2022

TALLINNA KAUBAMAJA GRUPP AS

Annual Report

Translation of the company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/et/instrument/EE0000001105/reports).

Tallinna Kaubamaja Grupp AS

Consolidated Annual Report 2022

The main areas of activity of Tallinna Kaubamaja Grupp AS (hereinafter referred to as the 'Tallinna Kaubamaja Group' or 'the TKM Group' or 'the Group') are retail and wholesale trade. At the year-end 2022, the Group employed more than 4,600 employees.

Legal address:	*Kaubamaja 1, 10143 Tallinn* *Republic of Estonia*
Commercial Register no.:	*10223439*
Legal form of entity	*Public limited liability company*
Telephone:	*372 667 3300*
E-mail:	*tkmgroup@kaubamaja.ee*
Beginning of financial year:	*1.01.2022*
End of financial year:	*31.12.2022*
Auditor:	*PricewaterhouseCoopers AS*
Name of parent entity	*OÜ NG Investeeringud*
Name of ultimate parent of group	*NG Kapital OÜ*

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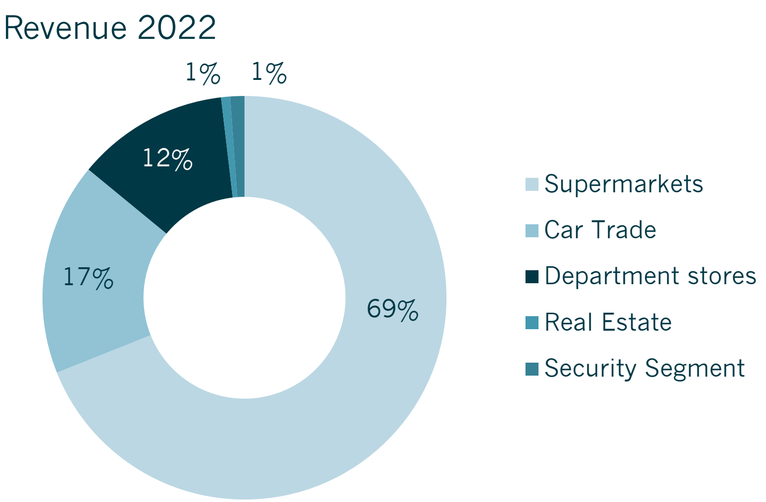
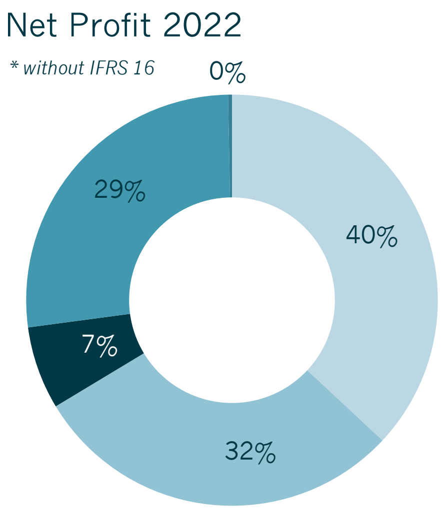
Management Report

Tallinna Kaubamaja Group is one of the biggest retail companies in Estonia. Our **4,600** employees serve customers in **91** stores, where **704,000** loyal customers make **48** million purchases a year.

862.8
Million euros
Revenue
(2021: 821.6 million euros)

29.5
Million euros
Net profit
(2021: 32.0 million euros)





72
Cents
Net profit per share
(2021: 79 cents)

4,697
Yearly average number
Employees
(2021: 4, 864)

Group's vision

The objective of The Group 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. The 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.
- 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 responsible 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

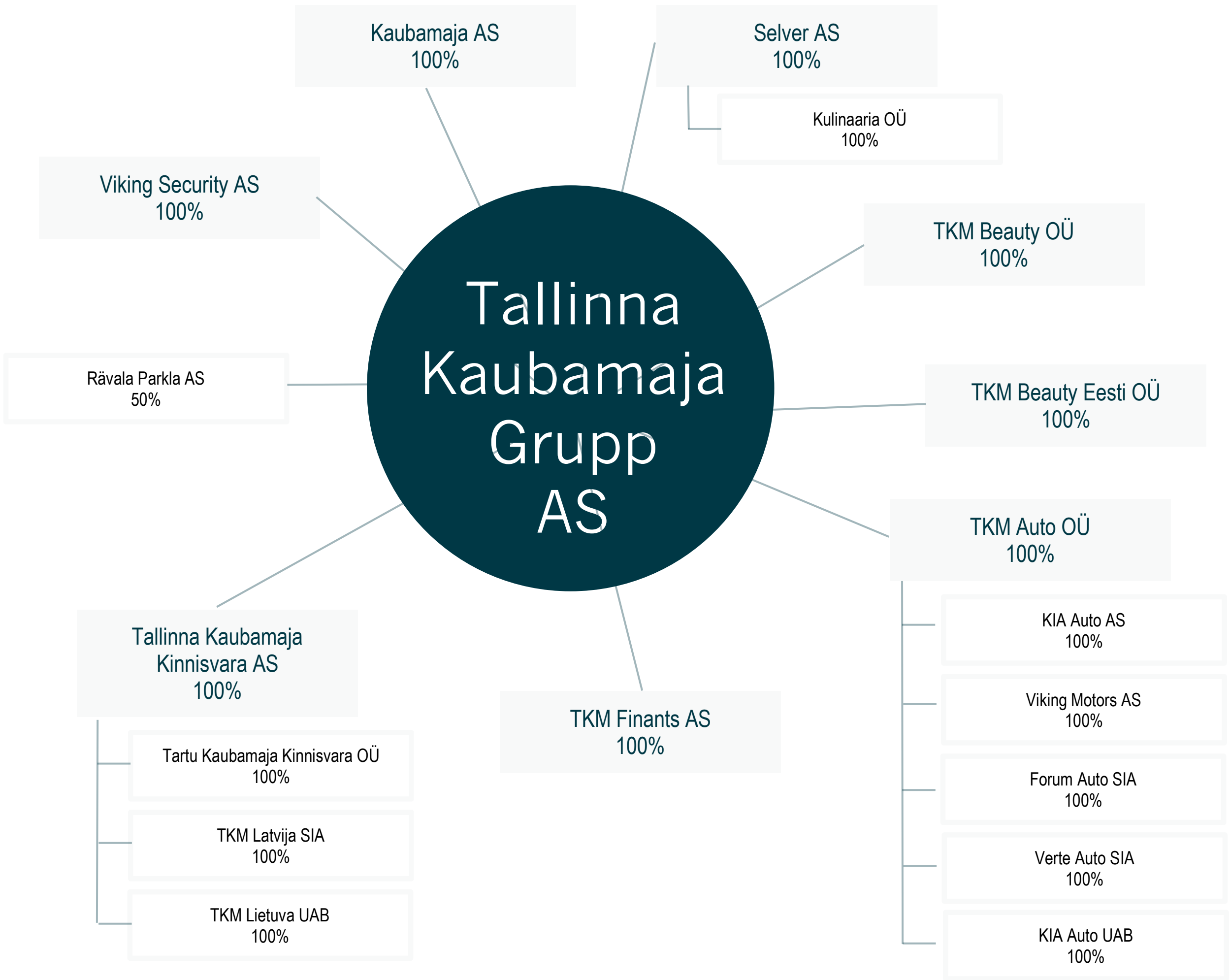
the occurrence thereof.

- 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 the 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 the Group include retail and wholesale trade.

The structure of Tallinna Kaubamaja Group as of 31.12.2022:



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

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

The supermarkets segment includes the Selver store chain with 72 Selver stores, 1 Delice store, the Solaris grocery store, e-Selver, the mobile store, and a café, with a total selling space of 117,500 m², as well as the central kitchen Kulinaaria OÜ.

Kaubamaja operates two department stores, one in Tallinn and the other in Tartu city centre, as well as an e-store, offering a large selection of beauty and fashion products. The results of beauty product (I.L.U. and L'Occitane) sales, which includes 7 stores and an e-store, are presented in the report of the department stores segment.

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 two 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 main area of activity of the security segment is the provision of security services and surveillance solutions, from simpler manned and technical security services to the design, installation, and maintenance of more complex surveillance and video systems. High-quality, fast, and independent inventory is also carried out in various companies. The segment also offers the cash transportation service.

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 20 Selver buildings, and several other land plots.

Changes in the structure during the financial year

On 7 July 2022, the Group announced to the stock exchange the decision to merge the companies Selver AS and AS TKM King. The merger was entered into the commercial register on 26 September 2022 and AS TKM King was deleted from the commercial register at the same time. In accordance with the merger agreement signed on 7 July 2022, Selver AS is the legal successor of AS TKM King, and all the assets of AS TKM King were transferred to Selver AS as a whole upon entering the merger into the commercial register. By now, all stores of AS TKM King are closed, and the wholesale business of AS TKM King has been merged with Selver AS.

In the Group's segment reporting, the Group's companies are reported in the following segments:

	Location
Supermarkets	
Selver AS	Estonia
Kulinaaria OÜ	Estonia
Department stores	
Kaubamaja AS	Estonia
TKM Finants AS	Estonia
OÜ TKM Beauty	Estonia
OÜ TKM Beauty Eesti	Estonia
Rävala Parkla AS	Estonia
Car trade	
TKM Auto OÜ	Estonia
KIA Auto AS	Estonia
AS Viking Motors	Estonia
SIA Forum Auto	Latvia
Verte Auto SIA	Latvia
KIA Auto UAB	Lithuania
Security	
Viking Security AS	Estonia
Real estate	
Tallinna Kaubamaja Kinnisvara AS	Estonia
OÜ Tartu Kaubamaja Kinnisvara	Estonia
SIA TKM Latvija	Latvia
TKM Lietuva UAB	Lithuania

2022 overview

The financial year 2022, with its geopolitical turbulence and a highly inflationary economic environment, was successful for the Group, although it involved numerous challenges. As a result of the sharp rise in energy prices, the net profit was lower than the year before, but all segments of the Group continued to develop their fields, increasing the customer base and sales success. In order to better serve our customers, we invested in the development of both physical and digital sales channels, while focusing on environmental protection. The total volume of investments in 2022 amounted to 16.7 million euros. Naistemaailm in the Kaubamaja department store in Tallinn and several I.L.U. cosmetics stores were renovated in accordance with the new inspiring concept. The supermarket segment opened two modern and environmentally friendly stores. In the second half of the year, the Group launched a mobile application for its loyalty programme, which quickly gained popularity among customers thanks to its clarity and intuitive ease of use. The Group continued to develop an environmentally sustainable and responsible business culture with its operations, also contributing to the growth of diversity, equality, and inclusion. At the end of the year, the sustainable development strategy of the Group for the years 2023–2030 was completed, the aim of which is to ensure the Group's long-term profitable and responsible operational capacity. The Group's priority has always been to provide customers with high-level service. A new record number of loyal customers was achieved in the reporting year, which shows that our customers value our loyalty programme Partnerkaart highly.

The most important events of Tallinna Kaubamaja Group in 2022 and up to the publication of this annual report were the following:

- In March, Kaubamaja AS opened a renewed Naistemaailm department in the Tallinn Kaubamaja department store, where both the physical environment and the selection of brands were updated.
- In June, the new Priisle Selver was opened in the Lasnamäe district in Tallinn.
- In July, a solar energy production park was built on the roof of the Pirita Selver building, where the produced electricity is used in the store.
- In August, the Partnerkaart mobile application was completed, which was one of the most requested digital developments by customers. The Partnerkaart app has all the functions of the Partnerkaart – it works as a scanner and a payment instrument. By the end of the reporting period, over 110 thousand Partnerkaart customers had downloaded the Partnerkaart app.
- In accordance with the strategic decision to stop selling shoes in stand-alone shoe stores, all ABC King and SHU stores were closed by the end of June. In August, the wholesale business of TKM King AS, which operated shoe stores, was merged with Selver AS.
- In September, the completely renovated I.L.U. cosmetics store was opened with a new concept in the Pärnu Keskus Centre. A renewed I.L.U. store was also opened in the Rocca al Mare Centre in October.
- In September, the party snacks of Selveri Köök, previously ordered from a separate environment, were integrated into the e-Selver platform, enabling customers to conveniently order from both the grocery store and Selveri Köök with one delivery to a significantly expanded area.
- In October, a new Selver store with energy class A was opened in the Tabasalu Centre near Tallinn.
- The SelveEkspress self-service checkouts were installed in all Selver stores, where the option to pay with Partnerkaart gift cards and package receipts was added in addition to payment cards.
- In December, Krooni Selver was reopened after a comprehensive renovation, where, in addition to bring the sales hall to a new concept and update interior design, the warehouse, office and utility rooms were also renovated. Among other things, the most modern and environmentally friendly technological solutions were considered in the store's concept renewal.
- In December, the TKM Group Sustainable Development Strategy 2023–2030 was completed, the purpose of which is for the companies of the Group to contribute to reducing the negative impact of global climate change and to meet the climate goals of the European Union, as well as to ensure the long-term profitable and responsible operational capacity of the Group.
- At the end of the reporting year, it was decided to expand the activities of the security segment of the Group by concluding agreements for the acquisition of a shareholding in the public limited company Walde, which will enable the security services of the Group to be further strengthened. The transaction will be completed in 2023 and will create opportunities to launch new products and develop wholesale operations of security systems.
- Kulinaaria OÜ, which produces ready-to-eat meals in the own brand product category Selveri Köök in the supermarket segment, introduced several new product categories during the year. The breakfast

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category was also entered, where the new series 'Hea päeva algus!' ('A good start to the day!') was launched.

- An agreement was reached for the sale of vehicles of the Škoda car brand from 2023 in KIA Auto UAB, the Lithuanian subsidiary of the car segment of the Group.
- The number of customers of the loyalty programme Partnerkaart exceeded 704 thousand.

Acknowledgements:

- The Baltic Corporate Excellence Award chose the Group as the second best in Estonia and the fourth most successful listed company in the Baltic States.
- According to the 2022 survey of Kantar Emor, e-Selver was the best e-grocery store with the widest customer base and the most loyal and satisfied customers. According to the customers, e-Selver is also the most reliable e-grocery store, which offers convenient and easy shopping, fresh and high-quality goods, and a wide selection of products. The politeness and friendliness of e-Selver couriers is also highlighted.
- In January 2023, e-Selver was chosen as the winner of the 'Estonians' favourite e-shop' competition, organised in cooperation with the Estonian E-commerce Association and Delfi, out of the 150 the best-known e-shops in Estonia.
- The Estonian Security Association recognised the employees of Viking Security AS. Joosep Aia was chosen as the security employee of the year and regional manager Aleksandr Kuznetsov was awarded the cross of merit of the Estonian Security Association.
- Kaubamaja AS achieved the silver level of family-friendly employers, which is awarded annually by the Ministry of Social Affairs. The award shows that Kaubamaja AS is an employee- and family-friendly company, which implements family-friendly management methods. The family-friendly employer programme draws attention to the importance of a family- and employee-friendly working environment, which affects both the work results and the private lives of employees.
- Kaubamaja AS was awarded the 'Diverse Workplace' label. This is a recognition and development opportunity for companies that promote diversity and inclusion in the workplace. Kaubamaja joined the Diversity Agreement in 2012.
- Kaubamaja AS won the Golden Egg award at the Estonian marketing awards competition and the Bronze Egg for Design and Craftsmanship in the photo category for the Hooaeg magazine photo series 'Avatud moega'.
- Kulinaaria OÜ (Selveri Köök) won the award for best sauce for its Tikka Masala sauce and a diploma for its sauerkraut soup (ready-to-eat meals category) at the competition 'Eesti parim toiduaine 2022'.

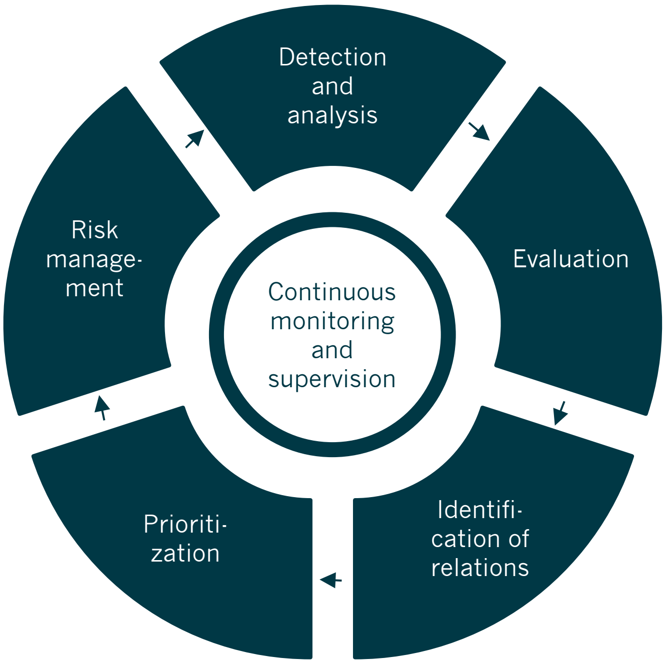
Business risks

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

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

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

Risk management process:



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

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

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

We have classified the following risks as the main risks: economic environment, competition, climate risks, risks arising from the company's operations, and IT risks. In the case of risks in the economic environment, we assess the market situation, as well as changes in macroeconomic factors and trends. The biggest risk factors in 2022 were Russian military aggression, the energy crisis and exceptionally fast inflation.

The main risks of the Group include climate risks, which are divided into risks related to the transition to a climate-neutral economy (e.g. legislation, regulations, investments) and the risks related to the direct effects of climate change (e.g. natural disasters, power outages, unstable situation in the country). In 2022, the changes arising from legislation and regulations and the impact of climate change on the supply chain were deemed the most significant climate risks. The risks related to competition include changes in the market, such as the entry of new competing companies, changes in market preferences, and low investment in development. The risks arising from the company's operations include risks arising in connection with work processes, management, and forecasts. It is also important to pay attention to the risks related to safety, quality, and the supply chain. The focus of IT risks is on cybersecurity, the protection of personal data and the prevention of leaks, and smooth operation of systems.

The most important risks are described in detail below.

Economic environment

The biggest risks of the Group in 2022 were related to geopolitical threats and the state of the global economy. In the reporting year, risks considered impossible for many years, such as Russian military aggression, the energy crisis and exceptionally fast inflation, materialised. This was accompanied by a sharp increase in interest rates in the second half of the year and fear that the cooling effect of the interest rate hikes of central banks would reach Estonia with its open economy first, triggering an economic depression here.

This situation resulted in a significant increase in energy costs and the risk of a possible business interruption for the Group. To reduce energy costs, the new stores of the Group have been built to be as energy-efficient as possible. Existing business processes are reviewed with the aim of further optimising energy use. The opening hours of stores have been thoroughly analysed, gradually introducing changes based on the behaviour patterns of customers. More efficient cooling, heating, ventilation, and lighting solutions are also considered, and action plans for possible temporary power outages are prepared. Among other things, the Group is looking for solutions to ensure energy independence in the most important residential areas to make it possible to supply the population with food even in the event of a power outage. One part of the solution is the creation of solar energy plants on the properties of the Group. The Group has critically reviewed its development plans in the context of the war in Ukraine and has taken into consideration a higher risk of uncertainty.

The development of retail trade is closely connected to the general economic growth and environment. Based on the latest data of Statistics Estonia, as a result of rapid price increases, the Estonian economy declined by 2.4% in the third quarter of 2022. According to Statistics Estonia, professional, scientific, and technical activities had the strongest positive contribution to the economy in the third quarter of 2022. The biggest negative contribution came from agriculture and energy and from real estate activities. Wholesale and retail trade also had a slowing effect on the economy. According to Eesti Pank, the economy will grow 0.4% in 2023 mainly thanks to the increasing expenditures of the government sector. In 2022, the consumer price index increased by 19.4% compared to the average of 2021. In the year-on-year comparison, the price of electricity rose by 94.4%, gas by 123.8%, solid fuel by 73.5%, and thermal energy by 49.1%. Inflation that started with energy price increases also affected other areas in the second half of the year. Clothing and footwear rose in price by 6.6% over the year, and food and non-alcoholic beverages by 19.9%. According to the estimates of analysts, inflation is slowly receding. Price growth will continue in 2023 at a slower pace, but significantly more broadly. According to the estimations of Eesti Pank, the price increase in 2023 will be 9.3%. According to the latest published data of Statistics Estonia, the average gross wage grew by 8.1% year on year in the third quarter of 2022. According to the estimates of Eesti Pank, the growth of the average salary is expected to be 8.7% in 2022 as a whole, but also for 2023.

According to Statistics Estonia, the total volume of retail turnover in Estonia in current prices increased by 18.0% in the 2022. The sales of motor fuel increased the most (48.4%), followed by the sales of second-hand goods (26.8%) and retail sales in other non-specialised stores (20.5%). Sales revenue in non-specialised stores (primarily foodstuffs) grew by 12.3% in the reporting year. Wholesale and retail sales and repair of motor vehicles and motorcycles increased by 17.2%. According to the Estonian Association of Car Dealers and Service Companies, 20,426 new passenger vehicles were sold in Estonia in 2022, which is 8.6% less than in 2021, although car sales accelerated at the end of the year mainly thanks to the recovered availability of cars. The confidence of Estonian consumers has been exceptionally low in the second half of 2022. According to Eesti Pank, more than one billion euros were disbursed from the second pillar in the third quarter of 2021, which allowed for more spending then. This resulted in a high benchmark that consumers currently lack the resources to overcome.

Seasonality of business

There are minor seasonal fluctuations in the business operations of the Group. Characteristically for retail trade, the sales revenue of the first quarter is about 8% lower and the sales revenue of the fourth quarter is about 9% higher than the average sales revenue of the quarters. Historically, seasonality has some effect on sales revenue in the fourth quarter, when sales revenue accounts for approximately 27% of the annual sales revenue.

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

Competition

The Estonian retail market is highly competitive. The German discount store chain Lidl entered the Selver supermarket segment as a new competitor in 2022. In the supermarket segment, Estonia has the most intense competition and the lowest mark-ups of all the Baltic countries. As expected, the entry of a new competitor affected many market participants, as Lidl could only gain market share at the expense of other market participants. In the reporting year, the market researcher Kantar Emor conducted a consumer survey mapping the competition of grocery chains, which revealed that in the first six months of 2022, Lidl had gained 7% of the Estonian grocery retail market, and the Coop retail chain has lost the most customers to Lidl.

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, and to ensure the compliance of the personal data processing with valid legislation. In collecting, processing, storing, and deleting personal data, the Group uses appropriate and sufficient technical and organisational security measures that ensure consistently lawful and secure processing of personal data throughout the entire life cycle of the 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.

