

TALLINNA KAUBAMAJA GRUPP AS























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CONSOLIDATED ANNUAL REPORT 2019

The main areas of activity of Tallinna Kaubamaja Grupp AS (hereinafter referred to as the 'Tallinna Kaubamaja Grupp' or 'the Group') are retail and wholesale trade. At the year-end 2019, Tallinna Kaubamaja Grupp AS employed more than 4,200 employees.

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Beginning of financial year: 1.01.2019
End of financial year: 31.12.2019

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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MANAGEMENT REPORT

Overview of the Group's activities

Briefly about Tallinna Kaubamaja Group

Tallinna Kaubamaja Group is the biggest retail company in Estonia. Our **4,200** employees serve customers in **92** stores, where **682,000** loyal customers make **46** million purchases a year.

717.2

Million euros

Revenue

(2018: 681.2 million euros)

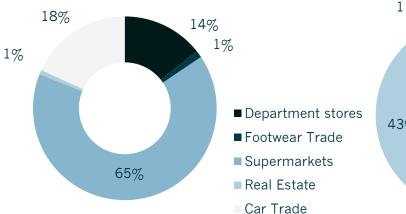
31.1

Million euros

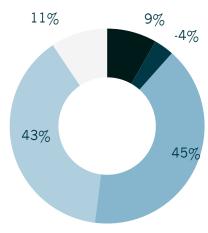
Net profit

(2018: 30.4 million euros)





Net profit 2019



76
Cents
Net profit
per share
(2018: 75 cents)

4,273

Yearly average number Employees

(2018: 4,283)

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

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

The Supermarkets' segment comprises the Selver store chain with 53 Selver stores, e-Selver and a café with a total sales space of 101.0 thousand m². The segment also includes the largest central kitchen in the Baltic countries Kulinaaria OÜ.



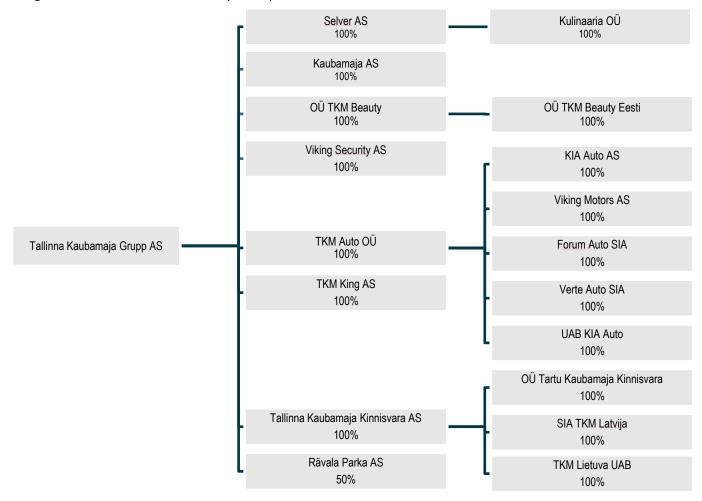
Kaubamaja operates two department stores, one in Tallinn and the other in Tartu city centre, offering a large selection of beauty and fashion products. The results of beauty product (I.L.U. and L'Occitane) sales, which includes seven stores, and the security segment (Viking Security AS), are presented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

The footwear trade segment includes 24 ABC King and SHU shoe stores.

The car trade segment with an independent dealers' network is the importer of KIAs in the Baltic countries and is in addition selling passenger cars in three showrooms in Tallinn, 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.

Legal structure of Tallinna Kaubamaja Group as of 31.12.2019:





Overview of 2019

For Tallinna Kaubamaja Group, 2019 was a year of positive developments and laying a foundation for the future. The largest business segments of the Group showed good results in 2019, bringing Tallinna Kaubamaja Group a record-breaking financial result in terms of both increased sales income and profit. In retail segments, the biggest increase of sales income came from the bigger segments such as the supermarkets segment and the Kaubamaja department stores segment, but the biggest increase in sales was in the car segment, where a new modern Škoda sales salon was opened in Latvia at the end of the year. The Group's e-commerce maintained a substantive growth of nearly 40% and it is one of the important directions for the development of the Group. During the reporting year, the Group focused increasingly on implementing an environmentally aware and responsible way of thinking for organising the work of all the different processes and areas of activities of the Group. Of the 23.2 million euros invested in the development of the Group in 2019, a significant part was used for the production complex of the new Kulinaaria central kitchen with top-level food technology and production facilities with technical systems developed considering every detail, which enables production with a significantly smaller environmental footprint. In renovating two Selver stores, the newest technological solutions were used to achieve a final solution that would be as environmentally friendly and energy-efficient as possible. Caring and quality are of high importance for keeping the trust of both customers and employees and are undoubtedly some of the foundations of the Group's business activities.

The following events were the most important for the Tallinna Kaubamaja Group in 2019 and until the publication of this annual report:

- In November 2019, the Latvian company of the Group's car segment, Verte Auto SIA, opened a completely new, fully functional Škoda showroom the most modern one in Eastern Europe.
- Selver stores in Pelgulinn and Jõhvi underwent thorough renovations.
- Digital price tags were introduced in Selver stores.
- In the supermarkets segment, construction works for a new production building for the Kulinaaria central kitchen began in Tallinn. The completion of the Kulinaaria production building and switching the business software of the central kitchen is planned in 2020.
- From the beginning of 2020, e-Selver services can be used in Tartu, making e-Selver the e-store with the largest assortment of foodstuffs and the largest service area in Estonia.
- The areas for Selver's popular self-service solution SelveEkspress were widened and now, customers can use the SelveEkspress service already in 52 Selvers.
- In the survey regarding the reputation of large companies carried out by EMOR in 2019, Selver held second place, surpassing all other grocery chains.
- Äripäev's thematic web page kaubandus.ee and the Estonian E-Commerce Association chose

Kaubamaja's e-store from among 99 Estonian and Latvian e-stores as the most user-friendly e-store in the department stores sector. In the same competition, Selver was awarded the people's choice award.

- Kaubamaja's department stores and Selver stores put 1,109,465 fewer plastic bags into circulation than in the year before.
- Viking Motors AS was recognised as a friend to culture.
- The number of the customers of the Group's loyalty program Partnerkaart exceeded 680,000, which means that nearly half of Estonian residents have a card.

Fconomic environment

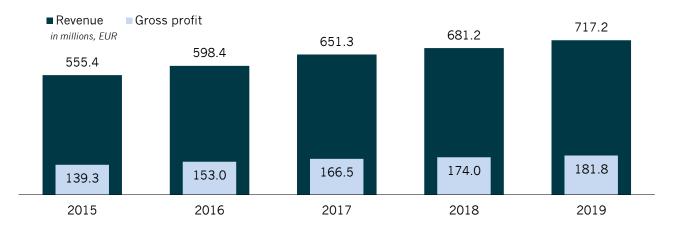
The development of retail trade is closely connected to the general economic growth and environment. In contrast to the forecasts made by analysts, Estonia's gross domestic product showed nearly 4% growth in the first three quarters of 2019. Compared to the previous periods, the contribution of construction activities to the growth of the GDP has decreased and the information and communication activities showed the greatest growth. The activities related to the supply of electricity, gas, steam, and conditioned air mainly put a break on the economic growth in the third quarter, a trend that has been present for several consecutive quarters. The slowdown of economic growth is still expected to be reflected in the annual results. According to the estimates of the Bank of Estonia, the annual economic growth is expected to be 3.4%. In Estonia, the consumer price index grew by 2.3% in 2019. The price growth of foodstuffs and non-alcoholic beverages was 3.0% in the annual comparison. While the price growth of footwear and clothing accelerated in the second half of the year and the annual price growth was 0.7% in this group of goods. In the reporting period, the prices related to free time increased most rapidly (5.8%). According to Statistics Estonia, the average gross wage grew by 8.2% in the third quarter of 2019 in the year-on-year comparison. According to the estimates of the Bank of Estonia, the growth of the average wage is expected to be 7.5% in 2019.

According to Statistics Estonia, the total sales revenue in current prices increased by 5.7% in the 2019 in Estonia. Maintenance and repair of motor vehicles showed the greatest growth for several consecutive months and increased by 13.8% in 2019. According to the Estonian Association of Car Dealers and Service Companies (AMTEL), 26,589 new passenger vehicles were sold in Estonia in 2019, which is by 4.7% more than in 2018. Retail sales in non-specialised stores (primarily foodstuffs) grew by 5.7% over the year. Retail sales in other non-specialised stores increased by 7.0%. Consumer confidence is upheld by the growth of wages and a record low unemployment rate.

In the coming years, the German supermarket chain Lidl is entering the supermarkets segment of Selver as a newcomer. In the supermarkets segment, Estonia is the one with the most dense competition and lowest mark-ups in the Baltics. This gives reason to think that the arrival of a new competitor will affect many market participants, as Lidl can gain a market share only from other market participants. The results of the *Competition Survey of Retail Chains of Groceries and Essentials 2019* (Toidu- ja esmatarbekaupade jaekettide konkurentsiseire 2019) carried out by Kantar Emor showed that Estonian chains Selver and Coop have the biggest brand power, which shows that Estonian people prefer domestic stores. In addition, their awareness regarding domestic clean products has increased and domestic products are preferred, which shows the potential for further growth of Selver's competitiveness.

Financial performance

FINANCIAL RATIOS 2015-2019



In millions, EUR	2015	2016	2017	2018	2019
Revenue	555	598	651	681	717
Change in revenue	4%	8%	9%	5%	5%
Gross profit	139	153	166	174	182
EBITDA	42	47	50	51	71
Operating profit	27	32	37	37	40
Profit before tax	26	31	36	37	38
Net profit	22	26	30	30	31
Change in net profit	9%	17%	16%	2%	2%
Sales revenue per employee	0.141	0.147	0.156	0.159	0.168
Gross margin	25%	26%	26%	26%	25%
EBITDA margin	8%	8%	8%	7%	10%
Operating margin	5%	5%	6%	5%	6%
Profit before tax margin	5%	5%	6%	5%	5%
Net margin	4%	4%	5%	4%	4%
Equity ratio	52%	52%	52%	55%	44%
Return on equity (ROE)	13%	13%	14%	14%	14%
Return on assets (ROA)	6%	7%	8%	8%	7%
Current ratio	0.9	1.1	0.9	1.1	1.0
Debt ratio	0.5	0.5	0.5	0.5	0.6
Inventory turnover	7.1	6.8	8.6	8.7	9.2
Average number of employees	3,946	4,079	4,182	4,283	4,273

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%

= cost of sales / average inventories

 Current ratio
 = current assets / current liabilities

 Debt ratio
 = total liabilities / balance sheet total

In 2019, the audited consolidated sales revenue of Tallinna Kaubamaja Group was 717.2 million euros, showing a growth of 5.3% compared to the result of 2018, when the comparable sales revenue was 681.2 million euros. The Group's audited consolidated net profit was 31.1 million euros in 2019, which is 2.3% higher than the previous year. The pre-tax profit earned in the reporting year was 37.7 million euros, showing a 2.5% increase compared to 2018. The net profit was influenced by a dividend payment, on which income tax in the amount of 6.3 million euros was calculated in the first quarter of 2019, compared to the income tax of 6.7 million euros calculated a year earlier. Accounting for leases in compliance with IFRS 16 (Leases) was first introduced in 2019, which resulted in net profit reduction by 1.5 million euros.

Significant sales growth in 2019 was shown by the Group's car segment (13.4%) where sales growth was supported by successful Peugeot sales in addition to KIAs. In November, Verte Auto, the Latvian company belonging to the car trade segment, opened a completely new and fully functional showroom in Riga and started to sell Škodas, a suitable addition to the brand selection of the Group's car segment. In the reporting year, the continued strong growth of nearly 40% in all Group e-shops compared to 2018 gives a reason to rejoice. In 2019, no new stores were opened in the supermarkets segment; however, two Selver stores were refurbished in the late 2019. Due to temporary closing of the stores for refurbishing slightly slowed down the growth of supermarket sales. One-off investments in

Inventory turnover (ratio)

developments intended to generate income in the future – the refurbishing of Selver stores in the supermarkets segment, opening a Škoda showroom in the car segment, and the development of the cash collection service in Viking Security in the department store segment – caused a slight decrease of the pre-tax profit in these segments compared to the previous period. In 2019, the supermarkets and the Kaubamaja department stores improved their gross profit margin, although redirecting the business model to more extensive fleet sales in the car segment, which has a significant weight in the Group's business, also influenced the margin on the Group's consolidated level. The labour costs of the Group increased by 8.0% in the year, keeping up with the growth of the average wage in Estonia.

More attention is paid to responsible and sustainable behaviour and promotion thereof in the companies of the Group. Special attention was paid in 2019 to reducing the use of packaging, especially plastic bags, in stores. During the year, more than 1 million less plastic bags have been circulated from the Group's stores than in 2018. 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.

At the end of the reporting period, the number of loyal customers exceeded 682,000, showing an annual growth of 1.2%. The share of purchases made by loyal customers accounted for 85.0% of the turnover of the Group (the indicator was 84.6% in the 2018). Over 34,000 Partner bank and credit cards had been issued by the end of 2019.

From 1 January 2019, the Group has applied the new mandatory financial reporting standard IFRS 16 (Leases) in lease cost accounting. Pursuant to the standard, leased assets and liabilities are recognised in the balance sheet at the present value of lease payments and the depreciation on the leased assets and estimated interest costs on lease liabilities in the income statement. As at 31 December 2019, the assets leased in accordance with IFRS 16 were recognised in the balance sheet of the Group in the present value of lease payments of 99,126 thousand euros and corresponding calculated liabilities of 100,630 thousand euros. The impact of IFRS 16 on the income statement is as follows:

in thousands of euros	2019
Decrease in other operating expenses	17,001
Increase in depreciation	-16,474
Increase in operating profit	527
Calculated interest expense on lease liabilities	-2,031
Total decrease in the net profit	-1,504

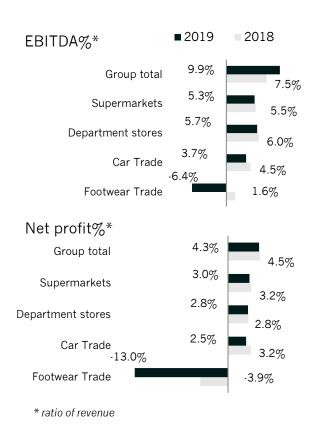
As at 31 December 2019, the volume of assets of Tallinna Kaubamaja Group was 522.3 million euros, growing by 12.1 million euros, i.e. by 2.9%, compared to the end of 2018 if the influence of IFRS 16 is ignored.

