

**Tallinna Kaubamaja AS**  
**Consolidated Annual Report**  
**2010**  
(translation of the Estonian original)

## TALLINNA KAUBAMAJA AS CONSOLIDATED ANNUAL REPORT 2010

The main areas of activity of Tallinna Kaubamaja Group are retail and wholesale trade. At the year-end 2010, Tallinna Kaubamaja Group employed almost 3,180 employees.

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<i>Beginning of financial year:</i>	<i>1.01.2010</i>
<i>End of financial year:</i>	<i>31.12.2010</i>
<i>Auditor:</i>	<i>PricewaterhouseCoopers AS</i>
<i>Bank:</i>	<i>AS Swedbank AS SEB Pank Nordea Pank Finland Plc Estonia</i>
<i>Law office:</i>	<i>Tamme Otsmann Ruus Vabamets</i>
<i>Lawyer:</i>	<i>Helda Truusa</i>

<i>Subsidiaries and associates:</i>	<i>Share capital</i>	<i>Ownership interest</i>
<i>A-Selver AS</i>	<i>22.0 MEEK</i>	<i>100%</i>
<i>Selver Latvia SIA</i>	<i>200.1 TLVL</i>	<i>100%</i>
<i>AS Tartu Kaubamaja</i>	<i>8.3 MEEK</i>	<i>100%</i>
<i>OÜ Tartu Kaubamaja Kinnisvara</i>	<i>40.0 TEEK</i>	<i>100%</i>
<i>OptiGroup Invest OÜ</i>	<i>40.0 TEEK</i>	<i>100%</i>
<i>OÜ TKM Beauty</i>	<i>40.0 TEEK</i>	<i>100%</i>
<i>OÜ TKM Beauty Eesti</i>	<i>40.0 TEEK</i>	<i>100%</i>
<i>KIA Auto AS</i>	<i>1.8 MEEK</i>	<i>100%</i>
<i>OÜ Ülemiste Autokeskus</i>	<i>645.0 TEEK</i>	<i>100%</i>
<i>KIA Automobile SIA</i>	<i>8.0 TLVL</i>	<i>100%</i>
<i>KIA Auto UAB</i>	<i>465.0 TLTL</i>	<i>100%</i>
<i>Tallinna Kaubamaja Kinnisvara AS</i>	<i>400.0 TEEK</i>	<i>100%</i>
<i>SIA TKM Latvija</i>	<i>2.0 TLVL</i>	<i>100%</i>
<i>OÜ Suurtüki NK</i>	<i>80.0 TEEK</i>	<i>100%</i>
<i>SIA Suurtuki</i>	<i>2.0 TLVL</i>	<i>100%</i>
<i>AS ABC King</i>	<i>501,0 MEEK</i>	<i>100%</i>
<i>SIA ABC King</i>	<i>200.0 TLVL</i>	<i>100%</i>
<i>Rävala Parkla AS</i>	<i>10.0 MEEK</i>	<i>50%</i>

The subsidiaries and associates A-Selver AS, AS Tartu Kaubamaja, OÜ Tartu Kaubamaja Kinnisvara, Tallinna Kaubamaja Kinnisvara AS, OptiGroup Invest OÜ, OÜ TKM Beauty, OÜ TKM Beauty Eesti, OÜ Ülemiste Autokeskus, KIA Auto AS, OÜ Suurtüki NK, AS ABC King and Rävala Parkla AS are registered in the Republic of Estonia. Selver Latvia SIA, SIA TKM Latvija, KIA Automobile SIA, SIA Suurtuki and SIA ABC King are registered in the Republic of Latvia and KIA Auto UAB, in the Republic of Lithuania.

These consolidated financial statements consist of the management report, the consolidated financial statements, the auditor's report and the profit allocation proposal.

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## MANAGEMENT REPORT

In the financial year, the Group's most important goal was to restore profitability. Due to the continuing decline of the retail business market, it could only be done by increasing effectiveness within the Group. The main factors in improving financial results were coordinating business processes and improving the organisation of work, optimising the use of workforce and utilising the synergy of the Group's enterprises better, as well as keeping operating costs under control. Successful marketing campaigns and well-executed store concepts helped the Group to preserve its market position. In 2010, the Group's market share in Estonia remained at 11%. The market value of the Group's assets in certain favourable locations that had been written down in 2009, has recovered.

In 2011, the Group's goal is to aggressively develop its retail concepts and find related areas for potential expansion.