Financial risks

The operations of the company may be accompanied by several financial risks with liquidity risk, credit risk, and market risk (incl. exchange rate risk and interest rate risk) having the most significant impact. Financial risk management falls within the sphere of competence of the company's management board and includes the identification and measurement of the risks and checking the efficiency of the alleviation measures. The purposes of financial risk management are the alleviation of financial risks and the reduction of the volatility of the financial results. The financial risk management of the company is guided by the risk management strategy established in the Group. The supervisory board of the company is in charge for supervision of the measures taken by the management board to alleviate the risks.

In order to efficiently ensure liquidity or the availability of sufficient financial means to fulfil the obligations arising from the operations of the company, a joint group account of the bank accounts of Tallinna Kaubamaja Grupp AS and the subsidiaries thereof has been created, which allows the members of the group account to use the financial means on the group account within the agreed limits. As at the end of the financial year, the Group has 22.4 million euros of free financial means in the form of cash and funds on bank accounts (30.0 million euros in 2021). As of 31 December 2022, the working capital was negative, amounting to 69.7 million euros (negative, amounting to 33.0 million euros in 2021). At the end of 2022, the volume of short-term borrowings increased significantly in connection with the final payments of several long-term borrowings ending in 2023 in the amount of 60.7 thousand euros, which as of the end of the year were recognised in short-current liabilities. Borrowings expiring in 2023 are planned to be refinanced in 2023. The refinancing process has started at the time of publication of the report. The Group's cash flow from daily business operations that is used for covering current liabilities remains strong. Based on the assessments of the management board, the Group does not have problems with liquidity.

Credit risk is a risk of the company suffering a financial loss arising from the other party to the financial instrument, as the latter is incapable of fulfilling its obligations. The Group is exposed to the credit risks arising from business operations (primarily claims) and investment activities, including deposits in banks and financial institutions. Due to the specific nature of the retail business, the Group is not exposed to significant credit risks. As of 31 December 2022, the maximum credit risk is expressed as the total amount of claims, amounting to 20.4 million euros (17.6 million euros in 2021).

Foreign exchange risk is the risk of the fair value of financial instruments or cash flows fluctuating in the future due to changes in the exchange rate. As at the end of the reporting period, the Group did not have significant fixed financial assets or liabilities in any currencies which are not connected to the euro.

Interest risk is the risk when an increase in the interest rate result in an increase in the interest expenses paid on the liabilities having a significant effect on the profitability of the Group's activity. The interest risk of the Group mainly arises from long-term loan liabilities with a floating interest rate connected to the EURIBOR. The interest rates raised by central banks to limit inflation have led to a rapid increase in the Euribor rates used for interbank settlements. The volume of loan obligations exposed to interest risk of the Group as at 31 December 2022 was 110.1 million euros. However, the mentioned interest rate increases did not have a significant impact on the Group's financial results for 2022. If the interest rates of the financial liabilities with a floating interest rate had been 1 percentage point higher as at 31 December 2022, the financial cost of the Group would have been 1.0 million euros higher.

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

Financial performance

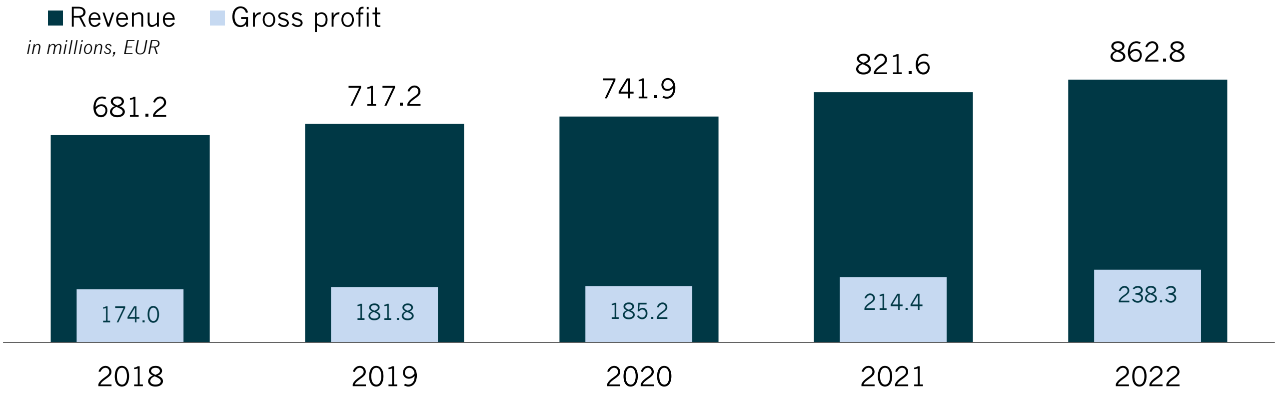
FINANCIAL RATIOS 2018-2022

In millions, EUR	**2018**	**2019**	**2020**	**2021**	**2022**
Revenue	681	717	742	822	863
Change in revenue	*5%*	*5%*	*3%*	*11%*	*5%*
Gross profit	174	182	185	214	238
EBITDA	51	71	63	80	79
Operating profit	37	40	28	41	40
Profit before tax	37	38	24	36	35
Net profit	30	32	19	32	29
Change in net profit	2%	*4%*	*-39%*	*64%*	*-8%*
Sales revenue per employee	0.159	0.168	0.163	0.169	0.184
Gross margin	26%	25%	25%	26%	28%
EBITDA margin	7%	10%	9%	10%	9%
Operating margin	5%	6%	4%	5%	5%
Profit before tax margin	5%	5%	3%	4%	4%
Net margin	4%	4%	3%	4%	3%
Equity ratio	55%	43%	37%	38%	37%
Return on equity (ROE)	14%	14%	9%	14%	12%
Return on assets (ROA)	8%	7%	3%	5%	5%
Return on capital employed (ROCE)	14%	12%	*7%**	9%	9%
Current ratio	1.1	1.0	0.8	0.8	0.7
Debt ratio	0.5	0.6	0.6	0.6	0.6
Inventory turnover	6.6	6.8	7.2	8.3	7.9
Average number of employees	4,283	4,273	4,558	4,864	4,697

Gross profit	= revenue – cost of sales
Gross margin	= gross profit / revenue* 100%
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%
Return on capital employed (ROCE)	= operating profit / average assets - average current liabilities
Inventory turnover (ratio)	= cost of sales / average inventories
Current ratio	= current assets / current liabilities
Debt ratio	= total liabilities / balance sheet total

**change in accounting principles, application of IFRS16*

Tallinna Kaubamaja Grupp AS sales revenue and gross profit 2018 - 2022 (in million euros)



In 2022, the consolidated audited sales revenue of the Group was 862.8 million euros, showing a growth of 5.0% compared to the result of 2021, when the sales revenue was 821.6 million euros. The Group's audited net profit in 2022 was 29.5 million euros, which decreased compared to the previous year's result by 7.9%. The pre-tax profit earned in 2022 was 34.9 million euros, decreasing by 4.2%.

In the volatile economic conditions of the accounting year, the Group increased the sales revenue of all business segments, but despite the efforts made to improve the cost efficiency, the profits of supermarkets and real estate segment, and therefore the Group's total profit, remained below a year earlier due to the extremely fast growth of energy prices. Regardless of the high price pressure, the Group was able to maintain a strong sales margin thanks to good inventory management and well-thought-out sales campaigns. The increase in energy costs continued, which increased comparable costs by 10.0 million euros during the year, accounting for the lion's share of the increase in service costs. The increase in energy costs was also the main reason in the slowdown of the profit of the segments, negatively affecting the profit of the supermarkets segment the most. In the real estate segment, the annual revaluation of investment properties took place, where the increase in the value of assets was 1.3 million euros lower than a year earlier. The net profit of the Group in 2022 decreased by 2.3 million euros due to the calculated loss from lease contracts based on the application of IFRS 16 (in 2021, the respective figure was 2.9 million euros). Due to high inflation, expectations of wage growth for employees have increased. The labour costs of the Group increased by 9.8%, while the number of employees decreased by 3.4% as a result of optimising operations. Eliminating the impact of the 2021 pandemic-related labour subsidies, the increase in labour costs would have been 8.8%. Although the Group's 2022 EBITDA (earnings before financial income and expenses and depreciation) decreased by only 1.5% compared to the previous year, the Group's cash flow from operations decreased significantly. The largest financial contribution was made to normalize the inventory of the car trade segment, which was depleted by the beginning of 2022. In addition, the regulatory shortening of payment terms in the groceries and the reduction of related trade payables had a significant impact.

As at 31 December 2022, the volume of the assets of Tallinna Kaubamaja Group was 646.8 million euros – an increase of 4.3% compared to the results at the end of 2021 without the impact of IFRS 16. Comparable data for the 2021 were impacted by a revaluation of the land and buildings, as a result of which the value of the fixed assets of the Group increased by 9.3 million euros. The same amount was added to the equity revaluation reserve.

At the end of the reporting year, the number of loyal customers was more than 704 thousand, which is 1.1% more than the year before. The proportion of loyal customers in the Group's supermarkets and department stores segments turnover was 84.4% (in 2020, it was 85.5%).

Investments

The Group invested 16.7 million euros in the acquisition of fixed assets in 2022 (23.2 million euros in 2021). Of this, 14.9 million euros were invested in tangible assets and 1.8 million euros in intangible assets.

Investments in the supermarkets business segment amounted to 9.7 million euros in 2022 (13.6 million euros in 2021). During the reporting period, the Selver supermarket opened in a new development 'Priisle Kodu' in Tallinn, which is already the sixth Selver store in the Lasnamäe district, and the Selver supermarket opened in Tabasalus, Harju County, which is the largest grocery store in the region. Krooni Selver, located at Rakvere Krooni Centre, underwent a thorough refurbishment course, with the store refurbished to Selver's new interior design concept. During the reporting period, computer equipment were acquired and the fittings and equipment of the Selver stores were updated.

Investments in the Kaubamaja department stores business segment amounted to 3.3 million euros (6.8 million euros in 2021). During the reporting period, department stores segment opened the renovated women's department in Kaubamaja Tallinn mall and a fully renovated I.L.U. store was opened in Pärnu Centre with a renovated concept; in October, the renovated store also opened in Rocca al Mare Centre.

The cost of investments in the car trade segment in 2022 was 0.5 million euros (0.3 million euros in 2021), which was used to complement the furniture and fittings of the showrooms and repair department.

In the business segment of security, 0.2 million euros was invested in 2022 (0.1 million euros in 2021).

The cost of investment in the real estate business segment was 1.1 million euros (2.4 million euros in 2021). Investments were made in 2022 to more accurately measure and manage the energy consumption of technology systems. Design work for the new Selver was started in Tartu.

Business segments

In millions, EUR	2021	2022	%
Revenue	**821.6**	**862.8**	**5.0%**
Supermarkets	569.0	594.9	4.5%
Department stores	93.4	105.2	12.6%
Car Trade	145.8	146.8	0.7%
Security	8.2	9.8	20.1%
Real Estate	5.3	6.2	17.2%
EBITDA	**80.2**	**79.0**	**-1.5%**
Supermarkets	31.8	24.5	-23.1%
Department stores	1.8	5.0	181.3%
Car Trade	8.4	11.8	40.7%
Security	0.4	0.5	26.5%
Real Estate	17.4	16.6	-4.8%
IFRS 16	20.4	20.6	1.3%
Net profit/-loss	**32.0**	**29.5**	**-7.9%**
Supermarkets	18.4	11.7	-36.0%
Department stores	-1.1	2.1	286.6%
Car Trade	6.9	9.4	34.9%
Security	0.0	0.1	-
Real Estate	10.7	8.5	-20.5%
IFRS 16	-2.9	-2.3	-19.6%

Supermarkets

The consolidated sales revenue of the supermarkets business segment in 2022 was 594.9 million euros, increasing by 4.5% compared to the previous year. The consolidated pre-tax profit of the supermarkets segment in 2022 was 12.9 million euros, decreasing by 7.6 million euros in comparison with the previous year. In 2022, the net profit was 11.7 million euros, which signifies a decrease of 6.6 million euros in comparison with the previous year. The difference between the net profit and pre-tax profit arises from the income tax paid from dividends. The average monthly sales revenue per square metre of sales area in 2022 was 0.42 thousand euros, increasing by 3.7% compared to the previous year. In terms of comparable stores, the sales revenue of goods per square metre in 2022 was 0.43 thousand euros, growing by 3.7% compared to the previous year. In 2022, 43.7 million purchases were made from the stores, which was 2.2% higher than in the reference year.

The economic results of 2022 were affected by the increased turnover of the new Priisle and Tabasalu Selver supermarkets opened in Tallinn, as well as the one-time costs and investments made for the openings. The results were also affected by the closure of Krooni Selver in Rakvere for renovation and the one-time expenses and investments related to this project. In October, Selveri Köök joined the e-Selver ordering environment. In the first months of the year, the production volume of Selveri Köök reached close to the pre-pandemic level, but inflation and a significant decrease in consumer confidence led to a decrease in the consumption volume, especially in desserts and party snacks, at the beginning of autumn. The results of the supermarkets segment have been significantly affected by accelerated inflation, the war in Ukraine, and the effects of COVID-19 included in the reference base. The 2022 reference base was lower by the costs associated with the rebranding of Selver ABC stores and the negative effects of temporary store closures. The reference base was higher due to one closed store and a significantly higher e-commerce and manufactured goods basis on the crest of the 2021 health crisis in the first half of the year. Due to high food inflation, the decline in the volume sales of foodstuffs worsened in the year-end. The increase in prices was mostly caused by price increases on the part of food producers and the increase in the price of energy carriers, which increased raised the operating costs of companies and in turn transferred to the final prices of products and services. The impact of inflation is mitigated by customers buying campaign products in larger quantities. In the last months of the 2022, e-commerce turnover grew at a similar pace to retail turnover, but the results of the whole year remained 3% below the level of 2021 due to the big drop in the second quarter. In order to fight the price pressure, Selver has taken actions to increase efficiency. During the renovations, the equipment has been replaced with more environmentally friendly and energy-efficient alternatives. During the year, self-service payment terminals have been introduced in all stores. The Partnerkaart application, launched in the August, is very popular among our customers. Various IT solutions have been developed, that have had a positive impact on labour efficiency and the main process of handling goods. The economic results of the segment are strongly affected by the significant increase in the prices of electricity and heating (yearly increase of 8.3 million euros), significantly increasing the operating expenses of the segment. The exceptionally high level of inflation has also led to strong pressure on the increase in wages, the growth rate of which has been faster than the growth of sales revenue.

With the merger decision concluded in August, the internal restructuring of TKM Group was carried out, during which Selver AS and TKM King AS merged. TKM King was deleted from the commercial register after the merger. By the time of the merger, all retail stores of TKM King AS had been closed, and the wholesale business of TKM King AS had been merged with Selver AS. The merger will not have a significant impact on the economic results of Selver AS.

Department stores

In 2022, the Kaubamaja department stores business segment earned a sales revenue of 105.2 million euros, which is 12.6% more than last year. The pre-tax profit of the segment in 2022 was 2.3 million euros. The profit increased by 3.0 million euros over the year.

The annual average sales revenue of Kaubamaja department stores per square metre of selling space was 0.3 thousand euros per month, which is 18% higher than in the previous year. One of the biggest news for the customers of the Kaubamaja department store in the first half of 2022 was the opening of the renovated Naistemaailm in Tallinn, where both the physical environment and the selection of brands were updated. The shopping behaviour of customers is increasingly characterised by the keywords quality, sustainability, and planning – they visit stores less often, think through their purchases, and make larger purchases at once. In the last year, the number of visits to physical stores grew significantly, which indicates the easing of the fear of the coronavirus and the interest to enjoy the shopping experience in physical stores as well. There has been noticeable activity among foreign tourists as well. Trade and leisure in the city centre area have also been stimulated by the distinctive concept of the new Toidumaailm (Food department) in Tallinn, where high-quality and a unique assortment of goods are valued above all. The campaigns of last year showed good sales results and a higher percentage of total sales of goods. In summer, Kaubamaja launched the sustainable product labelling project 'World. One and only', which helps to make sustainable choices in the e-store. The label has been very popular among our customers. In December, Kaubamaja was the first major retail company to introduce recycled packaging made from textile scraps, which can be reused up to 20 times. The goal is to reduce packaging waste caused by e-commerce, offering customers the opportunity to recycle the boxes. Kaubamaja ended the year with a successful Christmas season and, as part of a charity project, donated to the non-profit association Laste ja Noorte Kriisiprogramm (Children and Youth Crisis Programme) to organise grief support camps for children in 2023.

The revenue of OÜ TKM beauty Eesti operating I.L.U. cosmetics stores for 2022 was 6.7 million euros, which was 20.7% more than 2021. The profit in 2022 was 0.3 million euros, which was 0.03 million euros more than in the 2021. The most important events of the reporting year were the renewed concept of Pärnu Center and Rocca al Mare I.L.U. opening of stores, during which 27 new beauty brands were added to the range of stores, mainly the area of skin care and exclusive perfumes increased.

The activities of AS TKM King, previously reported in the Kaubamaja department store segment, ended on 26 September 2022, when the merger with Selver AS was entered into the commercial register and AS TKM King was deleted from the commercial register.

Car trade

The sales revenue of the car trade segment in 2022 was 146.8 million euros, which was 0.7% higher than the result of the previous year. In 2022, a total of 5,134 new vehicles were sold. The net profit of the segment in 2022 was 9.4 million euros, exceeding the profit of the year before by 2.4 million euros. The pre-tax profit of the segment in 2022 was 10.7 million euros, which is 3.3 million euros more than the pre-tax profit in 2021.

The year 2022 ended successfully for the car segment of the Group. The results of all companies in the car segment exceeded the results of 2021 and in total, the year ended with a new profit record. This was contributed by new business directions such as the full-service vehicle rental service, which is very popular among our customers, the steadily growing Škoda business in Latvia, and the sale and service of KIAs in Lithuania. The year 2022 as a whole was most affected by a supply shortages of new cars, which at the same time provided an opportunity to earn a higher profit margin. The delivery and availability of KIA vehicles was somewhat better than in the case of other brands we represent, such as Škoda and Peugeot. At the same time, the share of electric and hybrid cars in sales was still marginal due to their limited availability in our market.

Thanks to KIA vehicles, the segment has secured a position among the top 4 of the Baltic car market. In Estonia, KIAs were in third place in terms of sales. The best-selling models were the KIA Sportage SUV and the KIA Ceed series. In 2023, we will add the KIA E-Niro electric car and the Peugeot 408 mid-class SUV to our selection, as well as several Škoda model updates.

Security segment

The sales revenue of the security segment outside the Group in 2022 was 9.8 million euros, increasing by 20.1% in comparison with the last year. The pre-tax profit earned in 2022 was 0.1 million euros. The pre-tax profit increased by 0.1 million euros compared to previous year.

The 2022 was successful in all business areas– both the turnover and profit of the company grew. The field of technical projects showed the fastest growth, where several large projects, delayed for various reasons in the first half of the year, were finally realised. There was a strong growth in the portfolio of services and a slight decline in the construction of security engineering projects. Increases in almost all input prices and labour shortages presented major challenges, which the company was able to cope with by increasing volumes and streamlining operations.

At the end of the reporting year, the security segment concluded an agreement to acquire the shares of AS Walde, which enables the Group to further strengthen its field of security services. The transaction creates opportunities to bring new products to the market and develop security system wholesale operations. The business of Walde AS will continue in its current form, and there will be no changes in the composition of Walde AS's employees in connection with the transaction.

Real estate

The sales revenue earned in the real estate segment outside the Group was 6.2 million euros in 2022. Sales revenue increased by 17.2% compared to the previous year. The pre-tax profit of the real estate segment in 2022 was 11.3 million euros, the profit decreased by 6.9%.

The opening of a reconstructed business centre in Salaspils (Latvia) last summer and the lease contract signed in the Kuldīga Centre in 2022 significantly contributed to the increase in sales revenue. The significant increase in sales revenue was brought about by the temporary rent discounts during the coronavirus restrictions applied in the comparison period. In 2022, new tenants were added to the rental premises of Tallinna Kaubamaja Gallery and Tartu Kaubamaja mall. The number of visitors to shopping centres, which had increased since the beginning of the reporting year, began to approach the pre-pandemic level in spring, but slowed down again in the second half of the year and remained at a similar level.

The decrease in the profit of the last year of the segment was caused by the multiplied energy prices and the increase in the cost of borrowings due to the increase in the interest rates of the euro area intended to tighten the monetary policy by the European Central Bank. The annual fair value assessment of investment properties had the biggest impact on the profit of the segment. The increase in the value of the properties of the previous year exceeded the growth of the reporting year, as a result of which the profit of the last quarter was 1.3 million euros smaller. In 2021, a registered immovable located in Saare County was sold, the sale profit of which is also reflected in the profit of the comparison period.

The Group's real estate companies have paid a lot of attention to improving the energy efficiency of buildings and started implementing the sustainable development strategy of the Group. An important role in the implementation of the strategy is the ongoing collection of various non-financial data, which allows it to be analysed and linked to financial data. It is also necessary for making improvement decisions. The companies have made several investments for the more accurate measurement and management of the energy consumption of technical systems. An automatic ventilation control system has been implemented in several centres. Most of the lighting in the centres has been replaced with LED lights. Automatic lighting control has been introduced in the Tartu Kaubamaja centre. Construction works for the creation of a solar park on the roof of the Pirita Selver building, where electricity produced is mainly used to cover on-site consumption of the building, was completed in the summer. Development work has started to build a solar park on the roof of Viimsi Centre as well. The construction possibilities of solar power plants are also being analysed for other buildings belonging to the Group. In 2022, the segment invested 0.5 million euros in increasing energy efficiency as part of the sustainability strategy.

Strategic directions for 2023

In a volatile economic environment, the key to success is flexibility and keeping up with the wishes of our customers. In 2023, it is planned to continue with several developments which are seen as part of the long-term strategy of the Group, where, in addition to meeting customer expectations and streamlining processes, more and more attention is being paid to responsibility and reducing the ecological footprint.

E-stores have become an increasingly important sales channel for many of the business segments of the Group. In the reporting year, e-Selver integrated the ordering environment of Selveri Köök into its new e-store platform. In the new reporting year, developments related to increasing user convenience will continue in e-Selver. In 2023, the Group is planning to transfer the e-store of Kaubamaja to a new software solution, which will improve the convenience for the customer and add various additional functionalities.