Investments

In 2019, the Group invested 23.2 million euros in acquiring fixed assets (16.1 million euros in 2018). Of this amount, 22.6 million euros were invested in property, plant, and equipment and 0.6 million euros in intangible assets. In the supermarkets segment, investments were made in the extent of 12.0 million euros in 2019 (in 2018, in the extent of 8.8 million euros). Of the most important developments in the supermarkets segment in the reporting year, the thorough renovations of the Selver stores in Pelgulinn and Jõhvi should be highlighted. The SelveEkspress service expanded to 52 Selver stores. The e-Selver service area expanded twice in 2019 and by the end of 2019, the service covered Tallinn and Harju County, Rapla and a part of Rapla County, and Pärnu City and its outskirts. A large investment was commencing the construction of the production building of the Kulinaaria central kitchen in Tallinn while also introducing a new central kitchen business software. Investments in the extent of 1.6 million euros were made for updating the sales buildings and updating the furnishings and computing hardware of the Kaubamaja business segment (2.4 million euros in 2018). In cooperation with the real estate business segment, one of the most important developments in the cars segment was completed - a new fully functional Škoda sales salon in Riga. The cost of investments in the cars segment in 2019 was 1.5 million euros (0.7 million euros in 2018). The cost of investments in the real estate business segment was 6.0 million euros (3.8 million euros in 2018). In the footwear trade segment, the SHU stores in Kristiine Keskus, Võru Kagukeskus, and Tartu Kaubamaja were renovated, and the cost of investments was 0.5 million euros (0.2 million euros in 2018). In the first half of 2019, investments needed to be made in the reconstruction of all grocery stores in the Group in relation to the legislation amendment that restricted the visibility of the alcohol display in stores.

Business segments

In millions, EUR	2018	2019	%
Revenue	681.2	717.2	5.3%
Supermarkets	450.1	469.4	4.3%
Department stores	100.9	102.8	1.9%
Car Trade	114.9	130.4	13.4%
Footwear Trade	9.8	8.9	-9.6%
Real Estate	5.4	5.8	5.7%
EBITDA	50.8	71.2	40.2%
Supermarkets	24.6	24.6	0.3%
Department stores	6.1	5.9	-3.6%
Car Trade	5.1	4.8	-6.7%
Footwear Trade	0.2	-0.6	-456.0%
Real Estate	14.8	19.4	31.2%
IFRS 16	0.0	17.0	-
Net profit/-loss	30.4	31.1	2.3%
Supermarkets	14.6	14.1	-3.1%
Department stores	2.9	2.9	0.9%
Car Trade	3.7	3.3	-9.8%
Footwear Trade	-0.4	-1.2	202.6%
Real Estate	9.7	13.5	38.6%
IFRS 16	0.0	-1.5	



Supermarkets

The consolidated sales revenue of the 2019 of the supermarkets segment was 469.4 million euros, increasing by 4.3% in comparison with the previous year. In 2019, the monthly average sales revenue from the sale of goods per a square metre of selling space was 0.40 thousand euros, maintaining the same level as in previous year. In 2019, the sales revenue from the sale of goods per a square metre in comparable stores was 0.38 thousand euros, showing a growth of 1.7%. At Selver stores, 40.3 million purchases were made in 2019, exceeding the previous-year result by 3.8%. The consolidated pre-tax profit of the supermarkets segment was 18.1 million euros in 2019, which marks a 3% decrease year on year. The net profit was 14.1 million euros, which is 0.4 million euros lower than the result of the previous year. The difference between net profit and pre-tax profit is due to income tax paid on dividends, i.e. income tax paid on dividends was 0.1 million euros lower in 2019 compared to the year earlier. The lower tax load on dividends is due to the amendment regulating the taxation of dividends, which allows applying a lower tax rate on one third of last year's dividends.

The temporary closing of two stores, Jõhvi Selver and Pelgulinna Selver, for refurbishing in the final months of the reporting year influenced the results of the year 2019. The comparison basis is partly lower by two stores that were added in the last quarter of 2018. The results of the sales of fresh foodstuffs as well as the more efficient management of stocks had a positive impact on the sales revenue. In the last quarter, the fear of consumers of catching a Listeria infection from fish products influenced the sales of fish products, which account for a large portion of consumers' basket of products, despite the fact that Selver purchases products that meet health requirements and both Selver and Kulinaaria constantly monitor the quality of goods on sale or moving through the production. Profit earning is influenced by the growth of sales revenue and more efficient management of goods. Investments have a positive impact, allowing cutting administrative costs and employees' working hours. To balance the decrease in the employees' working hours, their wages were adjusted. The results of the annual report were also influenced by the amendment of the Alcohol Act, due to which significant expenses were incurred during the rearrangement of sales floors, and one-time expenses made in the renovation of two stores.

E-commerce shows good results – the sales revenue grew by 34.7% in a year. The service area of e-Selver expanded

twice in 2019. By the end of 2019, the service covered the entire city of Tallinn and Harju County, Rapla and part of Rapla County, and the city of Pärnu and its close proximity. In addition to the assortment of goods offered in regular Selver stores, e-Selver offers larger household appliances and other devices. From the beginning of 2020, the e-Selver service was introduced to cover Tartu and its close proximity. E-Selver is the e-store with the largest assortment of foods and the largest service area in Estonia.

In 2019, the SelveEkspress service was available in 52 Selver stores and it has been well accepted by customers. As at the end of the year, every second purchase in stores was made using SelveEkspress.

As at the end of year, the supermarkets segment includes the Selver store chain with 53 Selver stores, e-Selver, the mobile store, and the café with a total sales area of 101,000 m², and the central kitchen Kulinaaria OÜ.

In 2019, Selver was a sponsor of the 27th Song Celebration and the 20th Dance Celebration 'My Fatherland is My Love'.

Department stores

The Kaubamaja business segment earned a sales revenue of 102.8 million euros in 2019, which is 1.9% more than previous year. In 2019, the average sales revenue of the department stores per a square metre of selling space was 0.32 thousand euros in a month, which was 2.7% higher than in the previous year. The e-store of Kaubamaja grew by 41.5% in a year. The pre-tax profit of the department stores was 3.5 million euros in 2019, which was 7.3% lower than previous year. In 2019, the sales results of the department stores were influenced by very successful larger campaigns. The Osturalli campaigns organised in spring and autumn were the most successful of all time. The Ilu Aeg campaign carried out in the beginning of September brought the best results ever. Although the beginning of the autumn season in September was very positive, the expected winter weather did not appear in the last quarter and the warmer-than-average winter had a negative impact on the result of Kaubamaja. Still, the stores were better at managing inventories and growing the margin in 2019, which resulted in a positive effect on the total annual profit.

In 2019, the sales revenue of OÜ TKM Beauty Eesti, which operates the I.L.U. cosmetics stores, was 4.9 million euros, growing by 5.8% on the year-on-year basis. The loss earned was 0.13 million euros in 2019, which was 0.04 million euros lower than the loss earned in the 2018. In 2019, the focus was on the launch of the e-store and on digital marketing. The brand identity was refreshed in connection with the 10th anniversary of I.L.U. stores.

The growth of the security company, which is reported under the segment of Kaubamaja, continued in 2019 in all fields of the security business. The security service, which grew out of the security department of Kaubamaja, was transferred to a separate company, Viking Security AS, in 2012, which has from then on greatly helped to reduce the number of the incidents of deficits in the retail segment of the Group and decrease the expenses on security thanks to the best security solutions. Today, the company has developed into a universal security company whose product portfolio includes various security services and surveillance solutions from simpler manned and technical surveillance services to the designing, installation, and maintenance of more complex surveillance and video systems. The company also provides stocktaking services for retail businesses as a separate field of activity. Viking Security is a member of the Estonian Security Association. Its largest clients include several large commercial undertakings, as well as the Ministry of Foreign Affairs and the Ministry of Defence, which require a higher level of security. By 2019, Viking Security has grown into a profitable and rapidly developing security company with 350 employees, ranking fourth in Estonia with its turnover of 9.6 million euros. Nearly half of the sales revenue comes from outside of the Group. The fastest-growing area was the area of fire safety services, in which several new clients were added and the turnover increased by 34%. The important events in the field of security services included several combined service contracts and the development of the management centre. Viking Security also won the Security Technician of the Year award. The field of security technology entered into several important contracts and expanded into the field of computer network construction.

Car trade

The sales revenue of the car trade segment was 130.4 million euros in 2019. The sales revenue exceeded the revenue earned last year by 13.4%, wherein the sales revenue generated by the sales of KIAs grew by 9.6% in a year and Peugeot sales were also booming. In November, Škoda was added to the product portfolio as a new car brand; 42 Škoda cars were sold in the last two months of the year. In 2019, the Group's car trade segment sold 5,704 new vehicles. The pre-tax profit of the car trade segment was 4.0 million euros in 2019, which is 9.2% lower than the profit earned a year earlier.

In summary, the share of companies offering full service and short-term lease among the customers of new cars was clearly growing in 2019. This customer segment is mostly responsible for the fleet and wholesale transactions. This, in turn, translates into the growth of the number of vehicles sold, turnover, and market share; however, these sales decrease profit margin, which is clear from the results of the Group's car trade segment. Furthermore, the sales results of new Opel vehicles by Viking Motors in Tallinn worsened, showing a clear downward trend that has become obvious following the change in the importer of Opel vehicles. The changed business policy and strategy of the new importer has caused a continued decrease of the market share of Opel cars in the region and forced the Group's car

segment to cease the sales of Opel passenger and commercial cars in future as an unprofitable business. The follow-up services for Opel vehicles will be provided in future.

The Group opened a completely new and fully functional Škoda showroom with another showroom specially built for the sale of used cars, which is one of a kind in Latvia. The showroom was opened by Verte Auto, the Latvian subsidiary of the Group's car segment in the beginning of November 2019. The popularity of Škoda's vehicles among the customers of Baltic regions is well known and it is good to conclude that the Group's car segment successfully replaced the Opel brand with the Škoda brand, which shows a great potential.

Footwear trade

The sales revenue of the footwear trade segment was 8.9 million euros in 2019, showing a decrease of 9.6% compared to the previous year. The pre-tax loss of the segment was 1.2 million euros in 2019, growing by 0.8 million euros year on year. The result of the footwear trade segment in 2019 was affected by store repositioning plans and related business decisions, as well as the introduction of renewed business software and logistics service. In the beginning of 2019, a change was made in the company – the central warehouse was closed and a new principle was applied to the logistics service. During the year, the SHU stores in Kristiine Keskus, Võru Kagukeskus, and Tartu Kaubamaja were renovated. The concepts of the assortment and sales environments of ABC KING and SHU were refreshed and a new visual identity of SHU was developed. In the second half of the year, a new business software system was introduced and the cash register systems were replaced in the stores. It is planned to continue with the renovation of stores in 2020 and implement the changes in the assortment and sales environment at stores developed in 2019.

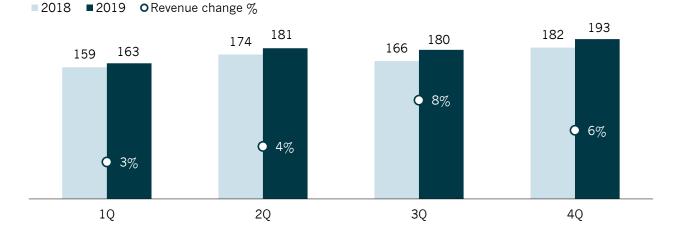
Real estate

The sales revenue earned in the real estate segment outside the Group was 5.8 million euros in 2019. The sales revenue grew by 5.7% compared to last year. The pre-tax profit of the real estate segment was 14.7 million euros in 2019. The profit grew by 43.3% compared to previous year The Latvian real estate company that leased the commercial space to a party outside of the Group influenced the sales growth of the segment. Other companies of the Group's real estate segment also showed a stable sales growth. The profit of the segment within the Group was increased by the new Škoda car showroom and the showroom intended for used cars completed and taken into use in Latvia at the end of the year, the reduction of costs in the Latvian real estate company, and the sales income from the sale of the registered immovable intended for the development of residential property in Tallinn. At the end of the year, the annual revaluation of investments in property was conducted, which did not have any significant effect on the profit of the segment.

Seasonality of business and risks

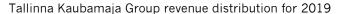
The operations of Tallinna Kaubamaja Group are not exposed to major seasonal fluctuations. As is common for retail trade, the sales revenue is about 10% lower in the first quarter and about 10% higher in the fourth quarter compared to the average sales revenue of quarters. Historically, seasonality has slight effect on sales revenue in the fourth quarter, when revenue accounts for around 27% of total sales revenue.

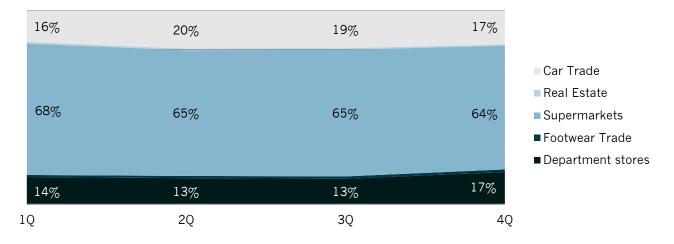
Group revenue 2019 and 2018 (in million euros)





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





The quarterly sales revenue of the Footwear trade and Real Estate business segments remains at 1% of the Group's sales revenue.

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

Directions for 2020

In 2020, the Group will have operated for 60 years. The key for the longevity of the company has been flexibility and keeping up with the customers' wishes. For 2020, the company is planning several large developments, where, in addition to meeting the expectations of the customers, we are turning more attention to responsibility and reducing our ecological footprint.

In 2020, the Group will begin more thorough recycling at the offices and customer spaces of Selver stores, adding compartmentalised rubbish bins to workspaces and customer service areas to significantly reduce the quantities of mixed waste. In 2020, Selver is planning to introduce food containers made of reused and biodegradable materials in all 53 stores across Estonia. In cooperation with Adapter, Kaubamaja held an idea competition for reusing plastic, the winning entry for which will, when implemented, significantly reduce the use of single-use plastic.