The key events of Tallinna Kaubamaja Group in 2010 and until the issue of these financial statements, included:

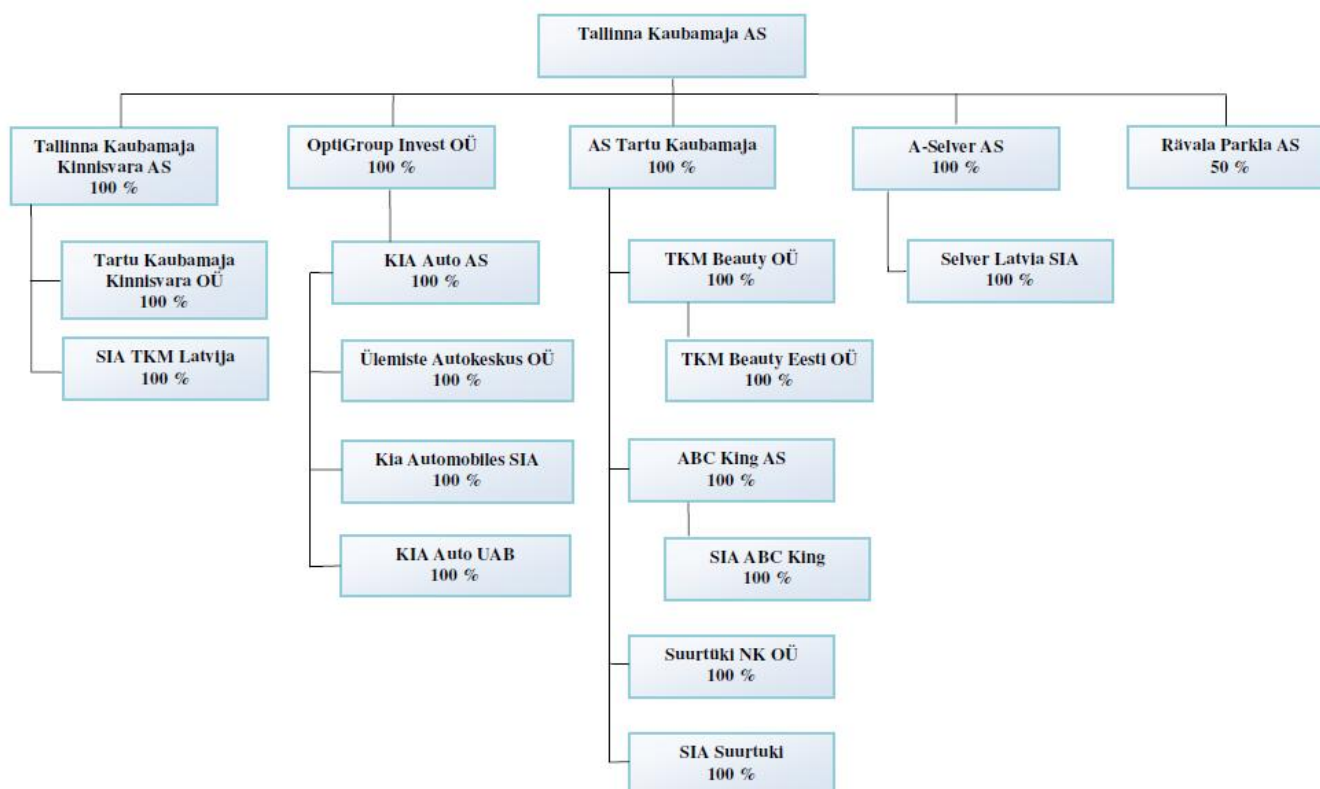
- In February 2010, the member of the Management Board of AS A-Selver and Selver Latvia SIA, Ivi Saar, was recalled due to the halting of the operations of the Latvian subsidiary and the accompanying simplification of the management structure of the Company. Andres Heinver continued as a member of the Management Board of the entities.
- In March 2010, the 35<sup>th</sup> store of Selver chain was opened in Haapsalu.
- In September 2010, the logistics of chilled products was centralised.
- In September 2010, two new stores of ABC King were opened, one in Tartu Kaubamaja and the other one at Kristiine Centre, Tallinn.
- In September 2010, the 4<sup>th</sup> store of the cosmetics store chain I.L.U. was opened at Kristiine Centre, Tallinn.
- In the footwear trade, the Group moved 12 stores under SHU concept which had been accepted warmly by customers. The footwear stores of NERO chain were turned from shoe stores into modern accessory stores.
- In 2010, Kaubamaja celebrated its 50<sup>th</sup> anniversary. In 1960, Tallinna Kaubamaja opened its doors for the first time.
- On 1 January 2011, the Group launched trading in euros trouble-free.
- On 1 January 2011, a new accounting system was adopted in the Group, the preparations for which lasted throughout the year 2010.