The supermarkets segment plans to renovate up to three and open one new store in 2023, which would contribute to maintaining the strong position of Selver in the competitive retail market. In 2023, the Group is planning to open a Selver hypermarket with a total area of 6,000m^2 next to the IKEA furniture store in Kurna village. In January 2023, renovation works commenced in Ringtee Selver in Tartu and the Selver ABC store on Saaremaa was closed due to economic results that did not meet expectations. During 2023, in addition to the Ringtee Selver in Tartu, it is planned to renovate the Solaris grocery store in Tallinn and start renovation works in Järve Selver in Tallinn, which is the representative store of the chain with the largest number of visitors and sales space. In cooperation with Estonian Police and Border Guard Board, Viking Security and Hansab, in 2023, identity documents will be issued from Selver information desks, which will create another important convenience service for our customers. Kulinaaria OÜ, the central kitchen belonging to the supermarkets segment, the products of which are familiar to customers mainly through Selveri Köök, will continue to pay great attention to the development of new products in its newly built modern factory in 2023. Product development aims to keep pace with changes in the consumption habits of customers. Customers prefer to try new flavours and healthier products more often. It is also important to reduce the ecological footprint of both the production process and product packaging during product development.

In the long-term investment plan of the Group, one of the most important goals in the new financial year is moving forward with the large-scale and complex development of the long-awaited new Kaubamaja department store in Tallinn. In the Kaubamaja department stores segment, the development and planning of the new concept for the Toidumaailm department in Tartu Kaubamaja department store will begin in 2023. The goal of I.L.U. cosmetics stores in the Kaubamaja department store segment is to continue with store concept innovations and to renovate the representative store in Ülemiste Keskus Centre in Tallinn.

The car trade segment of the Group plans to continue expanding its car business in 2023, primarily in Vilnius, where a new multi-brand Škoda and KIA car sales and service centre is being planned. According to plans, the new centre should be completed in 2025.

The goals of the security segment in 2023 are to increase the sales capacity of the security sector, the continued expansion of the patrol network, and the development of new services and security solutions, including innovative software solutions.

The loyalty programme Partnerkaart, which connects the retail trade segments of the Group, will focus on supplementing financial services supporting retail trade in 2023 and further developing the Partnerkaart mobile application, which was warmly received by customers in 2022.

In 2022, the Supervisory Board of the Group approved the 'TKM Group Sustainable Development Strategy 2023–2030'. The purpose of the strategy is for the companies of the Group to contribute to reducing the negative impact of global climate change and to meet the climate goals of the European Union, as well as to ensure the long-term profitable and responsible operational capacity of Group. In 2023, the Group will focus on fulfilling the goals set out in the sustainability strategy.

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 Supervisory 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 the management or 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 22 February 2022, the Management Board proposed to pay 27.7 million euros as dividends that is 0.68 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 of 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 2022, the Group had 21,978 shareholders and division of shares is following:

Ownership structure	**Number of shareholders**	**Number of shares**	**Shareholders%**	**Votes%**
Private persons	20,235	6,842,978	92.1%	16.8%
Companies (Estonian)	1,675	2,108,660	7.6%	5.2%
Financial institutions (Estonian)	20	1,784,187	0.1%	4.4%
Companies (other countries)	1	450	0.0%	0.0%
Financial institutions (other countries)	45	1,804,520	0.2%	4.4%
Marie Vaino	1	899,769	0.0%	2.2%
OÜ NG INVESTEERINGUD	1	27,288,636	0.0%	67.0%
Total	**21,978**	**40,729,200**	**100.0%**	**100.0%**

Number of shares	Number of shareholders	Number of shares	Shareholders%	Votes%
1–100	13,833	429,478	62.9%	1.1%
101–1,000	6,469	2,211,435	29.4%	5.4%
1,001–10,000	1,540	4,007,457	7.0%	9.8%
10,001–100,000	121	3,062,329	0.6%	7.5%
100,001–1,000,000	14	3,729,865	0.1%	9.2%
1,000,001– …	1	27,288,636	0.0%	67.0%
Total	**21,978**	**40,729,200**	**100.0%**	**100.0%**

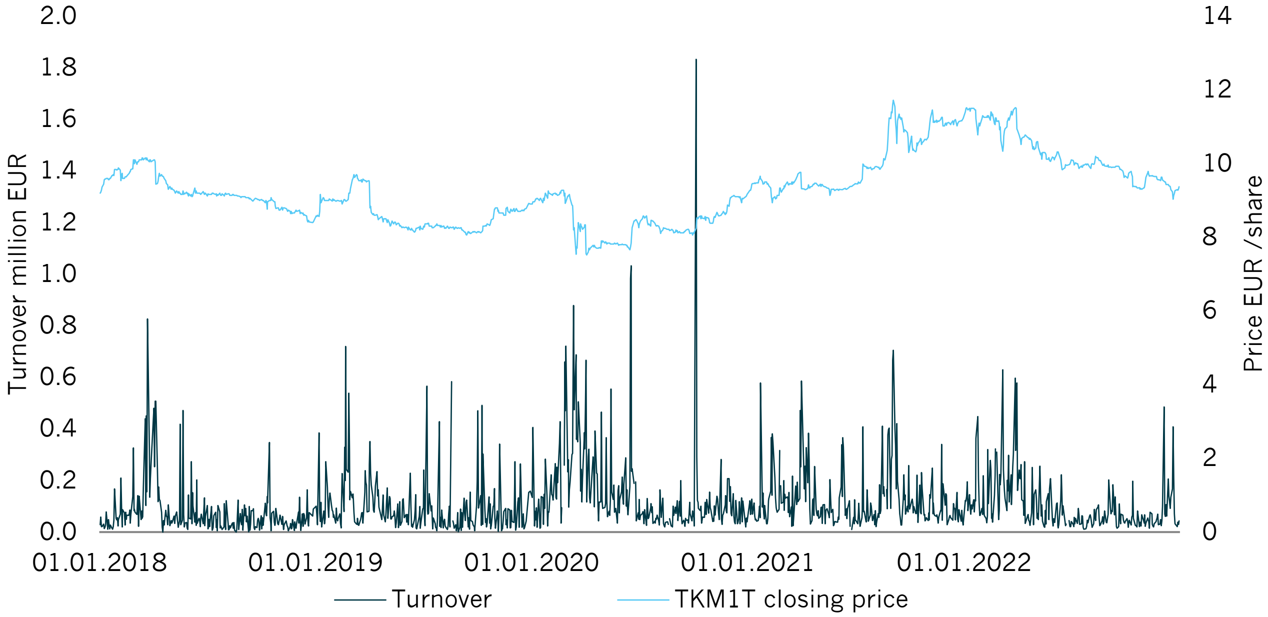
As at the end of 2022, Tallinna Kaubamaja Grupp AS had 21,978 shareholders (18,604 in 2021), the number of shareholders increased by 3,374 or 18.1% during the year. In 2022, small investors continued to show interest in investing on the domestic stock exchange in Estonia. With the pension reform that entered into force in Estonia a year earlier, many small investors decided to invest their pension money independently. In addition, in 2022, money quickly lost its value in a high-inflation environment, which made small investors think more and more about investing.

Of the shareholders of Tallinna Kaubamaja Group, 92.1% were private individuals, 7.6% Estonian companies, 0.2% foreign financial institutions, and 0.1% Estonian financial institutions. Estonian shareholders and related companies clearly dominate among the shareholders. Tallinna Kaubamaja Group is mainly based on Estonian capital. The majority share of shares and votes belongs to the company NG Investeeringud OÜ, which owns 27,288,636 ordinary shares or 67.0% of the listed securities. The company is followed in terms of the number of shares and votes by private individuals (16.8%), Estonian companies (5.2%), Estonian financial institutions (4.4%), foreign financial institutions (4.4%), and Marie Vaino (2.2%).

The Baltic Corporate Excellence Award chose the Group as the second best in Estonia and the fourth most successful listed company in the Baltic States.

The following charts provide an overview of the movement of the share price of Tallinna Kaubamaja Group, the Tallinn Stock Exchange index, daily turnover, as well as the market value based on market data, and the price-to-earnings ratio as at the end of 2022.

Share price and trading statistics in Tallinn Stock Exchange during 01.01.2018 – 31.12.2022



Tallinna Kaubamaja Group has been listed on the Nasdaq Tallinn Main List since 19 August 1997 under the trading code TKM1T and ISIN EE0000001105. The shares are freely transferable and there are no restrictions under the Articles of Association. The highest share price in the financial year 2022 was 11.62 euros and the lowest 8.99 euros.

Price change of Tallinna Kaubamaja Group share and OMX Tallinn index from 01.01.2022 to 31.12.2022.

Index/share	Opening price	Closing price	Change %
OMX Tallinn_GI	2,001.03	1,766.73	-11.71
TKM1T - Tallinna Kaubamaja Grupp	11.22	9.37	-16.49

The most traded Nasdaq Tallinn Main List share in 2022 was Enefit Green. The Group's share was ranked sixth in terms of trading on the Nasdaq Tallinn Stock Exchange. At the end of the year, the share price of Tallinna Kaubamaja Group closed at 9.37 euros (11.22 euros in 2021), declining 16.49% year-on-year. In 2022, the Nasdaq Tallinn stock exchange index fell a little less than the share price of Tallinna Kaubamaja Group, or 11.71%. In an uncertain and inflationary environment, the volatility of the Group's share was similar to the domestic stock market. There is no benchmark or company on the Nasdaq Baltic stock market that can be compared to the Group on an equivalent basis.

Share trading history

In euros	2018	2019	2020	2021	2022
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (pcs)	2,017,514	2,763,674	4,654,856	3,165,945	2,446,589
Dividend / net profit	95%	94%	125%	87%	94%*
P/E	11.3	11.4	19.1	14.3	12.9
P/BV	1.52	1.63	1.67	1.91	1.58
Opening price	9.28	8.46	8.98	9.18	11.26
Share price, highest	10.25	9.72	9.34	11.96	11.62
Share price, lowest	8.32	8.06	7.46	8.86	8,99
Share price, at the year-end	8.42	8.9	9.16	11.22	9.37
Share price, yearly average	9.26	8.60	8.44	10.02	10.24
Turnover (million)	19.03	23.89	38.71	31.68	25.55
Capitalisation (million)	342.94	362.49	373.08	456.98	381.63
Earnings per share	0.75	0.78	0.48	0.79	0.72
Dividend per share	0.71	0.73	0.60	0.68	0.68*
Equity per share	5.5	5.5	5.5	5.9	5.9

** according to profit allocation proposal*

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

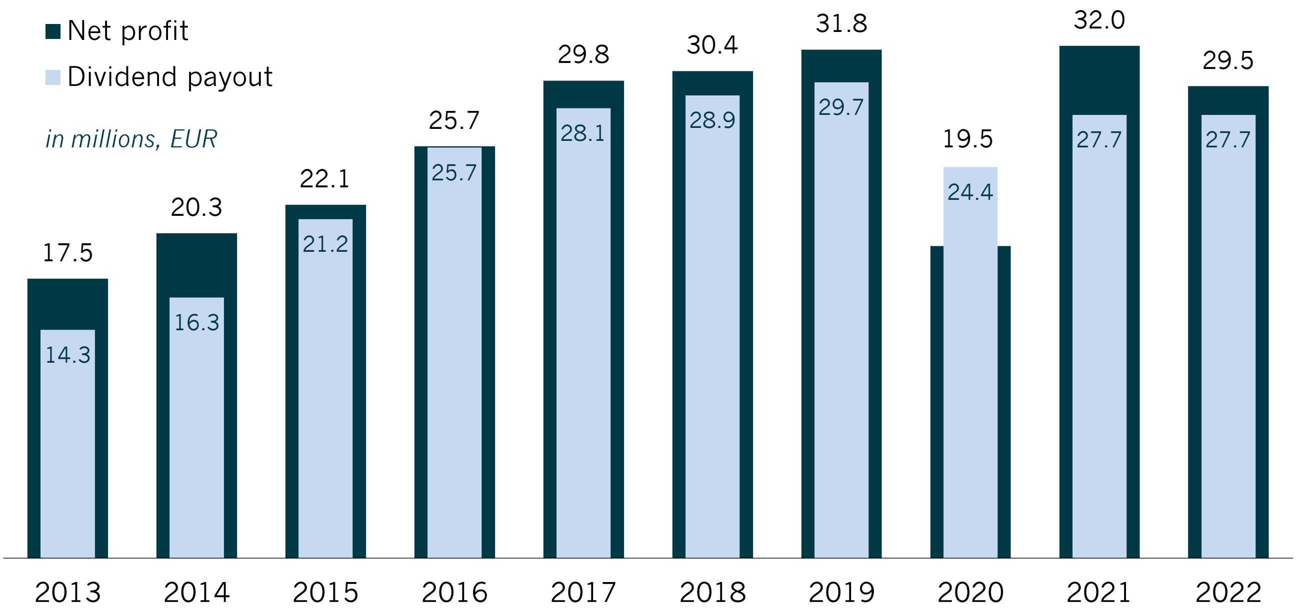
The volume of Group share transactions in 2022 totalled 25.6 million euros (31.7 million euros in 2021). The total number of traded shares was 2,446,589 (3,165,945 in 2021), meaning a decrease of 22.7%, compared to 2021. At the same time, the number of shares traded in the main list of Nasdaq Tallinn fell by 24.9%.

Based on the share price, the market value of Tallinna Kaubamaja Group was 381.6 million euros (2021: 457.0 million euros), falling by 16%. In a volatile economic environment, the market value of all Nasdaq Tallinn main list shares fell by the same magnitude (13%).

The price-to-earnings ratio was 12.9 at the end of 2022 (14.3 in 2021), which has improved by almost a tenth compared to 2021 and is closer to the historical average.

Earnings per share were 0.72 euros, a decrease of 7.9% during the year. The dividend yield (considering the year-end closing price of the share) was 7.3% in 2022 and the Group's average dividend yield for the last five years was 7.2%.

Dividend pay-out history



Dividend obligation to shareholders is recognised in the financial statements from the moment the payment of dividends and the distribution of profits are approved by the general meeting of shareholders. The general meeting of shareholders was held on 18 March 2022 and the amount of the dividend payment of 0.68 euros per share from the net profit was approved.

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

Corporate Governance Report

The Corporate Governance (CG) is a set of guidelines and recommended rules prepared by Estonian Financial Supervision and Resolution Authority, 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 2022 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.

As far as the Group is aware, no agreements have been concluded between shareholders regarding the coordinated exercise of shareholder rights.

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 22 February 2022 and through a daily newspaper Eesti Päevaleht on 23 February 2022. 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 23 February 2022.

The general meeting of shareholders of Tallinna Kaubamaja Group was held in the conference centre of Hotel L’Embitu, Lembitu street 12, Tallinn, on 18 March 2022 beginning at 2 pm. The resolutions made at the general meeting are published in the information system 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 general meeting of Tallinna Kaubamaja Group must take part in person or on the basis of authorization 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. At the general meeting held on 18 March 2022, shareholders were able, in order to exercise their shareholder's rights, to forward their vote to the public limited company before the general meeting, at least in a format which could be reproduced in writing or with a digitally signed ballot delivered by e-mail.

The language of the general meeting held in 2022 was Estonian and the meeting was chaired by the general counsel of the Tallinna Kaubamaja Group Helen Tulve. The meeting could also be heard through a webinar. The meeting was attended by Management Board member Raul Puusepp; members of the Supervisory Board and auditors took part in the meeting through the webinar. 71.80% 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. In addition to the approval of the annual report and distribution of profits, an auditor was also appointed and the principles of remuneration of the board members were approved.

Considering the aforementioned descriptions of general meetings held in 2022, the Group has largely complied with the Corporate Governance Code in informing the shareholders, convening and holding the general meeting.

Management Board

The Management Board is a governing body of Tallinna Kaubamaja Group that represents and directs the Group on a daily basis. In accordance with the articles of association, the Management Board may have one to six members. In accordance with the Commercial Code, members of the Management Board of Tallinna Kaubamaja Grupp AS are elected by the Supervisory Board. The member of the Management Board of Tallinna Kaubamaja Group is selected on the basis of gender neutrality and evaluating the actual competence of the persons. In order to elect a member of the Management Board, his or her consent is required. According to the articles of association, a member of the Management Board shall be elected for a specified term of up to three years. Extension of the term of office of a member of the Management Board shall not be decided earlier than one year before the planned date of expiry of the term of office, and not for a period longer than the maximum term of office prescribed by the articles of association. Currently, the Management Board of Tallinna Kaubamaja Grupp AS has one member. The term of office of the Management Board member Raul Puusepp was extended on 21 February 2020 and his term of office will expire on 6 March 2023.

The duties and remuneration of the Chairman of the Management Board are specified in the board member contract concluded with the Chairman, in which the Group was represented by the Chairman of the Supervisory Board. In accordance with the contract and in accordance with the remuneration principles of the Board Members approved at the General Meeting, 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. In 2022, the total remuneration of the Chairman of the Board (gross fee, on accrual basis) amounted to 253 thousand euros (in 2021 271 thousand euros), including calculated performance fees (gross fee, on accrual basis) of 149 thousand euros (in 2021 163 thousand euros). The issuer's costs include, in addition to accrual-based charges, the social tax costs according to the rate established by law. A more detailed overview of the remuneration paid in accordance with the remuneration principles of the issuer's manager is available in the remuneration report.

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 2022 and 2021. 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 once a month and additionally extraordinary if necessary.

In 2022, 12 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2021, 12 scheduled meetings and 2 extraordinary meetings was held. In 2022, all members of the Supervisory Board attended all meetings of the Supervisory Board, except for Meelis Milder, who did not attend two 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 19 March 2021, 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. Andres Järving has submitted an application to leave the Group's Supervisory Board as of 01.01.2023. Changes in the composition of the Supervisory Board of Tallinna Kaubamaja Grupp AS will be decided by the next ordinary general meeting of shareholders (in the first quarter of 2023). Authorities of the remaining current members of the Supervisory Board will expire on 19 May 2024. 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.

Members of the Group's Supervisory Board Andres Järving, Jüri Käo and Enn Kunila are members of the Management Board of the shareholder OÜ NG Investeeringud, which holds a significant stake in the Group. The independent members of the Supervisory Board are Meelis Milder and Gunnar Kraft, who do not have any commercial, family or other links with the Group, the company controlled by it, the controlling shareholder of the Group, the company belonging to its Group or the members of the management bodies of those companies which could influence their decisions due to a conflict of interest. Meelis Milder is a member of the Group's Supervisory Board since 1997 and Gunnar Kraft since 2004, so these persons do not fully meet the independence characteristics set out in the Estonian Financial Supervision and Resolution Authority's guide, but the Group highly values the contribution and knowledge of both Supervisory Board members. According to the Group, the long-term participation of the members of the Supervisory Board as a member of the Supervisory Board does not affect their independence but, on the contrary, their competence is enhanced.

According to the decision of the annual general meeting held on 19 March 2021, 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 2022, the remuneration of the members of the Supervisory Board of Tallinna Kaubamaja Group in the total amount of 125 thousand euros has been calculated, including 29 thousand euros for the Chairman of the Supervisory Board (125 thousand euros in 2021, including 29 thousand euros for the Chairman of the Supervisory Board). The issuer's costs include, in addition to accrual-based charges, the social tax costs according to the rate established by law.

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.

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 31.12.2022 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 Baltic Stock Exchange.

Group's website www.tkmgroup.ee contains contact information of the Group and key employees, press releases and reports. The annual and interim reports include information on the strategy and financial results of the Group as well as the Corporate Governance Report. Along with the annual report, the Supervisory Board's written report on the annual report referred to in § 333 (1) of the Commercial Code shall be made available to shareholders on the Group's website. In the subsection of Market News, information is disclosed with regard to the membership of the Supervisory Board and auditor, resolutions of the general meeting, and other important information.

Financial reporting and auditing

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

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

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

On 18 June 2019, the European Commission Delegated Regulation (EU) 2018/8151 entered into force, in accordance with which issuers whose securities are admitted to trading on a regulated market in a Member State of the European Union shall publish consolidated financial statements in the European Single Electronic Format (ESEF) as from 1 January 2021.

The Group's financial processes and reports are subject to an annual financial audit, conducted generally by an auditor selected by the Supervisory Board 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 2022, the financial auditor of the financial year 2022 was AS PricewaterhouseCoopers (PwC). The agreement entered into with the auditor complies with the requirements of the CGR. During 2022, the Group's contracted auditor, AS PricewaterhouseCoopers, did not provide any other services in addition to auditing the annual report. The total amount of fees paid or payable for auditing services performed by the auditor in 2022 is 106 thousand euros. In addition, the Group has purchased a training service from the parent company.

In 2022, the auditor participated in the ordinary general meeting of shareholders, where the 2021 consolidated annual report was approved.

In our opinion, the financial audit conducted in 2022 has been in conformity with regulatory provisions, international standards and the set expectations. In 2022, there have been no circumstances of which the auditor would have informed the Supervisory Board, which, in the auditor's opinion, could affect the work of the council or the management of the Group. In addition, the auditor has not reported a threat to the auditor's independence or the professionalism of his work.

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 95-104.

Audit Committee

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

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

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

The Audit Committee has five members, which were Kristo Anton, Andres Järving, Gunnar Kraft, Jüri Käo and Kaia Salumets. In 2022, Kaia Salumets was elected as the Chairman of the Audit Committee. Andres Järving's mandate as a member of the Audit Committee ended on 31.12.2022 according to his request.

The Audit Committee prepares an annual summary report about meeting the goals sets in the statutes and presents it to the Supervisory Board.

Based on its duties, the Audit Committee provides ongoing evaluations and makes proposals to the Supervisory Board, the Management Board, the internal audit and/or an external audit provider.

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

Ethical business practices and corporate responsibility

Ethical business belongs to the core values of Tallinna Kaubamaja Group and is an important success factor. Following high ethical principles endorses profitable growth, wins the trust of stakeholders, and supports fair competition and equal treatment.

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

Group's six pillars for sustainability are:

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

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

- In its activities, the Group is guided by ethical principles and ensures that the employees know these principles and follow them in their everyday work.
- Acts responsibly, taking into account the impact of the Group's activity on the natural environment, the health and quality of life of residents, and interlinkage with the interests of different stakeholders.
- Values the ecological environment in which they operate and therefore, use resources sustainably and constantly seek new solutions for more sustainable consumption.
- Values human rights and complies with them within the Group and in all company-related activities, including in the Group's supply chain.
- Tackles corruption, proceeding from honest and transparent business conduct.
- Ensures transparent procedures. To this end, the Group has organised its internal procedures and established policies and instructions concerning, among other things, declaration of financial interests, insider dealing, securities transactions, investment management, procurement, personnel recruitment, risk management, administration and document management.
- Creates shareholder value and contribute to the economy as a whole.
- Gives social contribution to the society and offers possibilities and support also to those, who need more assistance and attention.
- Is a good neighbor in the community; supports and encourages activities related to environmental care and healthy lifestyle.

Comprehensive, responsible and environmentally sustainable thinking is integrated into all the companies and business processes of 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, in the daily business the focus is on environmental protection and minimizing the negative environmental impact of the operations.