In 2020, the company plans to renovate up to 3 Selver stores, where, in the course of renewing the sales areas, the cooling and refrigerating systems, lighting, ventilation, and heating equipment will be replaced with new, more energy-efficient ones. In Võru, Selver will move to the new Kagukeskus which is to be opened. We are mapping new attractive locations for opening possible new stores. We continue to invest in software development with the purpose

of making work processes more efficient – for example, introducing digital price tags, which help to save the employees' time and paper significantly and ensure that a correct price is displayed to the customer. We will continue developing e-commerce to increase our capacity for servicing a rapidly increasing number of customers. In early 2020, e-Selver became available in Tartu and Tartu County, now servicing an area that enables 800,000 Estonian residents and companies to use the e-Selver home delivery service. In 2020, Selver is celebrating its 25 years of activity.

In Tallinn, the construction works for the production building of the Kulinaaria central kitchen known as Selveri Köök will continue. It is planned to complete the new Kulinaaria production building and replace the business software of the central kitchen in 2020. After the new building is completed, it is planned to renovate the old factory building and the whole renewed production complex should be complete by the end of 2020. As production expands, new products in the ready-to-eat meals category are to be launched under the Selver Köök trademark loved by Estonians and new exciting confectionery products are to be launched under the Van Kook trademark. The area of the new production complex is doubled to 8,000 square metres. In a production facility this big, efficient transport is essential so that the journey of the products would be well considered and optimal while also remaining environmentally friendly and considerate of employees. In the name of making production more environmentally friendly, more work segments are automated. In order to organise automatic solutions for the production logistics, Kulinaaria initiated a joint research project with TalTech in the reporting year. If the pilot project is effective, Kulinaaria will introduce mobile robots also in the production building being completed. After the extension is completed, the whole production will be developed to meet the global food safety standard which involves a BRC (British Retail Consortium) certificate. All machinery and equipment will be updated.

The Group's car trade segment grew faster than the market, thereby continuing to grow the market share. In order to ensure increased service volumes, adding several new car dealerships was planned also earlier. In 2020, it is planned to develop the Opel sales salon located at Tammsaare tee 51 in Tallinn into a modern Peugeot sales and service centre that meets all standards, and to reconstruct Viking Motors' other car salon in Ülemiste. In addition, it is planned to open a new and modern bodyworks repair shop at Läike tee 32/2 in Tallinn. In Latvia, the Group is planning to build another car salon that will be a mono-brand KIA car centre.

More than two years have passed since the successful architecture competition for the new sales building for Kaubamaja in Tallinn, but the construction of the buildings in the new quarter can only begin after the City of Tallinn has issued the necessary project conditions, which is why the beginning of the construction works for the new Kaubamaja building has not yet been set. In 2020, Kaubamaja will begin to plan the developments in the sales departments located at Viru Keskus. Developments in the food, beauty, and women's departments have been planned for the autumn of 2020.

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 2019, the Management Board proposed to pay 28.9 million euros as dividends that is 0.71 euros per share. The general meeting of shareholders approved the proposal. The amount of a dividend distribution has been determined by reference to:

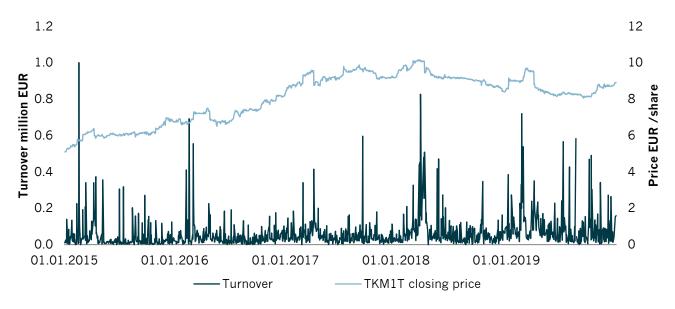
- The optimal structure capital that is required for the Group's sustainable development;
- The overall rate of return on the local securities market;
- The dividend expectations of the majority shareholders.

At the end of the 2019, the Group had 7,897 shareholders and division of shares is following:

Ownership structure	Number of shareholders	Shareholders%	Shares%	Votes%
Private persons	7,128	90.3%	15.3%	15.3%
Companies (Estonian)	700	8.9%	3.6%	3.6%
Financial institutions (Estonian)	14	0.2%	4.0%	4.0%
Companies (other countries)	3	0.0%	0.1%	0.1%
Financial institutions (other countries)	50	0.6%	7.1%	7.1%
ING LUXEMBOURG S.A.	1	0.0%	2.9%	2.9%
OÜ NG INVESTEERINGUD	1	0.0%	67.0%	67.0%
Total	7,897	100.0%	100.0%	100,0%

Number of shares	Number of shareholders	Shareholders%	Shares%	Votes%
1–100	2,638	33.4%	0.3%	0.3%
101–1,000	3,860	48.9%	3.7%	3.7%
1,001–10,000	1,273	16.1%	8.2%	8.2%
10,001–100,000	109	1.4%	6.8%	6.8%
100,001-1,000,000	15	0.2%	11.2%	11.2%
1,000,001	2	0.0%	69.9%	69.9%
Total	7,897	100.0%	100.0%	100.0%

Share price and trading statistics in Tallinn Stock Exchange during 01.01.2015 – 31.12.2019



Share trading history

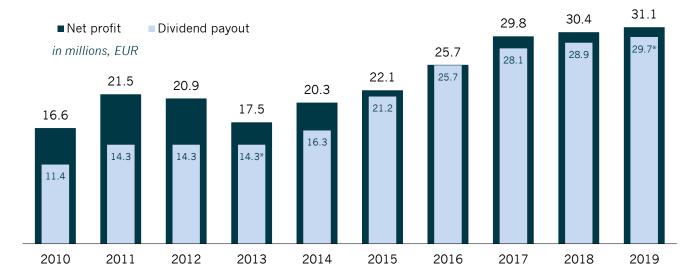
In euros

	2015	2016	2017	2018	2019
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (pcs)	1,933,408	1,647,752	1,452,599	2,017,514	2,763,674
Dividend / net profit	96%	100%	94%	95%	95%*
P/E	12.4	13.0	12.6	11.3	11.6
P/BV	1.5	1.6	1.8	1.5	1.59
Opening price	5.1	6.72	8.29	9.28	8.46
Share price, highest	7.0	8.30	9.90	10.25	9.72
Share price, lowest	5.03	6.49	8.27	8.32	8.06
Share price, at the year-end	6.74	8.23	9.20	8.42	8.90
Share price, yearly average	6.07	7.25	9.23	9.26	8.60
Turnover (million)	11.60	11.87	13.38	19.03	23.89
Capitalisation (million)	274.51	335.20	374.71	342.94	362.49
Earnings per share	0.5	0.6	0.7	0.7	0.8
Dividend per share	0.52	0.63	0.69	0.71	0.73*
Equity per share	4.4	5.0	5.1	5.5	5.6

^{*} 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



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.

Ethical business practices and corporate responsibility

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

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

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

For Tallinna Kaubamaja Group, integrity, responsibility and sustainability is much more than merely compliance with external requirements – it is an integral part of our business.

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

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

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

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

Code of Ethics

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

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

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

Social responsibility

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

- We consider the Group's Selver chain stores as regional centers where we have assembled several public services important for the society.
- If possible, especially in grocery items, we prefer domestic products and small Estonian manufacturers.
- We hold events to promote local design and manufacturers at the Group's department stores and stores.
- We are active in sponsoring activities and programs and organise various charity campaigns.
- We support the popularization of sports through promoting youth work and professional sports.
- We support several smaller and larger cultural projects, mainly outside of larger cities.
- We contribute to improving the employment of disabled persons and offer jobs to people who are at a disadvantage in competing on the current labor market.
- We help the state in creating jobs and contribute to its tax revenues.

In 2019, Group companies paid to the state and local authorities a total of 67.6 million euros in taxes, a growth of 8% in a year (2018: 62.6).

Group taxes paid in 2017, 2018 and 2019 (in million euros)



Some examples of the activities of the Group companies:

- Group is one of the initiators and major supporters of the opinion competition 'Successful Estonia', held since 2013. The main goal of the opinion articles published in the business daily Äripäev within the competition is to bring ideas into public discussion for increasing Estonia's economic growth and improving the well-being of people.
- Since 1994, Kaubamaja has been a godparent for white-tailed eagles at the Tallinn Zoo.
- Kaubamaja has supported the Male Choir of Tallinn University of Technology for over 15 years.
- Kaubamaja has conducted several campaigns in cooperation with charity organisations and collected money for an animal shelter, big families etc. In our charity activity, we have primarily focused on projects related to children. There have been many smaller scale endeavours related to children and childcare institutions, such as singing competitions, sports days, school parties, where Kaubamaja has awarded the winners with mementos. In cooperation with our clients, we held the charity Christmas sale in Kaubamaja at the end of 2019. Half of the income received was donated to support the activities of the Estonian Association of Assistance and Therapy Dogs, in cooperation with whom young and elderly people in need are helped.
- 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 for Kaubamaja we encourage schools to organise fashion shows and help them with awards. For example, we support the organisation of young people's fashion events "MoeP.A.R.K." and "NoorMood" and are the main sponsor of Kuldnõel, the most prestigious fashion design award in Estonia.
- Kaubamaja and Selver joined with the Diversity Charter in 2012, thereby undertaking to adhere to the principle of equal treatment and opportunities. We focus on developing diversity in our Group. In a company where employee diversity is valued, be it different age, race, ethnicity, religious beliefs or employees with special needs, there is more knowledge, skills, experience, perspectives and a more tolerant working environment. We believe that this helps us offer better service to our clients. In 2018, Kaubamaja was one of the first companies in Estonia to win the Respecting Differences diversity label.
- For the sixteenth year in a row, Selver organised the charity project "Koos on kergem" (It Is Easier Together), the aim of which is to donate money to the children's and maternity departments of hospitals. In every store, money is raised for the local county hospital. In 2019, 105,400 euros were raised.
- In recent years, Selver has cooperated with various charity organisations, such as Shalom, Food Bank, SAK Fond and congregations to donate foodstuff nearing the best before date to families in need. Presently, almost 30 Selver stores participate in these projects.
- Selver consistently supports animal parks at Elistvere and Alaveski, as well as the Tartu animal shelter.
- Selver continues to support youth sports and is a title sponsor of the volleyball club Selver Tallinn. The
 objective of the club is to promote volleyball in Estonia, but also to work with young people and promote
 professional sports. The club's activities include:
 - First team: Selver Tallinn;
 - Youth club to raise the next generation of players: Selver/Audentes;
 - Promotion of youth sports: Audentes Volleyball School.
- In 2019, Selver continued to support the football club FC Flora.
- Selver is the title sponsor of Linnajooks (City Run). The series include a total of nine runs organised all over Estonia.
- Selver supports smaller and larger cultural projects, mainly outside of larger cities. In 2019, we helped to bring to life various events, such as 27th Song Celebration and the 20th Dance Celebration 'My Fatherland is My Love', Birgitta Festival, the Sonorous Sounds of the Organs of Saaremaa concert, Sõru Jazz, the Järvi Festival, the Saaremaa Opera Festival, the Hiiumaa Homecoming Festival, Hiiu Folk, the Intsikurmu Festival, the Luige Nokk humour festival, as well as the Grillfest in Pärnu, the Theatre Bus tour in cooperation with the Estonian National Opera, and the media partnership with ERSO.

Wellbeing and motivation of personnel

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









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

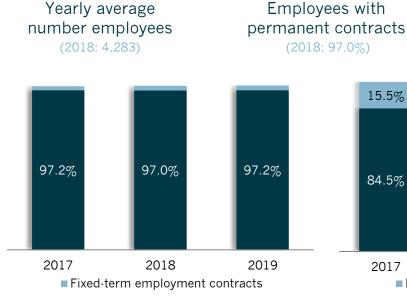
- We develop our employees and teamwork.
- We are open and honest and encourage multilateral communication.
- We encourage self-management and the individual performance of employees.
- We base our activity on consensus and collaboration.
- We develop to be an organisation that learns from the experience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

Group is one of the biggest employers in Estonia. In 2019, our Group employed an average of 4,273 people and compared to 2018, the number of employees decreased by 0.2% (2018: 4,283).

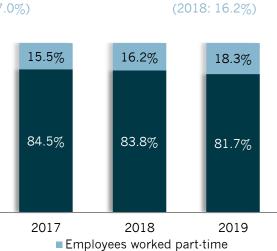
Group values long-term and lasting work relationships that provide our employees with stability in their everyday life and develop their competence over the years, thereby improving the Group's competitiveness.

As at the end of 2019, over 97% of our employees were employed under permanent employment contracts and almost 3% under fixed-term employment contracts. Group also offers an option to work part-time in response to employees' wishes and opportunities. As at the end of 2019, over 18% of our employees worked part-time (2018: 16%). The popularity of part-time working has grown year by year in Group, in 2019 remarkable growth also can be noticed.

97.2%



■ Permanent employment contracts



■ Employees worked full-time

18.3%

Part-time

employees

Tallinna Kaubamaja Grupp AS

4,273

Valuing development opportunities

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

TRAINING PROGRAMMES

MENTOR PROGRAMMES DEVELOPMENT OF MANAGERIAL COMPETENCES INCLUSION OF DISABLED PERSONS CREATION OF PRACTICE OPPORTUNITIES

Employees are offered specialised refresher trainings in Estonia as well as abroad. The Group's total number of training hours reached to 14.3 thousand in 2019. Somewhat decreased the number of training hours per employee, which was on an average 3.4 hours in 2019 (2018: 4.6). 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.

14.3 th

Training hours in total

(2018: ca 19.9 th)

3.4 hour

Training hours per employee

(2018: 4.6)

55

Practice opportunities for young interns

(2018:71)

Kaubamaja's internal training offers high-level service and teamwork training. Systematic management of service, where training, evaluation and feedback form an integral whole, enabled Kaubamaja to maintain and improve the level of service in 2019. 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 2019, a total of 1,270 employees participated in the internal training programmes of Selver. Our mentoring system, which was introduced last year, functions well and helps to reduce the turnover of employees, ensure a good training of new employees and facilitate their induction to the company. At Selver, internal training is carried out by store managers and specialists of various areas. The internal trainers contribute to the induction process of new employees as well as refresh the knowledge of experienced employees.

In companies, the focus is still on the development of managerial competences. In 2019, the managers of Kaubamaja underwent a development programme for managing objectives. For the first time, we held a practical and meaningful service conference, in which more than 100 service employees took part. In order to provide to the management team and specialists of the Group an opportunity to take part in the Nordic Business Forum, one of the best business conferences in the world, the means were found for watching live transmission of the conference over a video bridge.