### Structure of the Group and its changes

The main areas of activity of the entities of Tallinna Kaubamaja Group include retail and wholesale trade and rental activity. The following segments may be differentiated in the activities of the Group:

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

Legal structure of Tallinna Kaubamaja Group:



### Economic development

The economy continued to improve at the end of the year. According to preliminary estimates by Statistics Estonia, the gross domestic product (GDP) of Estonia was up by 3.1% for the whole year compared to the previous year. The GDP growth in the final quarter was driven mostly by the rapid rise in the processing industry's added value. Although the labour market showed a slight improvement, with the unemployment rate decreasing down to 13.6% in the last quarter of the year, the analysts say that unemployment will remain high in years ahead. For the whole year, the consumer price index grew by 3.0% in Estonia, showing a rapid growth in the year end. Food prices peaked especially strongly, by 10.9%, in the last quarter.

According to Statistics Estonia, the total volume of retail sales in current prices (motor vehicles and motorbikes not included) increased in 2010 by 0.5% in Estonia. The year-end largest growth in sales was seen in other specialised stores that predominantly sell computers and accessories, photo goods, books, sports equipment, games, toys etc. Retail sales in current prices in non-specialised stores (predominantly food products) were down by 1.2% in 2010 compared with the preceding year, but the figures grew by 6.8% in the last quarter of the year. According to the Estonian Institute of Economic Research, the consumer confidence index dropped in the last months of the year and was believed to have been influenced by euro changeover fears. The confidence of consumers in themselves and in the country's better future significantly grew in January 2011.

## Financial performance

### FINANCIAL RATIOS 2004-2010

	2010	2009	2008	2007	2006	2005	2004
<b><i>In million kroons</i></b>							
Revenue	6,302	6,388	6,531	5,892	4,239	2,878	2,022
Sales growth	-1%	-2%	11%	39%	47%	42%	15%
Gross profit	1,499	1,422	1,593	1,478	1,102	712	498
EBITDA	454	264	368	538	383	168	164
Operating profit	291	-154	135	436	288	97	105
Profit before tax	267	-192	105	422	281	92	99
Net profit	260	-197	83	411	275	92	99
Change in net profit	232%	-337%	-80%	50%	199%	-7%	49%
Sales revenue per employee	2.0	1.7	1.8	2.1	1.8	1.5	1.4
<b><i>In million euros</i></b>							
Revenue	403	408	417	377	271	184	129
Sales growth	-1%	-2%	11%	39%	47%	42%	15%
Gross profit	96	91	102	94	70	46	32
EBITDA	29	17	24	34	24	11	10
Operating profit	19	-10	9	28	18	6	7
Profit before tax	17	-12	7	27	18	6	6
Net profit	17	-13	5	26	18	6	6
Change in net profit	232%	-337%	-80%	50%	199%	-7%	49%
Sales revenue per employee	0.13	0.11	0.11	0.13	0.11	0.10	0.09
Gross margin	24%	22%	24%	25%	26%	25%	25%
EBITDA margin	7%	4%	6%	9%	9%	6%	8%
Operating margin	5%	-2%	2%	7%	7%	3%	5%
Profit before tax margin	4%	-3%	2%	7%	7%	3%	5%
Net margin	4%	-3%	1%	7%	6%	3%	5%
Share of equity	50%	41%	42%	57%	49%	58%	63%
Return on equity (ROE)	14%	-11%	4%	26%	25%	11%	18%
Return on assets (ROA)	6%	-5%	2%	14%	13%	7%	11%
Current ratio	1.0	0.9	0.9	1.0	1.0	0.7	1.2
Debt ratio	0.5	0.6	0.6	0.4	0.5	0.4	0.4
Inventory turnover	10.2	10.4	8.4	11.3	13.5	9.9	9.0
Average number of employees	3,184	3,695	3,703	2,833	2,411	1,903	1,445

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Gross profit	= revenue – Materials and consumables used
Gross margin	= gross profit / revenue
EBITDA	= profit before finance income/costs and depreciation
EBITDA margin	= EBITDA / revenue * 100%
Operating margin	= operating profit / revenue * 100%
Profit before tax margin	= Profit before tax / revenue * 100
Net margin	= net profit / revenue * 100%
Revenue per employee	= revenue / average number of employees
Share of equity	= equity/ balance sheet total * 100%
Return on equity (ROE)	= net profit / average equity * 100%
Return on assets (ROA)	= net profit / average assets * 100%
Inventory turnover (ratio)	= revenue / inventories
Current ratio	= current assets / current liabilities
Debt ratio	= total liabilities / balance sheet total

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The consolidated non-audited sales revenue of the Tallinna Kaubamaja Group was 6.3 billion kroons (402.8 million euros) in 2010. The sales revenue of the Group was 6.4 billion kroons (408.3 million euros) in 2009, which translates into a drop of 1.3% compared to the preceding year. The profit for the financial year was 260.5 million kroons (16.6 million euros). The loss for the year 2009 was 196.7 million kroons (12.6 million euros), which included the revaluation of the land and buildings in Latvia in the amount of 175.0 million kroons (11.2 million euros) and the write-down of construction in progress in Estonia in the amount of 36.0 million kroons (2.3 million euros).