It is important to show Group´s social and environmental responsibility by being open in the communication. Being ready to give competent information about all the Group's companies, their strategies and objectives, as well as talk about less important daily issues. Long-term success can be achieved only with an honest and open dialogue and collaboration with all stakeholders.

Code of Conduct

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

The Code of Conduct (established in 2017) has been prepared in accordance with national and international guidelines and principles, including the Corporate Governance Code of the Financial Supervision Authority and OECD Guidelines for Multinational Enterprises, as well as the United Nations Guiding Principles on Business and Human Rights.

The Code of Conduct have been published on the website of the 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 it.

The social responsibility principles accepted throughout the Group are:

- Group's Selver chain stores are considered regional centers where several public services, that are important for the society, are offered.
- If possible, especially in grocery items, domestic products and small Estonian manufacturers are a preferred option.
- Organise events to promote local design and manufacturers at the Group's department stores and stores.
- Sponsor activities and programs and organise various charity campaigns.
- Support the popularization of sports through promoting youth work and professional sports.
- Support several smaller and larger cultural projects, mainly outside the largest cities.
- Contribute to improving the employment of people with disabilities and offer jobs to those who are at a disadvantage in competing on the current labor market.
- Help the state in creating jobs and contribute to its tax revenues.
- We support Estonian art, design and culture through various cooperation projects.

In 2022, Group companies paid to the state and local authorities a total of 78.2 million euros in taxes, an increase of 7% in a year.

Taxes paid in 2020, 2021 and 2022 (in million euros)

Some examples of the activities of the Group and its subsidiaries:

- Over the time, Kaubamaja has supported a wide variety of social projects that help to improve the general well-being of the local people. It does not matter if the business or project is small or large - its idea, high-quality implementation and suitability for the main areas of support are important. The ways of supporting are very different: helping to spread information about the activities launched with Kaubamaja´s support or initiative in Kaubamaja's sales hall, internal radio, e-channels, and podcast or in the customer magazine Hooaeg, organise charity sales or help cover the costs of those in need. Traditionally, charity cooperation is an integral part of Kaubamaja's Christmas campaign. At the end of 2022, Kaubamaja conducted a Christmas sale of charity products, the proceeds of which were donated to the non-profit association Children and Youth Crisis Program (Laste and Noorte Kriisiprogramm) for the organization of grief support camps.
- In collaboration with Uuskasutuskeskus (Re-use Centre), stationary collection points for second-hand clothes and footwear have been opened in Kaubamaja. Kaubamaja is donating materials used during promotional campaigns for re-use to childcare institutions and as material for handicraft to people with special needs.
- Kaubamaja values Estonian fashion and promotes the work of Estonian designers in every way. There is a separate area allocated for the work of Estonian fashion designers in the women's fashion department of Tallinna Kaubamaja and several window and in-store displays introducing Estonian design were organised during the year. Future fashion designers are also important to Kaubamaja – they encourage schools to organise fashion shows and help them with awards. Kaubamaja is the main supporter of Estonia's most prestigious fashion design award, the Golden Pin (Kuldnõel), and Tallinn Fashion Week.
- Kaubamaja held a campaign „Kooli Aeg", which main goal is to collect school supplies and financial aid to Estonian families with many children.
- For many years, Kaubamaja has been actively cooperating with the NGO Minu Unistuste Päev, to offer joy to the children who miss it the most.
- Kaubamaja and Selver joined with the Diverse Workplace label in 2012, thereby undertaking to adhere to the principle of equal treatment and opportunities. The Group contributes to the development of diversity. 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. This also helps companies offer better service to its clients. In 2018, Kaubamaja was one of the first companies in Estonia to win the Diverse Workplace label. Kaubamaja won the Diverse Work-place label again in 2022.
- Kaubamaja has the Family-friendly employer label and participates in the development program of the label. Kaubamaja passed the evaluation and received silver level recognition.
- For the 21st time, Selver organised the charity project "Koos on kergem" (It Is Easier Together), the goal is to donate money to the children's and maternity departments of hospitals. In 2022, donations were collected for 16 children's hospital and the children's department of the hospital across Estonia to help, among other things, the Tallinn Children's Hospital acquire an echocardiograph for examining the heart and the Children's Clinic of Tartu University Clinic for new-borns screening equipment.
- In recent years, Selver has cooperated with various charity organisations, such as Shalom, Food Bank, SAK Fond and congregations to donate food items nearing to the end of the sale period to families in need. Selver consistently supports Alaveski animal parks and the Tartu animal shelter. In total, Selver donated more than 700 tons of food in 2022.
- Selver continues to support youth sports and is a title sponsor of the volleyball club Selver TalTech. 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 TalTech;
  - Youth club to raise the next generation of players: Selver/Audentes;
  - Promotion of youth sports: Audentes Volleyball School.
- Selver continues to support the football club FC Flora.
- Selver supports the Estonian Ice Hockey Association and the ice hockey club Tornaado.
- Selver is a supporter of the Farmer of the Year competition.
- Selver supports smaller and larger cultural projects, mainly outside of larger cities. The total amount of subsidies in 2022 was over 210 thousand euros.
- In 2022, Viking Motors supported Estonian biathletes Kalev Ermits and Regina Ermits, tennis player Maria Lotta Kaul, shot putter Jander Heli and disc golf player Rasmus Metsmaa. As well, ORU RC model track and AT Sports Club.

- Kia Auto cooperates with Viljandi Kutseõppekeskus (Viljandi Vocational Training Centre), offering various units of automotive equipment for training and studying purposes.
- Kia Auto supports the sports and leisure activities of the Haapsalu Hoolekandekeskus through NGO Spordiselts.
- In 2022, Kia Auto supported ski jumper Artti Aigro, disc golfer Kristo Raik, rower Liisa Marie Lääne, decathlete Janek Õiglane and extreme athlete Risto Kalmre at Simple Session.

Supporting Ukraine

The war, which began on 24 February 2022 when Russia invaded Ukrainian territories, required a quick response to help war refugees in Ukraine, Europe, and Estonia. The Kaubamaja department stores and I.L.U and Selver stores immediately started cooperating with the Red Cross to collect donations in the form of food, toiletries, and other necessities. In addition, it was possible to make financial donations through e-stores and cash registers in physical stores. A total of 90.3 thousand euros were collected in financial donations to the Red Cross. In addition, Selver donated more than 100 Euro pallets worth of goods, which were obtained thanks to donations from customers and the store chain. The donations were sent to the Red Cross as well as to various organisations dealing with war refugees.

Employees also wanted to contribute. The employees of the Tallinn and Tartu Kaubamaja department stores collected about 20 Euro pallets worth of food, toiletries, toys, and sweets for small children in Ukraine in the framework of a voluntary project in February–March. The goods were delivered to the Ukrainian–Polish border by the humanitarian bus of Tallinn University. Similar campaigns were organised by other companies as well.

Wellbeing and motivation of personnel

The objective of the HR policy of the Group is to value, develop and keep its employees based on common principles, involving HR management and planning, well thought out recruitment and selection processes, followed by purposeful and motivational development and the establishment of supporting environment. Group is 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:

- Value development of the employees and teamwork.
- Open, honest and encouraging multilateral communication.
- Encourage self-management and the individual performance of employees.
- Rely on consensus and collaboration.
- To be an organization that learns from the experience and knowledge of every employee.

The Group is one of the biggest employers in Estonia. In 2022, the Group employed an average of 4,697 people and compared to 2021, the number of employees decreased by 3.4% (2021: 4,864).

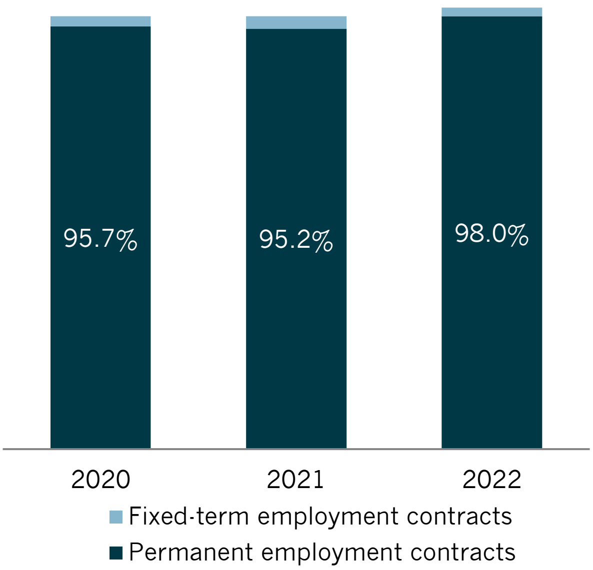
The Group values long-term and lasting work relationships that provide the employees with stability in their everyday life and develop their competence over the years, thereby improving the Group's competitiveness.

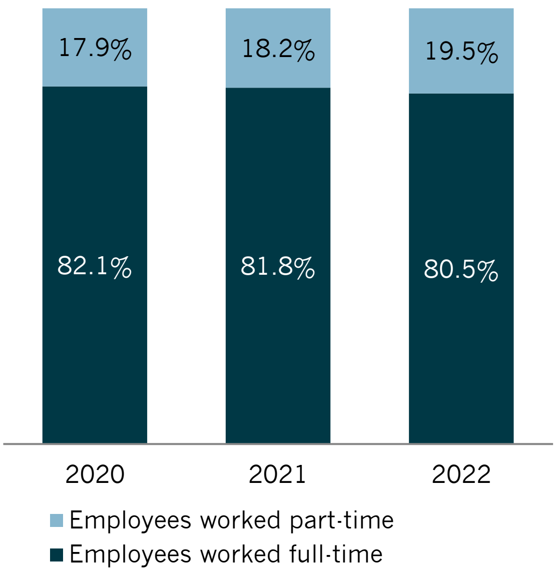
As at the end of 2022, approximately 98% of the Group's employees were under permanent employment contracts and 2% under fixed-term employment contracts. The Group also offers an option to work part-time in response to employees' wishes and opportunities. As at the end of 2022, 19.5% of the Group's employees worked part-time (2021: 18.2%).

4,697
Yearly average number employees
(2021: 4, 864)

98%
Employees with permanent contracts
(2021: 95%)

19.5%
Part-time employees
(2021: 18.2%)





Valuing development opportunities

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

Employees are offered specialised refresher trainings in Estonia as well as abroad. The Group's total number of training hours reached 11.1 thousand, an average 2.4 hours per employee in 2022 (2021: 2.1). Internal trainings carried out by specialists, play an important role in the development of employees, the volume and selection of which has been adjusted to meet employees' needs and expectations.

11.1 th	2.4 hs	71
Training hours in total	Training hours per employee	Practice opportunities for young interns
(2021: ca 10.2 th)	(2021: 2.1)	(2021: 84)

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 2022. 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. The mentoring system works well, it helps to reduce staff turnover, ensures high-quality training for a new employee, and eases integration into the company. In Selver, store managers and specialist in various fields conduct internal trainings. Internal trainers contribute both to the induction process of new employees and to updating the knowledge of already experienced employees. For the employees, there were also trainings for coping with everyday life. Trainings on online frauds and threats were held in Estonian and Russian, the trainer was Estonian Police and Border Guard Board. NGO Pesapuu held a series of financial wisdom trainings.

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

To ensure a new generation of employees, the Group has offered students various practical training opportunities. In 2022, practical training opportunities to a total of 71 young interns were offered. The 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. They have also helped its 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 with a desire to develop.

In 2022 the active cooperation continued with Eesti Töötukassa (the Estonian unemployment office) to offer practical training and free positions for job seekers. Selver and Kaubamaja have signed an employment and cooperation agreement with the unemployment office with the aim of finding various additional cooperation opportunities for recruiting employees and holding refresher trainings. Together with the unemployment office, the 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, the Group is guided by the principle that a safe working environment is one of the fundamental rights of its employees.

The Group has 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. A system was built up in the Group to involve working environment representatives in maintaining a healthy working environment. In 2022, there were 33 occupational accidents in the Group (2021: 52).

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

The Group also contributes 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 9.8% (wage costs and social tax cost), in total 97.5 million euros in 2022. The average labour cost per employee was 1729 euros in 2022, growing by 13.7% compared to 2021. 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.

Group labor cost in 2020, 2021 and 2022
(in millions euros)

Complying with human rights and responsible procurement

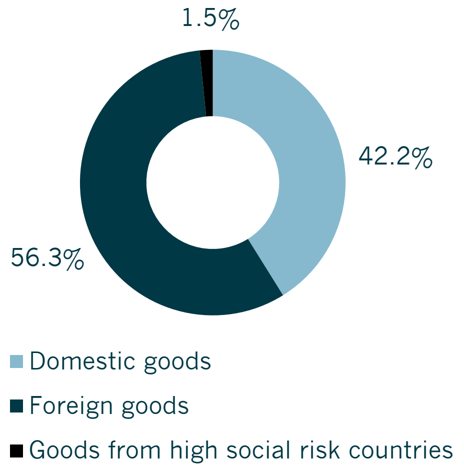
The Group confirms its continuing commitment to honour the UN Convention for the Protection of Human Rights and Fundamental Freedoms and contributes to ensuring the objectives of the declaration through complying with human rights and fundamental freedoms in all of its activities.

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

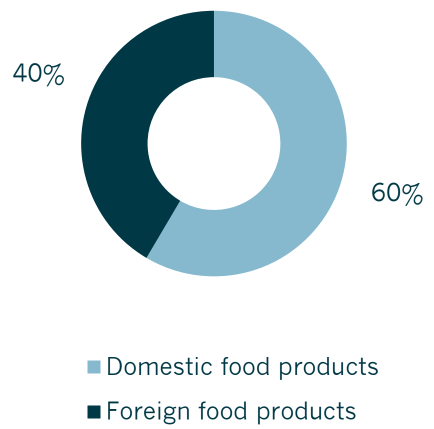
In 2022, ca 2800 suppliers provided products to the Group. 79% of suppliers of the Group are local businesses. 42% of the goods are of domestic origin, the corresponding figure is 60% for food products. In terms of social responsibility, the Group has suppliers also from high social risk countries, such as some countries in Africa, Asia, South America and Central America. Purchase amounts from these countries were very small and accounted for about 1.5% of all purchases in 2022.

2,808	79%	42%
Suppliers in total	Purchases via domestic suppliers	Goods of local origin
(2021: ca 3,100)	(2021: 77%)	(2021: 41%)

Tallinna Kaubamaja Group origin of products in 2022



Tallinna Kaubamaja Group origin of food products in 2022



Private label products

0.92% of products purchased by the Group are private label products, of which 0.01% (78% less than in 2021) was 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 the procurements, the following steps have been taken:

- Found suppliers who have the capability to manufacture products that meet Group´s 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 private label products are constantly monitored. Tests and analyses are made and customer feedback is taken into account. Products that have already been included in the product selection are tested in accordance with the 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 Group's department stores and stores is important for the Group as well as for its clients. Because of that, the Group:

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

Group is aware of clients' growing preference to consume primarily domestic products and groceries. To meet this expectation, the selection of domestic goods is increasing in the department stores and stores every year. In 2022, goods of local origin accounted for 42.2% of all goods; the corresponding figure is 60% for food products. The aim is to continue adding and increasing the selection of domestic goods in the following years.

The objective of the Group is to know its supply chain and ensure its transparency, which helps to identify product-related risks and opportunities, and develop a responsible production process.

To implement responsibility in the supply chain, companies conduct special trainings in purpose to raise awareness of the employees. If possible, visits are organised to producers' plants to see their production conditions and discuss Group´s expectations and partner's capability to satisfy these expectations.

In the 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 2022, there were in total 1,774 product recall incidents in the Group's companies, (2021: 150 incidents), out of which 99.8% before the products were put on sale. The largest recall took place in connection with the banning of lilial (butylphenyl methylpropional) in cosmetics in the European Union.

If there is 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 2022, there was 3 such incidents (2021: 22 incidents).

Furthermore, daily monitoring measures are in place in the grocery 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 acknowledges that environmentally friendly activity serves as a basis for the creation of an efficiently functioning environment and sustainable society.

Concurrent with the objective to achieve the best possible efficiency, the Group focuses on environmental protection in all its daily activities and tries to minimise the impact of the operations on the environment. People and the environment are set as a priority in the everyday business. Accordingly, the principles of responsible work and environmental protection are followed in developing the values of the employees as well as in everyday activities.

In its activities, the Group proceeds from environmental principles, which are binding to all its employees:

- Improve the resource efficiency of Group´s businesses and implement energy saving methods.
- Reduce waste generation and encourage waste sorting by type.
- Avoid and reduce the use of paper and promote paperless document management and the use of digital signatures.
- When buying goods and services, follow the principles of environmentally friendly procurement and prefer Estonian products, where possible.
- Include all the employees (and partners, as far as possible) in the implementation of the principles of the environmental policy.
- Ensure a healthy and socially responsible work environment for the employees, and support their sporting habits.
- Regularly monitor and assess Group´s environmental performance.
- In order to raise the environmental awareness of the employees, provide them with comprehensive information.

For more than a year now, the electricity consumed on the commercial, warehouse and production premises belonging to the Group, which totals over 183,000 square meters in Estonia and Latvia, comes from 100% renewable energy sources. The aim is to gradually switch over to electricity from renewable sources in the rental premises as well.

Group ´s share of renewable energy	**2020**	**2021**	**2022**
Share of electricity from renewable sources	12%	31%	44%

Due to the extensive network of stores in the Group, the energy consumption as well as waste generation is very high. Accordingly, the Group has set a goal to proceed in all its activities from responsible resource consumption to contributing to sustainable development, paying special attention to the energy efficiency of the businesses, water usage, reduction of waste and its efficient reuse and reduction of carbon footprint.

Group´s water consumption	**2020**	**2021**	**2022**
Water consumption (m3/m2)	0.39	0.60	0.53

The long-term goal is to make sure Group's activities, targets are aligned with the Paris Climate Agreement, and the use of renewable energy will support the fulfilment of that goal. When calculating the carbon footprint, the Group followed the internationally recognized and most used standard for reporting greenhouse gases - The Greenhouse Gas Protocol Corporate Standard. The standard covers the accounting and reporting of seven greenhouse gases covered by the Kyoto Protocol: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF_6), nitrogen trifluoride (NF_3). The GHG Protocol divides emissions between three scopes:

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

The Group's focus is on developing and implementing energy-saving solutions for energy-intensive processes and reducing the direct negative impact of its operations, and therefore have excluded most of the scope 3 emissions from the current calculation. Each year, different scope 3 emission sources are added to the calculation, depending on the availability and quality of the data, in order to reach a complete overview.

Group´s carbon footprint, emissions in total	**2020**	**2021**	**2022**
Scope 1, t CO_2e*	11,500	19,900	15,800
Scope 2, t CO_2e*	43,000	35,700	37,000
Total, t CO_2e*	54,500	55,600	52,800

** CO_2 equivalent*

Group´s carbon footprint intensity: scope 1, 2	2020	2021	2022
t CO_2e*/ per employee	11.97	11.34	11.24
t CO_2e*/ m^2	0.21	0.22	0.21

Group´s carbon footprint, waste	2020	2021	2022
Scope 3 waste, t CO2e*	-	-	15,760

** CO_2 equivalent*

The Group is working continuously to improve the efficiency of energy use in Group's companies, thereby saving 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 the department stores and grocery stores – cooling and technological refrigerating systems (~50-60% of stores electricity consumption), lighting, ventilation and heating. Energy efficiency is an important factor both in everyday business as well as in larger investment projects, such as the renovation of the existing stores or opening new ones.

An important factor in more sustainable energy consumption is the energy-efficient lighting. When designing the lighting solutions for department stores and stores, the placement of the room, interior fittings, as well as the goods to reduce the lighting while still ensuring sufficient light throughout the store are taken into account. Based on the above, notable energy cost efficiency has already been achieved and the process will continue in the following years.

The cooling and refrigerating systems in the Group's department stores and stores have a notable effect on the environment. To decrease the negative effect, CO_2-based cooling and refrigerating systems replace the older freon-based equipment. In addition to notably smaller energy consumption, using these devices also pose 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.

For a company that is innovative and looks into the future, it is very important to switch to solutions that put less burden on the environment. 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 was the first retail chain in Estonia to introduce electronic price tags in all stores.

100% of the paper and plastic packaging waste generated in Selver is recycled. In order to significantly reduce the volume of transportation and storage of goods transport packaging, Selver uses easily packable and durable Bepco transport boxes. In 2022 Kulinaaria started using Bepco transport boxes as well.

In addition to reducing the amount of packaging, emphasis is also placed on ensuring that existing packaging is environmentally friendly and preferably made from recycled materials. The department stores and shops sell both paper bags and reusable bags, the reusable bags sold approximately 157,053 pieces in 2022, 0.5% more than in 2021. The purchase of paper bags declined slightly, 4,273,110 units were sold in 2022, 2.5% less than in 2021. In addition to the usual small plastic bags, eco-friendly reusable fabric bags are also available for packaging the fruits and vegetables in Selver chain stores, and biodegradable plastic bags are also available at checkouts as an alternative to the traditional plastic bag. I.L.U. shop paper bags are made from 90% recycled paper. Kaubamaja, Selver and Kulinaaria are looking for alternatives to single use packaging for take-away packaging.

All plastic bags used in the physical and e-shop of Kaubamaja are made of 90-100% recycled material. Already in 2020, the e-shop's padded envelopes (so-called bubble envelopes, the cushioning of which was ensured by plastic) were replaced with envelopes filled with wool waste which can be re-circulated. The cardboard boxes used in the e-shop are minimalist in design to reduce the use of ink and therefor reduce the footprint; additionally Kaubamaja started using in its online store reusable boxes made from recycled textile waste.

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

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

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

Main goal is to prevent corruption, however, is important to also pay considerable attention to the control of Group´s activities. Main prevention 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, following principles are set in place:

- 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.
- Group proceeds from ethical, fair and transparent business and implements measures that contribute to it (such as rules, instructions, contracts, declarations, etc.).
- In every way the principles of preventing corruption are followed together with partners.
- Upon the emergence of incidents of corruption, the Group forwards the respective information to the police or prosecuting authority.

To ensure transparency in the 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.

Risks caused by climate change

Climate change affects the Group in two ways:

- physical changes: storms, floods, rising average temperature, increased precipitation, and other climate-related changes;
- changes related to the transition to a climate-neutral economy: regulations, changes in interests, changes in values, changes in needs, reporting obligations, etc.

To understand how the changing world affects the Group, the subsidiaries of the Group conducted climate risk analyses using the TCFD climate risk assessment framework.

Climate risks will continue to be assessed once a year to receive input on what to focus on and to prepare an action plan for mitigating risks as well as implementing opportunities.

