%). The popularity of part-time working has grown over the years but in 2020 there has been a minor drop.

4,558
Yearly average number employees
(2019: 4,273)

95.7%
Employees with permanent contracts
(2019: 97.2%)

17.9%
Part-time employees
(2019: 18.3%)





Valuing development opportunities

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

Employees are offered specialised refresher trainings in Estonia as well as abroad. The Group's total number of training hours reached to 7.8 thousand, an average 1.7 hours per employee in 2020 (2019: 3.4). 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.

7.9 th	1.7 hour	77
Training hours in total	Training hours per employee	Practice opportunities for young interns
(2019: ca 14.3 th)	(2019: 3.4)	(2019: 55)

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 2020. 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 2020, a total of 1,222 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.

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 is ensured by evaluation system for assessing levels of competence, 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 2020, we offered practical training opportunities to a total of 77 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.

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 2020, there were a total of 52 occupational accidents in the Group (2019: 62).

We organise joint events that build a foundation for a good atmosphere and cooperation in teams. In 2020, 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 receptions at Niguliste Museum and Estonian National Museum in Tartu, 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 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.

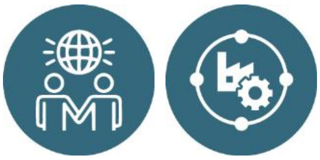
We also contribute to developing diversity within the Group by valuing a tolerant working environment and diversity of employees, be it different age, race or ethnicity, religious beliefs or employees with special needs.

Labour costs

Tallinna Kaubamaja Group's labour costs increased altogether 7.1% (wage costs and social tax cost), which was 78.3 million euros in 2020. The average labour cost per employee was 1 432 euros in 2020, growing by 32.3% compared to 2019. 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 2018, 2019 and 2020
(in millions euros)

Complying with human rights and responsible procurement



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

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

In 2020, ca 3200 suppliers provided products to Tallinna Kaubamaja Group. 75% of suppliers of Tallinna Kaubamaja Group are local businesses. 40% of the goods are of domestic origin, the corresponding figure is 62% for food products.

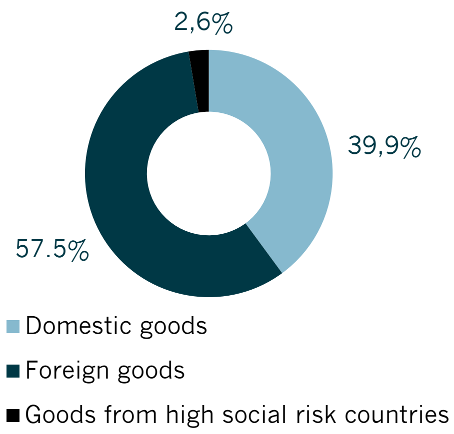
In terms of social responsibility, Tallinna Kaubamaja Group has suppliers also from high social risk countries, such as some countries in Africa, Asia, South America and Central America. Purchase amounts from these countries are very small and accounted for about 2.4% of all purchases in 2010.

3,200
Suppliers
in total
(2019: ca 2,900)

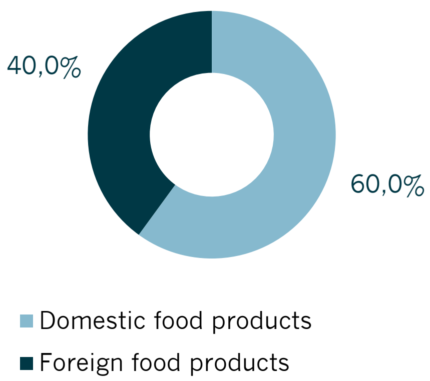
75%
Purchases via
domestic suppliers
(2019: 77%)

40%
Goods of
local origin
(2019: 41%)

Tallinna Kaubamaja Group origin of products in 2020



Tallinna Kaubamaja Group origin of food products in 2020



Private label products

1.0% of products purchased by Tallinna Kaubamaja Group are private label products, 10.3% (12.7% less than in 2019) 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 2020, goods of local origin accounted for almost 40% of all goods, the corresponding figure is 62% for food products. 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 2020, there were in total 82 product recall incidents in the Group's companies, (2019: 56 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 2020, there was 11 such incidents (2019: 1 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 acknowledges 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.

Tallinna Kaubamaja Group Ecobalance	**2 018**	**2 019**	**2 020**
Electricity consumption (KWh/m2)	340	324	288
Renewable electricity consumption (KWh/m2)	8	7	42
Consumption of heating energy (KWh/m2)	157	148	119
Consumption of reactive energy (Kvarh/m2)	71	76	61
Water consumption (m3/m2)	0,43	0,43	0,39

*Consumption and costs per square meter of selling space

When calculating the carbon footprint of Tallinna Kaubamaja Group, we have followed the internationally recognized and most used standard for reporting greenhouse gases- The Greenhouse Gas Protocol Corporate Standard. The standard covers the accounting and reporting of seven greenhouse gases covered by the Kyoto Protocol: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulfur hexafluoride (SF_6), nitrogen trifluoride (NF_3). The GHG Protocol divides emissions between three scopes:

- Scope 1: all emissions produced locally, on-site energy production and company-owned transportation
- Scope 2*: emissions from the use of electricity and heat and cooling
- Scope 3: all other indirect emissions

*location-based method

The Group's focus is on developing and implementing energy-saving solutions for energy-intensive processes and reducing the direct negative impact of our operations, and therefore we have excluded scope 3 emissions from the current calculation.

Due to the change in the Group's carbon footprint measurement methodology, the report does not reflect the carbon footprint calculations of previous years.

Tallinna Kaubamaja Group's carbon footprint, 2020*	**t CO_2 e**	**kg CO_2 e /m2**	**t CO_2 e per employee**
Scope 1	1 768	10	0,39
Scope 2	69 748	381	15,30

*In total
e - Kyoto Protocol greenhouse gases are calculated into CO_2 equivalents

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 technological refrigerating systems (~50-60% of stores electricity consumption), 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.

In 2020, Kulinaaria built a steam boiler house on the second floor of the new production building, the new boiler house is using natural gas for fuel, replacing electric heating. Due to the average specific emissions of the Estonian electricity network, 0.878 tCO_2 / MWh, and the average specific emissions of natural gas combustion, 0.2 tCO_2 / MWh, the carbon intensity of the company will also decrease significantly with the new gas boiler.

An important factor in more sustainable energy consumption is the energy-efficient lighting. When renovating the old manufacturing building, Kulinaaria changed the entire lighting solution into LED, which means all production facilities are using LED lighting solution. When designing the lighting solutions for department stores and stores, 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 2021.

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.

As a Group that is innovative and looks into the future, it is very important to us to switch to solutions that put less burden on the environment as well as our work processes. Paper-free digital alternatives have become a standard in the Group in marketing, logistics, and payment solutions. Within the Group's paper-free mission, Selver will be the first retail chain in Estonia to introduce electronic price tags in all stores. As the price of fresh produce changes most often, then in the first stage, the change will happen in the produce departments. It is planned to be completed in February.

Tallinna Kaubamaja Group prefers environmentally friendly packaging and offers alternatives to plastic materials. In 2020, special attention was paid to reducing the use of plastic bags in stores; during the year, more than 1.2 million less plastic bags have been circulated from the Group's stores than in 2019. In addition to reducing the amount of packaging, we also consider it important that the packaging in circulation is environmentally friendly, also preferably made from recycled materials. Paper and reusable textile bags are available at our department stores and stores, of which round about 125 thousand pieces were sold in 2020. Notable increase can also be seen in the purchases of paper bags, with more than 3.648 thousand bags sold last year, being 12% 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. In 2021, Kulinaaria will integrate Bepco´s packing system as well.

All plastic bags used in Kaubamaja AS stores are made from 90-100% recycled materials, reusable bags are made from 100% recycled plastic bottles and plastic bags are made from 90% recycled plastic. In 2019, online store padded envelopes (so-called bubble wrap envelopes) were replaced with envelopes filled with recycled paper. Environmentally friendly innovative solutions are constantly being sought and tested, in 2020 envelopes filled with wool waste replaced the ones with recycled paper, proving to be even more environmentally friendly.

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.

The use of paper in both documentation and stores is minimized in Group companies. Kaubamaja Toidumaailm allows you to give up a paper sticker when weighing fruits and vegetables and use a self-service remote control to store information. All purchases of Partnerkaart customers are stored in a self-service system, which allows customers to not use paper receipts.

In order to find alternatives for reuse of recycled plastic and film, Kaubamaja AS, in cooperation with the largest Estonian universities and their business network Adapter, organized a competition "Forward vitality", the winning idea that offers a solution for the recycling of disposable plastic boxes.

From office areas, Kaubamaja replaced individual trash bins with bins where waste could be recycled properly to have less negative impact on the environment.

All Partnerkaart cards that have expired or no longer can be used, are sent to be recycled and made into car chocks.

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, and endangers democratic institutions and the moral foundations of the society.

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

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

- granting and accepting gratuities or bribes;
- abuse of official position or power;
- conflict of interests;
- nepotism;
- embezzlement;
- trading with know-how and inside information or using it for personal interests.

In combating corruption, we proceed from the following principles:

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

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

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

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

Corporate Governance Report

The Corporate Governance (CG) is a set of guidelines and recommended rules, which is intended to be observed mainly by publicly traded companies. Tallinna Kaubamaja Group follows largely the Corporate Governance Code despite their indicative nature. Below is a description of the management principles of Tallinna Kaubamaja Group and general meetings held in 2020 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 25 February 2020 and through a daily newspaper Eesti Päevaleht on 26 February 2020. 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 25 February 2020.

The general meeting of shareholders of Tallinna Kaubamaja Group was held in the conference centre of Nordic Forum Hotel, Viru väljak 3, Tallinn, on 20 March 2020 beginning at 13:00. 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.

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 2020 was Estonian and the meeting was chaired by the general counsel of the Tallinna Kaubamaja Group Helen Tulve. For the first time, it was possible to participate in the meeting through a webinar. The meeting was also attended by Management Board member Raul Puusepp. Jüri Käo, Chairman of the Supervisory Board of Tallinna Kaubamaja Grupp AS, and auditor Eva Jansen-Diener from PricewaterhouseCoopers AS, took part in the meeting through a webinar. 71.36% 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 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. Taking into account that on 12 March 2020 the Government of the Republic declared a state of emergency in connection with the pandemic spread of the coronavirus in the world and the probable spread of the virus within Estonia, shareholders were able to issue a voting proxy to exercise shareholder rights. If desired, Jaanus Tehver, a sworn advocate and chairman of the Board of the Bar Association, could be appointed as an authorized representative.

Considering the aforementioned descriptions of general meetings held in 2020, 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 21 February 2020 and his term of office will expire on

6 March 2023.

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 Management Board member of the Group has no additional bonuses or benefits. The remuneration, including social security taxes and performance pay for the previous year, paid for 2020 to the Chairman of the Management Board amounted to 287 thousand euros (in 2019, 281 thousand euros) and the calculated fees, including social security taxes, amounted to 124 thousand euros (for 2019 the performance pay, including social security taxes, in amount of 127 thousand euros was paid).

Unlike clause 2.2.1 of the Corporate Governance Code, the Management Board of Group consists of one member. It is a historical tradition, but besides to the member of the Management board, the management team of the Group includes, a CFO, Legal Director, IT Director and Marketing Director. All the important resolutions are adopted by the Management Board and the management team in collaboration with the 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.

Significant transactions with the Group that are concluded with a member of the Management Board, or a person close to or related to him or her are decided and determined by the Group's Supervisory Board. No such transactions occurred in 2020 and 2019. There were also no conflicts of interest during these periods.