Although the Group's sales revenue was down by 1.3%, the continued growth of the market share in Estonia is good news. The Group's sales revenue in Estonia was up by 1.4% when the retail trade market by 0.4%. The Group sales revenue decreased by 18.4 million kroons (1.2 million euros) due to the sales tax levied in Tallinn since June. In the second half of the year, the purchase prices of goods were under pressure because of the increasing prices of raw materials and labour on the global market that had a negative impact on the Group's gross margin in the fourth quarter. In the annual outcome, improved inventory management has ensured a higher gross margin compared to 2009. In 2010, the Group's internal efficiency continued to grow. Rearranging our processes led to saving on labour and operating costs. The depreciation costs have decreased due to the write-down of fixed assets in 2009. The amount of financial expenses has reduced due to lower interest rates. The impairment tests conducted on the Group's assets at the end of the financial year increased the value of fixed assets in the total amount of 0.8 million kroons (0.1 million euros) as reported in the profit and loss statement.

Preparations for the changeover to the euro were made throughout the year and the related costs reached 2.5 million kroons (0.2 million euros). The Group was successful in starting to use the new currency on January 1<sup>st</sup> 2011 and the period of parallel use of both euros and kroons has also passed by today. From January 1<sup>st</sup> 2011, the Group introduced a new management accounting system that will cover the accounting of the Group's 8 companies in Estonia and the main processes of the department stores business segment. In 2010, the work of the chilled goods distribution centre was launched. Rearrangement of logistics will continue in 2011. In March 2010, a Selver store with a sales area of 1.5 thousand square metres was opened in the Rannarootsi Centre in Haapsalu. Several new SHU footwear stores were opened instead of former Suurtüki stores. The fourth store in the chain of I.L.U. stores as well as SHU and ABC King stores opened their doors in the Kristiine Centre extension on September 30th.

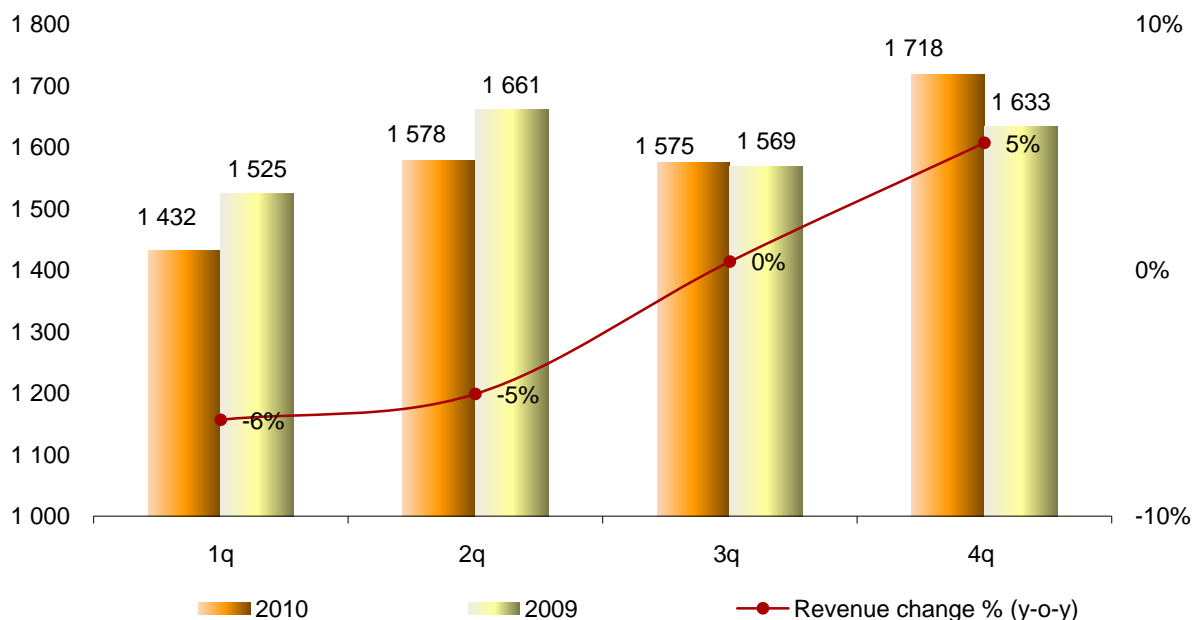
As of 31 December 2010, the assets of the Tallinna Kaubamaja Group amounted to 4.1 billion kroons (260.2 million euros), meaning a growth of 90.4 million kroons (5.8 million euros), or 2.3%, compared to the end of 2009. The value of the Group's assets grew due to the partial revaluation of written-down assets in the amount of 169.3 million kroons (10.8 million euros) in 2009, of which, 168.5 million kroons (10.8 million euros) was recovered through the revaluation reserve.