Risk management is the responsibility of the Internal Audit Department of the Group, and the results are submitted to the Audit Committee of the Group, whose task is to advise the Supervisory Board on issues related to supervision. The Audit Committee prepares an annual consolidated report for the Supervisory Board on the fulfilment of the objectives set out in the statutes, in which it evaluates its activities. In performing its duties, the Audit Committee cooperates with the Supervisory Board, the Management Board, internal and external auditors, and external experts, if necessary.

The Group assessed the unpredictable increase in electricity prices due to climate change in Europe as a high risk in 2023, be it low water levels in hydroelectric power plants, windless periods, or any other natural phenomenon on which electricity production depends.

The Group assessed disruptions in the supply chain related to the shortage of raw materials and components due to either storms, droughts, floods, or other major accidents resulting from climate change that have the effect of disrupting the supply chain in an unpredictable way to be an average risk in 2023.

Risks are mitigated through cost control, investments in solar parks and energy efficiency, and procurement control.

Currently, the war in Ukraine has affected the operations of the Group much more than climate change – for example, the rise in energy prices or finding substitutes for products produced in Ukraine. At the same time, the Group is affected by both the increasing average temperature and regulations; the Group tries to take those into account early on and plan its activities in a way that would ensure the longevity of the Group.

Sustainable development strategy of Tallinna Kaubamaja Group for 2023 – 2030

It is important for Tallinna Kaubamaja Grupp AS to conduct business ethically and responsibly. In order to ensure the symbiosis of long-term business success and the surrounding environment, a sustainable development strategy of Tallinna Kaubamaja Group was prepared.

The goals of the sustainable development strategy are as follows:

- ensuring that the companies of TKM Group contribute to reducing the negative impact of global climate change and achieving the climate goals of the European Union;
- ensuring the long-term profitable and responsible operational capacity of the TKM Group.

The strategy of the Group is divided into four categories:

1. Management

- Consideration of climate change in risk management and decision-making.
- Sustainable development is integrated into company management and decisions.
- Group-wide data collection is automated and uniform.
- The Group is guided by national guidelines and the Code of Conduct of the Group.

The operations of the Group are based on internationally acknowledged guidelines and standards. The Group is transparent, forward-thinking, and progressive. Processes and employees are managed with high quality. Sustainability risks have been mitigated, negative impact assessed and reduced, and sustainability has been integrated into the business operations of the Group, increasing the positive impact of the company.

Translation of the company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/et/instrument/EE0000001105/reports).

2. Product and service development

- Automation of systems and smart management.
- Innovation and openness to new projects to find solutions that support the transition to a climate-neutral and circular economy.
- Certificates: quality, environment, energy management, etc.

The Group bases in its operations on quality – it offers customers convenient solutions and employees a modern working environment where environmentally friendly technologies are used.

3. Social environment

- Equal opportunities for men and women and a diverse workforce.
- Employee well-being and providing development opportunities.
- Healthy and accessible food for all.
- Supporting the community.

Employees are valued by offering a good working environment and development opportunities. Ensuring that employees are healthy, equipped with appropriate tools, and earn competitive wages. Employee satisfaction is very important and is supported by open two-way communication.

4. Ecological environment

- Combating climate change and taking the carbon footprint of the Group to a level which would ensure carbon neutrality by 2050 at the latest.
- Implementing the principles of circular economy to ensure the sustainable use of resources and cost-efficiency.
- A sustainable supply chain to ensure the preservation of the ecological environment, sustainable business, and the ethical treatment of employees.
- Ensuring the preservation of habitats and biodiversity.
- Supporting environmentally friendly behaviours internally and externally.

- Supporting local production and companies, providing the opportunity for small businesses to sell and introduce their products and services in the stores of the Group.

Climate change mitigation is one of the greatest global challenges and businesses are also required to contribute. The assessment of the environmental impact of the Group is based on the direct and indirect impact of the operations of the Group and the limits of its capacity. The main focus is on reducing carbon emissions through the use and production of renewable energy, and on resource-efficiency achieved through sustainable and smart technological solutions.

The new strategy is supported by measurable goals and a communication strategy. All subsidiaries are guided by the strategy, contributing to the fulfilment of Group-wide objectives with their activities. The updated key metrics and the reporting form conforming to the European Sustainability Reporting Standard will be introduced in 2023 and published in the 2024 activity report.

United Nations Sustainable Development Goals

The Group relies on the sustainable development goals of the United Nations in its strategy. In 2015, the global sustainable development goals (SDGs) and the action plan until 2030 were adopted at the UN summit. Contributing to the fulfilment of these goals is also important for the Group. A thorough impact analysis revealed the biggest areas of influence of the Group where it can significantly reduce its negative impact and increase its positive impact thanks to smart investments. The most important SDGs and sub-goals for the Group:

- SDG 7: Affordable and clean energy (7.2, 7.3);
- SDG 8: Decent work and economic growth (8.2, 8.3, 8.4, 8.5, 8.8);
- SDG 9: Industry, innovation, and infrastructure (9.4, 9.5);
- SDG 12: Responsible consumption and production (12.1, 12.2, 12.3, 12.4, 12.5, 12.6);
- SDG 13: Climate action (13.3);
- SDG 15: Biodiversity and terrestrial ecosystems (15.9);
- SDG 16: Peace, justice, and strong institutions (16.5, 16.6, 16.b);
- SDG 18: Culture: Preservation and support of Estonian culture.

The Group uses sustainable development goals both in its key metrics and in general communication.

Taxonomy

On 4 June 2021, the European Commission adopted technical screening criteria to determine the conditions under which an economic activity can be considered to significantly contribute to climate change mitigation or adaptation and to determine whether it significantly undermines the other environmental objectives set out in the European Green Deal.

The taxonomy regulation does not apply to all sectors of the economy but focuses on the activities with the greatest environmental impact, which are currently the following:

1. forestry;
2. environmental protection and restoration activities;
3. production;
4. energy;
5. water supply, sewerage, waste management and remediation;
6. transport;
7. construction and real estate activities;
8. information and communication;
9. professional, scientific, and technical activities.

In order to determine the applicability of the taxonomy to the companies of the Group, the EMTAK codes were used, and it was found that compliance with the screening criteria can be assessed in the case of Tallinna Kaubamaja Kinnisvara AS and its subsidiaries.

In 2022, the real estate segment accounted for 0.72% of the sales revenue of the Group, i.e. compliance with the screening criteria of the taxonomy could be assessed to the maximum extent of 0.72%. At the moment, the sales turnover, capital, and operating expenses of the real estate segment of the Group are deemed non-compliant with the taxonomy screening criteria.

Compliance with the taxonomy was tested on Tartu Kaubamaja, and it was found that achieving compliance with the taxonomy is difficult in trade for an already existing building. Real estate segment takes into account the requirements given in the taxonomy when building new buildings, and if possible, all new buildings already meet the requirements of the taxonomy.

In order to increase the energy efficiency of existing buildings, the real estate segment made investments worth nearly 0.5 million euros in 2022.

Remuneration report

This remuneration report has been prepared in accordance with the remuneration policy of the Group, which is primarily based on the long-term objectives of the Group, taking into account the financial results of the company and the legitimate interests of investors and creditors, and can be found on the website of the Group at tkmgroup.ee.

The purpose of the remuneration report is to provide a comprehensive and clear overview of the remuneration paid to managers in accordance with the remuneration policy. The remuneration report reflects information on salaries and other benefits paid to the Executive Board of the Group in 2022. The remuneration paid to the Executive Board of the Group individually, the total amount of remuneration, and other benefits are in accordance with the remuneration policy of the Group.

Remuneration of the Executive Board

In 2022, the Executive Board of the Group had one member.

The duties and remuneration of Raul Puusepp, member of the Executive Board, are further specified in the employment contract concluded with him, in which the Chairman of the Supervisory Board represented the Group. The term of office of Raul Puusepp, member of the Executive Board, was extended on 21 February 2020, and his term of office expires on 6 March 2023.

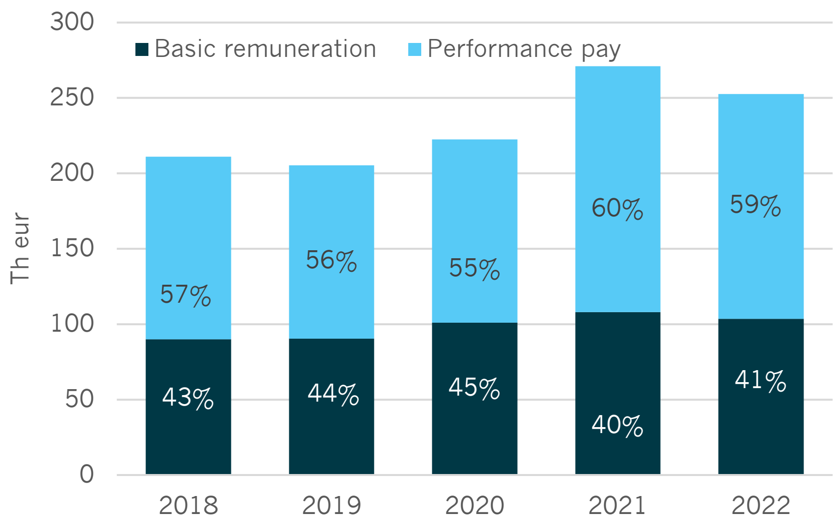
Remuneration of member of the Executive Board

In thousands, EUR	2018	2019	2020	2021	2022
Total remuneration	211.2	205.4	222.6	271.0	252.7
Incl. basic remuneration[1]	90.0	90.4	101.1	108.0	103.7
Incl. performance pay[2]	121.2	115.0	121.5	163.0	149.0

[1] Basic remuneration is calculated as gross remuneration.

[2] The performance pay has been calculated on an accrual basis as a gross fee for 2022 and may differ from the amount actually paid. The assessment of the work and fulfilment of the objectives of the member of the Executive Board and the amount of the actual performance fee will be determined by the Supervisory Board of the Group after the approval of the annual report of the Group for 2022 by the general meeting.

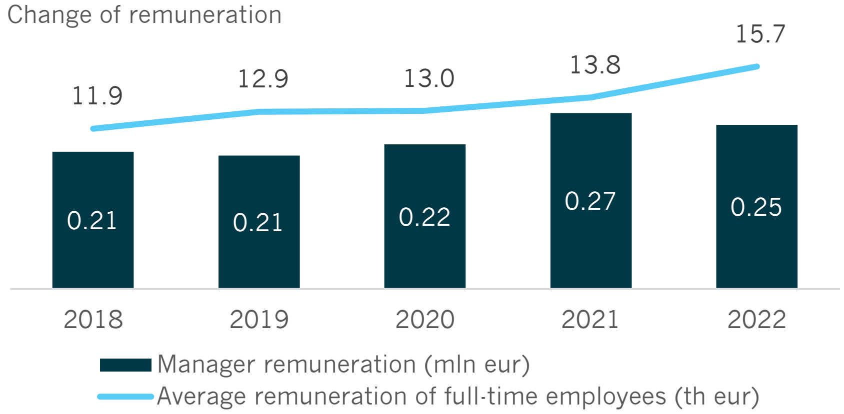
Proportion of the basic remuneration and performance pay of a member of the Executive Board



In accordance with the contract, the Chairman of the Executive Board is paid remuneration of a member of the Executive Board and they have the opportunity to receive a performance pay once a year in accordance with the fulfilment of specific, comparable, and pre-determined financial performance targets of the Group for the previous year and compliance with long-term strategic objectives. The member of the Executive Board of the Group does not have any additional bonuses, discounts, shares received or offered, or stock options.

Annual change in the remuneration of member of the Executive Board, performance of the Group, and average remuneration of full-time employees of the Group:

	2018	2019	2020	2021	2022
Net profit growth	2.0%	4.4%	-38.6%	64.2%	-7.9%
Increase in manager remuneration	8.2%	-2.7%	8.4%	21.7%	-6.8%
including an increase in basic remuneration[1]	18.4%	0.4%	11.9%	6.8%	-4.0%
including an increase in performance pay	1.7%	-5.1%	5.6%	34.2%	-8.6%
Increase in the average remuneration of full-time employees[2]	6.1%	8.8%	0.4%	6.3%	13.9%



[1] The amount of the basic remuneration is affected by the adjustments to the remuneration of the member of the Executive Board upon the renewal of the contract, possible periods of illness, and temporary reductions in the remuneration in solidarity with employees in 2020 due to the coronavirus pandemic.

[2] The average remuneration of full-time employees is calculated by dividing the remuneration costs specified in Annex 22 'Labour costs', from which the remuneration of the member of the Executive Board is deducted, by the average number of full-time employees during the reporting period, excluding the member of the Executive Board.

The table below describes the principles of formation of the remuneration of member of the Executive Board, and the criteria for its application.

Remuneration element and summary of its implementation principles	Implementation in 2022
Basic remuneration	
▪ corresponds to at least the average remuneration paid to managers of companies belonging to the same economic sector ▪ takes into account the competencies of the manager ▪ sufficiently motivating to make the manager act in the best interests of the company	The manager's contract of the member of the Executive Board was extended on 21 February 2020, when the basic remuneration of the manager was adjusted. In 2022, there has been no adjustment to the basic remuneration of the manager.
Performance pay	
▪ an element of financial performance that depends on the financial performance of the Group ▪ an element of the strategy that depends on the fulfilment of the strategic goals of the Group previously agreed with the manager	It is estimated that the manager met the financial targets set for the Group for 2022 and the long-term strategic goals.
Additional benefits	
▪ additional benefits, including additional paid holiday, company car, telephone compensation, the right to read management magazines or other publications, membership of associations and unions for managers, training, etc.	The Group covered the company car and telephone expenses of the manager
Stock options	
▪ the right to a stock option	Was not exercised
Termination-of-contract compensation	
▪ termination-of-contract compensation equal to a maximum of 6 months' average remuneration of the manager	Was not applied

In addition to his role as a member of the Executive Board, Raul Puusepp participates in the work of the supervisory boards of several companies belonging to the Group, for which he received a total gross remuneration of 82.5 thousand euros in 2022.

During the reporting year, the Supervisory Board of the Group did not deviate from the remuneration principles when determining the performance pay. The Supervisory Board of the Group also did not use the option to recover previously determined performance pays.

Chairman's confirmation of and signature to the management report

The Chairman of the Management Board confirms that management report which consists of "Management report", "Ethical business practices and corporate responsibility" and "Remuneration 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

signed digitally

Tallinn, 17 February 2023

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 2022 as set out on pages 46-94.

The Chairman of the Management Board confirms that:

1. the accounting policies used in preparing the consolidated financial statements are in compliance with International Financial Reporting Standard as adopted in the European Union;
2. the consolidated 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

signed digitally

Tallinn, 17 February 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2022	31.12.2021
ASSETS			
Current assets			
Cash and cash equivalents	5	22,436	29,981
Trade and other receivables	6	27,200	20,673
Inventories	8	89,194	68,369
Total current assets		**138,830**	**119,023**
Non-current assets			
Long-term trade and other receivables	11	299	304
Investments in associates	10	1,722	1,745
Investment property	12	63,623	62,690
Property, plant and equipment	13	420,600	431,263
Intangible assets	14	21,723	20,284
Total non-current assets		**507,967**	**516,286**
TOTAL ASSETS		**646,797**	**635,309**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	15	97,107	40,646
Trade and other payables	17	111,449	111,345
Total current liabilities		**208,556**	**151,991**
Non-current liabilities			
Borrowings	15	190,825	238,705
Deferred tax liabilities	18	5,299	4,476
Provisions for other liabilities and charges		458	267
Total non-current liabilities		**196,582**	**243,448**
TOTAL LIABILITIES		**405,138**	**395,439**
Equity			
Share capital	19	16,292	16,292
Statutory reserve capital		2,603	2,603
Revaluation reserve		106,981	109,543
Retained earnings		115,783	111,432
TOTAL EQUITY		**241,659**	**239,870**
TOTAL LIABILITIES AND EQUITY		**646,797**	**635,309**

The notes presented on pages 51-94 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	Note	2022	2021
Revenue	20	862,763	821,648
Other operating income		2,199	4,332
Cost of merchandise	8	-624,435	-607,239
Services expenses	21	-63,268	-48,874
Staff costs	22	-97,458	-88,755
Depreciation, amortisation and impairment losses	13,14	-39,072	-38,963
Other expenses		-786	-931
Operating profit		**39,943**	**41,218**
Finance income	23	4	4
Finance costs	23	-5,197	-4,909
Share of net profit of associates accounted for using the equity method	10	197	183
Profit before income tax		**34,947**	**36,496**
Income tax expense	18	-5,462	-4,480
Net profit for the financial year		**29,485**	**32,016**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Revaluation of land and buildings	13	0	9,284
Other comprehensive income for the financial year		**0**	**9,284**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**29,485**	**41,300**
Basic earnings per share (euros)	24	0.72	0.79
Diluted earnings per share (euros)	24	0.72	0.79

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

The notes presented on pages 51- 94 form an integral part of these consolidated financial statements.

Translation of the company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/et/instrument/EE0000001105/reports).

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		29,485	32,016
Adjustments:			
Interest expense	23	5,197	4,909
Interest income	23	-4	-4
Income tax expense	18	5,462	4,480
Depreciation, amortisation and impairment losses	13,14	39,017	38,116
Loss/(gain) from fair value adjustment of investment property	12	-653	-1,842
Loss on write-off property, plant and equipment	13	55	847
Profit on sale of property, plant and equipment	13	-42	-262
Effect of equity method	10	-197	-183
Interest on lease liabilities	16	-3,567	-3,416
Corporate income tax paid		-73	-64
Change in inventories	8	-22,801	8,495
Change in receivables and prepayments related to operating activities	6	-6,522	-4,747
Change in liabilities and prepayments related to operating activities	17	-135	10,055
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		**45,222**	**88,400**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	13	-15,059	-22,721
Proceeds from sale of property, plant and equipment	13	91	347
Purchase of investment property	12	-280	-501
Purchases of intangible assets	14	-1,764	-526
Business combination	9	0	-1,771
Proceeds from government grant	13	133	0
Dividends received	10	220	150
Interest received	23	4	4
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		**-16,655**	**-25,018**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	15	24,567	7,109
Repayments of borrowings	15	-17,732	-20,702
Change in overdraft balance	15	7,914	-5,342
Payments of principal or leases	15	-17,070	-16,955
Dividends paid	19	-27,695	-24,437
Income tax on dividends paid	18,19	-4,479	-4,333
Interest paid	23	-1,617	-1,498
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		**-36,112**	**-66,158**
TOTAL CASH FLOWS		**-7,545**	**-2,776**
Cash and cash equivalents at the beginning of the period	5	29,981	32,757
Cash and cash equivalents at the end of the period	5	22,436	29,981
Net change in cash and cash equivalents		**-7,545**	**-2,776**

The notes presented on pages 51- 94 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 31.12.2020	**16,292**	**2,603**	**102,630**	**-149**	**101,631**	**223,007**
Net profit for the reporting period	0	0	0	0	32,016	32,016
Revaluation of land and buildings	0	0	9,284	0	0	9,284
Currency translation differences	0	0	0	149	-149	0
Total comprehensive income for the reporting period	**0**	**0**	**9,284**	**149**	**31,867**	**41,300**
Reclassification of depreciation of revalued land and buildings	0	0	-2,371	0	2,371	0
Dividends declared	0	0	0	0	-24,437	-24,437
Total transactions with owners	**0**	**0**	**0**	**0**	**-24,437**	**-24,437**
Balance as of 31.12.2021	**16,292**	**2,603**	**109,543**	**0**	**111,432**	**239,870**
Net profit for the reporting period	0	0	0	0	29,485	29,485
Total comprehensive income for the reporting period	**0**	**0**	**0**	**0**	**29,485**	**29,485**
Reclassification of depreciation of revalued land and buildings	0	0	-2,562	0	2,562	0
Dividends declared	0	0	0	0	-27,696	-27,696
Total transactions with owners	**0**	**0**	**0**	**0**	**-27,696**	**-27,696**
Balance as of 31.12.2022	**16,292**	**2,603**	**106,981**	**0**	**115,783**	**241,659**

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

The notes presented on pages 51- 94 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General information

Tallinna Kaubamaja Grupp AS (the Company) and its subsidiaries (together as the Tallinna Kaubamaja Group or the 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 17th of February 2023 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 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

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

The presentation currency of Tallinna Kaubamaja Group is euro. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of each of the Group's entities is euro.

All amounts disclosed in the financial statements have been rounded to the nearest thousand unless referred to otherwise.

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

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

Changes in presentation

The Group has defined in segment reporting the business segments based on the reports used regularly by the supervisory board to make strategic decisions. In 2021, the supervisory board started to monitor, as separate segment, security segment. Footwear segment is included in department stores segment, where previously was presented also security services. Previous periods comparatives have been restated accordingly.

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 2021.

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 2023, and which the Group has not early adopted.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies

(effective for annual periods beginning on or after 1 January 2023)

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group assesses that there is no material impact of application of the amendments to its financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

(effective for annual periods beginning on or after 1 January 2023)

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Group assesses that there is no material impact of application of the amendments to its financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12

(effective for annual periods beginning on or after 1 January 2023)

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Group assesses that there is no material impact of application of the amendments to its financial statements.

Leases: Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

(effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU)

The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate. The Group assesses that there is no material impact of application of the amendments to its financial statements.

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

(effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU)

These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group assesses that there is no material impact of application of the amendments to its financial statements.

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

Disclosures about the primary statements of the Parent

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

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

Foreign currency transactions

Functional and presentation currency

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

Accounting for foreign currency transactions

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

Financial statements of foreign entities

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

Principles of consolidation

Subsidiaries

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

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

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

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

Associates

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

In the consolidated financial statements, investments in associated are carried using the equity method; under this method, the initial investment is adjusted with the investor´s share of profit/loss and other comprehensive income of the entity and the dividends collected.

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

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

Segment reporting

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

Cash and cash equivalents

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

Financial assets

Classification

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

- those to be measured at amortised cost.

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

Recognition and derecognition

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

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

Measurement

At initial recognition, the Group measures a financial asset, except for trade receivables, at its fair value plus (unless it is trade receivable that does not have a material financing component and is initially measured at transaction price), in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Trade receivables are initially measured at transaction price determined under IFRS 15.

Debt instruments

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

As at 31 December 2021 and 31 December 2022 and during 2022, all the Group's financial assets were classified in this category.

Equity instruments

The Group has no investments in equity instruments.

Impairment of financial assets

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

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

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

The Group measures loss allowances as follows:

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

Inventories

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

Investment property

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

Investment property is derecognised on disposal or when the asset is withdrawn from use and no future economic benefits are expected. Gains or losses from the derecognition of investment property are included within other operating income or other operating expenses in the profit or loss in the period in which derecognition occurs. When the purpose of use of an investment property changes, the asset is reclassified in the balance sheet. From the date of the change, the accounting policies of the Group into which the asset has been transferred are applied to the asset. The Group is not capitalising borrowing costs to investment properties.