Supervisory Board

The Supervisory Board plans the activities of 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 2020, 12 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2019, 12 scheduled meetings and 1 extraordinary meeting was held. In 2020, the Chairman of the Supervisory Board and three Supervisory Board members attended all 13 Supervisory Board meetings and one Supervisory Board member attended 12 Supervisory Board meetings.

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 (an independent Supervisory Board Member) and Gunnar Kraft (an independent Supervisory Board Member) 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 2020, the remuneration for the members of the Supervisory Board, payroll tax included, was 160 thousand euros, of which the remuneration of the Chairman of the Supervisory Board was 37 thousand euros (in 2019, 166 thousand euros, of which the remuneration of the Chairman of the Supervisory Board was 38 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, the management team and the Supervisory Board jointly participate in development of the strategy of the Group. In making management decisions, the Management Board and the management team 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.

As far as the Group is aware, there are no shareholder arrangements for the coordinated accomplishment of shareholder rights.

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 31.12.2020 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

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 NASDAQ Tallinn Stock Exchange.

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. Along with the annual report, the Supervisory Board's written report on the annual report referred to in § 333 (1) of the Commercial Code shall be made available to shareholders on the Group's website. In the subsection of Market News, 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 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.

On 18 June 2019, the European Commission Delegated Regulation (EU) 2018/8151 entered into force, in accordance with which issuers whose securities are admitted to trading on a regulated market of a Member State of the European

Union as of 1 January 2020 publish consolidated annual reports in European Single Electronic Format (ESEF). A Regulation of the European Parliament and of the Council approved at the time of submission of this report amends the Capital Markets Recovery Package (CMRP) and the Transparency Directive. In accordance with this draft, Article 4 (7) of the Transparency Directive is amended, in accordance with which Member States may allow issuers to submit annual reports in electronic reporting format from the financial year starting on or after 1 January 2021. The draft thus allows Member States to postpone the requirement to implement the ESEF for one year if the Member State notifies the European Commission of its intention. At the time of submitting this report, no decision had been taken to postpone the implementation of the ESEF in Estonian legislation, but the approval in principle has been granted by the Estonian Financial Supervision and Resolution Authority and the Ministry of Finance.

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. Auditors are appointed to perform a single audit or for a specific term. The procedure for remuneration of auditors shall be determined by the Management Board. Along with the resolution of the general meeting from 2020, the financial auditor of the financial year 2020 was AS PricewaterhouseCoopers (PwC).

During 2020, the auditor of the Group has provided to the Group a limited assurance engagement in respect of packaging report, tax advice. In our opinion, the financial audit conducted in 2020 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 93-99.

Audit Committee

The Audit Committee is an advisory body established by the Supervisory Board. Task of the Audit Committee is to counsel the Supervisory Board in matters involving accounting, auditing, risk management, internal control and audit, exercising an oversight and budgeting process and legality of the activities.

In order to perform these tasks, the audit committee monitors and analyses the processing of financial information and the process of auditing of annual accounts or consolidated accounts, supervises risk management and evaluates the effectiveness of the internal control system. The audit committee shall make proposals for the appointment and removal of the financial auditors and assess theirs independence and compliance.

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 five members, who are appointed by the Supervisory Board for three years. In 2020, 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.

Ten 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, 19 February 2021

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 2020 as set out on pages 40-92.

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, 19 February 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2020	31.12.2019 adjusted	01.01.2019 adjusted
ASSETS				
Current assets				
Cash and cash equivalents	5	32,757	40,629	37,235
Trade and other receivables	6	15,894	16,904	16,093
Inventories	8	77,334	78,305	78,212
Total current assets		**125,985**	**135,838**	**131,540**
Non-current assets				
Long-term trade and other receivables	11	335	114	113
Investments in associates	10	1,712	1,721	1,738
Investment property	12	60,347	60,458	59,866
Property, plant and equipment	13	388,757	319,192	212,687
Intangible assets	14	20,148	4,990	5,133
Total non-current assets		**471,299**	**386,475**	**279,537**
TOTAL ASSETS		**597,284**	**522,313**	**411,077**

LIABILITIES AND EQUITY				
Current liabilities				
Borrowings	15	49,402	46,448	26,002
Trade and other payables	17	102,841	89,831	90,775
Total current liabilities		**152,243**	**136,279**	**116,777**
Non-current liabilities				
Borrowings	15	217,349	157,876	68,313
Deferred tax liabilities	2,18	4,408	5,821	6,452
Provisions for other liabilities and charges		277	322	370
Total non-current liabilities		**222,034**	**164,019**	**75,135**
TOTAL LIABILITIES		**374,277**	**300,298**	**191,912**
Equity				
Share capital	19	16,292	16,292	16,292
Statutory reserve capital		2,603	2,603	2,603
Revaluation reserve		102,630	93,496	95,587
Currency translation differences		-149	-149	-149
Retained earnings		101,631	109,773	104,832
TOTAL EQUITY		**223,007**	**222,015**	**219,165**
TOTAL LIABILITIES AND EQUITY		**597,284**	**522,313**	**411,077**

The notes presented on pages 45-92 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	Note	2020	2019 adjusted
Revenue	20	741,938	717,223
Other operating income		1,285	5,113
Cost of merchandise	8	-556,712	-535,410
Services expenses	21	-44,009	-41,917
Staff costs	22	-78,301	-73,113
Depreciation, amortisation and impairment losses	13,14	-35,137	-30,743
Other expenses		-1,057	-715
Operating profit		**28,007**	**40,438**
Finance income	23	2	1
Finance costs	23	-4,239	-2,982
Share of net profit of associates accounted for using the equity method	10	191	203
Profit before income tax		**23,961**	**37,660**
Income tax expense	2,18	-4,462	-5,892
Net profit for the financial year		**19,499**	**31,768**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Revaluation of land and buildings	13	11,225	0
Other comprehensive income for the financial year		**11,225**	**0**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**30,724**	**31,768**
Basic and diluted earnings per share (euros)	24	0.48	0.78

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

The notes presented on pages 45- 92 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
in thousands of euros

	Note	2020	2019 adjusted
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		19,499	31,768
Adjustments:			
Interest expense	23	4,239	2,982
Interest income	23	-2	-1
Income tax expense	2,18	4,408	5,821
Depreciation, amortisation and impairment losses	13,14	34,848	30,632
Loss/(gain) from fair value adjustment of investment property	12	311	-359
Loss on write-off property, plant and equipment	13	289	111
Profit on sale of property, plant and equipment	13	-26	-3,849
Effect of equity method	10	-191	-203
Change in inventories	8	3,805	-287
Change in receivables and prepayments related to operating activities	6	1,611	-812
Change in liabilities and prepayments related to operating activities	17	4,456	-997
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		**73,247**	**64,806**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	13	-27,554	-22,598
Proceeds from sale of property, plant and equipment	13	85	5,597
Purchase of investment property	12	-210	-111
Proceeds from sale of investment property	12	10	0
Purchases of intangible assets	14	-787	-585
Business combination	9	-14,910	0
Cash acquired from business combination	9	811	0
Dividends received	10	200	220
Interest received	23	2	1
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		**-42,353**	**-17,476**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	15	39,292	25,246
Repayments of borrowings	15	-18,156	-25,652
Change in overdraft balance	15	-4,490	9,785
Payments of principal or leases	15	-15,628	-14,970
Interest paid on lease liabilities	15	-2,882	-2,031
Dividends paid	19	-29,731	-28,917
Income tax on dividends paid	18,19	-5,821	-6,452
Interest paid	23	-1,350	-945
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		**-38,766**	**-43,936**
TOTAL CASH FLOWS		**-7,872**	**3,394**
Cash and cash equivalents at the beginning of the period	5	40,629	37,235
Cash and cash equivalents at the end of the period	5	32,757	40,629
Net change in cash and cash equivalents		**-7,872**	**3,394**

The notes presented on pages 45- 92 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 31.12.2018	**16,292**	**2,603**	**95,587**	**-149**	**111,284**	**225,617**
Balance as of 01.01.2019	**16,292**	**2,603**	**95,587**	**-149**	**111,284**	**225,617**
Adjustment on adoption deferred tax (Note 2)	0	0	0	0	-6,452	-6,452
Balance as of 01.01.2019 restated	**16,292**	**2,603**	**95,587**	**-149**	**104,832**	**219,165**
Net profit for the reporting period	0	0	0	0	31,768	31,768
Total comprehensive income for the reporting period	**0**	**0**	**0**	**0**	**31,768**	**31,768**
Reclassification of depreciation of revalued land and buildings	0	0	-2,091	0	2,091	0
Dividends declared	0	0	0	0	-28,918	-28,918
Total transactions with owners	**0**	**0**	**0**	**0**	**-28,918**	**-28,918**
Balance as of 31.12.2019	**16,292**	**2,603**	**93,496**	**-149**	**109,773**	**222,015**
Net profit for the reporting period	0	0	0	0	19,499	19,499
Revaluation of land and buildings	0	0	11,225	0	0	11,225
Total comprehensive income for the reporting period	**0**	**0**	**11,225**	**0**	**19,499**	**30,724**
Reclassification of depreciation of revalued land and buildings	0	0	-2,091	0	2,091	0
Dividends declared	0	0	0	0	-29,732	-29,732
Total transactions with owners	**0**	**0**	**0**	**0**	**-29,732**	**-29,732**
Balance as of 31.12.2020	**16,292**	**2,603**	**102,630**	**-149**	**101,631**	**223,007**

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

The notes presented on pages 45- 92 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General information

Tallinna Kaubamaja Grupp AS (the Company) and its subsidiaries (together as the Tallinna Kaubamaja Group or Group) are entities engaged in retail trade and provision of related services. Tallinna Kaubamaja Grupp AS is a company registered on 18 October 1994 in the Republic of Estonia with the legal address of Kaubamaja 1, 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 19 February 2021 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 2020 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 presentation currency of Tallinna Kaubamaja Group is euro. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of each of the Group's entities 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 2019.

Company income tax and deferred income tax

Reason for changing accounting policy is due to IAS 1 §41 "reason for the presentation of classification change".

IFRS Interpretation Committee agenda decision regarding deferred tax related to investments in subsidiaries both Estonia and Latvia have replaced the traditional profit-based tax regimes with distribution-based tax regimes where corporate income tax is not payable on profit but rather on distribution of dividends. In accordance with IAS 12.52A and 57A, in distribution-based tax regimes no current or deferred tax liability is recognised in respect of undistributed profits until a liability to pay dividends is recognised. As a market practice in Estonia, this accounting policy has been applied consistently to all undistributed profits in the group, regardless of whether those profits accumulated in the parent or in the subsidiaries.

In June 2020, IFRS Interpretation Committee made an agenda decision where it concluded that the principle set out in IAS 12.52A and 57A only applies to undistributed profits accumulated in the parent company and does not apply to undistributed profits accumulated in the subsidiaries. Instead, the principles described in IAS 12.39-40 should be followed in respect of undistributed profits in subsidiaries, stipulating that a deferred tax shall be recognized in respect of such accumulated profits, unless it is probable that they will not be distributed to the parent in the foreseeable future.

Deferred income tax is recognised in case of temporary differences between the Group's carrying amounts of assets and liabilities and their tax bases (the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes).

Pursuant to the laws of the Republic of Estonia, an enterprise's profit of the accounting year is not taxable in Estonia. The obligation to pay company income tax arises upon distribution of profit and it is recognised as an expense (in the profit or loss for the period) when dividends are declared. Due to the nature of the taxation system, no deferred income tax assets or liabilities arise in enterprises registered in Estonia, except for possible deferred income tax liabilities related to an enterprise's investments in subsidiaries, associate and joint undertaking, and branches.