At the end of the financial year, the number of regular customers exceeded 439,400, meaning an annual growth of 11.3%. The percentage of regular customers in the annual sales of the department stores segment was as high as usual – 76%. More than 9.7 thousand Partner credit cards had been issued by the end of the year.

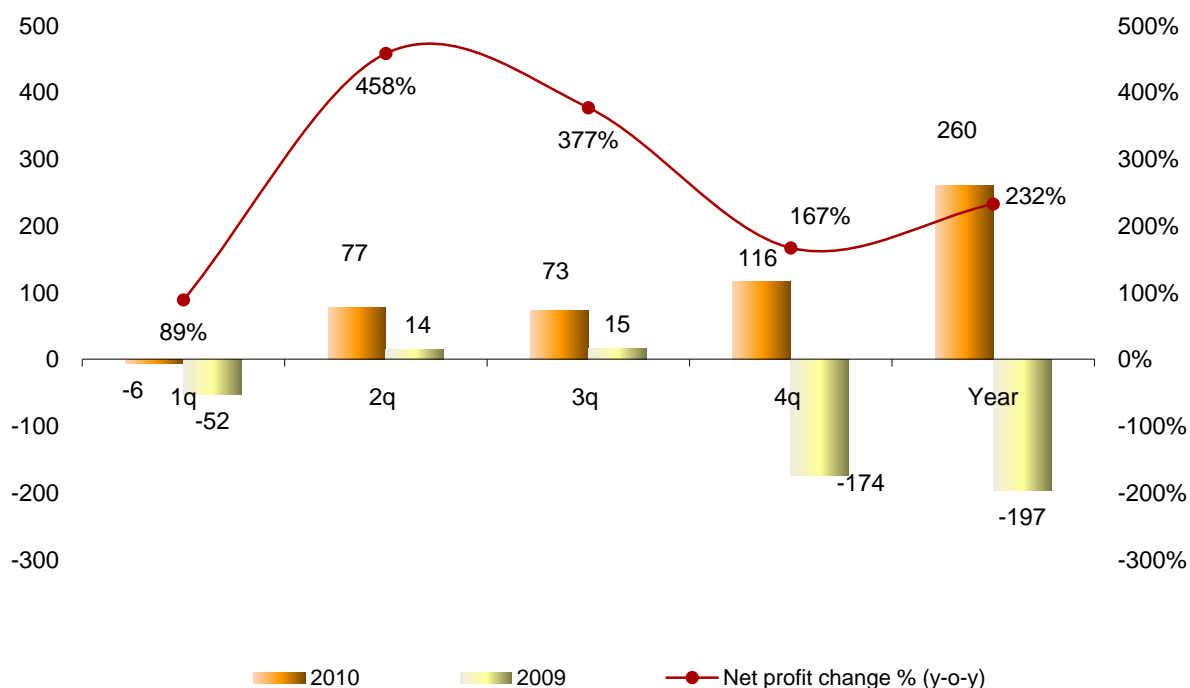
### Seasonality of business

The operations of Tallinna Kaubamaja Group are not exposed to major seasonal fluctuations. The quarterly changes in 2010 and 2009 are caused by the changes in the economic environment.

Tallinna Kaubamaja Group revenue for 2010 and 2009  
(in million of kroons)



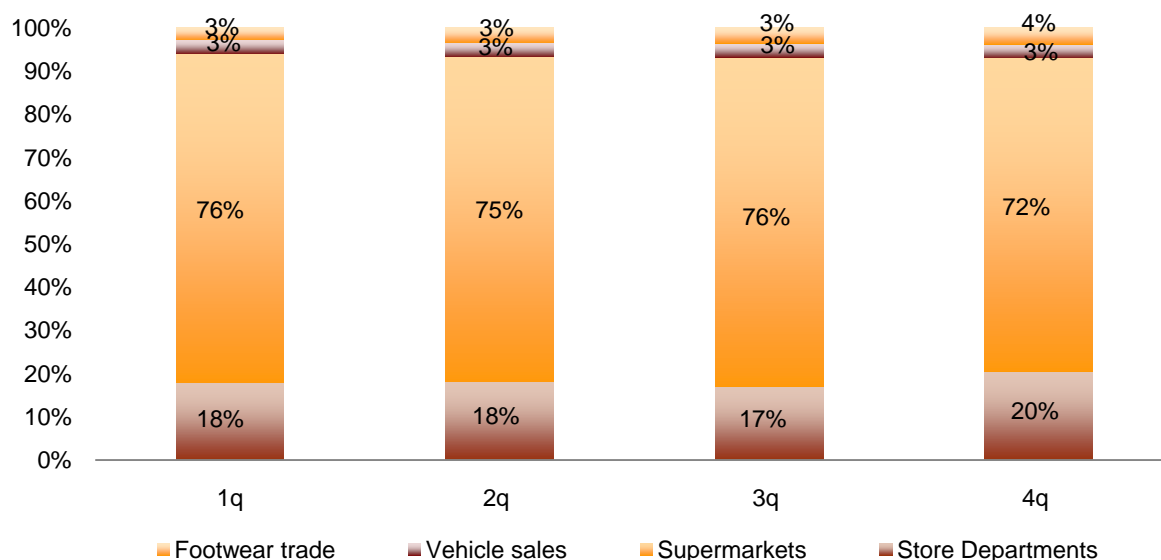
Tallinna Kaubamaja AS Group net profit for 2010 and 2009  
(in million kroons)