Property, plant and equipment

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

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

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

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

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

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

The straight-line method is used for determining depreciation. The depreciation rates are set separately for each item of property, plant and equipment depending on its useful life. The ranges of useful lives for the groups of property, plant and equipment are as follows:

- Land and buildings
  - Land is not amortised
  - Buildings and facilities — 10-50 years
    incl. improvements of buildings — *12-23 years*
- Right of use assets – properties — rental period, 2-18 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 cost less any accumulated amortisation and any impairment losses.

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

- Trademark 7 years
- Beneficial agreements 7 years
- Capitalised development expenditure 5 years

The amortisation charge of intangible assets with a finite useful life is recognised in the profit or loss according to the allocation of intangible assets. The amortisation period and method of intangible assets with definite useful lives are reviewed at least once at the end of the financial year. Changes in the expected useful lives or the expected use of economic benefits related to the asset are recognised as changes in the amortisation period or method. Such changes are treated as changes in accounting estimates.

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

Impairment of assets

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

Goodwill

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

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

Financial liabilities

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

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

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

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

Leases

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

The Group as the lessee

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

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

Initial measurement

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

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

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

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

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

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group as the lessor

Assets leased out under operating lease terms are recognised in the balance sheet analogously to property, plant and equipment. They are depreciated over their expected useful lives on a basis consistent with similar assets. Operating lease payments are recognised as income on a straight-line basis over the lease term.

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

Sublease

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

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

Provisions and contingent liabilities

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

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

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

Corporate income tax and deferred corporate income tax

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

Group's Estonian entities

In accordance with applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on profits. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. As of 01 January 2015 the current tax rate is 20/80 on the amount paid out as net dividends. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

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

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

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

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

Corporate income tax in Lithuania

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

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

Corporate income tax in Latvia

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

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

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

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

Revenue recognition

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

Sale of goods – retail

Revenue from the sale of goods is recognised at the time when a sales transaction is completed for the client in a retail store. The client generally pays in cash, by credit card or with bank transfer. The probability of returning goods is estimated at specific commodity group level according to the historical volume of returns (expected value method), and returns are recognised in the period of the sales transaction as a reduction of revenue, by recognising a contract liability (refund liability) and a right to the returned goods. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision. As at 31.12.2022 and 31.12.2021, 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 probability of returning goods is estimated at specific commodity group level according to the historical volume of returns (expected value method), and returns are recognised in the period of the sales transaction as a reduction of revenue, by recognising a contract liability (refund liability) and a right to the returned goods. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision. As at 31.12.2022 and 31.12.2021, 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 four 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. 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.

Government grants

Government grants are aid given by governments in the form of making certain resources available to entities. To obtain it, the business operations of an entity need to comply with certain predetermined criteria. Government grants do not include government aid the value of which cannot be reliably estimated (e.g. state guarantees and free government consultations) and economic transactions concluded with the public sector on an arm's length basis.

A government grant is recognised at fair value, when there is reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Grants related to income are recognised as income over the periods necessary to match them with the costs which they are intended to compensate.

Financing component

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

Statutory reserve capital

The Company has formed statutory reserve capital in accordance with the Commercial Code of the Republic of Estonia. During each financial year, at least 5% of the net profit shall be entered in reserve capital, until reserve capital is at least 10% of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year by the weighted average number of shares issued during the period. The diluted earnings per share are calculated by adjusting both the net profit as well as the average number of shares with potential shares that have a dilutive effect on earnings per share. As the Group does not have financial instruments with a dilutive effect on earnings per share, the basic earnings per share equal the diluted earnings per share.

Payables to employees

Payables to employees contain the contractual obligation arising from employment contracts with regard to performance-based pay which is calculated on the basis of the Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is paid in the next financial year. In addition to the performance-based pay, this liability also includes accrued social and unemployment taxes calculated on it.

Pursuant to employment contracts and current legislation, payables to employees also include vacation pay accrual as of the balance sheet date. In addition to the vacation pay accrual, this liability also includes accrued social and unemployment taxes.

Note 3 Critical accounting estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates and judgments by management, which impact the amounts reported in the financial statements. It also requires management to exercise its judgment and make estimates in the process of applying the Group’s accounting policies and measurement bases. Although these estimates have been made to the best knowledge of management, they may not coincide with subsequent actual results. Changes in management estimates are included in the profit or loss of the period in which the change occurred.

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

- *Determination of the revalued value of land and buildings:* the Group accounts for land and buildings using the revaluation method. For this purpose, management regularly evaluates whether the fair value of revalued non-current assets does not significantly differ from their carrying amount. Management uses internal and external expert opinions to determine the fair value of revalued non-current assets.
- As a result of the valuation performed in the reporting period the land and buildings located in Estonia (carrying value: 183,418 thousand euros as at 31.12.2022) was adjusted neither upwards nor downwards. As a result of the valuation performed in 2021, the value of land and buildings located in Estonia (carrying value: 178,718 thousand euros as at 31.12.2021) increased by 8,433 thousand euros, which was identified through other comprehensive income. As a result of the valuation performed in 2022, the value of land and buildings located in Latvia (carrying value: 13,343 thousand euros as at 31.12.2022) was adjusted neither upwards nor downwards. As a result of the valuation performed in 2021, the value of land and buildings located in Latvia (carrying value: 13,748 thousand euros as at 31.12.2021) increased by 851 thousand euros, which was identified through other comprehensive income and through profit and loss by 139 thousand euros. For the land and buildings located in Lithuania with carrying value of 1,877 thousand euros as at 31.12.2022 (31.12.2021: 1,877 thousand euros) the valuation did not reveal any significant differences between fair value and carrying value. As at 31.12.2022 the carrying value of land and buildings using revaluation method was 198,638 thousand euros (31.12.2021: 194,343 thousand euros). More detailed information is disclosed in Note 13.
- *Assessment of impairment of buildings under construction:* at each balance sheet date, the Group assesses whether any indications exist of possible impairment of buildings under construction. If such indications exist, an impairment test is also performed at each balance sheet date on assets that have been previously impaired. For estimation of the value, the items’ value in use is determined. For determining the value in use, the discounted cash flow method is used. Internal and external valuers were used for determining the value in use.
- As a result of the impairment test performed in the reporting period, buildings under construction located in Estonia, with carrying value of 7,257 thousand euros as at 31.12.2022, the need for reversal of an impairment loss recognized in previous years in the amount of 130 thousand euros of one object was identified and as regards of one object impairment loss was recognised in the amount of 8 thousand euros. As a result of the impairment test performed in 2021, buildings under construction located in Estonia, with carrying value of 14,230 thousand euros as at 31.12.2021, the need for reversal of an impairment loss recognized in previous years in the amount of 37 thousand euros of one object was identified and as regards of one object impairment loss was recognised in the amount of 5 thousand euros. The carrying value of the buildings under construction located in Latvia (carrying value: 6,173 thousand euros as at 31.12.2022) the need for reversal of an impairment loss recognized

in previous years in the amount of 91 thousand euros of two objects was identified. As regards of one object, decrease in value in use was identified in the amount of 5 thousand euros. The carrying value of the buildings under construction located in Latvia (carrying value: 6,126 thousand euros as at 31.12.2021) the need for reversal of an impairment loss recognized in previous years in the amount of 258 thousand euros of three objects was identified. As regards of one object, decrease in value in use was identified in the amount of 77 thousand euros. Buildings under construction located in Lithuania with carrying value of 131 thousand euros as at 31.12.2022 (carrying value: 131 thousand euros as at 31.12.2021) showed no significant differences between value in use and carrying value in current period and 2021. See more detailed information in Note 13.

- *Assessment of impairment of goodwill:* at least annually, the Group evaluates possible impairment of goodwill which arose in the acquisition of subsidiaries. For determining the value in use, management has forecasted future cash flows of cash-generating units and selected an appropriate discount rate for determining the present value of cash flows. As at 31.12.2022, the carrying value of goodwill was 16,869 thousand euros (31.12.2021: 16,869 thousand euros). In 2022 and 2021, no recognition of impairment of goodwill was necessary. More detailed information is disclosed in Note 9 and 14.

Note 4 Management of financial risks

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

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

Market risk

Foreign currency risk

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

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 2022, the 6-month EURIBOR grew from -0.526% at the beginning of the year to the year-end 2.693%. In the beginning of 2023, the EURIBOR continues to rise. Business analysts estimate that 6-month EURIBOR may exceed the 3% mark in 2023.

Had the interest rates for financial liabilities with a floating interest rate been 1 percentage point higher as at 31 December 2022 (31 December 2021: 1 percentage point), the Group's financial cost would have increased by 1,025 thousand euros (2021: 1,110 thousand euros). Had the interest rates been 0.1 percentage point lower as at 31 December 2022, the Group's financial cost would have decreased by 102 thousand euros (as at 31 December 2021 changed by 0.1 percentage point and by 111 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 found that the mentioned interest rate changes do not have a significant impact on the Group's financial results.

The borrowings of the Group are exposed to changes in interest rate risks as follows:

in thousands of euros

	31.12.2022	31.12.2021
Interest rates in 3 months	12,785	5,622
Interest rates in 3 - 6 months	97,322	89,174
Total borrowings at floating interest rate	**110,107**	**94,796**
Total borrowings	**287,932**	**279,351**

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:

	31.12.2022	31.12.2021
Aa2	3,004	5,656
Aa3	18,136	23,153
A3	2	5
Total	**21,142**	**28,814**

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 2022, the maximum credit risk arising from receivables is in the amount of 20,460 thousand euros (2021: 17,649 thousand euros).

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

	31.12.2022	31.12.2021
Not due	19,083	17,394
Incl. receivables from card payments	*2,918*	*2,996*
Incl. trade receivables	*15,527*	*13,855*
Incl. other receivables	*638*	*543*
Overdue < 3 months	1,293	97
Overdue 3 - 6 months	30	47
Overdue 6 - 12 months	32	47
Overdue > 12 months	22	64
Total receivables	**20,460**	**17,649**

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. See also Note 6 and 11.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses (ECLs), the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking (including macroeconomic) information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

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

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

The discount on cash and bank accounts and receivables at 31 December 2022 on the basis of the principles described above was insignificant.

Liquidity risk

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

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

The Group's operating units forecast their cash flows on an ongoing basis and they are added to the cash flow forecasts of the Group's parent company in the Group's financial unit. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, at all times so that the Group does not breach borrowing limits or covenants.

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 31.12.2022
Borrowings	8,877	73,804	25,286	14,189	0	122,156
Lease liabilities	5,183	15,638	42,194	41,568	87,389	191,972
Financial liabilities (Note 17)	86,393	0	0	0	0	86,393
Total	**100,453**	**89,442**	**67,480**	**55,757**	**87,389**	**400,521**
In thousands of euros	**< 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**after 5 years**	**Total 31.12.2021**
Borrowings	6,042	18,866	68,299	10,470	0	103,677
Lease liabilities	5,183	15,051	40,084	39,126	100,397	199,841
Financial liabilities (Note 17)	86,742	0	0	0	0	86,742
Total	**97,967**	**33,917**	**108,383**	**49,596**	**100,397**	**390,260**

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2022 and 31.12.2021, have been used.

As at the end of the financial year, the Group had available funds in cash and cash equivalents in the amount of 22,436 thousand euros (2021: 29,981 thousand euros). As at 31 December 2022, the Group had undrawn borrowing facilities in the amount of 9,478 thousand euros (2021: 13,493 thousand euros). The Group follows its established credit risk management strategy when investing its cash flow surplus. As at 31 December 2022, the Group had placed no deposits into the joint group account through its parent company NG Investeeringud OÜ (0 euros as at 31.12.2021 was deposited).

Working capital was negative by 69,726 thousand euros on 31 December 2022 (2021: negative 32,968 thousand euros). At the end of 2022, the volume of short-term loan liabilities increased significantly in connection with the final payments of several long-term loans ending in 2023 in the amount of 60,747 thousand euros, which as of the end of the year is reflected in short-term liabilities. Loans expiring in 2023 are planned to be refinanced in 2023. The ratio of the loan balance of short-term loan agreements to the value of assets (Loan-to-value, or LTV) is between 40.1%-50.0%. The collateral for the loans is real estate with a strong anchor tenant and therefore also a strong rental cash flow, which is why the debt-service coverage ratio (DSCR) is also at a good level. Therefore, according to the management, there will be no obstacles to the extension of short-term loan agreements. The refinancing process has started at the time of publication of the report. The quick ratio of the Group (current assets minus inventories / current liabilities) was 0.24 in 2022, down slightly from 0.33 in 2021. The coverage of short-term liabilities has temporarily decreased amid the growth of short-term liabilities due to the final payments of the aforementioned refinanced loans.

Capital management

The Group's primary goal of capital (both debt and equity) management is to ensure a strong capital structure, which would support the stability of the Group's business operations and continuity of its operations, and would optimise the capital structure, lower the cost of capital and thereby protect the interests of shareholders. To preserve and adjust the capital structure, the Group may regulate the dividends payable to the shareholders, resell shares, issue new shares or sell assets to cover liabilities.

Following a common practice in retail business, the Group uses the debt to equity ratio, which is calculated as net debt to total capital (which is equity plus net debt), to monitor its proportion of capital. As at 31 December 2022, the ratio was 52% and compared to 31 December 2021 when the ratio was also 51%, the ratio has remained largely unchanged. According to the management estimation, the capital structure is optimal and does not need to be adjusted.

in thousands of euros

	31.12.2022	**31.12.2021**
Interest-bearing liabilities (Note 15)	287,932	279,351
Cash and cash equivalents (Note 5)	-22,436	-29,981
Net debt	**265,496**	**249,370**
Equity	241,659	239,870
Total equity and net debt	**507,155**	**489,240**
Debt to equity ratio*	52%	51%

**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 2.

Note 5 Cash and cash equivalents

in thousands of euros

	31.12.2022	31.12.2021
Cash on hand	1,294	1,167
Bank accounts	19,707	27,586
Cash in transit	1,435	1,228
Total cash and cash equivalents (Note 4)	**22,436**	**29,981**

Note 6 Trade and other receivables

in thousands of euros

	31.12.2022	31.12.2021
Trade receivables (Note 7)	19,822	17,106
Other short-term receivables	570	461
Total financial assets from balance sheet line "Trade and other receivables"	**20,392**	**17,567**
Prepayment for inventories	5,250	2,029
Other prepaid expenses	1,510	998
Prepaid rental expenses	10	9
Prepaid taxes (Note 18)	38	70
Total trade and other receivables	**27,200**	**20,673**

Note 7 Trade receivables

in thousands of euros

	31.12.2022	31.12.2021
Trade receivables	16,509	13,766
Provision for impairment of trade receivables	-13	-53
Receivables from related parties (Note 26)	408	397
Credit card payments (receivables)	2,918	2,996
Total trade receivables (Note 6)	**19,822**	**17,106**

Note 8 Inventories

in thousands of euros		
	31.12.2022	**31.12.2021**
Goods purchased for resale	88,460	67,722
Tare and materials	734	647
Total inventories	**89,194**	**68,369**

The profit or loss line "Cost of merchandise" includes the allowances and write-off expenses of inventories and inventory stocktaking deficit which in 2022 amounted to 14,877 thousand euros (2021: 15,488 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 2022, the allowance account amounted to 1,002 thousand euros (31.12.2021: 1,774 thousand euros) and amount of these asset recognised at net realisable value amounted to 16,965 thousand euros (31.12.2021: 16,456 thousand euros).

The Group's "Cost of merchandise" in 2022 amounted 624,435 thousand euros (2021: 607,239 thousand euros). The Group recognises as the "Cost of merchandise" the cost of purchased passenger cars, food and industrial goods, packing material, cost of finished goods, logistics and transportation, and write off of inventories.

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

Note 9 Subsidiaries

Tallinna Kaubamaja Grupp AS as at 31.12.2022 consists of:

Name	Location	Area of activity	Ownership 31.12.2022	Year of acquisition or foundation
Selver AS	Estonia, Tallinn	Retail trade	100%	1995
Tallinna Kaubamaja Kinnisvara AS	Estonia, Tallinn	Real estate management	100%	1999
Tartu Kaubamaja Kinnisvara OÜ	Estonia, Tartu	Real estate management	100%	2004
SIA TKM Latvija	Latvia, Riga	Real estate management	100%	2006
TKM Auto OÜ	Estonia, Tallinn	Commercial and finance activities	100%	2007
KIA Auto AS	Estonia, Tallinn	Wholesale 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
Kaubamaja AS	Estonia, Tallinn	Retail trade	100%	2012
Kulinaaria OÜ	Estonia, Tallinn	Centre kitchen activities	100%	2012
Viking Motors AS	Estonia, Tallinn	Retail trade	100%	2012
Viking Security AS	Estonia, Tallinn	Security activities	100%	2014
UAB TKM Lietuva	Lithuania, Vilnius	Real estate management	100%	2017
Verte Auto SIA	Latvia, Riga	Retail trade	100%	2017
TKM Finants AS	Estonia, Tallinn	Commercial and finance activities	100%	2020

Business combinations

Tallinna Kaubamaja Grupp AS performed the intragroup restructuring of two Tallinna Kaubamaja Grupp subsidiaries Selver AS and TKM King AS. The merger decisions of Selver AS (the acquiring company) and TKM King AS (the company being acquired) were adopted on 9 August 2022 and an entry of the merger in the commercial register was made on 26 September 2022.

Pursuant to the merger agreement concluded on 7 July 2022, the legal successor of TKM King AS is Selver AS and, with the entry of the merger in the commercial register, all the assets of TKM King AS were wholly transferred to Selver AS. Due to the merger, TKM King AS was deleted from the commercial register on 26 September 2022. TKM King AS retail stores has been closed by now and TKM King AS existing wholesale business is merged with Selver AS.

Ownership as at 31.12.2022 has remained the same as at 31.12.2021.

Note 10 Investments in associates

Tallinna Kaubamaja Grupp AS has ownership of 50% (2021: 50%) interest in the entity AS Rävala Parkla which provides the services of a parking house in Tallinn. The investment has been classified as associated company because the other owner has the power to appoint the members of supervisory board. See also Note 20.

in thousands of euros

	31.12.2022	31.12.2021
Investment in the associate at the beginning of the year	**1,745**	**1,712**
Profit for the reporting period under equity method	197	183
Dividends received	-220	-150
Investment in the associate at the end of the year	**1,722**	**1,745**

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

	31.12.2022	31.12.2021
Current assets	76	141
Property, plant and equipment	3,425	3,409
Current liabilities	57	60
Owners' equity	3,444	3,489
Revenue	540	518
Net profit	395	365

Note 11 Long-term trade and other receivables

in thousands of euros

	31.12.2022	31.12.2021
Prepaid rental expenses	198	196
Deferred tax asset	33	26
Other long-term receivables	68	82
Total long-term trade and other receivables	**299**	**304**

Note 12 Investment property

in thousands of euros

Carrying value as at 31.12.2020	**60,347**
Purchases and improvements	501
Net loss from fair value adjustment	1,842
Carrying value as at 31.12.2021	**62,690**
Purchases and improvements	280
Net loss from fair value adjustment	653
Carrying value as at 31.12.2022	**63,623**

Investment properties comprise with commercial buildings and constructions in progress in Estonia and Latvia, which the Group maintains predominantly for earning rental income and which are partially classified as investment properties and partially as property, plant and equipment. See also Note 20.

The cost of purchases and renovation works of 2022 amounted to 280 thousand euros (2021: 501 thousand euros).

In 2022, renovation work was carried out for investment property in Latvia, Ogre for 68 thousand euros, in Tartu Kaubamaja 191 thousand euros and in Viimsi Centre 21 thousand euros.

In 2021 year, renovation work was carried out for Tartu Kaubamaja in the amount of 243 thousand euros and Viimsi Centre in the amount of 23 thousand euros. Renovation work was carried out for investment property in Latvia: Salaspils shopping centre in the amount of 172 thousand euros and Kuldiga shopping centre in the amount of 63 thousand euros.

Assessment of fair value of the item Investment properties

Management assesses the fair value of investment properties every year. Fair values were determined based on the management's judgement, using the assessments of 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.

For estimating the value of investment properties located in Estonia, the valuations of a certified independent real estate expert was used regarding one object (2021: 0 objects). In 2022, for investment properties in Estonia, for two objects (in 2021: 1 object), the opinion of a real estate expert was used for the discount and capitalisation rates and for two objects (2021: 4 object) comparable transactions method was used for valuation. Discount rates 8.0%–8.5% (2021: 8.0%-9.0%) depending on the location of the property and rental income growth rate 0.0%-2.0% (2021: 2.0%) were used for valuation. When determining the rental price input in the assessment of investment properties, the current rental agreements were used, which in the estimation of the management correspond to the market conditions.

For estimating the value of investment properties located in Latvia, the valuations of a certified independent real estate expert was not used (2021: the valuations of a certified independent real estate expert was used for 2 objects). The real estate expert provided an expert opinion with regard to the discount and capitalisation rates for four objects in 2022 (2021: for two objects). The discount rate 8.0%-9.0% (2021: 8.0%-9.0%) and rental income growth rates 1.5%–2.5% (2021: 1.0%-2.5%) were used in valuation. When determining the rental price input in valuation, the current rental agreement has been taken into account, which in the estimation of the management corresponds to the market conditions.

As a result of the valuation in 2022 in Estonia, the fair values of investment property increased in the amount of 694 thousand euros (2021: 1,943 thousand euros).

As a result of the valuation in reporting period in Latvia, the fair values of investment property increased in the in the amount of 187 thousand euros (2021: 203 thousand euros) and decreased in the amount of 228 thousand euros (2021: 304 thousand euros).

Net fair value adjustment of investment property is recorded in profit or loss line "Other operating income" in the amount of 653 thousand euros in 2022 (2021:1,842 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 +6,033/-6,033 thousand euros (2021: +6,108/-6,108 thousand euros). If the discount rates used for determing fair value would change +/- 0.5pp then the fair value of investment properties would change -1,142/+1,173 thousand euros (2021: -1,128/+1,158 thousand euros).

The Group's investment properties carried at fair value as at 31.12.2022 and 31.12.2021 are measured at level 3.

In 2022, the Group's rental income on investment properties amounted to 4,259 thousand euros (2021: 3,592 thousand euros). Direct property management expenses in 2022 amounted to 2,917 thousand euros (2021: 1,409 thousand euros).