Deferred income tax liability arises for the Group in countries where the enterprise's reporting year profit is taxable. For the Group, deferred income tax liability also arises in respect to investments in an Estonian and Latvian subsidiary and associate undertaking, except for if the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the reversal will not occur in the foreseeable future. Examples of taxable temporary reversal are the payment of dividends, the sale or liquidation of an investment, and other transactions.

The Group has control over the dividend policy of subsidiaries and is able to control the timing of the reversal of the temporary differences in respect to the relevant investment. If the parent company has decided not to distribute the subsidiary's profit in the foreseeable future, it does not recognise the deferred income tax liability. If the parent company assesses that the dividend will be paid in the foreseeable future, the deferred income tax liability is measured to the extent of the planned dividend payment provided that as at the reporting date, there are sufficient funds to pay the dividend and owner's equity on account of which to distribute profit in foreseeable future.

The Group measures deferred income tax liability using the tax rates valid on the reporting date that are expected to apply to the taxable temporary differences of the period in which the temporary differences are expected to reverse.

In Estonia, the valid company income tax rate is 20 per cent (the payable tax amount is 20/80 of the net payment). From 2019, a lower tax rate is applied to regularly payable dividends – 14% (14/86 of the net payment). The lower tax rate can be applied every calendar year on dividend payments and other profit distributions to the extent that does not exceed the average amount of taxable paid dividends and other profit distributions of the previous three calendar years and taxable payments from the owner's equity. The Group has recognised the change in the accounting policy retrospectively.

Effect of the adjustment on the financial statements

in thousands of euros

	Balance in 2019 consolidated annual report	Change	Adjusted balance in 2020 consolidated annual report
Impact on the statement of financial position as of 1 January 2019			
Deferred tax liabilities	0	6,452	6,452
Retained earnings	111,284	-6,452	104,832
Impact on the statement of financial position as of 31 December 2019			
Deferred tax liabilities	0	5,821	5,821
Retained earnings	115,594	-5,821	109,773
Impact on the statement of profit or loss in 2019			
Income tax expense	-6,523	631	-5,892
Total impact on the statement of profit or loss	**-6,523**	**631**	**-5,892**
Basic and diluted earnings per share (euros)	0.76	0.02	0.78

Effective Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8

(effective for annual periods beginning on or after 1 January 2020)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group assesses that there is no material impact of application of the amendments to its financial statements.

Amendments to the Conceptual Framework for Financial Reporting

(effective for annual periods beginning on or after 1 January 2020)

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group assesses that there is no material impact of application of the amendments to its financial statements.

Definition of a business – Amendments to IFRS 3

(effective for annual periods beginning on or after 1 January 2020)

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets. The Group assesses that there is no material impact of application of the amendments to its financial statements.

Covid-19-Related Rent Concessions – Amendments to IFRS 16

(effective for annual periods beginning on or after 1 January 2020)

The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.Group has not used optional exemption. The Group assesses that there is no material 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 1 January 2020 that would be expected to have a material impact to the Group.

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 01 January 2021, and which the Group has not early adopted.

Classification of liabilities as current or non-current – Amendments to IAS 1

(effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU)

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group assesses that there is no material impact of application of the amendments to its financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1

(effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU)

The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group assesses that there is no material impact of application of the amendments to its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41

(effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU)

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

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- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Group assesses that there is no material impact of application of the amendments to its financial statements.

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

Disclosures about the primary statements of the Parent

In accordance with the Accounting Act of Estonia, the separate primary statements of the consolidating entity (Parent) are to be disclosed in the notes to the consolidated financial statements. The Parent's primary statements, disclosed in Note 30, have been prepared using the same accounting methods and measurement bases as those that have been used for preparing the consolidated financial statements except for investments into subsidiaries that are reported in the separate primary statements using the equity method.

Under the equity method, on initial recognition the investment in a subsidiary, associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive income.

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 profit or loss 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 profit or loss.

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 investor´s share of profit/loss and other comprehensive income of 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. Supervisory Board of the Parent meets at least once in a month.

Cash and cash equivalents

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

Financial assets

Classification

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

- 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, except for trade receivables, 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. Trade receivables are initially measured at transaction price determined under IFRS 15.

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 31 December 2019 and 31 December 2020 and during 2020, 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 expected credit losses (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.

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 using it in 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 profit or loss 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 profit or loss 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. The Group is not capitalising borrowing costs to investment properties.

Property, plant and equipment

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

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 profit or loss. 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*
  - Right of use assets – properties — rental period, 2-16 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.

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:

- Trademark 7 years
- Capitalised development expenditure 5 years

The amortisation charge of intangible assets with a finite useful life is recognised in the profit or loss 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.

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 presented 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.

Leases

The Group is as lessee or as lessor in lease agreements. The Group leases land, offices, machinery and equipment, vehicles.

The Group as the lessee

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. A lessee reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee; and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

Initial measurement

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to

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obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with the average interest margin of the industry adjusted with the credit risk of the Group;
- makes adjustments specific to the lease, e.g. lease term, country, currency and security.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments, less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as EURIBOR) or payments that vary to reflect changes in market rental rates;

(c) amounts expected to be payable by the lessee under residual value guarantees;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent measurement

After the commencement date, a lessee measures the right-of-use asset applying a cost model. To apply a cost model, a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, a lessee shall measure the lease liability by:

a) increasing the carrying amount to reflect interest on the lease liability;

b) reducing the carrying amount to reflect the lease payments made; and

c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, a lessee recognises in profit or loss interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

If there are changes in lease payments, there may be need to remeasure the lease liability. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

(a) there is a change in the lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term; or

(b) there is a change in the assessment of an option to purchase the underlying asset. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments. The lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

A lessee shall account for a lease modification as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

The Group has elected not to apply the requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of IT equipment.

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.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of comprehensive income.

Sublease

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the classification of a sublease as a finance lease or an operating lease with reference to the right-of-use asset arising from the head lease. When subleases are classified as finance leases the Group derecognises the right-of-use asset relating to the head lease that it transfers to the sublessee and presents the net investment in the sublease under non-current receivables and prepayments in the statement of financial position. During the term of the sublease the Group recognises finance income on sublease based on pattern reflecting a constant period rate of return on the net investment in the lease.

For subleases classified as operating lease, the Group recognises the lease income on a straight-line basis over the lease term and includes them in revenue in the statement of comprehensive income.

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 profit or loss 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.

Corporate income tax paid on dividends is recognized in the statement of comprehensive income as an income tax expense and in the statement of financial position as a deferred income tax liability to the extent of the planned dividend payment. An income tax liability is due on the 10th day of the month following the payment of dividends.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

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 is 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 is 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.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Revenue recognition

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.

Sale of goods – retail

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 specific commodity group level according to the historical volume of returns (expected value method), 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 31.12.2019 and 31.12.2020, 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 specific commodity group 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 31.12.2019 and 31.12.2020, 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.

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 profit or loss 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 the reporting period the land and buildings located in Estonia (carrying value: 171,351 thousand euros as at 31.12.2020) increased by 10,175 thousand euros, which was identified through other comprehensive income. As a result of the valuation performed in the 2019 the value of land and buildings located in Estonia (carrying value: 162,545 thousand euros as at 31.12.2019) was not adjusted. As a result of the valuation performed in 2020, the value of land and buildings located in Latvia (carrying value: 13,151 thousand euros as at 31.12.2020) increased by 1,050 thousand euros, which was identified through other comprehensive income and through profit and loss by 425 thousand euros. As a result of the valuation performed in 2019, the value of land and buildings located in Latvia (carrying value: 10,043 thousand euros as at 31.12.2019) was not adjusted. For the land and buildings located in Lithuania with carrying value of 1,877 thousand euros as at 31.12.2020 (31.12.2019: 1,877 thousand euros) the valuation did not reveal any significant differences between fair value and carrying value. As at 31.12.2020 the carrying value of land and buildings using revaluation method was 186,379 thousand euros (31.12.2019: 174,465 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 reporting period, buildings under construction located in Estonia, with carrying value of 12,474 thousand euros as at 31.12.2020 (carrying value: 8,644 thousand euros as at 31.12.2019) showed no significant differences between value in use and carrying value. The carrying value of the buildings under construction located in Latvia (carrying value: 5,810 thousand euros as at 31.12.2020) the need for reversal of an impairment loss recognized in previous years in the amount of 93 thousand euros of two object was identified. As regards of one object, increase in value in use was identified in the amount of 41 thousand euros and as regards of two objects impairment loss was recognised in the amount of 20 thousand euros. For the buildings under construction located in Latvia in 2019 (carrying value: 7,289 thousand euros as at 31.12.2019) was not adjusted. Buildings under construction located in Lithuania with carrying value of 131 thousand euros as at 31.12.2020 (carrying value: 131 thousand euros as at 31.12.2019) showed no significant differences between value in use and carrying value in current period and 2019. 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 determining the value in use, management has forecasted future cash flows of cash-generating units and selected an appropriate discount rate for determining the present value of cash flows. As at 31.12.2020, the carrying value of goodwill was 16,869 thousand euros (31.12.2019: 3,260 thousand euros). In 2020 and 2019, no recognition of impairment of goodwill was necessary. More detailed information is disclosed in Note 9 and 14.

Note 4 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 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 tenant security deposits (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 2020, the 6-month EURIBOR decreased from -0.323% at the beginning of the year to the year-end -0.526%. In the beginning of 2021, EURIBOR has been continued small decline. Business analysts estimate that EURIBOR will not rise in 2021 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 2020 (31 December 2019: 1 percentage point), the Group's financial cost would have increased by 1,120 thousand euros (2019: 990 thousand euros). Had the interest rates been 0.1 percentage point lower as at 31 December 2020, the Group's financial cost would have decreased by 112 thousand euros (as at 31 December 2019 changed by 0.1 percentage point and by 99 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

	31.12.2020	31.12.2019
Interest rates in 3 months	10,126	15,254
Interest rates in 3 - 6 months	103,020	77,096
Total borrowings at floating interest rate	**113,146**	**92,350**
Total borrowings	**266,751**	**204,324**

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:

	31.12.2020	31.12.2019
Aa2	1,841	38,801
Aa3	29,882	0
A3	0	673
Total	**31,723**	**39,474**

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

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major risk for the Group. As at 31 December 2020, the maximum credit risk arising from receivables is in the amount of 14,397 thousand euros (2019: 13,875 thousand euros).

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

	31.12.2020	31.12.2019
Not due	13,320	11,239
Incl. receivables from card payments	*2,575*	*2,475*
Incl. trade receivables	*10,547*	*8,344*
Incl. other receivables	*198*	*420*
Overdue < 3 months	865	2,434
Overdue 3 - 6 months	92	70
Overdue 6 - 12 months	63	23
Overdue > 12 months	57	109
Total receivables	**14,397**	**13,875**

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 30 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 2020 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.

The Group's operating units forecast their cash flows on an ongoing basis and they are added to the cash flow forecasts of the Group's parent company in the Group's financial unit. 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 31.12.2020
Borrowings	6,378	26,404	71,854	19,012	0	123,648
Lease liabilities	5,137	15,597	39,154	34,715	67,346	161,949
Financial liabilities (Note 17)	83,416	0	0	0	0	83,416
Total	**94,931**	**42,001**	**111,008**	**53,727**	**67,346**	**369,013**
In thousands of euros	**< 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**after 5 years**	**Total 31.12.2019**
Borrowings	10,145	21,778	23,714	50,516	0	106,153
Lease liabilities	4,307	12,924	29,343	35,363	27,848	109,785
Financial liabilities (Note 17)	73,192	0	0	0	0	73,192
Total	**87,644**	**34,702**	**53,057**	**85,879**	**27,848**	**289,130**

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2020 and 31.12.2019, have been used.