However, it is possible to identify a certain structural change in the group entities' contribution to the results of operations by quarter.

Tallinna Kaubamaja Group revenue distribution for 2010



The share of the real estate business segment is around 1% in all quarters and is not shown separately in the chart.

## **Business segments**

### **Department stores**

The sales revenue of the department stores business segment was 1,153.2 million kroons (73.7 million euros) in 2010, down by 3.6% year-on-year. In Kaubamaja department stores, the recessionary period prevailing in 2010 ended. While the sales still contracted in the 1<sup>st</sup> half of the year, from August, clear signs of stabilisation were visible and sales picked up in the last quarter of the year. The net profit of department stores was 21.2 million kroons (1.4 million euros) in 2010, which is lower by 6.8 million kroons (0.4 million euros) compared to 2009 due to smaller financial income inside the Group. The operating profit of the department stores segment grew from 5.7 million kroons (0.4 million euros) in 2009 to 15.3 million kroons (1.0 million euros) in 2010. Profitability growth was achieved through better management of inventories and lower mark-downs at the end of the sales seasons. Men's, sports and digital products departments of Tartu Kaubamaja were renovated in the first quarter of 2010, having a negative effect on sales. 2010 was an anniversary year for Kaubamaja with 50 years from the opening of Tallinna Kaubamaja. The marketing campaigns of the anniversary increased marketing costs by 5.7% year-on-year. In 2010, the Group was engaged in the development of the new accounting software Microsoft Dynamics AX at Kaubamaja department store, which was launched in early 2011. However, the total operating expenses in 2010 remained at the same level as in 2009. The new system will enable to make the sales process more efficient, optimising warehouse inventories and prices.

The sales revenue of OÜ TKM Beauty Eesti, which operates four I.L.U. cosmetics stores, was 34.6 million kroons (2.2 million euros) in 2010. The sales revenue was 12.2 (0.8 million euros) in 2009. The net loss of the financial year of the I.L.U. chain was 6.9 million kroons (0.4 million euros). In 2011, the focus will be on activities that help to grow the chain's market share and increase the profitability of the stores.

In 2011, the plan calls for further development of the information system with the goal of improving the opportunities for margin management and recovery of sales margins in the upcoming years to the pre-recession level. Marketing campaigns will be further developed in order to increase sales. The trend is towards introduction of private label brands in the key categories of fashion goods. The Group is also involved in increasing the profitability of sales departments and development of product ranges. The loyal customer programme is planned to be upgraded.

### **Selver supermarkets**

The consolidated sales revenue of the business segment of supermarkets was 4.7 billion kroons (300.2 million euros) in 2010, a year-on-year fall of 1.4%. The average monthly consolidated sales revenue per a square metre of sales area was 5.7 thousand kroons (361 euros) in 2010, growing by 6.4% compared to 2009. The consolidated profit before taxes of the supermarket segment was 146.1 million kroons (9.3 million euros) in 2010, showing a growth of 176.7 million kroons (11.3 million euros) compared to 2009. The consolidated net profit was 139.0 million kroons (8.9 million euros) in

2010, growing by 174.0 million kroons (11.1 million euros) compared to the previous year.

The sales revenue of the supermarket segment in Estonia was 4.7 billion kroons (300.2 million euros) in 2010, exceeding the sales revenue earned in 2009 by 1.7%. The average monthly sales revenue per square metre of sales area was 5.7 thousand kroons (363 euros) in 2010, showing a year-on-year fall of 0.8%. In comparable stores, the sales revenue per square metre of sales area was 5.7 thousand kroons (367 euros) in 2010, a decrease of 0.6% compared to the reference basis. In 2010, 33.3 million purchases were made in Selver stores in Estonia, exceeding the number of purchases by 0.8% year-on-year. The proportion of Selver in the retail sales of the country's non-specialised stores that carry predominantly food products, drinks and tobacco products was 18.3% in 2010, growing by 0.5 percent points compared to the market share in 2009. The pre tax profit earned in Estonia was 193.1 million kroons (12.3 million euros) in 2010. Compared to the previous year, the profits grew by 77.4 million kroons (4.9 million euros). The net profit earned in supermarkets in Estonia was 186.0 million kroons (11.9 million euros) in 2010, which gives an annual growth of 67.1%, or 74.7 million kroons (4.8 million euros).