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

In thousands of euros	**31.12.2022**	**31.12.2021**
due in less than 1 year	4,400	3,993
due between 1 and 5 years	9,733	13,748
due after 5 years	1,794	1,129
Total	**15,927**	**18,870**

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

Note 13 Property, plant and equipment

in thousands of euros

	Land and buildings	Right-of use-assets: retail properties	Machinery and equip-ment	Other fixtures and fittings	Construc-tion and projects in progress	Total
31.12.2020						
Cost or revalued amount	186,379	176,459	51,760	49,562	32,084	496,244
Accumulated depreciation and impairment	0	-34,110	-31,133	-32,964	-9,280	-107,487
Carrying value	**186,379**	**142,349**	**20,627**	**16,598**	**22,804**	**388,757**
Changes occurred in 2021						
Purchases and improvements	4,791	0	10,248	7,813	-131	22,721
Addition to right-of use-assets	0	66	0	0	0	66
Reclassification among property, plant and equipment groups	-2	0	2	0	0	0
Other reclassification	0	0	49	0	0	49
Reclassification to inventory	0	0	-202	0	0	-202
Reclassification to property, plant and equipment from inventory	0	0	670	0	4	674
Disposals	0	0	-6	-1	-78	-85
Write-offs	0	-416	-94	-285	0	-795
Termination of right-of use-assets	0	-920	0	0	0	-920
Decrease/increase in value through profit or loss	139	0	0	0	213	352
Increase in value through revaluation reserve	9,284	0	0	0	0	9,284
Adjustment to right-of use assets	0	49,372	0	0	0	49,372
Depreciation	-6,248	-19,832	-5,908	-6,022	0	-38,010
31.12.2021						
Cost or revalued amount	194,343	221,083	60,362	52,949	31,878	560,615
Accumulated depreciation and impairment	0	-50,464	-34,976	-34,846	-9,066	-129,352
Carrying value	**194,343**	**170,619**	**25,386**	**18,103**	**22,812**	**431,263**
Changes occurred in 2022						
Purchases and improvements	970	0	119	976	12,861	14,926
Addition to right-of use-assets	0	5,959	0	0	0	5,959
Reclassification among property, plant and equipment groups	10,052	0	5,969	5,119	-21,140	0
Other reclassification	0	0	328	0	0	328
Reclassification to intangible assets (Note 14)	0	0	0	0	-218	-218
Reclassification to inventory	0	0	-395	0	0	-395
Reclassification to property, plant and equipment from inventory	0	0	2,386	1	7	2,394
Disposals	0	0	-43	-6	0	-49
Write-offs	-6	0	-24	-25	0	-55
Decrease/increase in value through profit or loss	0	0	0	18	208	226
Adjustment to right-of use assets	0	4,942	0	0	0	4,942
Depreciation	-6,721	-19,384	-6,532	-6,084	0	-38,721
31.12.2022						
Cost or revalued amount	204,394	231,984	66,127	55,761	23,389	581,655
Accumulated depreciation and impairment	-5,756	-69,848	-38,933	-37,659	-8,859	-161,055
Carrying value	**198,638**	**162,136**	**27,194**	**18,102**	**14,530**	**420,600**

Investments in non-current assets

The cost of investments for the 12 months of 2022 amounted to 16,690 thousand euros (including purchases of property, plant and equipment in the amount of 14,926 thousand euros and purchases of intangible assets amounted to 1,764 thousand euros). See also note 20.

In the reporting period the Group received government grant for assets in the amount of 133 thousand euros. Government grants are recognized on a net basis.

The cost of purchases of property, plant and equipment made in reporting period in the supermarkets business segment was 9,680 thousand euros. In the reporting period in Tallinn, Lasnamäe Priisle Kodu development was opened Selver supermarket, which is the sixth Selver store in Lasnamäe. During the reporting period was opened in Harju County Tabasalu Selver supermarket, which is the biggest grocery store in the region. In Rakvere Krooni Centre located Krooni Selver underwent a thorough renovation, the store was transferred to a Selver's new concept of interior design. In the reporting period computing technology was purchased and store fittings renewed.

The cost of purchases of property, plant and equipment in the business segment of department stores amounted to 3,345 thousand euros. In the reporting period, Kaubamaja opened renewed Women's Department in Tallinna Kaubamaja. In Pärnu Centre I.L.U store was renovated and opened with a new interior design concept. In October renovated store was opened in Rocca al Mare also.

The cost of purchases of property, plant and equipment in the reporting period was 536 thousand euros in the car trade business segment. The cost of purchases of property, plant and equipment in the reporting period was 242 thousand euros in the security business segment.

The cost of purchases of property, plant and equipment in the real estate business segment amounted to 1,123 thousand euros. During the reporting period, real estate companies have made investments for more accurate measurement and management of the energy consumption of technical systems. Design work for the new Selver is underway in Tartu.

As of 31.12.2022 and 31.12.2021, Tallinna Kaubamaja Grupp AS companies had no commitments to purchase fixed assets.

At the year-end 2022, 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 real estate experts for determining the inputs to be used or the fair value of the items. The discounted cash flow model with market information (transactions, rental income, etc.) and/or market approach were both used for determining fair values as well as recoverable amounts.

Estimation of fair value of “Land and buildings”

The evaluation of “Land and buildings” has been performed every year end. In a view of changes in the economy related to the Ukrainian war, the management of the Group reached to a conservative point that the fair value of “Land and buildings“ have not changed significantly. As a result of valuation, the change in the fair value of “Land and buildings” located in Estonia, Latvia and Lithuania was not identified in 2022.

As a result of the evaluation of the property under “Land and buildings” located in Estonia the fair value increased by 8,433 thousand euros in 2021, which was recognized through revaluation reserve. As a result of the evaluation of the property under “Land and buildings” located in Latvia the fair value increased by 851 thousand euros in 2021, which was recognized through revaluation reserve and 139 thousand euros was recognized through profit and loss. As a result of valuation, the change in the fair value of “Land and buildings” located in Lithuania was not identified in 2022 and 2021.

The following table analyses the non-financial assets (property) carried at fair value, by valuation method. The different levels have been defined as follows:

- quoted prices (unadjusted) in active markets for identical assets (Level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly (Level 2);
- inputs for the asset that are based on observable market data (Level 3).

The fair value of “Land and building” is determined using valuation techniques. The valuation technique uses observable inputs as much as they are available and uses as little as possible Group Management's assessments. The “Land and buildings” are classified as level 2 if all significant inputs which are basis for determining the fair value are observable. To determine the value of “Land and buildings” located in Estonia, the valuations of a certified independent real estate expert were used in respect of 5 properties in 2022 (2021: 5 properties). The same expert also provided an expert opinion with regard to the discount and capitalisation rates or was used comparable transactions method in respect of 20 properties (2021: 18 properties). The discount rates used for estimation were

8.0%-11.5% (2021: 7.2%-11.5%) depending on the location of the property and the rental growth rates were 1.0%-2.5% (2021: 1.0%-2.5%). For the purpose of estimating the value of "Land and buildings", the rental agreements in force have been used for determining the input of the rental price, which management believes correspond to the market conditions.

For estimating the value of "Land and buildings" located in Latvia, the valuation of a certified independent real estate expert was used for all 5 objects in 2022. For estimating the value of "Land and buildings" located in Latvia, the valuation of a certified independent real estate expert was not used in 2021. For determining the value of five properties of "Land and buildings" located in Latvia as at 31.12.2021, valuation of a certified independent real estate expert was used with regard to the discount and capitalisation rates used and valuation was performed internally. The discount rate used for valuation was 8.5% (2021: 8.5%) and the rental growth rates were 2.0%-2.5% (2021: 2.0%-2.5%). As a result of valuation, the change in the fair value of "Land and buildings" located in Lithuania was not identified in 2022 and 2021.

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

In thousands of euros	**Fair value at 31 December 2022**	**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	52,764	Discounted cash flow method	Lease price per month per square metre	9.1-18.9	The higher the price per square metre, the higher the fair value
PPE items in Estonia, for which estimates were provided by experts in respect of discount and capitalisation rates	120,025	Discounted cash flow method	Lease price per month per square metre	8.5-16.4	The higher the price per square metre, the higher the fair value
Remaining PPE items in Estonia	10,629	Discounted cash flow method	Lease price per month per square metre	8.9	The higher the price per square metre, the higher the fair value
PPE item in Latvia, for which estimates were provided by experts in respect of discount and capitalisation rates	13,308	Discounted cash flow method	Lease price per month per square metre	3.0-11.4	The higher the price per square metre, the higher the fair value
Remaining PPE items in Latvia	35	Purchased at fair value on 2020			
Item in Lithuania, for which an expert opinion was not provided	1,877	Purchased at fair value on 2017			
Total	**198,638**				

In thousands of euros	Fair value at 31 December 2021	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	21,316	Discounted cash flow method	Lease price per month per square metre	10.5-12.4	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	142,971	Discounted cash flow method	Lease price per month per square metre	8.5-18.9	The higher the price per square metre, the higher the fair value
Remaining PPE items in Estonia	14,431	Discounted cash flow method	Lease price per month per square metre	8.9	The higher the price per square metre, the higher the fair value
PPE item in Latvia, for which estimates were provided by experts in respect of discount and capitalisation rates	13,736	Discounted cash flow method	Lease price per month per square metre	3.0-11.4	The higher the price per square metre, the higher the fair value
Remaining PPE items in Latvia	12	Purchased at fair value on 2020			
Item in Lithuania, for which an expert opinion was not provided	1,877	Purchased at fair value on 2017			
Total	**194,343**				

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:
31.12.2022 92,379 thousand euros

31.12.2021 86,937 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 three objects (2021: 3 objects) and ten objects (2021: 8 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 5 objects (2021: 2 objects) and 4 objects (2021: 6 objects) were not valued in reporting period.

For valuation purposes, the discount rates used were 8.0%-9.9% (2021: 8.0%-10.0%) depending on the location of the item, and the rental growth rates were 1.0%-2.5% (2021: 1.0%-2.5%). 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. For determining fair value of Latvian "Buildings under construction" the comparable transactions method was used in current year.

Based on the results of valuation in 2022, the book value of Estonian "Buildings under construction" in respect of one object reversal of an impairment loss recognized in previous years in the amount of 130 thousand euros and an impairment loss was recognized in respect of one object in the amount of 8 thousand euros. Based on the results of valuation in 2021, the book value of Estonian "Buildings under construction" in respect of one object reversal of an impairment loss recognized in previous years in the amount of 37 thousand euros and an impairment loss was recognized in respect of one object in the amount of 5 thousand euros.

Based on the results of valuation in 2022, the book value of Latvian "Buildings under construction" in respect of two objects reversal of an impairment loss recognized in previous years in the amount of 91 thousand euros. As regards of one object, impairment loss was recognised in the amount of 5 thousand euros. Based on the results of valuation in 2021, the book value of Latvian "Buildings under construction" in respect of three objects reversal of an impairment loss recognized in previous years in the amount of 258 thousand euros. As regards of one object, impairment loss was recognised in the amount of 77 thousand euros.

"Buildings under construction" located in Lithuania with carrying value of 131 thousand euros as at 31.12.2022 (carrying value: 131 thousand euros as at 31.12.2021) showed no significant differences between fair values and carrying value in reporting period nor 2021.

Carrying amounts of "Buildings under construction" (Level 3):

In thousands of euros	**Number of items 31.12.2022**	**31.12.2022**	**Number of items 31.12.2021**	**31.12.2021**
PPE items in Estonia, for which an expert opinion was provided	3	620	3	3,755
PPE items in Estonia, for which an internal estimate was provided	10	306	8	356
Remaining PPE items in Estonia	12	6,331	9	10,119
PPE items in Latvia, for which an expert opinion was provided	5	2,297	2	1,760
PPE items in Latvia, for which an internal estimate was provided	0	0	1	67
Remaining PPE items in Latvia	4	3,876	6	4,299
PPE item in Lithuania	1	131	1	131
Total	**35**	**13,561**	**30**	**20,487**

As at 31.12.2022 the cost of fully amortized non-current assets (machinery, equipment and other fittings) in use was 44,091 thousand euros (2021: 43,099 thousand euros).

As at 31.12.2022 property, plant and equipment with the carrying value of 131,834 thousand euros (2021: 124,087 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 31.12.2022 the recoverable amount of the non-current assets of I.L.U. beauty stores (carrying value: 957 thousand euros, in 2021: 60 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 2.5% in 2023-2027 (2021: 2022 – 2026 is estimated to be 1.8%). In the end of 2022 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 14.85% (2021: 9.24%) and the future growth rate (after year 5) is 2.6% (2021: 2.5%). No impairment loss was identified as a result of the impairment test.

Note 14 Intangible assets

in thousands of euros

	Goodwill	Trademark	Beneficial agreements	Capitalised development expenditure	Total
31.12.2020					
Cost	16,869	5,599	0	2,956	25,424
Accumulated amortisation and impairment	0	-3,807	0	-1,469	-5,276
Carrying value	**16,869**	**1,792**	**0**	**1,487**	**20,148**
Changes occurred in 2021					
Purchases and improvements	0	0	0	526	526
Acquired through business combinations (Note 9)	0	0	120	0	120
Write off	0	0	0	-52	-52
Amortisation	0	-291	-14	-153	-458
31.12.2021					
Cost	16,869	5,599	120	3,394	25,982
Accumulated amortisation and impairment	0	-4,098	-14	-1,586	-5,698
Carrying value	**16,869**	**1,501**	**106**	**1,808**	**20,284**
Changes occurred in 2022					
Purchases and improvements	0	0	0	1,764	1,764
Reclassification to property, plant and equipment	0	0	0	-21	-21
Reclassification from property, plant and equipment (Note 13)	0	0	0	218	218
Amortisation	0	-273	-17	-232	-522
31.12.2022					
Cost	16,869	2,091	120	5,355	24,435
Accumulated amortisation and impairment	0	-863	-31	-1,818	-2,712
Carrying value	**16,869**	**1,228**	**89**	**3,537**	**21,723**

In the reporting period, the Group capitalised costs of a web page update, loyalty card web page update, loyalty card - Monthly Card, e-shop as development expenditure and development of services were in the amount of 1,764 thousand euros (2021: 526 thousand euros).

As a trademark, the Group has recognised the image of ABC King in the department store segment at a cost value of 3,508 thousand euros; the image contains a combination of the name, symbol and design together with recognition and preference by consumers. Trademark's use has ceased and it has been written off in the second quarter of 2022.

Trademark at value of 180 thousand euros was acquired in 2014 through purchase of Viking Security AS shares. Trademark will be amortised during 7 years. Trademark has been fully amortised in 2021, but its use will continue.

Trademark at value of 1,911 thousand euros was acquired in 2020 through purchase of ABC Supermarkets AS shares. Trademark will be amortised during 7 years. In 2021, Viking Security AS acquired from P.Dussmann Eesti OÜ its security services business in Estonia together with the assets and agreements belonging to it. Beneficial agreements at value of 120 thousand euros was acquired together with security services business. Beneficial agreements will be amortised during 7 years.

Impairment tests of goodwill and other intangible assets were carried out as at 31 December 2022 and 2021. Goodwill is allocated to cash generating units of the Group by the following segments:

in thousands of euros	**31.12.2022**	**31.12.2021**
Supermarkets	13,609	13,609
Car trade	3,156	3,156
Security	104	104
Total	**16,869**	**16,869**

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

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

	Car trade		**Supermarkets**	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**
Operating profit margin during next 5 years	1.3%-1.6%	4.06%-4.18%	-0.5%-1.7%	1.64%-2.49%
Discount rate	11.29%	6.32%	7.04%	6.02%
Sales growth during next 5 years	3%-26.1%	3%-3.9%	3%-9.9%	3%-10.2%
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.

	Car trade		**Supermarkets**	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**
Difference between the carrying amount and recoverable amount of the cash generating unit (in thousands of euros)	1,898	87,892	12,357	35,906
Reasonably possible change in the assumptions, which would cause the recoverable amount to be equal to the carrying amount:				
Decrease in the average sales growth	2.13%	4.70%	0.65%	1.40%
Decrease of the average operating profit margin	0.76 pp	2.73 pp	1.04 pp	2.57 pp

Note 15 Interest bearing borrowings

in thousands of euros

	31.12.2022	**31.12.2021**
Short-term borrowings		
Overdraft	15,222	7,308
Bank loans	60,747	13,662
Lease liabilities (Note 16)	17,433	16,838
Other borrowings	3,705	2,838
Total short-term borrowings	**97,107**	**40,646**

	31.12.2022	31.12.2021
Long-term borrowings		
Bank loans	28,320	72,489
Lease liabilities (Note 16)	154,210	160,973
Other borrowings	8,295	5,243
Total long-term borrowings	**190,825**	**238,705**
Total borrowings	**287,932**	**279,351**

Borrowings received

	2022	2021
Overdraft	7,914	0
Bank loans	17,219	0
Other borrowings	7,348	7,109
Total borrowings received	**32,481**	**7,109**

Borrowings repaid

	2022	2021
Overdraft	0	5,342
Bank loans	14,302	17,101
Lease liabilities	17,070	16,955
Other borrowings	3,430	3,601
Total borrowings repaid	**34,802**	**42,999**

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 31.12.2022, the repayment dates of bank loans are between 25.03.2023 and 07.12.2027 (2021: between 25.01.2022 and 15.06.2026), interest is tied both to 3-month and 6-month EURIBOR. Group has also contracts with fixed interest rate. Weighted average interest rate was 2.78% (2021: 1.39%).

Lease agreements that form lease liabilities have been concluded for the term until 14.04.2040. The lease obligation recognised in the balance sheet is recognised in accordance with IFRS 16, the discount uses an alternative loan interest rate at the time of the settlement or the initial application of IFRS 16. Weighted average interest rate used was 1.97% (31.12.2021: 1.57%).

Net debt reconciliation
in thousands of euros

	31.12.2022	31.12.2021
Cash and cash equivalents (Note 5)	22,436	29,981
Short-term borrowings	-97,107	-40,646
Long-term borrowings	-190,825	-238,705
Net debt	**-265,496**	**-249,370**
Cash and cash equivalents (Note 5)	22,436	29,981
Gross debt – fixed interest rates	-177,825	-184,555
Gross debt – variable interest rates	-110,107	-94,796
Net debt	**-265,496**	**-249,370**

	Cash and cash equivalents	Overdraft	Borrowings	Lease liabilities	Total
Net debt 31.12.2020	**32,757**	**-12,650**	**-107,823**	**-146,278**	**-233,994**
Cash flow (principal and interest)	-2,776	5,342	14,733	20,371	37,670
Interest accrued	0	0	-1,142	-3,416	-4,558
New lease contracts	0	0	0	-66	-66
Termination of lease liabilities	0	0	0	950	950
Revaluation of lease liabilities	0	0	0	-49,372	-49,372
Net debt 31.12.2021	**29,981**	**-7,308**	**-94,232**	**-177,811**	**-249,370**
Cash flow (principal and interest)	-7,545	-7,914	-5,218	20,636	-41
Interest accrued	0	0	-1,617	-3,567	-5,184
New lease contracts	0	0	0	-5,959	-5,959
Revaluation of lease liabilities	0	0	0	-4,942	-4,942
Net debt 31.12.2022	**22,436**	**-15,222**	**-101,067**	**-171,643**	**-265,496**

Note 16 Lease agreements

Group is the lessee

Lease liabilities (according to IFRS 16 'Leases') recorded in the Group's consolidated financial reports are presented below.

in thousands of euros	31.12.2022	31.12.2021
Lease liability recognised in the statement of financial position	**171,643**	**177,811**
- short-term lease liabilities (Note 15)	17,433	16,838
- long-term lease liabilities (Note 15)	154,210	160,973

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

in thousands of euros	2022	2021
Interest expense (included in finance cost)	3,567	3,416
Expense relating to leases of low-value assets that are not short-term leases	637	567
Expense relating to short-term leases (included in operating expenses)	630	737
Depreciation charge for right of use assets (Note 13)	19,384	19,832
Income on subleases	4,348	4,062
The total cash outflow for leases	20,637	20,371

Subleases of buildings leased under operating lease terms:

Future minimum lease payments under non-cancellable subleases:

in thousands of euros	31.12.2022	31.12.2021
within 1 year	1,851	2,741
between 1 and 5 years	4,322	3,518
after 5 years	2,696	99
Total	**8,869**	**6,358**

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	**31.12.2022**	**31.12.2021**
within 1 year	5,622	4,682
between 1 and 5 years	12,065	15,111
after 5 years	4,919	3,754
Total	**22,606**	**23,547**

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

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

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

Extension and termination options

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

Note 17 Trade and other payables

in thousands of euros

	31.12.2022	**31.12.2021**
Trade payables	79,551	77,955
Payables to related parties (Note 26)	3,132	5,263
Other accrued expenses	209	96
Tenant security deposits	3,501	3,428
Total financial liabilities from balance sheet line ''Trade and other payables'' (Note 4)	**86,393**	**86,742**
Taxes payable (Note 18)	10,365	9,729
Employee payables	11,059	10,123
Prepayments	3,433	4,026
Short-term provisions*	199	725
Total trade and other payables	**111,449**	**111,345**

* Short-term provisions represent warranty provisions related to footwear trade. In 2021, short-term provisions represent restructuring provisions related to footwear trade.

Note 18 Taxes

in thousands of euros

	31.12.2022		31.12.2021	
	Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Prepaid taxes (Note 6)	38	0	70	0
Value added tax	0	4,635	0	4,356
Personal income tax	0	1,554	0	1,409
Social security taxes	0	3,745	0	3,525
Corporate income tax	0	67	0	87
Unemployment insurance	0	246	0	229
Mandatory funded pension	0	118	0	123
Total taxes (Note 17)	**38**	**10,365**	**70**	**9,729**

Group's deferred income tax asset as at 31 December 2022 and 31 December 2021 is recorded in the balance sheet in the amount of 33 thousand euros and 26 thousand euros respectively. As of 31.12.2022 deferred tax liability on dividends in the amount of 5,299 thousand euros (31.12.2021: 4,476 thousand euros) is recorded in the balance sheet. See also Note 20.

in thousands of euros

	2022	2021
Corporate income tax from payments to owners:		
- Income tax on dividends paid (Note 19)	4,479	4,333
Corporate income tax expense arising from foreign subsidiaries:		
- Corporate income tax payable	159	78
Deferred income tax liability on dividends:		
- Deferred income tax liability	5,299	4,476

Note 19 Share capital

As of 31.12.2022 and 31.12.2021, 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 2022, dividends were paid to the shareholders in the amount of 27,695 thousand euros, or 0.68 euros per share. Related income tax expense on dividends amounted to 4,479 thousand euros.

In 2021, dividends were paid to the shareholders in the amount of 24,437 thousand euros, or 0.60 euros per share. Related income tax expense on dividends amounted to 4,333 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 27,696 thousand euros, or 0.68 euros per share out of retained earnings accumulated until 31 December 2022.

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, beauty products (I.L.U.) and security segments. The measures of I.L.U. are below the quantitative criteria of the reporting segment specified in IFRS 8; these 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 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 security segment main activity is providing security services solutions. The real estate segment deals with the development, management and maintenance of real estate owned by the Group, and with the rental of commercial premises.