As at the end of the financial year, the Group had available funds in cash and cash equivalents in the amount of 32,757 thousand euros (2019: 40,629 thousand euros). As at 31 December 2020, the Group had undrawn borrowing facilities in the amount of 8,901 thousand euros (2019: 3,810 thousand euros). The Group follows its established credit risk management strategy when investing its cash flow surplus. As at 31 December 2020, the Group had placed no deposits into the joint group account through its parent company NG Investeeringud OÜ (0 euros as at 31.12.2019 was deposited).

Working capital was negative by 26,258 thousand euros on 31 December 2020 (2019: negative 441 thousand euros). The negative change in working capital was caused by the decrease in the volume of cash and cash equivalents in 2020, partly due to investments made at the expense of own funds. On the other hand, the trade payables to suppliers for goods related to the increase of the supermarket segment's store network increased in connection with the acquisition of ABC Supermarkets AS in the spring of 2020. Current liabilities are inflated by the short-term portion of the accrued loan liabilities arising from the implementation of IFRS 16 "Leases" in the amount of 17.9 million euros as of 31 December 2020 (31.12.2019: 15.4 million euros). The quick ratio of the Group (current assets minus inventories / current liabilities) decreased to 0.32 in 2020. In 2019, the respective indicator was 0.42. The Group has strong daily operating cash flows as a source of covering short-term liabilities. In the assessment of the management, the Group does not have liquidity issues and there are no difficulties in fulfilling its financial obligations.

Capital management

The Group's primary goal of capital (both debt and equity) management is to ensure a strong capital structure, which would support the stability of the Group's business operations and continuity of its operations, and would optimise the capital structure, lower the cost of capital and thereby protect the interests of shareholders. To preserve and adjust the capital structure, the Group may regulate the dividends payable to the shareholders, resell shares, 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 capital (which is equity plus net debt), to monitor its proportion of capital. As at 31 December 2020, the ratio was 51% and compared to 31 December 2019 when the ratio was 42%, the ratio has increased due to the increased interest-bearing liabilities of ABC Supermarkets AS acquired in the reporting year in accordance with IFRS 16 in the amount of 43.1 million euros and the increase of loan liabilities related to financing of investments by 16.3 million euros. According to the management estimation, the capital structure is optimal and does not need to be adjusted.

in thousands of euros

	31.12.2020	31.12.2019
Interest-bearing liabilities (Note 15)	266,751	204,324
Cash and cash equivalents (Note 5)	-32,757	-40,629
Net debt	**233,994**	**163,695**
Equity	223,007	222,015
Total equity and net debt	**457,001**	**385,710**
Debt to equity ratio*	51%	42%

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

Effects of the coronavirus

In the reporting year, the spread of COVID-19 had the greatest impact on the economic environment of Estonia and the world, and thus on the Group's financial results.

In order to limit the spread of the virus, the Government of the Republic of Estonia declared an emergency situation in March, and shopping centres were closed on the 27th of March. As a result, all stores of the Group's footwear trade segment, the industrial goods departments of the Kaubamaja segment, and I.L.U. shops were closed. Tartu Kaubamaja department store, Viimsi Shopping Centre, and the historic Kaubamaja building, mainly used by the Kaubamaja segment which is located in the centre of Tallinn – all managed by the Group's real estate segment, were also closed. Closing the stores led to an enormous growth in the popularity of the Group's e-stores. Employees from closed sales units were directed to e-shops and temporary additional labour was recruited. Faster and more efficient solutions were planned to increase supply capacity and technical capacity. Despite of the significant increase in the sales volumes of the Group's e-channels it did not compensate for the decrease in sales of physical stores in the Group's fashion trade.

Changes in the economic environment due to the spread of the virus can lead to a number of different financial risks. Market risk may increase if an increase in the general level of risk leads to an increase in interest rates. Credit risk may also increase if, in the changed business environment, the Group's economic partners are unable to pay claims to the Group or the deteriorating economic situation has a negative impact on the Group's partner banks and financial institutions involved in investment activities. Liquidity risk and capital risk may increase significantly if the cash flow from operating activities decreases as the economic environment deteriorates and other financing instruments need to be found.

Due to changes in the economic environment caused by the coronavirus, the Group's sales revenue from department stores, footwear trade, real estate and the automotive segment decreased by 30.3 million euros and EBITDA by 10.0 million euros compared to the previous year. The sales volume of the supermarket segment was not significantly affected by the spread of the virus. Roughly, 1 million euros was spent to ensure the safety of customers and employees during the spread of the coronavirus. A key issue during the crisis for the fashion retail was to prevent stockpiling and thus the loss of liquidity. The Group started optimizing inventories right at the beginning of the pandemic and ended the 2020 with the optimal inventory volumes aligned with current demand. The Group manages financial risks on a daily basis in accordance with the above-mentioned monitoring and hedging methods, therefore, in the opinion of the management, the financial risks arising from the coronavirus do not have a significant impact on the Group.

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 2.

Note 5 Cash and cash equivalents

in thousands of euros

	31.12.2020	31.12.2019
Cash on hand	1,034	1,155
Bank accounts	30,346	38,257
Cash in transit	1,377	1,217
Total cash and cash equivalents (Note 4)	**32,757**	**40,629**

Note 6 Trade and other receivables

in thousands of euros

	31.12.2020	31.12.2019
Trade receivables (Note 7)	14,196	13,455
Other receivables from related parties (Note 26)	3	0
Other short-term receivables	163	385
Total financial assets from balance sheet line ‘‘Trade and other receivables’’	**14,362**	**13,840**
Prepayment for inventories	598	2,190
Other prepaid expenses	893	837
Prepaid rental expenses	7	6
Prepaid taxes (Note 18)	34	31
Total trade and other receivables	**15,894**	**16,904**

Note 7 Trade receivables

in thousands of euros

	31.12.2020	31.12.2019
Trade receivables	11,313	10,629
Provision for impairment of trade receivables	-11	-10
Receivables from related parties (Note 26)	319	361
Credit card payments (receivables)	2,575	2,475
Total trade receivables (Note 6)	**14,196**	**13,455**

Note 8 Inventories

in thousands of euros

	31.12.2020	31.12.2019
Goods purchased for resale	76,549	77,156
Raw materials and materials	785	1,149
Total inventories	**77,334**	**78,305**

The profit or loss line “Cost of merchandise” includes the allowances and write-off expenses of inventories and inventory stocktaking deficit which in 2020 amounted to 12,827 thousand euros (2019: 11,896 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 2020, the allowance account amounted to 1,094 thousand euros (31.12.2019: 1,122 thousand euros). Amount of asset recognised at net realisable value amounted to 15,508 thousand euros (31.12.2019: 15,887 thousand euros).

The Group’s “Cost of merchandise” in 2020 amounted 556,712 thousand euros (2019: 535,410 thousand euros). The Group recognises as the “Cost of merchandise” the cost of purchased passenger cars, food and industrial goods, packing material, cost of finished goods, logistics and transportation, 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 31.12.2020 consists of:

Name	Location	Area of activity	Ownership 31.12.2020	Year of acquisition or foundation
Selver AS	Estonia, Tallinn	Retail trade	100%	1995
Tallinna Kaubamaja Kinnisvara AS	Estonia, Tallinn	Real estate management	100%	1999
Tartu Kaubamaja Kinnisvara OÜ	Estonia, Tartu	Real estate management	100%	2004
SIA TKM Latvija	Latvia, Riga	Real estate management	100%	2006
TKM Auto OÜ	Estonia, Tallinn	Commercial and finance activities	100%	2007
KIA Auto AS	Estonia, Tallinn	Retail trade	100%	2007
Forum Auto SIA	Latvia, Riga	Retail trade	100%	2007
KIA Auto UAB	Lithuania, Vilnius	Retail trade	100%	2007
TKM Beauty OÜ	Estonia, Tallinn	Retail trade	100%	2007
TKM Beauty Eesti OÜ	Estonia, Tallinn	Retail trade	100%	2007
TKM King AS	Estonia, Tallinn	Retail trade	100%	2008
Kaubamaja AS	Estonia, Tallinn	Retail trade	100%	2012
Kulinaaria OÜ	Estonia, Tallinn	Centre kitchen activities	100%	2012
Viking Motors AS	Estonia, Tallinn	Retail trade	100%	2012
Viking Security AS	Estonia, Tallinn	Security activities	100%	2014
UAB TKM Lietuva	Lithuania, Vilnius	Real estate management	100%	2017
Verte Auto SIA	Latvia, Riga	Retail trade	100%	2017
TKM Finants AS	Estonia, Tallinn	Commercial and finance activities	100%	2020

Business combinations in 2020:

Name	Location	Area of activity	Acquisition date	Ownership %
ABC Supermarkets AS	Estonia	Retail trade	29.05.2020	100%

On May 29, 2020, Selver AS, a subsidiary of Tallinna Kaubamaja Grupp AS, acquired a 100% stake in ABC Supermarkets AS. The chain of Selver supermarkets was established in 1995. The transaction added 16 Comarket shops in Harju, Pärnu and Tartu County, 2 Delice shops in Viimsi and the city of Pärnu and a Solaris shop in Tallinn to the Selver chain. Acquiring the shares of ABC Supermarkets AS give us unique opportunity to meet our clients´ expectations by offering more convenient and quicker purchases in new locations where we are not yet present.

The merger decisions of Selver AS (the acquiring company) and ABC Supermarkets AS (the company being acquired) were adopted on 21 August 2020 and an entry of the merger in the commercial register was made on 1 October 2020. AS Selver and ABC Supermarkets AS balance sheet merger was on 01.07.2020.

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

in thousands of euros	**Fair value**
Cash and cash equivalents	811
Trade receivables	6,962
Inventories	2,839
Property, plant and equipment	3,697
Goodwill (Note 14)	13,609
Trademark (Note 14)	1,911
Liabilities	-6,978
Total identifiable net assets	**22,851**
Consideration of ownership interest	22,851
Paid for ownership interest in cash	**14,910**
Cash and cash equivalents in the acquired entity	**-811**
Net outflow of cash – investing activities	**-14,099**
Payable in future for the ownership interest in cash	**1,641**

Goodwill at value of 13,609 thousand euros and trademark 1,911 thousand euros was acquired (Note 14). The goodwill is attributable to the reduction of costs through the centralized purchasing function and the introduction of a unified customer base.

Acquisition-related costs are included in other operating expenses in the statement of profit or loss and other comprehensive income and in operating cash flows in the statement of cash flows.

From acquisition date till 31 December 2020 ABC Supermarkets AS earned net profit of 350 thousand euros and revenues amounted to 41,043 thousand euros. If the acquisition of ABC Supermarkets AS by the Group had happened at the beginning of the year then group revenues would have been higher by 21,875 thousand euros and net profit higher by 54 thousand euros.

With aim to provide our customers more convenient shopping experience, it was decided to develop financial services that support retail business. Tallinna Kaubamaja Grupp AS intends to apply for an authorisation of a creditor to develop the financial service line of business and established TKM Finants AS, a subsidiary with a share capital of 50,000 euros belonging completely to the Group. According to the developed plan, after the Financial Supervision Authority has issued the relevant authorisation, TKM Finants AS will commence with granting credit to private persons, the postponement of a due date for a charge, including the entry into credit agreements and performance of acts needed for this purpose in its own name and on its own account.