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

To ensure a new generation of employees, Group has offered students various practical training opportunities. In 2019, we offered practical training opportunities to a total of 55 young interns. Our Group's companies cooperate closely with vocational institutions and other educational institutions all over Estonia by offering them a place of apprenticeship and being a cooperation partner in training. We have also helped our employees that are still studying in writing their course and final papers by offering them the opportunity to use the Group's companies as their object of research. This approach helps the Group's companies to raise the next generation of forward-looking people that appreciate development.

In 2019, 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, 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 2019, there were a total of 62 occupational accidents in the Group (2018: 44).



We organise joint events that build a foundation for a good atmosphere and cooperation in teams. In 2019, 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 Christmas receptions at Niguliste Museum and Estonian National Museum in Tartu, inviting all the employees of the company. In summer, joint summer days were held in Viljandi County.

The Group promotes healthy lifestyle among its employees by increasing their knowledge of how to care for their health and creating a safe and healthy working environment, providing opportunities to be involved in sports, for recreational activities and healthy lunch and rest breaks in a comfortable environment (rest areas), using the family physician service and blood pressure measuring devices, massage stools and massage services. The Group's employees can use individual and team sports opportunities. Our teams participate in various non-professional sports events. We support healthy lifestyle among employees and offer the employees benefits related to taking care of their family and health. Health weeks for employees take place, where many health specialists and experts present their suggestions and share their knowledge.

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

Labour costs

Group's labour costs increased altogether 8.0% (wage costs and social tax cost), which was 73.1 million euros in 2019. The average labour cost per employee was 1 080 euros in 2019, growing by 8.8% compared to 2018. 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 2017, 2018 and 2019 (in millions euros)



Complying with human rights and responsible procurement

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

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

PRODUCT-SPECIFIC QUALITY REQUIREMENTS

NON-DISCRIMINATION PRINCIPLES

HONOURING OF LABOUR AND HUMAN RIGHTS

In 2019, over 2,900 suppliers provided products to Group. 77% of suppliers of Tallinna Kaubamaja Group are local businesses. 41% of the goods are of domestic origin, the corresponding figure is 62% for food products.

In terms of social responsibility, 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 2.9% of all purchases in 2019.

2,900 Suppliers in total

(2018: ca 3,000)

77%
Purchases via domestic suppliers

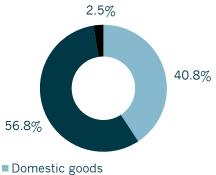
(2018: 74%)

41%

Goods of local origin

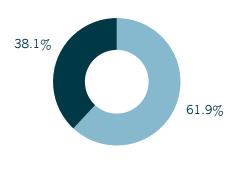
(2018: 42%)

Tallinna Kaubamaja Group origin of products in 2019



- Domestic good
- Foreign goods
- Goods from high social risk countries

Tallinna Kaubamaja Group origin of food products in 2019



- Domestic food products
- Foreign food products

Private label products

1.0% of products purchased by Group are private label products, 12.7% of which have been purchased from high social risk countries. The volume of high-risk products varies depending on product category; it is higher for textile products and consumer goods and lower for food products.

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

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

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

Traceability and origin of products

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

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

We are aware of our clients' growing preference to consume primarily domestic production and groceries. To meet this expectation, we have been increasing the selection of domestic goods in our department stores and stores every year. In 2019, goods of local origin accounted for almost 41% 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 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. 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 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 2019, there were 56 product recall incidents in the Group's companies, (2018: 31 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 2019, there was 1 such incident (2018: 2 incidents).

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

Environment

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

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

In its activities, the 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 the 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, the Group companies have committed themselves to the continuous collection of environmental information. The obtained data serve as a basis for preparing the Group's eco-balance, which gives us a more detailed overview of both the consumed energy resources as well as the generated waste. The table below highlights the energy and water consumption figures of the sales premises of the Group, the amount of waste generated, the carbon emission, and the expenses with an environmental impact.

Tallinna Kaubamaja Group Ecobalance *Consumption and costs per square meter of selling space	2 017	2 018	2 019
Electricity consumption (KWh/m2)	343	340	324
Consumption of heating energy (KWh/m2)	145	157	148
Consumption of reactive energy (Kvarh/m2)	68	71	76

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

An important factor in more sustainable energy consumption is the energy-efficient lighting or our department stores and stores. We have gradually replaced the previously used lighting systems for more efficient LED solutions. When designing the lighting solutions, we take into account the placement of the room, interior fittings, as well as the goods to reduce the lighting, still ensuring sufficient light throughout the store. Based on the above, we have already achieved notable efficiency in energy costs and we will continue this process in 2020.

The energy-efficiency of cooling and refrigerating systems in the Group's department stores and stores has notably

increased. To achieve this, we are gradually introducing new, CO₂-based cooling and refrigerating systems to replace the older freon-based equipment. In addition to notably smaller energy consumption, using these devices also poses a significantly lower risk to our environment. Furthermore, installing glass doors and covers on the stores' cooling shelves, showcases and chest refrigerators helps to ensure energy efficiency.

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

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.

The Group prefers environmentally friendly packaging and offers alternatives to plastic materials. In 2019, special attention was paid to reducing the use of plastic bags in stores; during the year, more than 1 million less plastic bags have been circulated from the Group's stores than in 2018. 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 132 thousand pieces were sold in 2019, which is 18% more than the year before. Notable increase can also be seen in the purchases of paper bags, with more than 3,254 thousand bags sold last year, being 52% 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. In 2020, Selver plans to replace existing food boxes with new, greener ones made from recycled and biodegradable materials.

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

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

Fighting corruption

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







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

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

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

In combating corruption, we proceed from the following principles:

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

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

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

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

Corporate Governance Report

The Corporate Governance (CG) is a set of guidelines and recommended rules, which is intended to be observed mainly by publicly traded companies. Tallinna Kaubamaja Group follows largely the Corporate Governance Code despite their indicative nature. Below is a description of the management principles of Tallinna Kaubamaja Group and general meetings held in 2019 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 2019 and through a daily newspaper Eesti Päevaleht on 26 February 2019. 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 2019.

The general meeting of shareholders of Tallinna Kaubamaja Group was held in the conference centre of Sokos Viru Hotel, Viru väljak 4, Tallinn, on 21 March 2019 beginning at noon. 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 2019 was Estonian and the meeting was chaired by the general counsel of the Tallinna Kaubamaja Group Helen Tulve. The meeting was also attended by members of Supervisory Board Jüri Käo, Andres Järving and Enn Kunila, Management Board member Raul Puusepp and auditors Tiit Raimla and Diana Tamme from PricewaterhouseCoopers AS. 73.18% of the votes represented by shares were present at the general meeting. At the general meeting, allocation of profit was discussed as a separate topic and a separate resolution was adopted with regard to it.

The articles of association of Tallinna Kaubamaja Group do not provide it expedient to use the internet to organise its monitoring and participation in the general meeting, as shareholders of the company have not considered it necessary so far and as a result, the Group has lacked appropriate technical equipment. However, given the widespread use of technology, we are keen to offer our shareholders conditions that are more diverse and we are considering the electronic participation. The general meeting of Tallinna Kaubamaja Group must take part in person and, in accordance with the articles of association, the general meeting may adopt resolutions if the general meeting is attended by shareholders who hold more than half of the votes represented by shares.

Considering the aforementioned descriptions of general meetings held in 2019, 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 Group 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 2019 to the Chairman of the Management Board amounted to 281 thousand euros (in 2018, 278 thousand euros) and the calculated fees, including social security taxes, amounted to 127 thousand euros (for 2018 the performance pay, including social security taxes, in amount of 140 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 2019 and 2018. 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 2019, 12 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2018, 12 scheduled meetings and 1 extraordinary meeting was held. In 2019, the Chairman of the Supervisory Board and two Supervisory Board members attended all 13 Supervisory Board meetings and two 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 2019, the remuneration for the members of the Supervisory Board, payroll tax included, was 166 thousand euros, of which the remuneration of the Chairman of the Supervisory Board was 38 thousand euros (in 2018, 134 thousand euros, of which the remuneration of the Chairman of the Supervisory Board was 31 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 31.12.2019 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.

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 2019, the financial auditor of the financial year 2019 was AS PricewaterhouseCoopers (PwC).

During 2019, the auditor of the Group has provided to the Group a limited assurance engagement in respect of packaging report, tax advice and some other advisory services that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia. In our opinion, the financial audit conducted in 2019 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 85-91.

Audit Committee

The Audit Committee is a body established by the Supervisory Board, the task of which is advising the Supervisory Board in supervision issues. For this purpose, the Audit Committee exercises supervision in the following areas:

- adherence to accounting principles;
- preparation and approval of the financial budget and reporting;
- independence, sufficiency and legality of performing an external audit;
- effectiveness of an internal control system and risk management;
- monitoring of the legality of the Group's operations.

In performing its tasks, the Audit Committee collaborates with the Supervisory Board, the Management Board, internal and external auditors and if necessary, external experts.

The Audit Committee has 5 members, who are appointed by the Supervisory Board for three years. In 2019, 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.

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

Chairman's confirmation of and signature to the management report

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

Raul Puusepp

Chairman of the Management Board

Tallinn, 21 February 2020

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 2019 as set out on pages 35-84.

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, 21 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2019	31.12.2018
ASSETS			
Current assets			
Cash and cash equivalents	5	40,629	37,235
Trade and other receivables	6	16,904	16,093
Inventories	8	78,305	78,212
Total current assets		135,838	131,540
Non-current assets			
Long-term trade and other receivables	11	114	113
Investments in associates	10	1,721	1,738
Investment property	12	60,458	59,866
Property, plant and equipment	13	319,192	212,687
Intangible assets	14	4,990	5,133
Total non-current assets		386,475	279,537
TOTAL ASSETS		522,313	411,077
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	15	46,448	26,002
Trade and other payables	17	89,831	90,775
Total current liabilities		136,279	116,777
Non-current liabilities			
Borrowings	15	157,876	68,313
Provisions for other liabilities and charges		322	370
Total non-current liabilities		158,198	68,683
TOTAL LIABILITIES		294,477	185,460
Equity			
Share capital	19	16,292	16,292
Statutory reserve capital		2,603	2,603
Revaluation reserve		93,496	95,587
Currency translation differences		-149	-149
Retained earnings		115,594	111,284
TOTAL EQUITY		227,836	225,617
TOTAL LIABILITIES AND EQUITY		522,313	411,077

The notes presented on pages 40-84 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	Note	2019	2018
Revenue	20	717,223	681,181
Other operating income		5,113	1,494
Cost of sales	8	-535,410	-507,182
Other operating expenses	21	-41,917	-56,033
Staff costs	22	-73,113	-67,710
Depreciation, amortisation and impairmellosses	nt 13,14	-30,743	-13,426
Other expenses		-715	-992
Operating profit		40,438	37,332
Finance income	23	1	1
Finance costs	23	-2,982	-810
Finance income on shares of associates	10	203	214
Profit before income tax		37,660	36,737
Income tax expense	18	-6,523	-6,299
NET PROFIT FOR THE FINANCIAL YEAR		31,137	30,438
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss)		
Revaluation of land and buildings	13	0	15,266
Other comprehensive income for the financia year	al	0	15,266
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		31,137	45,704
Basic and diluted earnings per share (euros)	24	0.76	0.75

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

The notes presented on pages 40 \cdot 84 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		31,137	30,438
Adjustments:			
Interest expense	23	2,982	810
Interest income	23	·1	-1
Depreciation, amortisation and impairment losses	13,14	30,632	13,329
Gain from fair value adjustment of investment property		-359	-42
Loss on sale and write-off of non-current assets	13	111	97
Profit on sale of non-current assets	13	-3,849	-398
Profit on sale of investment property	12	0	-39
Effect of equity method	10	-203	-214
Income tax on dividends paid	18,19	6,452	6,249
Change in inventories Change in receivables and prepayments related to	8	-287	-2,026
operating activities	6	-812	36
Change in liabilities and prepayments related to	· ·	007	E 016
operating activities	17	-997	5,216
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		64,806	53,455
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment (excl. finance lease)	13	-22,598	-15,991
Proceeds from sale of property, plant and equipment	13	5,597	9,723
Purchase of investment property	12	-111	0,729
Proceeds from sale of investment property	12	0	676
Purchases of intangible assets	14	-585	-95
Dividends received	10	220	200
Interest received	23	1	1
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-17,476	-5,486
CACH FLOWC FROM FINIANCING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from borrowings	15	25,246	84,060
Repayments of borrowings	15 15	-25,652	-92,838
Change in overdraft balance	15	9,785	-457
Payments of principal or leases	15	-14,970	0
Interest paid on lease liabilities	15	-2,031	0
Dividends paid	19	-28,917	-28,102
Income tax on dividends paid	18,19	-6,452	-6,249
Interest paid	23	-945	-810
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-43,936	-44,396
TOTAL CASH FLOWS	,	3,394	3,573
TOTAL GASHTEONS		3,334	3,373
Cash and cash equivalents at the beginning of the period	5	37,235	33,662
Cash and cash equivalents at the end of the period	5	40,629	37,235
Net change in cash and cash equivalents	Ú.	3,394	3,573

The notes presented on pages 40 \cdot 84 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Revaluation reserve	Currency translation differences	Retained earnings	Total
Balance as of 31.12.2017	16,292	2,603	82,124	-255	107,252	208,016
Net profit for the reporting period	0	0	0	0	30,438	30,438
Revaluation of land and buildings	0	0	15,266	0	0	15,266
Currency translation differences	0	0	0	106	-106	0
Total comprehensive income for the reporting period	0	0	15,266	106	30,332	45,704
Reclassification of depreciation of revalued land and buildings	0	0	-1,803	0	1,803	0
Dividends paid	0	0	0	0	-28,103	-28,103
Balance as of 31.12.2018	16,292	2,603	95,587	-149	111,284	225,617
Balance as of 01.01.2019	16,292	2,603	95,587	-149	111,284	225,617
Adjustment on the adoption of IFRS 16	0	0	0	0	0	0
Balance as of 01.01.2019 restated	16,292	2,603	95,587	-149	111,284	225,617
Net profit for the reporting period	0	0	0	0	31,137	31,137
Total comprehensive income for the reporting period	0	0	0	0	31,137	31,137
Reclassification of depreciation of revalued land and buildings	0	0	-2,091	0	2,091	0
Dividends paid	0	0	0	0	-28,918	-28,918
Balance as of 31.12.2019	16,292	2,603	93,496	-149	115,594	227,836

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

The notes presented on pages $40 \cdot 84$ 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 Grupp 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 21 February 2020 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 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The consolidated financial statements have been prepared under the historical cost convention, except for land and buildings that have been revalued and are reported under the revaluation method as described in the respective accounting policies, as well as investment property, which is reported at fair value.