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

The disclosures of financial information correspond to the information that is periodically reported to the Supervisory Board. Measures of profit or loss, segment assets and liabilities have been measured in accordance with accounting policies used in the preparation of the financial statements, except for IFRS 16 measurement and recognition of right of use assets and lease liabilities which are shown in a separate sector. Main measures that Supervisory Board monitors are segment revenue (external segment and inter-segment revenue), EBITDA (earnings before interest, taxes, depreciation and amortisation) and net profit or loss.

In thousands of euros

2022	**Super markets**	**Depart-ment stores**	**Car trade**	**Securi-ty**	**Real estate**	**Inter-seg-ment transac-tions**	**Impact of lease account-ting**	**Total seg-ments**
External revenue	**594,853**	**105,152**	**146,767**	**9,817**	**6,174**	**0**	**0**	**862,763**
Inter-segment revenue	1,341	4,194	533	5,349	14,514	-25,931	0	0
Total revenue	596,194	109,346	147,300	15,166	20,688	-25,931	0	862,763
EBITDA	**24,482**	**5,008**	**11,827**	**477**	**16,584**	**0**	**20,637**	**79,015**
Segment depreciation and impairment losses (Note 13,14)	-11,263	-2,586	-894	-364	-4,581	0	-19,384	-39,072
Operating profit/loss	**13,219**	**2,422**	**10,933**	**113**	**12,003**	**0**	**1,253**	**39,943**
Finance income (Note 23)	332	401	75	2	270	-1,076	0	4
Finance income on shares of associates (Note 10)	0	197	0	0	0	0	0	197
Finance costs (Note 23)	-662	-719	-339	-18	-968	1,076	-3,567	-5,197
Income tax* (Note 18)	-1,140	-228	-1,315	0	-2,779	0	0	-5,462
Net profit/loss	**11,749**	**2,073**	**9,354**	**97**	**8,526**	**0**	**-2,314**	**29,485**
incl. in Estonia	11,749	2,073	7,929	97	7,885	0	-2,314	27,419
incl. in Latvia	0	0	544	0	680	0	0	1,224
incl. in Lithuania	0	0	881	0	-39	0	0	842
Segment assets	**148,441**	**93,787**	**58,291**	**4,554**	**288,605**	**-109,017**	**162,136**	**646,797**
Segment liabilities	**119,396**	**67,020**	**37,364**	**4,151**	**84,819**	**-79,255**	**171,643**	**405,138**
Segment investments in property, plant and equipment (Note 13)	9,680	3,345	536	242	1,123	0	0	14,926
Segment investments in intangible assets (Note 14)	13	1,739	6	6	0	0	0	1,764
Reversal of the impairment from previous years of property, plant and equipment through profit or loss (Note 13)	18	0	0	0	208	0	0	226
Fair value adjustment of investment property (Note 12)	0	0	0	0	653	0	0	653

In thousands of euros

2021	Super markets	Depart-ment stores	Car trade	Securi-ty	Real estate	Inter-seg-ment transac-tions	Impact of lease account-ting	Total seg-ments
External revenue	**568,979**	**93,408**	**145,818**	**8,177**	**5,266**	**0**	**0**	**821,648**
Inter-segment revenue	1,146	3,887	501	5,596	14,099	-25,229	0	0
Total revenue	570,125	97,295	146,319	13,773	19,365	-25,229	0	821,648
EBITDA	**31,827**	**1,780**	**8,406**	**377**	**17,420**	**0**	**20,371**	**80,181**
Segment depreciation and impairment losses (Note 13,14)	-11,009	-2,428	-674	-345	-4,675	0	-19,832	-38,963
Operating profit/loss	**20,818**	**-648**	**7,732**	**32**	**12,745**	**0**	**539**	**41,218**
Finance income (Note 23)	302	379	21	2	230	-930	0	4
Finance income on shares of associates (Note 10)	0	183	0	0	0	0	0	183
Finance costs (Note 23)	-628	-612	-336	-14	-833	930	-3,416	-4,909
Income tax* (Note 18)	-2,141	-413	-482	-26	-1,418	0	0	-4,480
Net profit/loss	**18,351**	**-1,111**	**6,935**	**-6**	**10,724**	**0**	**-2,877**	**32,016**
incl. in Estonia	18,351	-1,111	6,584	-6	10,150	0	-2,877	31,091
incl. in Latvia	0	0	-75	0	620	0	0	545
incl. in Lithuania	0	0	426	0	-46	0	0	380
Segment assets	**145,794**	**58,366**	**32,970**	**3,647**	**282,266**	**-58,353**	**170,619**	**635,309**
Segment liabilities	**115,539**	**50,542**	**18,768**	**3,146**	**78,254**	**-48,621**	**177,811**	**395,439**
Segment investments in property, plant and equipment (Note 13)	13,613	6,255	274	136	2,443	0	0,	22,721
Segment investments in intangible assets (Note 14)	8	517	1	0	0	0	0	526
Reversal of the impairment from previous years of property, plant and equipment through profit or loss (Note 13)	0	0	0	0	352	0	0	352
Increase in value through revaluation reserve of property, plant and equipment (Note 13)	0	0	0	0	9,284	0	0	9,284
Fair value adjustment of investment property (Note 12)	0	0	0	0	1,842	0	0	1,842

*- deferred income tax is allocated based on which subsidiary bears income tax expense on distribution of dividends.

Inter-segment transactions in line segment assets comprise inter-segment receivables in the amount of 2,558 thousand euros (2021: 2,838 thousand euros), loans granted in the amount of 76,697 thousand euros (2021: 45,783 thousand euros) and investments in subsidiaries in the amount of 29,762 thousand euros (2021: 9,732 thousand euros).

Inter-segment transactions in line segment liabilities comprise inter-segment short-term liabilities in the amount of 2,558 thousand euros (2021: 2,838 thousand euros) and inter-segment borrowings in the amount of 76,697 thousand euros (2021: 45,783 thousand euros).

External revenue according to types of goods and services sold

in thousands of euros

	2022	2021
Retail revenue	783,266	748,862
Wholesale revenue	39,480	36,767
Rental income	10,172	9,238
Revenue from rendering services	29,845	26,781
Total revenue	**862,763**	**821,648**

External revenue by client location

in thousands of euros

	2022	2021
Estonia	791,157	753,562
Latvia	48,499	48,584
Lithuania	23,107	19,502
Total	**862,763**	**821,648**

Distribution of non-current assets* by location of assets

in thousands of euros

	31.12.2022	31.12.2021
Estonia	471,397	478,568
Latvia	32,712	33,849
Lithuania	2,136	2,124
Total	**506,245**	**514,541**

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

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

Note 21 Services expenses

in thousands of euros

	2022	2021
Rental expenses	630	737
Heat and electricity expenses	19,313	9,340
Expenses related to premises	10,145	8,866
Cost of services and materials related to sales	8,096	7,761
Marketing expenses	8,715	7,983
Computer and communication costs	7,194	6,560
Expenses related to personnel	4,474	3,265
Other operating expenses	4,701	4,362
Total services expenses	**63,268**	**48,874**

Note 22 Staff costs

in thousands of euros

	2022	2021
Wages and salaries	74,016	67,351
Social security taxes	23,442	21,404
Total staff costs	**97,458**	**88,755**
Average wages per employee per month (euros)	1,313	1,154
Average number of employees in the reporting period	4,697	4,864

Staff costs also include accrued holiday pay as well as bonuses for 2022 but not yet paid.

Note 23 Finance income and costs

in thousands of euros

Finance income

	2022	2021
Other finance income	4	4
Total finance income	**4**	**4**

Finance costs

	2022	2021
Interest expense of bank loans	-1,406	-1,269
Interest expense of lease liabilities	-3,567	-3,416
Interest expense of other loans	-144	-119
Other finance costs	-80	-105
Total finance costs	**-5,197**	**-4,909**

See also Note 20.

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.

	2022	2021
Net profit (in thousands of euros)	29,485	32,016
Weighted average number of shares	40,729,200	40,729,200
Basic and diluted earnings per share (euros)	0.72	0.79

Note 25 Loan collateral and pledged assets

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

in thousands of euros

	31.12.2022	31.12.2021
Land and buildings (Note 13)	121,060	116,646
Machinery and equipment (Note 13)	10,774	7,441
Investment property (Note 12)	44,262	43,454
Inventories (Note 8)	0	1,515
Financial assets	0	75

Note 26 Related party transactions

in thousands of euros

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

a. owners (Parent company and the persons controlling or having significant influence over the Parent);
b. associates;
c. other entities in the Parent company consolidation group;
d. management and supervisory boards of Group companies;
e. immediate family member of the persons described above and the entities under their control or significant influence.

Parent company of Tallinna Kaubamaja Grupp AS is OÜ NG Investeeringud (Parent company), operating in Estonia. Majority shareholder of OÜ NG Investeeringud is NG Kapital OÜ, operating in Estonia. NG Kapital OÜ is the ultimate controlling party of Tallinna Kaubamaja Grupp AS.

Tallinna Kaubamaja Grupp AS has purchased and sold goods, services and non-current assets as follows:

	Purchases 2022	Sales 2022	Purchases 2021	Sales 2021
Parent company	213	10	309	10
Entities in the Parent company consolidation group	32,211	3,617	31,013	3,617
Members of management and supervisory boards	17	30	0	23
Other related parties	18	50	42	7
Total	**32,459**	**3,707**	**31,364**	**3,657**

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

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

Balances with related parties:

	31.12.2022	31.12.2021
Receivables from entities in the Parent company consolidation group	401	396
Members of management and supervisory boards	7	0
Other related parties	0	1
Total receivables from related parties (Note 7)	**408**	**397**

	31.12.2022	31.12.2021
Parent company	21	21
Entities in the Parent company consolidation group	3,108	5,226
Other related parties	3	16
Total liabilities to related parties (Note 17)	**3,132**	**5,263**

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

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

Group account

For arranging funding for its subsidiaries, the Group uses the group account, the members of which are most of the Group's entities. In its turn, the Group as a subgroup is a member of the group account of NG Investeeringud OÜ (hereinafter head group). From 2001, Tallinna Kaubamaja Grupp AS has been keeping its available funds at the head group account, earning interest income on its deposits. In 2022, the Group has not earned interest income on its deposits of available funds (2021: 0 euros). As at 31 December 2022 and 31 December 2021, the Group had not deposited any funds through head group. In 2022, the group did not used available funds of head group and did not pay interest. In 2021 Group has used available funds of head group in the amount of 5,000 thousand euros and paid interest 1 thousand euros. 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 2,511 thousand euros (2021: 2,405 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 862 thousand euros (2021: 693 thousand euros).

The termination benefits for the members of the Management Board are limited to 3-to 6 month's salary expense.

Note 27 Interests of the members of the Management and Supervisory Board

As at 31.12.2022, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja Grupp AS (either through parent company of the Group NG Investeeringud OÜ or individually):

Andres Järving	Represents 4,795,909 (11.78%) shares of Tallinna Kaubamaja Grupp AS
Jüri Käo	Represents 4,768,606 (11.71%) shares of Tallinna Kaubamaja Grupp AS
Enn Kunila	Represents 4,692,346 (11.52%) shares of Tallinna Kaubamaja Grupp AS
Raul Puusepp	Owns 17,000 (0.0417%) shares of Tallinna Kaubamaja Grupp AS

As at 31.12.2021, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja Grupp AS (either through parent company of the Group NG Investeeringud OÜ or individually):

Andres Järving	Represents 4,795,909 (11.78%) shares of Tallinna Kaubamaja Grupp AS
Jüri Käo	Represents 4,768,606 (11.71%) shares of Tallinna Kaubamaja Grupp AS
Enn Kunila	Represents 4,692,346 (11.52%) shares of Tallinna Kaubamaja Grupp AS
Raul Puusepp	Owns 17,000 (0.0417%) shares of Tallinna Kaubamaja Grupp AS

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

Shareholders	31.12.2022 Ownership interest	31.12.2021 Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%

As at 31 December 2022, 68.75% of the shares (31 December 2021: 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 2022, the retained earnings of Tallinna Kaubamaja Grupp AS were 115,783 thousand euros (31 December 2021: 111,432 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 92,626 thousand euros as dividends (31 December 2021: 91,063 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 23,157 thousand euros (31 December 2021: 20,369 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 93,694 thousand euros (2021: 89,713 thousand euros), the borrower is required to satisfy certain financial ratios such as debt to EBITDA ratio (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 2022, 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 2022 and 2021 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 21,464 thousand euros (20,020 thousand euros at the end of 2021). AS Viking Motors is obliged to buy the vehicle back if the lessee and the leasing company do not wish to realise the preferential purchasing rights arising from their contract. The book value of the asset (repurchase price) is agreed according to the forecast mileage and the car brand. The Group management estimates that the probability of realisation of the obligation to buy back vehicles is low and the market price of vehicles is higher than the repurchase consideration, so the obligation to buy back does not have a negative impact on the Group. In 2022 and 2021, the Group has not made any loss-making repurchases.

Note 30 Financial information of the Parent company

In accordance with the Accounting Act of Estonia, the separate primary statements of the consolidating entity (Parent company statement of financial position, statement of profit or loss and other comprehensive income, cash flow statement and statement of changes in equity). The Parent company primary statements are prepared using the same accounting methods and measurement bases as those that have been used for preparing the consolidated financial statements except for investment in subsidiaries and associates that are accounted for using equity method.

STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2022	31.12.2021
ASSETS		
Current assets		
Cash and cash equivalents	2	40
Trade and other receivables	33,648	17,703
Total current assets	**33,650**	**17,743**
Non-current assets		
Investments in subsidiaries	261,499	256,651
Investments in associates	1,722	1,745
Property, plant and equipment	161	312
Intangible assets	1,860	1,666
Total non-current assets	**265,242**	**260,374**
TOTAL ASSETS	**298,892**	**278,117**

LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	27,488	30,797
Trade and other payables	1,946	2,975
Total current liabilities	**29,434**	**33,772**
Non-current liabilities		
Borrowings	22,500	0
Total non-current liabilities	**22,500**	**0**
TOTAL LIABILITIES	**51,934**	**33,772**
Equity		
Share capital	16,292	16,292
Statutory reserve capital	2,603	2,603
Retained earnings	228,063	225,450
TOTAL EQUITY	**246,958**	**244,345**
TOTAL LIABILITIES AND EQUITY	**298,892**	**278,117**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of euros

	2022	2021
Revenue	4,833	4,585
Other income	20	21
Other operating expenses	-945	-925
Staff costs	-4,342	-4,104
Depreciation, amortisation and impairment	-262	-148
Other expenses	-38	-32
Operating loss	**-734**	**-603**
Interest income and expenses	-212	-60
Profit from investments accounted for using the equity method	31,254	42,030
Total finance income and costs	**31,042**	**41,970**
Profit before income tax	**30,308**	**41,367**
NET PROFIT FOR THE FINANCIAL YEAR	**30,308**	**41,367**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**30,308**	**41,367**
Basic and diluted earnings per share (euros)	0.74	1.02

CASH FLOW STATEMENT

in thousands of euros

	2022	2021
CASH FLOWS FROM/USED IN OPERATING ACTIVITIES		
Net profit	30,308	41,367
Adjustments:		
Interest expense	*714*	*565*
Interest income	*-502*	*-505*
Profit from investments under equity method	*-31,254*	*-42,030*
Depreciation, amortisation	*262*	*148*
Change in receivables and prepayments related to operating activities	-108	78
Change in liabilities and prepayments related to operating activities	-1,030	945
TOTAL CASH FLOWS FROM/USED IN OPERATING ACTIVITIES	**-1,610**	**568**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-107	-246
Purchases of intangible assets	-198	-509
Interest received	502	505
Change in the receivable of group account	4,188	4,611
Investments in subsidiaries	-1,300	-4,280
Dividends received	27,729	24,388
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	**30,814**	**24,469**
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of borrowings	-833	0
Interest paid	-714	-565
Dividends paid	-27,695	-24,437
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES	**-29,242**	**-25,002**
TOTAL CASH FLOWS	**-38**	**35**
Cash and cash equivalents at beginning of the period	40	5
Cash and cash equivalents at end of the period	2	40
Net increase/decrease in cash and cash equivalents	**-38**	**35**

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as of 31.12.2020	**16,292**	**2,603**	**208,520**	**227,415**
Dividends paid	0	0	-24,437	-24,437
Profit for the reporting period	0	0	41,367	41,367
Balance as of 31.12.2021	**16,292**	**2,603**	**225,450**	**244,345**
Dividends paid	0	0	-27,695	-27,695
Profit for the reporting period	0	0	30,308	30,308
Balance as of 31.12.2022	**16,292**	**2,603**	**228,063**	**246,958**

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

Note 31 Events after the balance sheet date

Tallinna Kaubamaja Grupp AS acquires in 2023 year 100% of the shares of AS Walde. The transaction will be completed after receiving the necessary approvals from the contractual partners and carrying out additional actions. The share capital of AS Walde is 25.6 thousand euros (it consists of 100 shares with a nominal value of 255.60 euros). AS Walde is a wholesaler of security systems, which is a certified distributor of 2N Telekomunikace, Honeywell and Anixter equipment, among others.

The acquisition of the shareholding of AS Walde enables Tallinna Kaubamaja Grupp to further strengthen its field of security services, which has been one of the Tallinna Kaubamaja Grupp's fastest growing business lines in recent years. The transaction creates opportunities to bring new products to the market and develop security system wholesale operations. The business of Walde AS will continue in its current form, and there will be no changes in the composition of Walde AS's employees in connection with the transaction.

Independent auditor's report

To the Shareholders of Tallinna Kaubamaja Grupp AS

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tallinna Kaubamaja Grupp AS ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2022, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 17 February 2023.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

AS PricewaterhouseCoopers
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Translation note:

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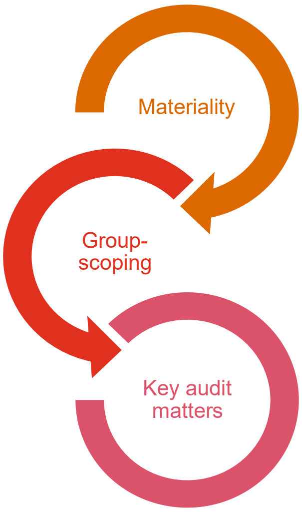
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its parent and subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^{1} of the Auditors Activities Act of the Republic of Estonia.

The non-audit services that we have provided to the Company and its parent and subsidiaries in the period from 1 January 2022 to 31 December 2022 are disclosed in the Management Report.

Our audit approach

Overview



- Overall Group audit materiality is EUR 8.5 million, which represents approximately 1% of the Group's consolidated revenues.
- Specific materiality applied to property, plant and equipment and investment properties is EUR 6.5 million, which represents approximately 1% of the Group's consolidated total assets.

- For six largest Group entities, a full scope audit was performed by the Group audit team. Statutory audits for remaining entities were performed by the non-PwC component auditors under our instructions. We performed specific audit procedures in components where statutory audits were conducted by the non-PwC component auditors.

- 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.

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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 8.5 million. Specific materiality of EUR 6.5 million is applied to property, plant and equipment and investment properties.
How we determined it	Overall Group materiality represents approximately 1% of the Group's consolidated revenues. Specific materiality represents approximately 1% of the Group's consolidated total assets.
Rationale for the materiality benchmark applied	We have applied this benchmark, as we consider revenue and revenue-based market share to be a key performance indicator that determines the Group's value and is monitored by the Group's management, investors, analysts and creditors. In addition, we set a specific materiality level of 6.5 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:	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

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- Property, plant and equipment, including land and buildings in the carrying amount of EUR 198.6 million (accounted for using the revaluation method) as at 31 December 2022. In 2022, no revaluation was recognised for these assets.
- Investment properties in the carrying amount of EUR 63.6 million (carried at fair value). In 2022, a profit in the amount of EUR 0.7 million was recognised in the profit or loss statement from the change in fair value of these assets.

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 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.

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.

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 six of these entities, Tallinna Kaubamaja Grupp AS, Selver AS, Kulinaaria OÜ, Kaubamaja AS, TKM Finants AS and 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.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Management report, Ethical business practices and corporate responsibility, Remuneration Report and Revenue allocation according to the Estonian classification of the economic activities (EMTAK) (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

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.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

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In accordance with the Securities Market Act with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135^3 of the Securities Market Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management report has been prepared in accordance with the requirements of the Accounting Act; and
- the Remuneration Report has been prepared in accordance with Article 135^3 of the Securities Market Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. 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:

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- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on other legal and regulatory requirements

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged based our agreement by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Tallinna Kaubamaja Grupp AS for the year ended 31 December 2022 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and those charged with governance

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the consolidated financial reporting process, which should also be understood as the preparation of financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (Estonia) 3000 (revised) "Assurance Engagements other than Audits and Reviews of Historical Financial Information" (ISAE (EE) 3000 (revised)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

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Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE (EE) 3000 (revised) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Management (Estonia) 1 (revised) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

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Appointment and period of our audit engagement

We were first appointed as auditors of Tallinna Kaubamaja Grupp AS, as a public interest entity, on 20 May 2009 for the financial year ended 31 December 2009. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Tallinna Kaubamaja Grupp AS, as a public interest entity, of 14 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

/signed digitally/

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

/signed digitally/

Rando Rand
Auditor's certificate no.617

17 February 2023
Tallinn, Estonia

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PROFIT ALLOCATION PROPOSAL

The retained earnings of Tallinna Kaubamaja Group AS are:

Total retained earnings 31 December 2022	115,783 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 27,696 thousand euros out of retained earnings accumulated until 31 December 2022.

Raul Puusepp

Chairman of the Management Board

Signed digitally

Tallinn, 21 February 2023

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2022

The supervisory board of Tallinna Kaubamaja Group AS has reviewed the 2022 consolidated annual report, prepared by the management board, consisting of the management report, ethical business practices and corporate responsibility report, remuneration report, the consolidated financial statements, the independent auditor's report and the profit allocation proposal, and has approved the annual report for presentation on the shareholders' annual general meeting.

Hereby we confirm the correctness of information presented in the consolidated annual report 2022 of Tallinna Kaubamaja Group AS.

Management Board

Raul Puusepp

Chairman of the Management Board

Signed digitally

Supervisory board

Jüri Käo

Chairman of the Supervisory Board
Signed digitally

Enn Kunila

Member of the Supervisory Board

Signed digitally

Meelis Milder

Member of the Supervisory Board

Signed digitally

Gunnar Kraft

Member of the Supervisory Board

Signed digitally

The Supervisory Board member Andres Järving has submitted an application for resignation from 01.01.2023.

Tallinn, 21 February 2023

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	2022
64201	Holding company's activities	4,833
	Total revenue	**4,833**