In order to separate the operations of OÜ TKM Beauty Eesti, which is involved in the retail trade of cosmetics, from the cosmetics wholesale function, a division was undertaken. In the course of the division of OÜ TKM Beauty (company being divided), OÜ TKM Beauty Holding, a company with a share capital of 2,500 euros and 100% ownership by Tallinna Kaubamaja Grupp AS, was established. OÜ TKM Beauty transferred the share of OÜ TKM Beauty Eesti to OÜ TKM Beauty Holding (recipient company). In November 2020 merge of OÜ TKM Beauty Holding and OÜ TKM Beauty Eesti took place, so that OÜ TKM Beauty Eesti directly become a 100% subsidiary of Tallinna Kaubamaja Grupp AS.

On 30 December 2020, Viking Security AS, a subsidiary of Tallinna Kaubamaja Grupp AS, entered into an agreement to acquire from P. DUSSMANN EESTI OÜ its security services business in Estonia together with the assets and agreements belonging to it. As of 1 March 2021, as a result of the acquisition of the business, the assets and agreements related to the provision of security services belonging to P.DUSSMANN EESTI OÜ will be transferred to Viking Security AS in their entirety and unchanged. Security services will continue to be provided under the business name Viking Security AS. As of the date of approval of the consolidated annual report, no control has been received regarding the acquired company.

In 2019, there were no business combinations. Ownership as at 31.12.2020 has remained the same as at 31.12.2019.

Note 10 Investments in associates

Tallinna Kaubamaja Grupp AS has ownership of 50% (2019: 50%) interest in the entity AS Rävala Parkla which provides the services of a parking house in Tallinn. The investment has been classified as associated company because the other owner has the power to appoint the members of supervisory board.

in thousands of euros

	31.12.2020	31.12.2019
Investment in the associate at the beginning of the year	**1,721**	**1,738**
Profit for the reporting period under equity method	191	203
Dividends received	-200	-220
Investment in the associate at the end of the year	**1,712**	**1,721**

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

	31.12.2020	31.12.2019
Current assets	111	68
Property, plant and equipment	3,446	3,483
Current liabilities	133	109
Non-current liabilities	0	0
Owners' equity	3,424	3,436
Revenue	534	575
Net profit	388	406

Note 11 Long-term trade and other receivables

in thousands of euros

	31.12.2020	31.12.2019
Prepaid rental expenses	269	53
Deferred tax asset	31	26
Other long-term receivables	35	35
Total long-term trade and other receivables	**335**	**114**

Note 12 Investment property

in thousands of euros

Carrying value as at 31.12.2018	**59,866**
Reclassification (Note 13)	111
Disposal	122
Net gain from fair value adjustment	359
Carrying value as at 31.12.2019	**60,458**
Purchases and improvements	210
Disposal	-10
Net loss from fair value adjustment	-311
Carrying value as at 31.12.2020	**60,347**

Investment properties comprise with commercial buildings and constructions in progress in Estonia and Latvia, which the Group maintains predominantly for earning rental income and which are partially classified as investment properties and partially as property, plant and equipment.

In 2020 year, renovation work was carried out for Tartu Kaubamaja in the amount of 207 thousand euros (2019: 105 thousand euros) and renovation work carried out for Viimsi Centre amounted to 3 thousand euros (2019: 6 thousand euros).

In 2019 year, renovation in the amount of 122 thousand euros was reclassified from property, plant and equipment to investment property.

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. In 2020, for "Investment properties" in Estonia, for 4 objects (in 2019 three objects), the opinion of a certified independent real estate expert was used for the discount and capitalisation rates and for one object comparable transactions method was used for valuation. Discount rates 8.5%–10.0% (2019: 8.5%-10.0%) depending on the location of the property and rental income growth rates 1.5–2.0% (2019: 1.5%-2.0%) were used for valuation. When determining the rental price input in the assessment of Investment properties, the current rental agreements were 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 was used regarding two objects (2019: 0 objects). The same expert provided an expert opinion with regard to the discount and capitalisation rates compared to 2019 for two objects in 2020 (2019: for four objects). The discount rate 8.5%-10% (2019: 8.5%-10.0%) and rental income growth rates 1.0%–2.5% (2019: 1.0%-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 2020 in Estonia, the fair values of investment property decreased in the amount of 402 thousand euros. As a result of the valuation in 2019 in Estonia, the fair values of investment property increased in the amount of 456 thousand euros.

As a result of the valuation in reporting period in Latvia, the fair values of investment property increased in the amount of 172 thousand euros and decreased in the amount of 81 thousand euros. As a result of the valuation in 2019 in Latvia, the fair values of investment property increased in the amount of 950 thousand euros and decreased in the amount of 1,047 thousand euros.

Net fair value adjustment of investment property is recorded in profit or loss line "Other operating expense" in the amount of 311 thousand euros in 2020 (2019: in line "other operating income" in the amount of 359 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 +5,938/-5,938 thousand euros (2019: +5,944/-5,944 thousand euros). If the discount rates used for determing fair value would change +/- 0.5% then the fair value of investment properties would change -1,093/+1,122 thousand euros (2019: -1,096/+1,125 thousand euros).

The Group's investment properties carried at fair value as at 31.12.2020 and 31.12.2019 are measured at level 3.

In 2020, the Group's rental income on investment properties amounted to 3,397 thousand euros (2019: 3,790 thousand euros). Direct property management expenses in 2020 amounted to 1,222 thousand euros (2019: 1,236 thousand euros).

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

In thousands of euros	**31.12.2020**	**31.12.2019**
due in less than 1 year	3,426	3,617
due between 1 and 5 years	12,990	11,192
due after 5 years	717	3,535
Total	**17,133**	**18,344**

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

Note 13 Property, plant and equipment

in thousands of euros

	Land and buildings	Right-of use-assets: retail properties	Machinery and equip-ment	Other fixtures and fittings	Construc-tion in progress	Total
31.12.2018						
Cost or revalued amount	170,576	0	40,456	41,235	27,579	279,846
Accumulated depreciation and impairment	0	0	-27,697	-28,234	-11,228	-67,159
Carrying value	**170,576**	**0**	**12,759**	**13,001**	**16,351**	**212,687**
IFRS 16 initial application	0	109,282	0	0	0	109,282
Adjusted carrying value as at 01.01.2019	**170,576**	**109,282**	**12,759**	**13,001**	**16,351**	**321,969**
Changes occurred in 2019						
Purchases and improvements	2,274	0	4,054	5,844	10,426	22,598
Addition to right-of use-assets	0	6,709	0	0	0	6,709
Reclassification among property, plant and equipment groups	6,676	0	0	1	-6,677	0
Reclassification to investment property (Note 12)	0	0	0	0	-122	-122
Reclassification to inventory	0	0	-351	0	0	-351
Reclassification to property, plant and equipment from inventory	0	0	541	0	2	543
Disposals	-4	0	-20	-4	-1,720	-1,748
Write-offs	-18	0	-25	-68	0	-111
Termination of right-of use-assets	0	-391	0	0	0	-391
Depreciation	-5,039	-16,474	-3,777	-4,614	0	-29,904
31.12.2019						
Cost or revalued amount	179,243	115,574	43,321	43,541	27,940	409,619
Accumulated depreciation and impairment	-4,778	-16,448	-30,140	-29,381	-9,680	-90,427
Carrying value	**174,465**	**99,126**	**13,181**	**14,160**	**18,260**	**319,192**
Changes occurred in 2020						
Purchases and improvements	3,730	0	10,837	6,672	6,315	27,554
Acquired through business combinations (Note 9)	249	0	2,109	530	8	2,896
Addition to right-of use-assets	0	62,212	0	0	0	62,212
Reclassification among property, plant and equipment groups	1,889	0	0	0	-1,889	0
Reclassification from intangible assets (Note 14)	0	0	-499	1,068	-10	559
Reclassification to inventory	0	0	-485	0	0	-485
Reclassification to property, plant and equipment from inventory	0	0	485	0	6	491
Disposals	-4	0	-54	-1	0	-59
Write-offs	-38	0	-81	-170	0	-289
Termination of right-of use-assets	0	-920	0	0	0	-920
Decrease/increase in value through profit or loss	425	0	0	0	114	539
Increase in value through revaluation reserve	11,225	0	0	0	0	11,225
Depreciation	-5,562	-18,069	-4,866	-5,661	0	-34,158
31.12.2020						
Cost or revalued amount	186,379	176,459	51,760	49,562	32,084	496,244
Accumulated depreciation and impairment	0	-34,110	-31,133	-32,964	-9,280	-107,487
Carrying value	**186,379**	**142,349**	**20,627**	**16,598**	**22,804**	**388,757**

Investments in non-current assets

The cost of investments for the 2020 year amounted to 28,341 thousand euros (including purchases of property, plant and equipment in the amount of 27,554 thousand euros and purchases of intangible assets amounted to 787 thousand euros).

The cost of purchases of property, plant and equipment made in reporting period in the supermarkets business segment was 22,057 thousand euros. In the reporting period, computing technology for SelveEkspress self-service cashers were purchased. New project of transition to digital price tags in Selver stores started, also were renewed store fittings. Suurejõe Selver, Rannarootsi Selver and Mustakivi Selver were renovated. In Võru was opened south-eastern Estonia the most modern supermarket, Vilja Selver that also moved to new location. In Saaremaa was opened second store of Selver, WOW Selver. In the current period, transfer of Comarket stores under Selver trademark started and new investments for Selver e-store were made in order to expand service availability in home delivery. Continued construction of AS Selver subsidiary's Kulinaaria OÜ new production building and renovation of current production building. As a result, the production capacity will grow twice and machinery will be completely renewed.

The cost of purchases of property, plant and equipment in the business segment of department stores amounted to 2,864 thousand euros. Tallinna Kaubamaja Grupp AS subsidiary Viking Security AS is entering into money collection market and for this purpose armoured cash vehicles and computer technology was purchased. In the reporting period, in Kaubamaja department stores renovation work were carried out. Tallinna Kaubamaja Home Department was renewed and store fittings and computing technology was purchased.

The cost of purchases of property, plant and equipment in the reporting period was 1,822 thousand euros in the car trade business segment. In the reporting period, reconstruction work for car showroom were carried out, garage equipment was renewed and equipment for the most modern East Europe Škoda resale centre were purchased.

The cost of purchases of property, plant and equipment in the reporting period in the footwear segment was 43 thousand euros.

The cost of purchases of property, plant and equipment in the real estate business segment amounted to 768 thousand euros. In the reporting period the renovation work were carried out for shopping centres.

As of 31.12.2020 and 31.12.2019, Tallinna Kaubamaja Grupp AS companies had no commitments to purchase fixed assets.

At the year-end 2020, 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 with market information (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 "Land and buildings" has been performed every year end. In a view of changes in the economy, the management of the Group reached to a point that the fair value of "Land and buildings" have changed significantly.

As a result of the evaluation of the property under "Land and buildings" located in Estonia the fair value increased by 10,175 thousand euros in 2020, which was recognized through revaluation reserve. As a result of valuation, the change in the fair value of "Land and buildings" located in Estonia was not identified in 2019. As a result of the evaluation of the property under "Land and buildings" located in Latvia the fair value increased by 1,050 thousand euros in 2020, which was recognized through revaluation reserve and 425 thousand euros was recognized through profit and loss. As a result of valuation, the change in the fair value of "Land and buildings" located in Latvia was not identified in 2019. As a result of valuation, the change in the fair value of "Land and buildings" located in Lithuania was not identified in 2020 and 2019.