The functional and presentation currency of Tallinna Kaubamaja Group is euro. All amounts disclosed in the financial statements have been rounded to the nearest thousand unless referred to otherwise.

In preparing the consolidated financial statements, the following accounting policies applied to all periods presented in the financial statements have been used, unless referred to otherwise.

In accordance with International Financial Reporting Standards, management needs to make accounting estimates in certain areas. They also need to make decisions in respect of the adoption of the Group's accounting policies. The areas in which the importance and complexity of management's decisions have a greater impact or in which the consolidated financial statements largely depend on assumptions and estimates, are disclosed in Note 3.

Adoption of New or Revised Standards and Interpretations

Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2018.

The Group has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements. The effect from application of IFRS 16 on the Group's financial statements as at 1 January 2019 is disclosed below.

Changes in accounting policies on initial application

The Group has adopted IFRS 16 "Leases" retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. Therefore, the information about the comparatives for the 2018 reporting period are presented under the previous leasing standard IAS 17 and respective interpretations. The cumulative effect of initially applying this standard has been recognised as an adjustment to the opening balance of retained earnings at the date of initial application. There was no impact on retained earnings as at 01.01.2019.

On initial application the Group recognised right-to-use asset in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. The Group measured the lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at the date of initial application, i.e. 1st of January 2019. On initial application, the Group applied the following weighted average lessee's incremental borrowing rates to the lease liabilities: 1.49% for premises.

Practical expedients on initial application

As a practical expedient, the Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application.an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 "Leases" and Interpretation 4 "Determining whether an Arrangement contains a Lease".

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard for leases previously classified as operating leases:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- a lessee may rely on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application;
- not to apply the requirements of IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application,
- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application. This resulted in measurement adjustments in the amount of 109,282 thousand euros due to variable lease payments that are based on an index or rate.

Measurement of lease liabilities on initial application

Lease liabilities that are recognised in the statement of financial position on initial application, are presented below:

In thousands of euros

Future minimum lease payments in relation to non-cancellable operating leases as at 31 December 2018 (IAS 17)	120,437
(Less): short-term leases not recognised as a liability	-870
Discounted using the lessee's incremental borrowing rate of at the date of initial application 1.49%	109,282
Effect from discounting using the lessee's incremental borrowing rate at the date of initial application	-10 285
Lease liability recognised in the statement of financial position as at 1 January 2019 (IFRS 16)	109,282

Measurement of right-of-use assets on initial application

On initial application as at 01 January 2019, the Group has measured the associated right-of-use asset at the amount equal to the lease liability.

Adjustments recognised

The Group has recognised in the statement of financial position the following adjustments as at 1 January 2019:

In thousands of euros

Right-of-use assets – increase	109,282
Lease liabilities – increase	109,282
The net impact on retained earnings (-loss) on 1 January 2019	0



Accounting principles - Group as a lessee and lessor from 1 January 2019

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.

Right-of-use asset is recorded on the separate line in the statement of financial position.

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 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.

For a contract that contains a lease component and one or more additional non-lease components. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

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 insubstance 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 and vehicles.

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 - accounting principles until 31 December 2018

Finance and operating leases

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

The Group as the lessee

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

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

Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 01. January 2019.

Prepayment Features with Negative Compensation - Amendments to IFRS 9

(effective for annual periods beginning on or after 1 January 2019).

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. Group assesses that there is no impact of application of the amendments to its financial statements.

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

(effective for annual periods beginning on or after 1 January 2019).

The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. Group assesses that there is no impact of application of the amendments to its financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2019 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 2020, and which the Group has not early adopted.

Definition of materiality - Amendments to IAS 1 and IAS 8

(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

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; not yet adopted by the EU).

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; not yet adopted by the EU).

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.

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

Disclosures about the primary statements of the Parent

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

Foreign currency transactions

Functional and presentation currency

The financial statements of Group entities have been prepared in the currency of the primary economic environment of each entity (functional currency), that being the local currency. The functional currency of the Parent and its subsidiaries registered in Estonia is euro. The consolidated financial statements have been prepared in euros.

Accounting for foreign currency transactions

Foreign currency transactions are recorded based on the foreign currency exchange rates of the central bank prevailing on the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency have been translated using the foreign currency exchange rates of the central bank prevailing on the balance sheet date. Profits and losses from foreign currency transactions are recognised in the income statement as income or expenses of that period.

Financial statements of foreign entities

The exchange rate differences that have arised from the time when subsidiaries had different functional currency, are reported in the equity item "currency translation differences". Upon the disposal of foreign subsidiaries, the amounts reported in the equity item "currency translation differences" are recognised in profit or loss of the financial year.

Principles of consolidation

Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of acquisition is measured as the fair value of consideration paid upon acquisition (i.e. assets transferred, liabilities incurred and equity instruments issued by the acquirer for the purpose of acquisition) plus fair value of assets and liabilities of contingent consideration. Costs directly attributable to the acquisition are recorded as expenses. Acquired and separately identifiable assets, liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values on the date of acquisition The Group chooses for each business combination whether to account for non-controlling interest at fair value or proportionally to net assets.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

In preparing consolidated financial statements, the financial statements of all the subsidiaries under the control of the Parent are combined on a line-by-line basis. The receivables, liabilities, income, expenses and unrealised profits which arise as a result of transactions between the Parent and its subsidiaries are eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Associates

Associate is an entity in which the Group has significant influence, but which it does not control. Significant influence is generally presumed to exist when the Group holds between 20% and 50% of the voting power of the investee.

In the consolidated financial statements, investments in associated are carried using the equity method; under this method, the initial investment is adjusted with the profit/loss received from the entity and the dividends collected.

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

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

Segment reporting

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

Cash and cash equivalents

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

Financial assets

Classification

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

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

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

Recognition and derecognition

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

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

Measurement

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

Debt instruments

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

As at 31 December 2018 and 31 December 2019 and during 2019, all the Group's financial assets were classified in this category.

Equity instruments

The Group has no investments in equity instruments.

Impairment of financial assets

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

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

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

The Group measures loss allowances as follows:

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



Inventories

Inventories are initially recognised at cost which includes the purchase price, the related customs duties and other non-refundable taxes and costs of transportation directly attributable to the acquisition of inventories, less any discounts and volume rebates. The FIFO method is used to account for the cost of industrial goods inventories and the cost of food products. In the car trade segment, the cost of spare parts is recognised by means of the weighted average acquisition cost method and that of cars is recorded on individual cost basis. Inventories are measured in the balance sheet at the lower of acquisition/production cost and net realisable value. The net realisable value is the estimated sales price less estimated expenditures for completion and sale of the product.

Investment property

The property (land or a building) held by the Group for earning long-term rental yields or for capital appreciation, rather than it its own operations, is recorded as investment property. Investment property is initially recognised in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would have not taken place). Investment property is subsequently measured at fair value, based on the market price determined annually, based on the prices of recent transactions involving similar items (adjusting the estimate for the differences) or using the discounted cash flow method. Changes in fair value are recorded under the income statement items "Other operating expenses"/"Other operating income". No depreciation is calculated on investment property recognised at fair value.

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

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

Property, plant and equipment

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

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

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

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

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

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

The straight-line method is used for determining depreciation. The depreciation rates are set separately for each

item of property, plant and equipment depending on its useful life. The ranges of useful lives for the groups of property, plant and equipment are as follows:

Land and buildings

- Land is not amortised.

Buildings and facilities 10-50 years incl. improvements of buildings 12-23 years

- 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:

Beneficial contracts
 Trademark
 Development expenditure
 5.5 years
 5 years

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

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

Impairment of assets

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

Goodwill

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

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

Financial liabilities

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

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

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

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

Provisions and contingent liabilities

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

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

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

contingent liabilities in the notes to the financial statements.

Corporate income tax and deferred corporate income tax

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

Group's Estonian entities

In accordance with applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on profits. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. As of 01 January 2015 the current tax rate is 20/80 on the amount paid out as net dividends. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account. As income tax is paid on dividends and not on profit, no temporary differences arise between the tax bases of assets and liabilities and the carrying amounts of assets and liabilities which may give rise to deferred income tax assets and liabilities.

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

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

Corporate income tax in Lithuania

In Lithuania, corporate profits are subject to income tax. The corporate income tax rate is 15% in Lithuania on taxable income. Taxable income is calculated by adjusting profit before tax for permanent and temporary differences as permitted by local tax laws.

For Lithuanian subsidiaries, the deferred income tax assets and liabilities are determined for all temporary differences between the tax bases of assets and liabilities and their carrying amounts on the balance sheet date. Deferred corporate income tax on calculated on the basis of tax rates applicable on the balance sheet date and current legislation, expected to prevail when the deferred tax assets are settled. Deferred tax assets are recognised in the balance sheet only when it is probable that future taxable profit will be available against which the deductions can be made.

Corporate income tax in Latvia

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

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

Revenue recognition

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

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision. As at 31.12.2018 and 31.12.2019 there is no material guarantee provision.

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

Sale of goods - wholesale

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

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

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision. As at 31.12.2018 and 31.12.2019 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 income statement of the period in which the change occurred.

The areas requiring key management judgments and estimates which have a direct impact on the amount reported in the financial statements are as follows:

- Determination of the revalued value of land and buildings: the Group accounts for land and buildings using the revaluation method. For this purpose, management regularly evaluates whether the fair value of revalued non-current assets does not significantly differ from their carrying amount. Management uses internal and external expert opinions to determine the fair value of revalued non-current assets, whereby the estimates of external experts for every object are used at least every 4 years.
- As a result of the valuation performed in the reporting period the land and buildings located in Estonia (carrying value: 162,545 thousand euros as at 31.12.2019) were not revalued. As a result of the valuation performed in the 2018 the value of land and buildings located in Estonia (carrying value: 165,179 thousand euros as at 31.12.2018) increased by 14,280 thousand euros, which was identified through other comprehensive income and through profit and loss by 171 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. As a result of the valuation performed in 2018, the value of land and buildings located in Latvia (carrying value: 3,520 thousand euros as at 31.12.2018) increased by 986 thousand euros, which was identified through other comprehensive income. For the land and buildings located in Lithuania with carrying value of 1,877 thousand euros as at 31.12.2019 (31.12.2018: 1,877 thousand euros) the valuation did not reveal any significant differences between fair value and carrying value. As at 31.12.2019 the carrying value of land and buildings using revaluation method was 174,465 thousand euros (31.12.2018: 170,576 thousand euros). More detailed information is disclosed in Note 13.
- Assessment of impairment of buildings under construction: at each balance sheet date, the Group assesses whether any indications exist of possible impairment of buildings under construction. If such indications exist, an impairment test is also performed at each balance sheet date on assets that have been previously impaired. For estimation of the value, the items' value in use is determined. For determining the value in use, the discounted cash flow method is used. Internal and external valuers were used for determining the value in use. As a result of the impairment test performed in the end of 2019 and 2018 buildings under construction located in Estonia with carrying value of 8,644 thousand euros as at 31.12.2019 (carrying value: 6,768 thousand euros as at 31.12.2018) showed no significant differences between fair values and carrying value. The carrying value of the buildings under construction located in Latvia (carrying value: 7,289 thousand euros as at 31.12.2019) was not adjusted. For the buildings under construction located in Latvia (carrying value: 8,396 thousand euros as at 31.12.2018) the need for reversal of an impairment loss recognized in 2018 in the amount of 161 thousand euros of two object was identified and three objects were impaired in the amount of 184 thousand euros. Buildings under construction located in Lithuania with carrying value of 131 thousand euros as at 31.12.2019 (carrying value: 103 thousand euros as at 31.12.2018) showed no significant differences between fair values and carrying value in current period and 2018. 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. The fair value is determined for these cash-generating units where goodwill has been allocated to. 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 31.12.2019, the carrying value of goodwill was 3,260 thousand euros (31.12.2018: 3,260 thousand euros). In 2019 and 2018, no recognition of impairment of goodwill was necessary. More detailed information is disclosed in Note 14.
- Estimation of the useful lives of property, plant and equipment: the Group owns several retail space completed in the recent past, the useful lives of significant components of which have been estimated using the data of technical project documentation and historical data. Actual useful lives may differ from those initially estimated by management. Had the useful lives of properties been extended by 10%, the Group's depreciation cost for 2019 would have decreased by 338 thousand euros (327 thousand euros for 2018).

Note 4 Risk management and description of key risks

Managing risks associated with the Group's business is an important and integral part of the Group's management. The supervisory boards of companies supervise the whole process of risk management. The audit committee receives regular reporting on risk management, advises supervisory boards on supervisory activities and, as appropriate, makes proposals for the risk management process. The executive managements identify and assess risks, prepare risk management plans and make proposals for the allocation of resources to deal with the most important risks, if necessary. The internal audit department together with managements promote risk awareness and introduction of risk management into the processes and to the employees.

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

Management of financial risks

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

Financial assets of the Group comprise cash and cash equivalents (Note 5), trade receivables (Note 7), other short-term receivables (Note 6) and other long-term receivables (Note 11). All financial liabilities of the Group are gathered under the category "Other financial liabilities" and they include loan liabilities (Note 15), trade creditors (Note 17), interest payable, other accrued expenses and rental prepayments of tenants (Note 17).

Market risk

Foreign currency risk

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

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

Cash flow and fair value change interest rate risk

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

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

In 2019, the 6-month EURIBOR decreased from -0.238% at the beginning of the year to the year-end -0.324%. In the beginning of 2020, EURIBOR has been continued small decline. Business analysts estimate that EURIBOR will not rise in 2020 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 2019 (31 December 2018: 1 percentage point), the Group's financial cost would have increased by 990 thousand euros (2018: 989 thousand euros). Had the interest rates been 0.1 percentage point lower as at 31 December 2019, the Group's financial cost would have decreased by 99 thousand euros (as at 31 December 2018 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

	31.12.2019	31.12.2018
Interest rates in 3 months	15,254	8,765
Interest rates in 3.6 months	77,096	74,013
Total borrowings at floating interest rate	92,350	82,778
Total borrowings	204,324	94,315

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:

	31.12.2019	31.12.2018
Aa2	38,801	35,987
A3	673	32
Total	39,474	36,019

Credit rating is given to deposits. The data is from the website of Moody's Investor Service.

Due to the specific nature of retail sales, the Group is not exposed to any major credit risk. Possible credit risk related to receivables is primarily attributable to non-collection of rental income, but this risk does not represent a

major risk for the Group. As at 31 December 2019, the maximum credit risk arising from receivables is in the amount of 13,875 thousand euros (2018: 13,432 thousand euros).