The sales revenue in Latvia was 0.2 million kroons (10.0 thousand euros) in 2010 compared to 150.8 million kroons (9.6 million euros) earned on the same period of the previous year. The net loss of SIA Selver Latvia was 47.0 million kroons (3.0 million euros) in 2010, decreasing by 99.3 million kroons (6.3 million euros) year-on-year. All economic activities have been frozen and monthly costs have been reduced to minimum in Latvia. On December 23<sup>rd</sup>, A-Selver AS, the parent company, increased the share capital of SIA Selver Latvia with non-cash contributions in the amount of 222.7 million kroons (14.2 million euros), necessary to ensure the continued operations of the company.

Successful marketing activities that helped to grow the number of customers and the average size of a shopping basket had a positive effect on the annual sales figures. The overall growth in consumer confidence as well as the rise in food prices in Estonia also had their effect. The tightening of competition in some regions, different value added tax rates of the financial and reference years and the sales tax in Tallinn effective from June also had a negative impact on the sales revenue. In 2010, the main focus was on increasing profitability in Selver. While the net profit margin of Selver was 2.4% in 2009, the respective indicator was already 4.0% in 2010, growing by 1.5% points in a year. A remarkable efficiency was achieved in labour costs. Regardless of the higher turnover and larger number of purchases the labour costs have fallen by 7.8%. As for operating expenses, additional agreements were made to reduce fixed costs and the opportunities to save on variable costs were reviewed. The amount of stock carried at stores was optimised and the synergy created by the companies belonging to the Group has been taken advantage of.

In 2010, one new Selver store was opened in Estonia. As of the end of the year, the chain of Selver stores comprised 35 stores and a central kitchen.

### Real estate

The non-Group sales revenue of the real estate segment was 38.8 million kroons (2.5 million euros) in 2010, a year-on-year reduction of 9.0% due to the decline in rental activities in Latvia. The segment's profit was 104.6 million kroons (6.7 million euros). In 2009, the segment suffered a loss in the amount of 115.6 million kroons (7.4 million euros) due to the large-scale write-down of assets.

The goal of the real estate segment is to identify attractive commercial premises for the Group, thereby supporting the Group's retail development.

### Car trade

The sales revenue of 2010 without the intersegment transactions was 202.0 million kroons (12.9 million euros), lower by 2.8% of the year-on-year revenues. The net profit of the car trade segment was 3.4 million kroons (0.2 million euros) in 2010. In 2009, the car trade segment suffered a loss of 23.0 million kroons (1.5 million euros).

In the financial year, the total Baltic car market increased by 14%. The market share of KIA vehicles in the Baltic States increased by 30% in 2010 and reached 2.9%. The launch of the new city SUV Sportage helped to increase KIA's market share. Better results of operations in 2010 can primarily be explained by better utilisation of the improved market situation and preservation of the cost base at the low level. Margins improved because due to the optimal inventory level at the warehouse there was no need for additional mark-downs.

### Footwear trade

The consolidated sales revenue of the footwear business segment was 211.0 million kroons (13.5 million euros) in 2010, growing by 17.4% compared to 2009. The total net loss in 2010 was 7.8 million kroons (0.5 million euros), including the loss of Latvian companies in the sum of 1.2 million kroons (0.1 million euros), a drop of 84.8% compared to 2009. The decreased loss is mainly due to the higher sales revenue, better margin and significant reduction in operating costs as well as closing non-profitable stores. The successful sale of winter goods and the rapid expansion of the SHU footwear chain accounted for a significant portion of the growth in turnover.

SHU, an economy footwear chain, which opened its first stores at the end of 2009, currently operates 12 stores in

Estonia. At the end of the year, Suurtüki stores in the DeLange Centre in Pärnu and in the Jewe Centre in Jõhvi were closed down. As of the end of December, Suurtüki NK OÜ operates 14 stores in Estonia, ABC King AS 11 stores in Estonia and ABC King SIA 3 stores in Latvia.

### **Personnel**

The employees of the entities of Tallinna Kaubamaja Group are the foundation for success of the Group, therefore the main objective of the human resources management is the ongoing and targeted development of employees. Various training and evaluation programmes, and miscellaneous other motivational measures will ensure that the employees at our entities are eager to provide services; they are enthusiastic, dedicated and goal-oriented. The Group promotes healthy life-style habits among our employees, raising employee awareness in taking care of their health, creating a safe and healthy environment for them, providing opportunities for athletic activities and relaxation, and healthy lunch-hour and rest breaks in a comfortable environment (common rooms).