The following table analyses the non-financial assets (property) 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 or indirectly (Level 2);
- Inputs for the asset that are based on observable market data (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. 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 three properties in 2020 (2019: 3 properties). The same expert also provided an expert opinion with regard to the discount and capitalisation rates or was used comparable transactions method in respect of 20 properties (2019: 19 properties). The discount rates used for estimation were 8.0%-11.5% (2019: 8.0%-11.5%) depending on the location of the property and the rental growth rates were 1.0%-2.5% (2019: 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 not used in 2020 (2019: the valuation of a certified independent real estate expert was used in respect of one object). For determining the value of five property of "Land and buildings" located in Latvia as at 31.12.2020 (2019: one object), valuation of a certified independent real estate expert was used with regard to the discount and capitalisation rates used and valuation was performed internally. The discount rate used for valuation was 8.5% - 9.0% (2019: 9.0%) and the growth rates of rental income were 2.0%-2.5% (2019: 2.5%). "Land and buildings" in Lithuania were purchased in 2017 at fair value. Therefore, no valuation was made to this object in 2020 and 2019.

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 2020**	**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	41,317	Discounted cash flow method	Lease price per month per square metre	9.9-14.1	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	118,159	Discounted cash flow method	Lease price per month per square metre	8.7-18.9	The higher the price per square metre, the higher the fair value
Remaining PPE items in Estonia	11,876	Discounted cash flow method	Lease price per month per square metre	8.9	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	13,134	Discounted cash flow method	Lease price per month per square metre	2.5-11.2	The higher the price per square metre, the higher the fair value
Remaining PPE items in Latvia	16	Purchased at fair value on 2020			
Item in Lithuania	1,877	Purchased at fair value on 2017			
Total	**186,379**				

In thousands of euros	Fair value at 31 December 2019	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	15,588	Discounted cash flow method	Lease price per month per square metre	8.8-10.8	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	136,378	Discounted cash flow method	Lease price per month per square metre	8.7-18.8	The higher the price per square metre, the higher the fair value
Remaining PPE items in Estonia	10,579	Discounted cash flow method	Lease price per month per square metre	5.4-7.7	The higher the price per square metre, the higher the fair value
PPE items in Latvia, for which an expert opinion was provided	6,677	Discounted cash flow method	Lease price per month per square metre	12.5	The higher the price per square metre, the higher the fair value
PPE items in Estonia, for which estimates were provided by experts in respect of discount and capitalisation rates	3,366	Discounted cash flow method	Lease price per month per square metre	7.6	The higher the price per square metre, the higher the fair value
Item in Lithuania	1,877	Purchased at fair value on 2017			
Total	**174,465**				

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:
31.12.2020 88,091 thousand euros

31.12.2019 81,271 thousand euros

Determination of recoverable amounts of "Buildings under construction"

The "Buildings under construction" located in Estonia, the valuations of a certified independent real estate expert was used in respect of two objects (2019: 2 objects) and six objects (2019: 6 objects) 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 3 objects (2019: 4 objects). The same expert also provided an expert opinion with regard to the discount and capitalisation rates in respect of 2 objects. The rest 4 objects (2019:5 objects) were valued internally based on the value in use. For valuation purposes, the discount rates used were 8.0%-11.5% (2019: 8.5%-12.5%) depending on the location of the item, and the growth of rental income rates were 1.0%-2.5% (2019: 1.0%-1.5%). 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 2020 and 2019, the book value of Estonian "Buildings under construction" was not adjusted. Based on the results of valuation in 2020, the book value of Latvian "Buildings under construction" in respect of two objects reversal of an impairment loss was recognized in previous years in the amount of 93 thousand euros. As regards of one object, increase in fair value was identified in the amount of 41 thousand euros and as regards of two objects impairment loss was recognised in the amount of 20 thousand euros. Based on the results of valuation in 2019, the book value of Latvian "Buildings under construction" was not adjusted.

"Buildings under construction" located in Lithuania with carrying value of 131 thousand euros as at 31.12.2020 (carrying value: 131 thousand euros as at 31.12.2019) showed no significant differences between fair values and carrying value.

Carrying amounts of “Buildings under construction” (Level 3):

In thousands of euros	Number of items 31.12.2020	31.12.2020	Number of items 31.12.2019	31.12.2019
PPE items in Estonia, for which an expert opinion was provided	2	158	2	2,549
PPE items in Estonia, for which an internal estimate was provided	6	676	6	596
Remaining PPE items in Estonia	11	11,639	11	5,499
PPE items in Latvia, for which an expert opinion was provided	3	3,022	4	3,585
PPE items in Latvia, for which an internal estimate was provided	4	1,973	5	3,704
Remaining PPE items in Latvia	2	816	0	0
PPE item in Lithuania	1	131	1	131
Total	**29**	**18,415**	**29**	**16,064**

As at 31.12.2020 the cost of fully amortized non-current assets (machinery, equipment and other fittings) in use was 35,381 thousand euros (2019: 35,522 thousand euros).

As at 31.12.2020 property, plant and equipment with the carrying value of 144,767 thousand euros (2019: 134,278 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 31.12.2020 the recoverable amount of the non-current assets of I.L.U. beauty stores (carrying value: 54 thousand euros, in 2019: 76 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 1.8% in 2021-2025 (2019: 2020 – 2024 is estimated to be 3.0%). In the end of 2020 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 9.24% (2019: 8.52%) and the future growth rate (after year 5) is 2.6%. No impairment loss was identified as a result of the impairment test.

Note 14 Intangible assets

in thousands of euros

	Goodwill	Trademark	Capitalised development expenditure	Total
31.12.2018				
Cost	3,260	5,277	1,602	10,139
Accumulated amortisation and impairment	0	-4,080	-926	-5,006
Carrying value	**3,260**	**1,197**	**676**	**5,133**
Changes occurred in 2019				
Purchases and improvements	0	0	585	585
Amortisation	0	-421	-307	-728
31.12.2019				
Cost	3,260	3,688	2,170	9,118
Accumulated amortisation and impairment	0	-2,912	-1,216	-4,128
Carrying value	**3,260**	**776**	**954**	**4,990**
Changes occurred in 2020				
Purchases and improvements	0	0	787	787
Acquired through business combinations (Note 9)	13,609	1,911	639	16,159
Reclassification to property, plant and equipment (Note 13)	0	0	-559	-559
Write off	0	-509	0	-509
Amortisation	0	-386	-334	-720
31.12.2020				
Cost	16,869	5,599	2,956	25,424
Accumulated amortisation and impairment	0	-3,807	-1,469	-5,276
Carrying value	**16,869**	**1,792**	**1,487**	**20,148**

The trademark with a value of 1,588 thousand euros, which was acquired in 2012 in connection with the purchase of the shares of AS Viking Motors, was depreciated to zero in 2019 and its use was terminated, therefore the trademark was removed from the balance sheet in 2019.

In the reporting period, the Group capitalised costs of a web page update, loyalty card web page update, loyalty card - Monthly Card and e-shop as development expenditure in the amount of 787 thousand euros (2019: 585 thousand euros).

As a trademark, the Group has recognised the image of ABC King at a cost value of 3,508 thousand euros; the image contains a combination of the name, symbol and design together with recognition and preference by consumers. Trademark has been fully amortised in 2020, but its use will continue.

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.

Trademark at value of 1,911 thousand euros was acquired in 2020 through purchase of ABC Supermarkets AS shares. Trademark will be amortised during 7 years.

Impairment tests of goodwill and other intangible assets were carried out as at 31 December 2020 and 2019.

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

in thousands of euros	31.12.2020	31.12.2019
Supermarkets	13,609	0
Car trade	3,156	3,156
Department store	104	104
Total	**16,869**	**3,260**

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

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

	Car trade		Supermarkets	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
Operating profit margin during next 5 years	1.67%-1.79%	2.31%-2.34%	0.47%-2.65%	0 0
Discount rate	6.32%	6.45%	6.02%	0
Sales growth during next 5 years	3%-8.3%	1.6%-3%	3%-4%	0
Future growth rate*	2.5%	2.5%	2%	0

**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.

	Car trade		Supermarkets	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
Difference between the carrying amount and recoverable amount of the cash generating unit (in thousands of euros)	13,817	20,274	11,815	0
Reasonably possible change in the assumptions, which would cause the recoverable amount to be equal to the carrying amount:				
Decrease in the average sales growth	0.65%	0.98%	0.38%	0%
Decrease of the average operating profit margin	0.51 pp	0.74 pp	0.91 pp	0 pp

Note 15 Interest bearing borrowings

in thousands of euros

	31.12.2020	**31.12.2019**
Short-term borrowings		
Overdraft	12,650	17,140
Bank loans	17,101	12,480
Lease liabilities	17,892	15,371
Other borrowings	1,759	1,457
Total short-term borrowings	**49,402**	**46,448**

	31.12.2020	**31.12.2019**
Long-term borrowings		
Bank loans	86,150	72,549
Lease liabilities	128,386	85,259
Other borrowings	2,813	68
Total long-term borrowings	**217,349**	**157,876**
Total borrowings	**266,751**	**204,324**

Borrowings received

	2020	2019
Overdraft	0	9,785
Bank loans	33,934	22,448
Other borrowings	5,358	2,798
Total borrowings received	**39,292**	**35,031**

Borrowings repaid

	2020	2019
Overdraft	4,490	0
Bank loans	15,711	22,046
Lease liabilities	15,628	14,970
Other borrowings	2,445	3,606
Total borrowings repaid	**38,274**	**40,622**

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 31.12.2020, the repayment dates of bank loans are between 25.01.2021 and 31.07.2025 (2019: between 27.03.2020 and 05.12.2024), 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 1.64% (2019: 1.19%).

Lease agreements that form lease liabilities have been concluded for the term until 01.10.2037. Lease liability recorded in the balance sheet as at 31.12.2019 is recognised as a result of adoption of IFRS 16 on 01.01.2019. The lease payments are discounted at the Group's incremental borrowing rate. Weighted average interest rate used on recognition of lease liabilities was 1.62% (31.12.2019: 1.49%). Also see Note 29.