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

	31.12.2019	31.12.2018
Not due	11,239	11,916
Incl. receivables from card payments	2,475	2,342
Incl. trade receivables	8,344	8,925
Incl. other receivables	420	649
Overdue < 3 months	2,434	1,273
Overdue 3 - 6 months	70	58
Overdue 6 - 12 months	23	40
Overdue > 12 months	109	145
Total receivables	13,875	13,432

The receivables arising from card payments are secured by the card payment agreement of Swedbank AS, ensuring the receipt of card payments during two banking days. Other receivables are secured by merchandise contracts and they do not carry credit risk because the Group's liabilities to the same contractual partners exceed the receivables due from them.

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

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

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

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

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

The discount on cash and bank accounts and receivables at 31 December 2019 on the basis of the principles described above was insignificant.

Liquidity risk

Liquidity risk is risk that the Group is unable to meet its financial liabilities due to cash flow shortages.

Liquidity, i.e. the existence of adequate financial resources to settle the liabilities arising from the activities of the Group is one of the priorities of Tallinna Kaubamaja Grupp AS. For more efficient management of the Group's cash flows, joint group accounts of the Parent and its subsidiaries have been set up at the banks which enable the members of the group accounts to use the monetary funds of the Group within the limit established by the Parent. In its turn, this group as a subgroup has joined the group account of NG Investeeringud OÜ. To manage liquidity risk, the Group uses different sources of financing, including bank loans, overdraft, regular monitoring of trade receivables and delivery contracts.

Cash flow forecasting is performed in the operating entities of the Group in and aggregated by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, at all times so that the Group does not breach borrowing limits or covenants.

Tallinna Kaubamaja Group has solid support from the financial sector to secure the liquidity and development process of the Group. According to the Group's experience, it is possible to obtain additional sources of funding with favourable interest rates, and also to refinance or extend existing loans if necessary.

Analysis of the Group's undiscounted financial liabilities by maturity dates:

In thousands of euros	< 3 months	3-12 months	1-3 years	3-5 years	after 5 years	Total 31.12.2019
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
In thousands of euros	< 3 months	3-12 months	1-3 years	3-5 years	after 5 years	Total 31.12.2018
Borrowings	2,003	24,791	16,523	53,558	0	96,875
Financial liabilities (Note 17)	74,058	0	0	0	0	74,058
Total	76,061	24,791	16,523	53,558	0	170,933

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2019 and 31.12.2018, have been used.

As at the end of the financial year, the Group had available funds in the amount of 40,629 thousand euros (2018: 37,235 thousand euros). The Group follows its established credit risk management strategy when investing its cash flow surplus. As at 31 December 2019, the Group had placed no deposits into the joint group account through its parent company NG Investeeringud OÜ (0 euros as at 31.12.2018 was deposited).

Working capital was negative by 441 thousand euros on 31 December 2019 (2018: positive 14,762 thousand euros). The negative change in working capital was caused by the addition of 15.4 million euros of short-term part of calculated lease liabilities resulting from the implementation of IFRS 16 Leases. The quick ratio of the Group (current assets minus inventories / current liabilities) decreased to 0.42 in 2019 also due to the increase in current liabilities associated with the implementation of IFRS 16. Excluding the impact of IFRS 16, the liquidity ratio would have improved to 0.48. In 2018, the respective indicator was 0.46. 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, change the nominal value of shares, issue new shares or sell assets to cover liabilities.

Following a common practice in retail business, the Group uses the debt to equity ratio, which is calculated as net debt to total equity, to monitor its proportion of capital. As at 31 December 2019, the ratio was 42% and compared to 31 December 2018 when the ratio was 20%, it has increased from 20% to 42% following the implementation of IFRS 16 Leases from 1 January 2019. Both ratios, net debt and total equity / net debt, increased by EUR 100.6 million after the recognition of non-current assets and lease liabilities. Compared to 2018, the debt ratio would have increased by 2 pp due to some increase in loan liabilities during the reporting period.

in thousands of euros

	31.12.2019	31.12.2018
Interest-bearing liabilities (Note 15)	204,324	94,315
Cash and cash equivalents (Note 5)	-40,629	-37,235
Net debt	163,695	57,080
Equity	227,836	225,617
Total equity and net debt	391,531	282,697
Debt to equity ratio*	42%	20%

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

Fair value of financial instruments

Management estimates that the carrying amount of the Group's financial assets and liabilities does not significantly differ from their fair value. Trade receivables and payables are short-term and therefore the management estimates that their carrying amount is close to their fair value. Most of the Group's long-term borrowings are based on floating interest rates, which change according to the market interest rate. According to management's opinion, the Group's risk margins have not significantly changed compared to the time when the loans were received and the Group's interest rates on borrowings correspond to market conditions. Based on the above, the management estimates that the fair values of long-term payables and receivables are an approximation of their carrying amount. To determine the fair value, a discounted cash flow analysis has been used, by discounting contractual future cash flows with current market interest rates that are available to the Group for using similar financial instruments. Fair value of financial instruments is level 3.

Note 5 Cash and cash equivalents

in thousands of euros

	31.12.2019	31.12.2018
Cash on hand	1,155	1,216
Bank accounts	38,257	35,006
Cash in transit	1,217	1,013
Total cash and cash equivalents	40,629	37,235

Note 6 Trade and other receivables

in thousands of euros

	31.12.2019	31.12.2018
Trade receivables (Note 7)	13,455	12,782
Other receivables form related parties (Note 26)	0	1
Other short-term receivables	385	614
Total financial assets from balance sheet line "Trade and other receivables"	13,840	13,397
Prepayment for inventories	2,190	2,008
Other prepaid expenses	837	633
Prepaid rental expenses	6	39
Prepaid taxes (Note 18)	31	16
Total trade and other receivables	16,904	16,093

Note 7 Trade receivables

in thousands of euros

	31.12.2019	31.12.2018
Trade receivables	10,629	10,157
Provision for impairment of trade receivables	-10	-7
Receivables from related parties (Note 26)	361	290
Credit card payments (receivables)	2,475	2,342
Total trade receivables	13,455	12,782

Note 8 Inventories

in thousands of euros

	31.12.2019	31.12.2018
Goods purchased for resale	77,156	77,418
Raw materials and materials	1,149	794
Total inventories	78,305	78,212

The income statement line "Cost of sales" includes the allowances and write-off expenses of inventories and inventory stocktaking deficit which in 2019 amounted to 11,896 thousand euros (2018: 11,798 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 2019, the allowance account amounted to 1,122 thousand euros (31.12.2018: 1,070 thousand euros).

The Group's cost of goods sold in 2019 amounted 535,410 thousand euros (2018: 507,182 thousand euros). The Group recognises as the "Cost of goods sold" the cost of purchased passenger cars, food and industrial goods, packing material, cost of finished goods, logistics and transportation, discount and write off of inventories.

Inventories have been partially pledged as part of the commercial pledge and a security deposit of inventories was set as a pledge for the financing agreements; information on pledged assets is disclosed in Note 25.

Note 9 Subsidiaries

Tallinna Kaubamaja Grupp AS as at 31.12.2019 consists of:

Name	Location	Area of activity	Ownership 31.12.2019	Year of acquisition or foundation
Selver AS	Estonia, Tallinn	Retail trade	100%	1996
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

In 2019 and 2018, there were no business combinations. In 2018, SIA Selver Latvia was liquidated. Ownership as at 31.12.2019 has remained the same as at 31.12.2018.

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

in thousands of euros

Subsidiaries:	Equity as at 31.12.2019	Voting rights 31.12.2019
Kaubamaja AS	13,934	100%
Selver AS	21,857	100%
Kulinaaria OÜ	6,318	100%
KIA Auto AS	7,110	100%
Tallinna Kaubamaja Kinnisvara AS	191,721	100%
Tartu Kaubamaja Kinnisvara OÜ	35,094	100%

Note 10 Investments in associates

Tallinna Kaubamaja Grupp AS has ownership of 50% (2018: 50%) interest in the entity AS Rävala Parkla which provides the services of a parking house in Tallinn.

in thousands of euros

	31.12.2019	31.12.2018
Investment in the associate at the beginning of the year	1,738	1,724
Profit for the reporting period under equity method	203	214
Dividends received	-220	-200
Investment in the associate at the end of the year	1,721	1,738

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

	31.12.2019	31.12.2018
Current assets	68	58
Non-current assets	3,483	3,521
Current liabilities	109	104
Revenue	575	605
Net profit	406	428

Note 11 Long-term trade and other receivables

in thousands of euros

	31.12.2019	31.12.2018
Prepaid rental expenses	53	53
Deferred tax asset	26	25
Other long-term receivables	35	35
Total long-term trade and other receivables	114	113

Note 12 Investment property

in thousands of euros

Carrying value as at 31.12.2017	49,902
Reclassification (Note 13)	10,559
Disposal	-637
Net gain from fair value adjustment	42
Carrying value as at 31.12.2018	59,866
Reclassification (Note 13)	111
Disposal	122
Net gain from fair value adjustment	359
Carrying value as at 31.12.2019	60,458

Investment properties comprise immovables improved with retail property and constructions in progress.

Retail property (Viimsi shopping centre and Tartu Kaubamaja Shopping Centre), which the Group maintains predominantly for earning rental income in Estonia, are partially classified as investment properties and partially as property, plant and equipment depending on the purpose those properties are used by Group companies. In Latvia, Rezekne the retail property is classified as investment property, as the Group maintains it for earning rental income.

In current year, renovation in the amount of 122 thousand euros was reclassified from property, plant and equipment to investment property. In 2018, three objects in Latvia were reclassified from property, plant and equipment to investment property in the amount of 9,388 thousand euros (Note 13). These are properties, which the Group maintains predominantly for earning rental income.

In 2019, Tartu Kaubamaja Shopping Centre renovation works were done in amount of 105 thousand euros (2018: 201 thousand euros) and Viimsi Center 6 thousand euros. Gas station at Peetri Selver was completed and classified as investment property at value of 970 thousand euros (Note 13). In the reporting period a land was sold in Harju county, in Peetri, Veesaare road 5.

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 2019 for three objects (in 2018 three objects), the opinion of a certified independent real estate expert was used for the discount and capitalisation rates of "Investment properties" in Estonia. Discount rates 8.5%-10.0% (2018: $8.5\%\cdot10.0\%$) depending on the location of the property and rental income growth rates 1.5-2.0% (2018: $1.5\%\cdot2.0\%$) 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 were used. The same expert provided an expert opinion with regard to the discount and capitalisation rates compared to 2018. The discount rate $8.5\% \cdot 10\%$ (2018: $9.0\% \cdot 11.0\%$) and rental income growth rates 1.0% - 2.5% (2018: $1.0\% \cdot 2.5\%$) 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 2019 in Estonia, the fair values of investment increased in the amount of 456 thousand euros. As a result of the valuation in 2018 in Estonia, the fair values of investment property increased in the amount of 97 thousand euros and decreased in the amount of 11 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. As a result of the valuation in 2018 in Latvia, the fair values of investment property increased in the amount of 670 thousand euros. Net fair value adjustment of investment property is recorded in the income statement line "Other operating income" in the amount of 359 thousand euros in 2019 (2018: 42 thousand euros).

Group management has prepared fair value sensitivity analysis for investment properties. Accordingly if rental

income would change +/.10% then the fair value of investment properties would change +5,944/.5,944 thousand euros (2018: +5,715/.5,715 thousand euros). If the discount rates used for determing fair value would change +/.0.5% then the fair value of investment properties would change -1,096/+1,125 thousand euros (2018: -1,055/+1,083 thousand euros).

The Group's investment properties carried at fair value as at 31.12.2019 and 31.12.2018 are measured at level 3.

In 2019, the Group's rental income on investment properties amounted to 3,790 thousand euros (2018: 3,523 thousand euros). Direct property management expenses in 2019 amounted to 1,236 thousand euros (2018: 1,124 thousand euros).

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

In thousands of euros	31.12.2019	31.12.2018
due in less than 1 year	3,617	3,898
due between 1 and 5 years	11,192	10,257
due after 5 years	3,535	6,264
Total	18,344	20,419

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

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Note 13 Property, plant and equipment

in thousands of euros

	Land and buildings	Right-of use- assets: retail properties	Machi- nery and equip- ment	Other fixtures and fittings	Construc- tion in progress and prepay- ments	Total
31.12.2017						
Cost or revalued amount	167,890	0	37,114	37,634	44,584	287,222
Accumulated depreciation and impairment	-4,582	0	-24,830	-25,330	-18,005	-72,747
Carrying value	163,308	0	12,284	12,304	26,579	214,475
Changes occurred in 2018						
Purchases and improvements	700	0	1,277	1,459	12,555	15,991
Reclassification among property, plant and equipment groups	5,379	0	3,146	3,638	-12,163	0
Reclassification to intangible assets (Note 14)	0	0	0	0	-140	-140
Reclassification to investment property (Note 12)	-9,388	0	0	0	-1,171	-10,559
Reclassification to inventory	0	0	-372	0	0	-372
Disposals	-10	0	-25	-5	-9,285	-9,325
Write-offs	-40	0	-22	-34	-1	-97
Decrease/increase in value through profit or loss	171	0	0	0	-23	148
Increase in value through revaluation reserve	15,266	0	0	0	0	15,266
Depreciation	-4,810	0	-3,529	-4,361	0	-12,700
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 (Note 1)	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	•	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	-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		-68	0	-111
Termination of right-of use-assets	0	-391		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		43,541	27,940	409,619
Accumulated depreciation and impairment	-4,778	-16,448		-29,381	-9,680	-90,427
Carrying value	174,465	99,126	13,181	14,160	18,260	319,192

Investments in non-current assets

The cost of investments done in 2019 amounted to 23,183 thousand euros (including purchases of property, plant and equipment in the amount of 22,598 thousand euros and purchases of intangible assets amounted to 585 thousand euros).

The cost of purchases of property, plant and equipment made in reporting period in the supermarkets business segment was 12,007 thousand euros. In the reporting period, computing technology for SelveEkspress self-service cashers and renewed store fittings were purchased. Renovated Pelgulinna Selver and Jõhvi Selver with renovated interior and larger than before store salesroom were reopened. Selver AS subsidiary Kulinaaria OÜ started construction of new production building and renovation work of existing production building.

The cost of purchases of property, plant and equipment in the business segment of department stores amounted to 1,643 thousand euros. In the reporting period renovation work was carried out and store fittings and computing technology was purchased.

The cost of purchases of property, plant and equipment in the reporting period was 1,484 thousand euros in the car trade business segment. In the reporting period, 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 490 thousand euros.