Net debt reconciliation
in thousands of euros

	31.12.2020	31.12.2019
Cash and cash equivalents (Note 5)	32,757	40,629
Short-term borrowings	-49,402	-46,448
Long-term borrowings	-217,349	-157,876
Net debt	**-233,994**	**-163,695**
Cash and cash equivalents (Note 5)	32,757	40,629
Gross debt – fixed interest rates	-153,606	-111,975
Gross debt – variable interest rates	-113,145	-92,349
Net debt	**-233,994**	**-163,695**

	Cash and cash equivalents	Overdraft	Borrowings	Lease liabilities	Total
Net debt 31.12.2018	**37,235**	**-7,354**	**-86,961**	**0**	**-57,080**
IFRS 16 initial application	0	0	0	-109,282	-109,282
Net debt 01.01.2019	**37,235**	**-7,354**	**-86,961**	**-109,282**	**-166,362**
Cash flow (principal and interest)	3,394	-9,786	1,352	17,001	11,961
Interest accrued	0	0	-945	-2,031	-2,976
New lease contracts	0	0	0	-6,709	-6,709
Termination of lease liabilities	0	0	0	391	391
Net debt 31.12.2019	**40,629**	**-17,140**	**-86,554**	**-100,630**	**-163,695**
Cash flow (principal and interest)	-7,872	4,490	-19,919	18,509	-4,792
Interest accrued	0	0	-1,350	-2,882	-4,232
New lease contracts	0	0	0	-62,212	-62,212
Termination of lease liabilities	0	0	0	937	937
Net debt 31.12.2020	**32,757**	**-12,650**	**-107,823**	**-146,278**	**-233,994**

Note 16 Lease agreements

Group is the lessee

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019. On adoption of IFRS 16, the Group recognized right-of-use of asset and lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. Lease liabilities recorded in the Group's consolidated financial reports on initial adoption is presented below.

in thousands of euros	31.12.2020	31.12.2019
Lease liability recognised in the statement of financial position	**146,278**	**109,282**
- short-term lease liabilities	17,892	16 938
- long-term lease liabilities	128,386	92 344

The Group's consolidated statement of profit or loss and other comprehensive income includes the following amounts relating to leases:

in thousands of euros	2020	2019
Interest expense (included in finance cost)	2,882	2,031
Expense relating to leases of low-value assets that are not short-term leases	456	305
Expense relating to short-term leases (included in operating expenses)	690	882
Depreciation charge for right of use assets	18,069	16,474
Income on subleases	2,632	2,385
The total cash outflow for leases	18,509	17,001

Subleases of buildings leased under operating lease terms:

Future minimum lease payments under non-cancellable subleases:

in thousands of euros	31.12.2020	31.12.2019
within 1 year	2,491	2,447
between 1 and 5 years	6,577	6,777
after 5 years	92	771
Total	**9,160**	**9,995**

Group as the lessor – operating lease agreements

Rental income received consists of income received for the leasing out of premises recorded under investment property, as well premises that are recorded under Group's property, plant and equipment (see also Note 12). Future minimum lease payments under non-cancellable operating leases (other than the sublease payments mentioned above):

in thousands of euros	31.12.2020	31.12.2019
within 1 year	3,977	4,191
between 1 and 5 years	13,941	12,001
after 5 years	3,042	6,046
Total	**20,960**	**22,238**

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.

The Group's leasing activities and how these are accounted for

The group leases various offices, retail stores, equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 8 years but may have extension options as described below. Contracts do not include non-lease components. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Note 17 Trade and other payables

in thousands of euros

	31.12.2020	31.12.2019
Trade payables	73,139	65,010
Payables to related parties (Note 26)	5,585	5,043
Other accrued expenses	1,741	183
Tenant security deposits	2,951	2,956
Total financial liabilities from balance sheet line "Trade and other payables"	**83,416**	**73,192**
Taxes payable (Note 18)	8,088	7,226
Employee payables	8,185	7,293
Prepayments	3,106	2,113
Short-term provisions*	46	7
Total trade and other payables	**102,841**	**89,831**

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

Note 18 Taxes

in thousands of euros

	31.12.2020		31.12.2019	
	Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Prepaid taxes (Note 6)	34	0	31	0
Value added tax	0	3,167	0	2,941
Personal income tax	0	1,210	0	1,051
Social security taxes	0	3,268	0	2,840
Corporate income tax	0	74	0	79
Unemployment insurance	0	216	0	184
Mandatory funded pension	0	153	0	131
Total taxes	**34**	**8,088**	**31**	**7,226**

Group's deferred income tax asset as at 31 December 2020 and 31 December 2019 is recorded in the balance sheet in the amount of 31 thousand euros and 26 thousand euros respectively. As of 31.12.2020 deferred tax liability on dividends in the amount of 4,408 thousand euros (31.12.2019: 5,821 thousand euros) is recorded in the balance sheet.

in thousands of euros

	2020	2019
Corporate income tax from payments to owners:		
· Income tax on dividends paid (Note 19)	5,821	6,452
Corporate income tax expense arising from foreign subsidiaries:		
· Corporate income tax payable	55	71
Deferred income tax liability on dividends:		
· Deferred income tax liability	4,408	5,821
Total corporate income tax	**4,462**	**5,892**

Note 19 Share capital

As of 31.12.2020 and 31.12.2019, 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 2020, dividends were paid to the shareholders in the amount of 29,731 thousand euros, or 0.73 euros per share. Related income tax expense on dividends amounted to 5,821 thousand euros.

In 2019, dividends were paid to the shareholders in the amount of 28,917 thousand euros, or 0.71 euros per share. Related income tax expense on dividends amounted to 6,452 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 Group 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 profit or loss, segment assets and liabilities have been measured in accordance with accounting policies used in the preparation of the financial statements, except for IFRS 16 measurement and recognition of right of use assets and lease liabilities. The effect of IFRS 16 measurement and recognition of right of use assets and lease liabilities are shown in a separate sector. 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

2020	Super markets	Depart-ment store	Car trade	Foot-wear trade	Real estate	Inter-seg-ment transac t-ions	Impact of lease account-ting	Total seg-ments
External revenue	**524,391**	**88,109**	**117,612**	**6,719**	**5,107**	**0**	**0**	**741,938**
Inter-segment revenue	1,195	8,925	478	43	13,541	-24,182	0	0
Total revenue	525,586	97,034	118,090	6,762	18,648	-24,182	0	741,938
EBITDA	**25,079**	**3,316**	**3,064**	**-1,326**	**14,502**	**0**	**18,509**	**63,144**
Segment depreciation and impairment losses (Note 13,14)	-9,308	-2,510	-521	-1,001	-3,728	0	-18,069	-35,137
Operating profit/loss	**15,771**	**806**	**2,543**	**-2,327**	**10,774**	**0**	**440**	**28,007**
Finance income (Note 23)	303	602	0	0	260	-1,163	0	2
Finance income on shares of associates (Note 10)	0	191	0	0	0	0	0	191
Finance costs (Note 23)	-537	-574	-379	-123	-907	1,163	-2,882	-4,239
Income tax* (Note 18)	-1,545	-474	-357	0	-2,086	0	0	-4,462
Net profit/loss	**13,992**	**551**	**1,807**	**-2,450**	**8,041**	**0**	**-2,442**	**19,499**
incl. in Estonia	13,992	551	2,260	-2,450	6,527	0	-2,442	18,438
incl. in Latvia	0	0	-736	0	1,563	0	0	827
incl. in Lithuania	0	0	283	0	-49	0	0	234
Segment assets	**139,838**	**81,029**	**32,484**	**4,765**	**286,396**	**-89,577**	**142,349**	**597,284**
Segment liabilities	**118,462**	**51,671**	**23,507**	**6,423**	**92,373**	**-64,437**	**146,278**	**374,277**
Segment investments in property, plant and equipment (Note 13)	22,057	2,864	1,822	43	768	0	0	27,554
Segment investments in intangible assets (Note 14)	21	670	15	81	0	0	0	787
Reversal of the impairment from previous years of property, plant and equipment through profit or loss (Note 14)	0	0	0	0	539	0	0	539
Increase in value through revaluation reserve of property, plant and equipment (Note 14)	0	0	0	0	11,225	0	0	11,225
Fair value adjustment of investment property (Note 12)	0	0	0	0	311	0	0	311

in thousands of euros

2019	Super markets	Depart-ment store	Car trade	Foot-wear trade	Real estate	Inter-seg-ment transact-ions	Impact of lease account-ting	Total seg-ments
External revenue	**469,386**	**102,816**	**130,389**	**8,882**	**5,750**	**0**	**0**	**717,223**
Inter-segment revenue	1,348	7,190	223	12	13,454	-22,227	0	0
Total revenue	470,734	110,006	130,612	8,894	19,204	-22,227	0	717,223
EBITDA	**24,645**	**5,877**	**4,783**	**-566**	**19,441**	**0**	**17,001**	**71,181**
Segment depreciation and impairment losses (Note 13,14)	-6,695	-2,593	-431	-478	-4,072	0	-16,474	-30,743
Operating profit/loss	**17,950**	**3,284**	**4,352**	**-1,044**	**15,369**	**0**	**527**	**40,438**
Finance income (Note 23)	302	419	0	1	81	-802	0	1
Finance income on shares of associates (Note 10)	0	203	0	0	0	0	0	203
Finance costs (Note 23)	-169	-385	-319	-116	-764	802	-2,031	-2,982
Income tax* (Note 18)	-2,105	-617	-687	0	-2,483	0		-5,892
Net profit/loss	**15,978**	**2,904**	**3,346**	**-1,159**	**12,203**	**0**	**-1,504**	**31,768**
incl. in Estonia	15,978	2,904	2,884	-1,159	12,661	0	-1,504	31,764
incl. in Latvia	0	0	87	0	-412	0	0	-325
incl. in Lithuania	0	0	375	0	-46	0	0	329
Segment assets	**101,170**	**76,685**	**39,071**	**4,940**	**275,342**	**-74,021**	**99,126**	**522,313**
Segment liabilities	**81,425**	**44,426**	**28,741**	**9,248**	**89,809**	**-53,981**	**100,630**	**300,298**
Segment investments in property, plant and equipment (Note 13)	12,007	1,643	1,484	490	6,974	0	0	22,598
Segment investments in intangible assets (Note 14)	0	555	30	0	0	0	0	585
Fair value adjustment of investment property (Note 12)	0	0	0	0	359	0	0	359

*- deferred 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 2,504 thousand euros (2019: 1,838 thousand euros), loans granted in the amount of 61,933 thousand euros (2019: 52,143 thousand euros) and investments in subsidiaries in the amount of 25,140 thousand euros (2019: 20,040 thousand euros).

Inter-segment transactions in line segment liabilities comprise inter-segment short-term liabilities in the amount of 2,504 thousand euros (2019: 1,838 thousand euros) and inter-segment borrowings in the amount of 61,933 thousand euros (2019: 52,143 thousand euros).

External revenue according to types of goods and services sold

in thousands of euros

	2020	2019
Retail revenue	685,148	651,598
Wholesale revenue	24,740	36,309
Rental income	9,499	10,260
Revenue from rendering services	22,551	19,056
Total revenue	**741,938**	**717,223**

External revenue by client location

in thousands of euros

	2020	2019
Estonia	683,601	662,977
Latvia	44,075	35,335
Lithuania	14,262	18,911
Total	**741,938**	**717,223**

Distribution of non-current assets* by location of assets

in thousands of euros

	31.12.2020	31.12.2019
Estonia	434,491	354,275
Latvia	32,981	28,366
Lithuania	2,115	2,113
Total	**469,587**	**384,754**

* 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 Services expenses

in thousands of euros

	2020	2019
Rental expenses	690	882
Heat and electricity expenses	8,049	7,650
Expenses related to premises	7,261	7,478
Cost of services and materials related to sales	6,899	6,317
Marketing expenses	7,809	8,226
Computer and communication costs	5,800	4,792
Expenses related to personnel	2,658	2,576
Other operating expenses	4,843	3,996
Total services expenses	**44,009**	**41,917**

Note 22 Staff costs

in thousands of euros

	2020	2019
Wages and salaries	59,338	55,405
Social security taxes	18,963	17,708
Total staff costs	**78,301**	**73,113**
Average wages per employee per month (euros)	1,085	1,080
Average number of employees in the reporting period	4,558	4,273

Staff costs also include accrued holiday pay as well as bonuses for 2020 but not yet paid.

Note 23 Finance income and costs

in thousands of euros

Finance income

	2020	2019
Other finance income	2	1
Total finance income	**2**	**1**

Finance costs

	2020	2019
Interest expense of bank loans	-1,237	-863
Interest expense of lease liabilities	-2,882	-2,031
Interest expense of other loans	-58	-19
Other finance costs	-62	-69
Total finance costs	**-4,239**	**-2,982**

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.