The cost of purchases of property, plant and equipment in the real estate business segment amounted to 6,974 thousand euros. In the reporting period the construction work of Peugeot sales office in Riga started and Škoda resale centre was opened. Additionally in Tallinn, Sõle 31, Kolde Selver construction work was carried out.

As of 31.12.2019 and 31.12.2018, Tallinna Kaubamaja Grupp AS companies had no commitments to purchase fixed assets.

At the year-end 2019, 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 stabilisation of global economy and growth the management of the Group reached to a point that the fair value of "Land and buildings" has not changed significantly. As a result of the evaluation of the property under "Land and buildings" located in Estonia, Latvia and Lithuania the change in the fair value was not identified in 2019.

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

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 (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset that are based on observable market data (that is, unobservable inputs) (Level 3).

The fair value of land and building is determined using valuation techniques. The valuation technique uses observable inputs as much as they are available and uses as little as possible Group Management's assessments. The land and buildings are classified as level 2 if all significant inputs which are basis for determining the fair value are observable. If one or more significant inputs are not based on observable market data, lands and buildings are classified as level 3.

To determine the value of "Land and buildings" located in Estonia, the valuations of a certified independent real estate expert were used in respect of three properties in 2019 (2018: 6 properties). The same expert also provided an expert opinion with regard to the discount and capitalisation rates in respect of 19 properties (2018: 18

properties). The discount rates used for estimation were $8.0\% \cdot 11.5\%$ (2018: $8.0\% \cdot 11.5\%$) depending on the location of the property and the rental growth rates were $1.0\% \cdot 2.5\%$ (2018: $1.0\% \cdot 2.5\%$). For the purpose of estimating the value of "Land and buildings", the rental agreements in force have been used for determining the input of the rental price, which management believes correspond to the market conditions.

For estimating the value of "Land and buildings" located in Latvia, the valuation of a certified independent real estate expert was used in respect of one property in 2019 (2018: one object). For determining the value of one property of "Land and buildings" located in Latvia as at 31.12.2019 (2018: one object), valuation of a certified independent real estate expert was used with regard to the discount and capitalisation rates used. The discount rate used for valuation was 9.0% (2018: 9.5%) and the growth rates of rental income were 2.5% (2018: 2.5%).

"Land and buildings" in Lithuania were purchased in 2017 at fair value. Therefore, no valuation was made to this object in 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 Decembe 2019	valliation	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	Price 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	Price 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	Price 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	Price 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	Price 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				
In thousands of euros	Fair value at 31 December 2018	Valuation method	Unobser- vable inputs	Range of unobservable inputs (eur)	Relationship of unobservable inputs to fair value
PPE items in Estonia, for which an expert opinion was provided	28,354	Discounted cash flow method	Price per square metre	6.0-13.1	The higher the price per square metre, the higher the fair value
PPE items in Estonia, for which estimates were provided by experts in respect of discount and capitalisation rates	136,825	Discounted cash flow method	Price per square metre	8.5-18.2	The higher the price per square metre, the higher the fair value
PPE items in Latvia, for which an expert opinion was provided	3,520	Discounted cash flow method	Price per square metre	7.45	The higher the price per square metre, the higher the fair value
Item in Lithuania	1,877	Purchased at fair value on 2017			
Total	170,576				

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:

31.12.2019 81,271 thousand euros

31.12.2018 83,527 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 items and the rest six objects (2018: 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 four item (2018: 2 objects) and the rest five objects (2018: 5 objects) were valued internally based on the value in use. For valuation purposes, the discount rates used were $8.5\% \cdot 12.5\%$ (2018: $11\% \cdot 12.5\%$) depending on the location of the item, and the growth of rental income rates were $1.0\% \cdot 1.5\%$ (2018: $1.0\% \cdot 1.5\%$). 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 2019 and 2018, the book value of Estonian "Buildings under construction" was not adjusted. Based on the results of valuation in 2019, the book value of Latvian "Buildings under construction" was not adjusted. In 2018, the impairment from previous years of "Buildings under construction" located in Latvia was reversed by 161 thousand euros which was recognized through profit and loss. An impairment in the amount of 184 thousand euros was recognised through profit and loss in respect of Latvian "Buildings under construction" in 2018.

"Buildings under construction" located in Lithuania with carrying value of 131 thousand euros as at 31.12.2019 (carrying value: 103 thousand euros as at 31.12.2018) 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 31.12.2019	31.12.2019	Number of items 31.12.2018	31.12.2018
PPE items in Estonia, for which an internal estimate was provided	2	2,549	0	0
Remaining PPE items in Estonia	6	595	10	6,605
PPE items in Latvia, for which an expert opinion was provided	11	5,499	2	163
PPE items in Latvia, for which an internal estimate was provided	4	3,585	2	816
PPE items in Latvia, for which pre-selling contracts concluded	5	3,704	5	7,580
PPE item in Lithuania	1	131	1	103
Total	29	16,064	20	15,267

As at 31.12.2019 the cost of fully amortized non-current assets (machinery, equipment and other fittings) in use was 35,522 thousand euros (2018: 34,409 thousand euros).

As at 31.12.2019, property, plant and equipment with the carrying value of 134,278 thousand euros (2018: 104,958 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 31.12.2019 the recoverable amount of the non-current assets of I.L.U. beauty stores (carrying value: 76 thousand euros, in 2018: 125 thousand euros) was estimated. The recoverable amount is based on the value in use, determined on the basis of the future cash flow forecast for the next 5 years. The average growth rate of I.L.U. is estimated to be 3.0% in 2020-2024 (2018: 2019 – 2023 is estimated to be 3.0%). In the end of 2019 I.L.U chain owned five stores. The sales growth was forecast on the basis of Group's long-term sales experience of beauty

products. The discount rate applied is 8.52% (2018: 8.5%) and the future growth rate (after year 5) is 2.5%. No impairment loss was identified as a result of the impairment test.

Note 14 Intangible assets

in thousands of euros

	Goodwill	Trademark	Development expenditure	Total
31.12.2017			-	
Cost	3,260	5,277	1,386	9,923
Accumulated amortisation and impairment	0	-3,583	-665	-4,248
Carrying value	3,260	1,694	721	5,675
Changes occurred in 2018				
Purchases and improvements	0	0	95	95
Reclassification (Note 13)	0	0	140	140
Amortisation	0	-497	-280	-777
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

In the reporting period, the Group capitalised costs of a web page update, locality card web page update and eshop as development expenditure in the amount of 585 thousand euros (2018: 95 thousand euros).

As a trademark, the Group has recognised the image of ABC King at 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 will be amortised during 15 years.

Trademark at value of 1,588 thousand euros was acquired in 2012 through purchase of AS Viking Motors shares. Trademark was amortised during 2019 year and removed from balance sheet.

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

Impairment tests of goodwill and other intangible assets were carried out as at 31 December 2019 and 2018.

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

in thousands of euros	31.12.2019	31.12.2018
Car trade	3,156	3,156
Department stores	104	104
Total	3,260	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		Footwear trade	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Operating profit margin during next 5 years	2.31% - 2.34%	3.87% - 4.09%	-3.65% - 5.05%	2.82% - 3.95%
Discount rate	6.45%	5.93%	8.1%	7.6%
Sales growth during next 5 years	1.6% - 3%	3% - 5%	3% - 11.4%	3% - 13.7%
Future growth rate*	2.5%	2.5%	2.5%	2.5%

^{*}Future growth rate is estimated cash flow growth after the fifth year.

Pre-tax discount rates reflecting the risks associated with the relevant business segment have been used. The used weighted average growth rates are based on the experience of the Group and assessment of the economic environment.

Management estimates that the assumptions used in the impairment test are realistic and rather conservative. Management estimates that any reasonable change in assumptions does not materially affect the results of value in use calculations.

Note 15 Interest bearing borrowings

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	31.12.2019	31.12.2018
Short-term borrowings		
Overdraft	17,140	7,354
Bank loans	12,480	16,424
Lease liabilities	15,371	0
Other borrowings	1,457	2,224
Total short-term borrowings	46,448	26,002
	31.12.2019	31.12.2018
Long-term borrowings		
Bank loans	72,549	68,202
Lease liabilities	85,259	0
Other borrowings	68	111
Total long-term borrowings	157,876	68,313
Total borrowings	204,324	94,315
Borrowings received		
	2019	2018
Overdraft	9,785	0
Bank loans	22,448	79,020
Other borrowings	2,798	5,040
Total borrowings received	35,031	84,060

Borrowings repaid

	2019	2018
Overdraft	0	457
Bank loans	22,046	87,965
Lease liabilities	14,970	0
Other borrowings	3,606	4,873
Total borrowings repaid	40,622	93,295

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 31.12.2019, the repayment dates of bank loans are between 27.03.2020 and 05.12.2024 (2018: between 28.01.2019 and 12.12.2023), 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 1.19% (2018: 1.06%).

Lease agreements that form lease liabilities have been concluded for the term of 07.03.2020 until 30.07.2035. 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 1.49%.

Also see Note 29.

Net debt reconciliation

in thousands of euros

	31.12.2019	31.12.2018
Cash and cash equivalents (Note 5)	40,629	37,235
Short-term borrowings	-46,448	-26,002
Long-term borrowings	-157,876	-68,313
Net debt	-163,695	-57,080
Cash and cash equivalents (Note 5)	40,629	37,235
Gross debt – fixed interest rates	-111,975	-11,537
Gross debt – variable interest rates	-92,349	-82,778
Net debt	-163,695	-57,080

	Cash and cash equivalents	Overdraft	Borrowings	Lease liabilities	Total
Net debt 31.12.2017	33,662	-7,811	-95,739	0	-69,888
Cash flow	3,573	457	8,778	0	12,808
Net debt 31.12.2018	37,235	-7,354	-86,961	0	-57,080
IFRS 16 initial application (Note 1)	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	1,351	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

Note 16 Lease agreements

Group is the lessee

Future minimum lease payments under non-cancellable operating leases as at 31.12.2018 were following:

in thousands of euros	31.12.2018
due in less than 1 year	17,815
due between 1 and 5 years	57,233
due after 5 years	45,389
Total	120,437

Future minimum lease payments under non-cancellable leases have been calculated taking into consideration non-cancellable periods of lease agreements and the growth of lease payments according to the terms and conditions set in agreements.

Lease agreements do not specify purchase options. Lease agreements contain a clause that rental prices are reviewed once a year according to the market situation or rental prices increase according to the percentage set in contracts.

The lease agreements of the Group as the lessee form the basis for one of its core activities – operation of stores. Therefore, the Group assumes that it will not terminate its lease agreements even if the conditions of agreements allow it under certain circumstances prior to the expiry of the agreement. Due to this, all lease agreements concluded for a specified term have been considered as non-cancellable agreements.

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019. On adoption of IFRS 16, the Group recognized fixed assets and lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. See Note 1.

Lease liabilities recorded in the Group's consolidated financial reports on initial adoption:

in thousands of euros

Future minimum lease payments in relation to non-cancellable operating leases as at 31 December 2018 (IAS 17)	120,437	
(Less): short-term leases not recognised as a liability	-870	
Discounted using the lessee's incremental borrowing rate of at the date of initial application as at 1 January 2019, which is 1.49%	109,282	
Incl. effect from discounting using the lessee's incremental borrowing rate at the date of initial application	-10 285	
Lease liability recognised in the statement of financial position as at 1 January 2019 (IFRS 16)	109,282	
- short-term lease liabilities	16 938	
- long-term lease liabilities	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	2019 (IFRS 16)
Interest expense (included in finance cost)	2,031
Expense relating to leases of low-value assets that are not short-term leases	305
Expense relating to short-term leases (included in operating expenses)	882
Depreciation charge for right of use assets	16,474
Income on subleases	2,385
The total cash outflow for leases in 2019 was	17,001

In 2018, lease expenses were recorded according to IAS 17 in the income statement under operating expenses as

rental expenses in the amount of 17,236 thousand euros (see Note 21).

Subleases of buildings leased under operating lease terms:

Future minimum lease payments under non-cancellable subleases:

in thousands of euros	31.12.2019	31.12.2018
within 1 year	2,447	2,444
between 1 and 5 years	6,777	7,533
after 5 years	771	1,712
Total	9,995	11,689

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	31.12.2019	31.12.2018
within 1 year	4,191	3,900
between 1 and 5 years	12,001	10,264
after 5 years	6,046	5,949
Total	22,238	20,113

Most lease agreements have been concluded for the term of 7 to 10 years and the changes in lease term and conditions are renegotiated before the end of the lease term. Lease agreements with no specified term are expected to be valid for at least 5 years from the conclusion of the agreement and are cancellable with a 1-3 month advance notice.

Note 17 Trade and other payables

in thousands of euros

	31.12.2019	31.12.2018
Trade payables	65,010	67,266
Payables to related parties (Note 26)	5,043	3,965
Other accrued expenses	183	145
Prepayments by tenants	2,956	2,682
Total financial liabilities from balance sheet line "Trade and other payables"	73,192	74,058
Taxes payable (Note 18)	7,226	8,089
Employee payables	7,293	6,916
Prepayments	2,113	1,630
Short-term provisions*	7	82
Total trade and other payables	89,831	90,775

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

Note 18 Taxes

in thousands of euros

	31.12.	31.12.2019		2018
	Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Prepaid taxes (Note 6)	31	0	16	0
Value added tax	0	2,941	0	4,022
Personal income tax	0	1,051	0	948
Social security taxes	0	2,840	0	2,737
Corporate income tax	0	79	0	74
Unemployment insurance	0	184	0	180
Mandatory funded pension	0	131	0	128
Total taxes	31	7,226	16	8,089

Group's deferred income tax asset as at 31 December 2019 and 31 December 2018 is recorded in the balance sheet in the amount of 26 thousand euros and 25 thousand euros respectively. As at 31 December 2019 and 31 December 2018 the Group did not have deferred income tax liabilities.

in thousands of euros

	2019	2018
Corporate income tax expense from payments to owners:		
- Dividends declared (Note 19)	6,452	6,249
Corporate income tax expense arising from foreign subsidiaries:		
- Corporate income tax payable	71	50
Total corporate income tax	6,523	6,299

Note 19 Share capital

As at 31.12.2019 and 31.12.2018, 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 2019, dividends were declared to the shareholders in the amount of 28,918 thousand euros, or 0.71 euros per share (2018: 28,103 thousand euros, 0.69 euros per share). Related income tax expense on dividends amounted to 6,452 thousand euros (2018: 6,249 thousand euros).

Information about contingent income tax liability which would arise from the distribution of profit is disclosed in Note 29.

Note 20 Segment reporting

The Group has defined the business segments based on the reports used regularly by the supervisory board to make strategic decisions.

The chief operating decision maker monitors the Group's operations by activities. With regard to areas of activity, the operating activities are monitored in the department stores, supermarkets, real estate, car trade, footwear trade, beauty products (I.L.U.) and security segments. The measures of I.L.U. and security segment are below the quantitative criteria of the reporting segment specified in IFRS 8; these segments have been aggregated with the department stores segment because they have similar economic characteristics and are similar in other respects specified in IFRS 8.

The main area of activity of department stores, supermarkets, footwear trade and car trade is retail trade. Supermarkets focus on the sale of food products and convenience goods, the department stores on the sale of

beauty and fashion products, the car trade on the sale of cars and spare parts. Among the others, in the car trade segment, cars are sold at wholesale prices to authorised car dealers. The share of wholesale trade in other segments is insignificant. The real estate segment deals with the development, management and maintenance of real estate owned by the Group, and with the rental of commercial premises.

The activities of the Group are carried out in Estonia, Latvia and Lithuania. The Group operates in all the five operating segments in Estonia. The Company is engaged in car trade and real estate development in Latvia and in Lithuania.

The disclosures of financial information correspond to the information that is periodically reported to the Supervisory Board. Measures of income statement, segment assets and liabilities have been measured in accordance with accounting policies used in the preparation of the financial statements. Main measures that Supervisory Board monitors are segment revenue (external segment and inter-segment revenue), EBITDA (earnings before interest, taxes, depreciation and amortisation) and net profit or loss.

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) Finance income on	302	419	0	1	81	-802	0	1
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)	-3,947	-635	-740	0	-1,201	0	0	-6,523
Net profit/loss	14,136	2,886	3,293	-1,159	13,485	0	-1,504	31,137
incl. in Estonia	14,136	2,886	2,831	-1,159	13,943	0	-1,504	31,133
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	79,320	43,809	28,125	9,248	87,326	-53,981	100,630	294,477
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

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

^{*-} corporate income tax is allocated based on which subsidiary bears income tax expense on distribution of dividends.

Inter-segment transactions in line segment assets comprise inter-segment receivables in the amount of 1,838 thousand euros (2018: 1,704 thousand euros), loans granted in the amount of 52,143 thousand euros (2018: 40,734 thousand euros) and investments in subsidiaries in the amount of 20,040 thousand euros (2018: 20,040 thousand euros).

Inter-segment transactions in line segment liabilities comprise inter-segment short-term liabilities in the amount of 1,838 thousand euros (2018: 1,704 thousand euros) and inter-segment borrowings in the amount of 52,143 thousand euros (2018: 40,734 thousand euros).

External revenue according to types of goods and services sold

in thousands of euros

	2019	2018
Retail revenue	651,598	620,048
Wholesale revenue	36,309	32,736
Rental income	10,260	9,737
Revenue for rendering services	19,056	18,660
Total revenue	717,223	681,181

External revenue by client location

in thousands of euros

	2019	2018
Estonia	662,977	637,332
Latvia	35,335	28,703
Lithuania	18,911	15,146
Total	717,223	681,181

Distribution of non-current assets* by location of assets

in thousands of euros

Total	384,754	277,799
Lithuania	2.113	2,075
Latvia	28,366	22,218
Estonia	354,275	253,506
	31.12.2019	31.12.2018

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

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

Note 21 Other operating expenses

	2019	2018
Rental expenses*	882	17,236
Heat and electricity expenses	7,650	7,576
Operating costs	7,478	7,394
Cost of services and materials related to sales	6,317	5,466
Marketing expenses	8,226	7,720
Miscellaneous operating expenses	3,996	3,770
Computer and communication costs	4,792	4,209
Personnel expenses	2,576	2,662
Total other operating expenses	41,917	56,033

^{*}Due to application of IFRS 16 from 01.01.2019, Group's rental expenses in the amount of 17,001 thousand euros have been reclassified as repayment of lease liabilities (Note 1 and Note 15, 16).

Note 22 Staff costs

in thousands of euros

	2019	2018
Wages and salaries	55,405	51,057
Social security taxes	17,708	16,653
Total staff costs	73,113	67,710
Average wages per employee per month (euros)	1,080	993
Average number of employees in the reporting period	4,273	4,283

Staff costs also include accrued holiday pay as well as bonuses for 2019 but not yet paid.

Note 23 Finance income and costs

in thousands of euros

Finance income

	2019	2018
Other finance income	1	1
Total finance income	1	1

Finance costs

	2019	2018
Interest expense of bank loans	-863	-703
Interest expense of lease liabilities	-2,031	0
Interest expense of other loans	-19	-31
Other finance costs	-69	-76
Total finance costs	-2,982	-810

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.

	2019	2018
Net profit (in thousands of euros)	31,137	30,438
Weighted average number of shares	40,729,200	40,729,200
Basic and diluted earnings per share (euros)	0.76	0.75

Note 25 Loan collateral and pledged assets

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

in thousands of euros

	31.12.2019	31.12.2018
Land and buildings	134,180	104,838
Other non-current assets	98	120
Investment property	42,327	54,298
Inventories	3,436	4,970
Financial assets	143	153

As at 31 December 2019 land and buildings in carrying value of 134,278 thousand euros (as at 31.12.2018 carrying value of 104,958 thousand euros) and investment property in carrying value of 42,327 thousand euros (31.12.2018: 54,298 thousand euros) was mortgaged. Inventories at balance sheet value of 3,436 thousand euros (as at 31.12.2018 at balance sheet value of 4,970 thousand euros) and financial assets at balance sheet value of 143 thousand euros (as at 31.12.2018 at balance sheet value of 153 thousand euros) were set under commercial pledge.

Note 26 Related party transactions

in thousands of euros

In preparing the consolidated annual report of Tallinna Kaubamaja Grupp AS, the following parties have been considered as related parties:

- 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). Majority shareholder of OÜ NG Investeeringud is NG Kapital OÜ. NG Kapital OÜ is the ultimate controlling party of Tallinna Kaubamaja Grupp AS.

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

	Purchases 2019	Sales 2019	Purchases 2018	Sales 2018
Parent company	280	50	325	16
Entities in the Parent company consolidation group	27,098	3,114	26,135	3,298
Members of management and supervisory boards	0	24	10	40
Other related parties	448	10	498	16
Total	27,826	3,198	26,968	3,370

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.

Balances with related parties:

	31.12.2019	31.12.2018
Receivables from entities in the Parent company consolidation group (Note 7)	361	290
Members of management and supervisory boards (Note 6)	0	1
Total receivables from related parties	361	291
	31.12.2019	31.12.2018
Parent company	19	19
Entities in the Parent company consolidation group	5,017	3,934
Other related parties	7	12
Total liabilities to related parties (Note 17)	5,043	3,965

Receivables from and liabilities to related parties, arisen in the normal course of business, are unsecured and carry no interest because they have regular payment terms.

Group account

For arranging funding for its subsidiaries, the Group uses the group account, the members of which are most of the Group's entities. In its turn, the Group as a subgroup is a member of the group account of NG Investeeringud OÜ (hereinafter head group). From 2001, Tallinna Kaubamaja Grupp AS has been keeping its available funds at the head group account, earning interest income on its deposits. During 12 months of 2019, the Group has not earned interest income on its deposits of available funds (2018: 0 euros).

As at 31 December 2019 and 31 December 2018 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 2,045 thousand euros (2018: 1,990 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 659 thousand euros (2018: 628 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 31.12.2019, 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

As at 31.12.2018, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja Grupp AS:

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

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

	31.12.2019	31.12.2018
Shareholders	Ownership interest	Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%
ING Luxembourg S.A.	2.85%	5.57%

As at 31 December 2019, 68.75% of the shares (31 December 2018: 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 2019, the retained earnings of Tallinna Kaubamaja Grupp AS were 115,594 thousand euros (31 December 2018: 111,284 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 93,802 thousand euros as dividends (31 December 2018: 89,589 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 21,792 thousand euros (31 December 2018: 21,695 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 73,788 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 2019, 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 2018 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 17,853 thousand euros (15,638 thousand euros at the end of 2018). AS Viking Motors is obliged to buy the vehicle back if the lessee and the leasing company do not wish to realise the preferential purchasing rights arising from their contract. The book value of the asset (repurchase price) is agreed according to the forecast mileage and the car brand. The Group management estimates that the probability of realisation of the obligation to buy back vehicles is low and the market price of vehicles is higher than the cost, so the obligation to buy back does not have a negative impact on the Group. In 2019 and 2018, the Group has not made any loss-making repurchases.

Note 30 Events occurring after the reporting period

Kaubamaja AS, a subsidiary of Tallinna Kaubamaja Grupp AS, renewed the existing lease contract with AS Viru Keskus for seven years, until 2028. Kaubamaja has been the largest tenant of Viru Keskus since its opening in 2004. In the beginning of 2018, Tallinna Kaubamaja Kinnisvara AS and AS MSI Grupp submitted to the Tallinn City Government an application for design specifications to construct new buildings on registered immovables at 2 Gonsiori tn and 6 Rävala pst. The city has currently suspended the proceedings for issuing design specifications and developers are awaiting decisions of the Tallinn Urban Planning Department regarding traffic changes planned in downtown to continue with development in the district.

Note 31 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

	31.12.2019	31.12.2018
ASSETS		
Current assets		
Cash and cash equivalents	0	5,599
Trade and other receivables	20,856	13,909
Total current assets	20,856	19,508
Non-current assets		_
Investments in subsidiaries	239,427	228,296
Investments in associates	1,721	1,738
Property, plant and equipment	66	68
Intangible assets	719	321
Total non-current assets	241,933	230,423
TOTAL ASSETS	262,789	249,931
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	3,370	125
Trade and other payables	1,151	1,001
Total current liabilities	4,521	1,126
Non-current liabilities		
Borrowings	25,000	25,000
Total non-current liabilities	25,000	25,000
TOTAL LIABILITIES	29,521	26,126
Equity		
Share capital	16,292	16,292
Statutory reserve capital	2,603	2,603
Retained earnings	214,373	204,910
TOTAL EQUITY	233,268	223,805
TOTAL LIABILITIES AND EQUITY	262,789	249,931

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2019	2018
Revenue	3,500	3,287
Other operating income	0	1
Other operating expenses	-594	-538
Staff costs	-3,206	-2,810
Depreciation, amortisation and impairment	-185	-170
Other expenses	-15	-19
Operating loss	-500	-249
Interest income and expenses	93	143
Profit from investments accounted for using the equity method	38,788	38,072
Total finance income and costs	38,881	38,215
Profit before income tax	38,381	37,966
NET PROFIT FOR THE FINANCIAL YEAR	38,381	37,966
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	38,381	37,966
Basic and diluted earnings per share (euros)	0.94	0.93

CASH FLOW STATEMENT

	2019	2018
CASH FLOWS FROM/USED IN OPERATING ACTIVITIES		
Net profit	38,381	37,966
Adjustments:	33,331	07,300
Interest expense	385	340
Interest income	-478	-483
	-38,788	-38,072
Profit from investments under equity method Depreciation, amortisation	185	170
Change in receivables and prepayments related to	245	-43
operating activities Change in liabilities and prepayments related to operating activities	150	89
TOTAL CASH FLOWS FROM/USED IN OPERATING ACTIVITIES	80	-33
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-28	-105
Interest received	478	483
Change in the receivable of group account	-3,183	-2,027
Investments in subsidiaries	-1,900	-1,142
Purchases of intangible assets	-553	0
Dividends received	28,935	28,120
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	23,749	25,329
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of borrowings	-125	-1,488
Interest paid	-385	-340
Dividends paid	-28,918	-28,102
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES	-29,428	-29,930
TOTAL CASH FLOWS	-5,599	-4,634
Cash and cash equivalents at beginning of the period	5,599	10,233
Cash and cash equivalents at end of the period	0	5,599
Net increase/decrease in cash and cash equivalents	-5,599	-4,634
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STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as of 31.12.2017	16,292	2,603	195,047	213,942
Dividends paid	0	0	-28,103	-28,103
Profit for the reporting period	0	0	37,966	37,966
Balance as of 31.12.2018	16,292	2,603	204,910	223,805
Dividends paid	0	0	-28,918	-28,918
Profit for the reporting period	0	0	38,381	38,381
Balance as of 31.12.2019	16,292	2,603	214,373	233,268

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



Independent auditor's report

To the Shareholders of Tallinna Kaubamaja Grupp AS

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tallinna Kaubamaja Grupp AS ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 21 February 2020.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.



To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59¹ of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Group in 2019 are disclosed in the management report.

Our audit approach

Overview



Materiality

Overall Group audit materiality is EUR 7.1 million, which represents approximately 1% of the Group's consolidated revenues. Specific materiality applied to property, plant and equipment and investment properties is EUR 5.2 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 7.1 million. Specific materiality of EUR 5.2 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 5.2 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 174.5 million (accounted for using the revaluation method) as at 31 December 2019. In 2019 there was no revaluation recognised for these assets as according to the Group's management estimate the fair values of these assets did not change during 2019. 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 60.5 million (carried at fair value). The gain from fair value adjustments recorded in 2019 profit or loss statement was EUR 359 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 18 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 (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, related safeguards.



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

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of Tallinn 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 11 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Tallinna Kaubamaja Grupp AS can be extended for up to the financial year ending 31 December 2028.

AS PricewaterhouseCoopers

Eva Jansen-Diener

Certified auditor in charge, auditor's certificate no.501

Doris Egel

Auditor's certificate no.680

21 February 2020

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

PROFIT ALLOCATION PROPOSAL

The retained earnings of Tallinna Kaubamaja Group AS are:

Total retained earnings 31 December 2019

115,594 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 29,732 thousand euros out of retained earnings accumulated until 31 December 2019.

Raul Puusepp/

Chairman of the Management Board

Tallinn, 25 February 2020

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2019

The supervisory board of Tallinna Kaubamaja Group AS has reviewed the 2019 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 2019 of Tallinna

Kaubamaja Group AS:

Raul Puusepp

Chairman of the Management Board

Jüri Kao

Chairman of the Supervisory Board

Andres Järving

Member of the Supervisory Board

Enn Kunila

Member of the Supervisory Board

Meelis Milder

Member of the Supervisory Board

Gunnar Kraft

Member of the Supervisory Board

Tallinn, 25 February 2020

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	2019
64201	Holding company's activities	3,500
	Total revenue	3,500