	2020	2019
Net profit (in thousands of euros)	19,499	31,768
Weighted average number of shares	40,729,200	40,729,200
Basic and diluted earnings per share (euros)	0.48	0.78

Note 25 Loan collateral and pledged assets

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

in thousands of euros

	31.12.2020	31.12.2019
Land and buildings	141,471	134,180
Machinery and equipment	3,773	98
Investment property	42,265	42,327
Inventories	4,139	3,436
Financial assets	146	143

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 company and the persons controlling or having significant influence over the Parent);
b. associates;
c. other entities in the Parent company 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 company), operating in Estonia. Majority shareholder of OÜ NG Investeeringud is NG Kapital OÜ, operating in Estonia. 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 2020	Sales 2020	Purchases 2019	Sales 2019
Parent company	590	20	280	50
Entities in the Parent company consolidation group	29,332	2,178	27,098	3,114
Members of management and supervisory boards	0	80	0	24
Other related parties	154	13	448	10
Total	**30,076**	**2,291**	**27,826**	**3,198**

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

Other related parties in the table above are companies that are related with members of management and supervisory board.

Balances with related parties:

	31.12.2020	31.12.2019
Receivables from entities in the Parent company consolidation group (Note 7)	319	361
Members of management and supervisory boards (Note 6)	3	0
Total receivables from related parties	**322**	**361**

	31.12.2020	31.12.2019
Parent company	19	19
Entities in the Parent company consolidation group	5,546	5,017
Other related parties	20	7
Total liabilities to related parties (Note 17)	**5,585**	**5,043**

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.

Entities in the Parent company consolidation group are important suppliers for the Group.

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 2020, the Group has earned interest income on its deposits of available funds for one thousand euros, interest rate 0.01% (2019: 0 euros, interest rate 0%).

As at 31 December 2020 and 31 December 2019 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 1,886 thousand euros (2019: 2,045 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 653 thousand euros (2019: 659 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 31.12.2020, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja Grupp AS (either through parent company of the Group NG Investeeringud OÜ or individually):

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 17,000 (0.0417%) shares of Tallinna Kaubamaja Grupp AS

As at 31.12.2019, 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

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

Shareholders	31.12.2020 Ownership interest	31.12.2019 Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%

As at 31 December 2020, 68.75% of the shares (31 December 2019: 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 2020, the retained earnings of Tallinna Kaubamaja Grupp AS were 101,631 thousand euros (31 December 2019: 109,773 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 83,241 thousand euros as dividends (31 December 2019: 89,144 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 18,390 thousand euros (31 December 2019: 20,629 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 89,669 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 2020, there was no breach in the financial covenants.

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 2020 and 2019 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 19,538 thousand euros (17,853 thousand euros at the end of 2019). 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 repurchase consideration, so the obligation to buy back does not have a negative impact on the Group. In 2020 and 2019, the Group has not made any loss-making repurchases.

Note 30 Financial information of the Parent company

In accordance with the Accounting Act of Estonia, the separate primary statements of the consolidating entity (Parent company statement of financial position, statement of profit or loss and other comprehensive income, cash flow statement and statement of changes in equity). The Parent company 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 accounted for using equity method.

STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2020	31.12.2019
ASSETS		
Current assets		
Cash and cash equivalents	5	0
Trade and other receivables	26,127	20,856
Total current assets	**26,132**	**20,856**
Non-current assets		
Investments in subsidiaries	236,419	233,995
Investments in associates	1,712	1,721
Property, plant and equipment	124	66
Intangible assets	1,246	719
Total non-current assets	**239,501**	**236,501**
TOTAL ASSETS	**265,633**	**257,357**

LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	11,189	3,370
Trade and other payables	2,029	1,151
Total current liabilities	**13,218**	**4,521**
Non-current liabilities		
Borrowings	25,000	25,000
Total non-current liabilities	**25,000**	**25,000**
TOTAL LIABILITIES	**38,218**	**29,521**
Equity		
Share capital	16,292	16,292
Statutory reserve capital	2,603	2,603
Retained earnings	208,520	208,941
TOTAL EQUITY	**227,415**	**227,836**
TOTAL LIABILITIES AND EQUITY	**265,633**	**257,357**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	2020	2019
Revenue	3,984	3,500
Other operating expenses	-840	-594
Staff costs	-3,321	-3,206
Depreciation, amortisation and impairment	-119	-185
Other expenses	-32	-15
Operating loss	**-328**	**-500**
Interest income and expenses	128	93
Profit from investments accounted for using the equity method	29,511	31,544
Total finance income and costs	**29,639**	**31,637**
Profit before income tax	**29,311**	**31,137**
NET PROFIT FOR THE FINANCIAL YEAR	**29,311**	**31,137**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**29,311**	**31,137**
Basic and diluted earnings per share (euros)	0.72	0.76

CASH FLOW STATEMENT

in thousands of euros

	2020	2019
CASH FLOWS FROM/USED IN OPERATING ACTIVITIES		
Net profit	29,311	31,137
Adjustments:		
Interest expense	*570*	*385*
Interest income	*-698*	*-478*
Profit from investments under equity method	*-29,511*	*-31,544*
Depreciation, amortisation	*119*	*185*
Change in receivables and prepayments related to operating activities	-127	245
Change in liabilities and prepayments related to operating activities	880	150
TOTAL CASH FLOWS FROM/USED IN OPERATING ACTIVITIES	**543**	**80**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-89	-28
Interest received	698	478
Change in the receivable of group account	7,265	-3,183
Investments in subsidiaries	-7,226	-1,900
Purchases of intangible assets	-614	-553
Dividends received	29,730	28,935
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	**29,764**	**23,749**
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of borrowings	0	-125
Interest paid	-570	-385
Dividends paid	-29,732	-28,918
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES	**-30,302**	**-29,428**
TOTAL CASH FLOWS	**5**	**-5,599**
Cash and cash equivalents at beginning of the period	0	5,599
Cash and cash equivalents at end of the period	5	0
Net increase/decrease in cash and cash equivalents	**5**	**-5,599**

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as of 31.12.2018	**16,292**	**2,603**	**206,722**	**225,617**
Dividends paid	0	0	-28,918	-28,918
Profit for the reporting period	0	0	31,137	31,137
Balance as of 31.12.2019	**16,292**	**2,603**	**208,941**	**227,836**
Dividends paid	0	0	-29,732	-29,732
Profit for the reporting period	0	0	29,311	29,311
Balance as of 31.12.2020	**16,292**	**2,603**	**208,520**	**227,415**

Adjusted unconsolidated equity is used as the basis for verifying compliance with equity requirements set forth in the Commercial Code. The parent company has met the requirements.

Independent auditor's report

To the Shareholders of Tallinna Kaubamaja Grupp AS

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 ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2020, and the Group´s consolidated financial performance and 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 dated 19 February 2021.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- 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 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 Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Translation note:

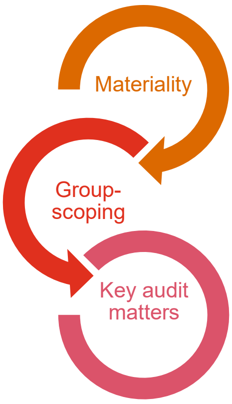
This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its parent and subsidiaries 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 Company and its parent and subsidiaries in the period from 1 January 2020 to 31 December 2020 are disclosed in the management report.

Our audit approach

Overview



Materiality

Overall Group audit materiality is EUR 7.3 million, which represents approximately 1% of the Group's consolidated revenues.

Specific materiality applied to property, plant and equipment and investment properties is EUR 6.0 million, which represents approximately 1% of the Group's consolidated total assets.

Group scoping

For five largest Group entities, a full scope audit was performed by the Group audit team. Statutory audits for remaining entities were performed by the external component auditors under our instructions. We performed specific audit procedures in components where statutory audits were conducted by the external 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 audit materiality	The overall Group audit materiality is EUR 7.3 million. Specific materiality of EUR 6.0 million is applied to property, plant and equipment and investment properties.
How we determined it	Overall Group materiality represents approximately 1% of the Group's consolidated revenues. Specific materiality represents approximately 1% of the Group's 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 performance indicator that determines the Group's value and is monitored by the Group's management, investors, analysts and creditors. In addition, we set a specific materiality level of 6.0 million euros for property, plant and equipment and investment properties. This represents approximately 1% of the Group's consolidated total 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 Note 2 "Accounting policies adopted in the preparation of the financial statements", Note 3 "Critical accounting estimates and judgements", Note 12 "Investment property" and Note 13 "Property, plant and equipment". The Group's property portfolio includes: · Property, plant and equipment, including land and buildings in the carrying amount of EUR 186.4 million (accounted for using the revaluation method) as at 31 December 2020. Total increase in value through revaluation reserve from these assets in 2020 was 11.2 million euros and the impairment from previous years was reversed through profit or loss statement by 0.4 million euros.	Given the inherent subjectivity involved in the valuation of the Group's property portfolio 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 assessed the qualifications, expertise and objectivity of the external valuers. We found that the valuers performed their work in accordance with the respective professional valuation standards. We focused our work on the largest properties by value and those where the assumptions used could have a higher risk of differing from the market data. We assessed whether the valuation approach for each property was in accordance with the principles of measuring fair value under IFRS. We found the methods to be consistent with the guidance in IFRS.

- Investment properties in the carrying amount of EUR 60.3 million (carried at fair value). The loss from fair value adjustments recorded in 2020 profit or loss statement was EUR 311 thousand.

The group measures the fair value of the above-mentioned assets using the discounted cash flow method or comparable market transactions.

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. The Group's management engages certified third party independent real estate valuers to determine the fair values on a systematic basis for each property at least every four years and key inputs for valuations in the intervening years.

In determining a property's fair value, the external valuers and the Group's 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.

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 compared the major assumptions and estimates such as rental rates, discount rates, capitalisation rates and vacancy rates used by the external valuers and the Group's management to determine the fair value of the property 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 external valuers and Group management by requesting additional information and explanations on inputs and assumptions used. We concluded that the data and assumptions used by the Group's 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 significant market transactions on each individual property's valuation, given its unique characteristics were appropriately considered when determining the assumptions used in the valuation and that alternative assumptions have been considered and evaluated by the Group's management and the external valuers before determining the final fair value.

In addition, we assessed whether the disclosures related to the valuation of the property, plant and equipment and the investment property met the requirements set out in IFRS and noted no issues.

How we tailored our Group 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 consolidated financial statements comprise the financial information of 19 entities. 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 the Group audit team. Statutory audits for the remaining entities were performed by the external component auditors under our instructions. In respect of these entities, we performed additional audit procedures on selected areas (relating primarily to valuation of investment properties, and land and buildings, 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. The other information comprises the Management report and Revenue allocation according to the Estonian classification of the economic activities (EMTAK) (but does not include 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, actions taken to eliminate threats or safeguards applied.

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

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of Tallinna Kaubamaja Grupp AS, as a public interest entity, on 20 May 2009 for the financial year ended 31 December 2009. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Tallinna Kaubamaja Grupp AS, as a public interest entity, of 12 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.

The engagement partner on the audit resulting in this independent auditor's report is Tiit Raimla.

AS PricewaterhouseCoopers

Tiit Raimla Certified auditor in charge, auditor's certificate no.287	Rando Rand Auditor's certificate no.617

19 February 2021
Tallinn, Estonia

PROFIT ALLOCATION PROPOSAL

The retained earnings of Tallinna Kaubamaja Group AS are:

Total retained earnings 31 December 2020	101,631 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 24,438 thousand euros out of retained earnings accumulated until 31 December 2020.

Raul Puusepp
Chairman of the Management Board

Tallinn, 22 February 2021

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2020

The supervisory board of Tallinna Kaubamaja Group AS has reviewed the 2020 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 2020 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, 22 February 2021

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

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

in thousands of euros per year

EMTAK code	**Title of EMTAK Group**	**2020**
64201	Holding company's activities	3,984
	Total revenue	**3,984**