Tallinna Kaubamaja places great value on the experience of its employees and has created an environment which fosters stable (both vertical as well as horizontal) careers of its employees at the Company. Employees are provided with professional training sessions both in Estonia as well as in foreign countries, internal training sessions conducted by specialists in their fields and offered at the group companies are also a priority.

In order to create successors to the employees, Tallinna Kaubamaja and its subsidiaries offer various practical training opportunities to students. Group entities have good collaboration with vocational training schools all over Estonia, being a basis for practical training and a collaboration partner in terms of training. We also provide assistance for our employees who study at universities with writing their course and final papers by letting them use the Company as a research subject. Such an opportunity develops internal successors of ambitious people with a desire to develop. The Group has developed a training programme for training new employees, conducted by various specialists whose long-term experience ensures high quality of training sessions. New top level managers are provided with mentors to help them get adjusted with their work at the Company, and the thorough system also functions as a means to coach new employees at structural units. Constant development of employees is ensured through an evaluation programme which corresponds to the core values of the entities and designed competency models.

In order to ensure work environment safety and occupational health, Tallinna Kaubamaja has created a system of measures, encompassing health check-ups, regulate training in respect of occupational safety requirements, performance of risk analyses and provision of protective gear. There are group entities where systems have been put in place to actively engage work environment representatives in creating a healthy work environment. In accordance with the customs developed at structural units, employees can obtain massage services at reasonable prices at work, should they want it. Joint events of teams are very popular, providing a solid basis for amicable atmosphere and team work. Employees jointly participate in various athletic events popular among people. In 2010, the subsidiary Selver was awarded the title "Health-friendly Company 2010" for a systematic and complete treatment of fostering a healthy lifestyle.

The average number of employees working for the Tallinna Kaubamaja Group was 3,184 in 2010, down by 13.8% compared to 2009, and the figure includes the reduction in the number of employees due to closing the Selver stores in Latvia. The total labour costs (salaries and social tax costs) in 2010 were 543.9 million kroons (34.8 million euros), decreasing by 11.4% year-on-year. The average salary costs per an employee in 2010 grew by 2.2% compared to the average salary in 2009. Growth in average wages occurred in the last months of the year and was related to the bonuses paid for improved results of operations.

### **Social responsibility**

Tallinna Kaubamaja understands its role and responsibility in society, and in order to fulfil it, it follows the principles of social responsibility prevailing in the organisation:

1. To offer the clients high-quality organic products and goods of Estonian small-scale producers. The goal of Kaubamaja is to differentiate itself with the help of the product range that has become possible as a result of long-term cooperation with Estonian small-scale producers.
2. Foster a healthy lifestyle among the employees of Tallinna Kaubamaja Group, supporting athletic activities and other healthy habits, offering healthy meals at lunch-time and making family doctor services available, as well as an opportunity to use blood pressure devices and massage chairs.
3. To participate in society through several charity projects throughout decades:
  - From 1994, Tallinna Kaubamaja has been a godparent for white-tailed eagles in Tallinn Zoo.
  - Tallinna Kaubamaja has supported the Male Choir of Tallinn University of Technology for the last eight years.
  - Through cooperation with Uuskasutuskeskus (Reuse Centre) and the campaign "An Act of Kindness

Gives Warmth", clothes and footwear are collected for charity in each year, which were delivered to shelters and large families. We organised the campaign also in the spring 2010, by which we helped SOS Children's Village.

- Over the last five years, we have carried out charity campaigns in February in collaboration with several charity organisations, collecting money for animal shelters, multi-children families and for other noble purposes.
- On the occasion of the 50th anniversary, through SA Dharma we donated 3 kroons to multi-children (i.e. seven and more children) families from the price of each anniversary product sold in all departments of Kaubamaja.
- Throughout the years, the charity programme of Selver has been the campaign "It's Easier Together", which raises funds together with its customers in order to help children's hospitals and children's departments of hospitals located in the same cities as Selver supermarkets. In 2010, a total of 1,166,860 kroons (74,576 euros) was raised.
- Of the campaigns conducted by Selver supermarket in 2010, the campaign to support the community centre of Kõpu is worth separately mentioning, which raised a total of 11,838 kroons (757 euros), half of which was made up of donations made by the customers and the other half of which was contributed by Selver.
- Over the last year and a half, Selver has collaborated with the non-profit organisation "Shalom Aid Centre", donating food products with approaching expiration dates to the families in need.

### Investments

The investments made in the reporting period totalled 58.9 million kroons (3.8 million euros). In 2010, Selver opened one supermarket in Estonia. In the financial year, investments into the fittings and equipment of supermarket totalled 14.3 million kroons (0.9 million euros). In Kaubamaja department store segment, the investments totalled 31.2 million kroons (2.0 million euros). At Kaubamaja department store, men's, sports and electronics departments were renovated at Tartu Kaubamaja, and the beauty and women's department were renovated at Tallinna Kaubamaja. A new I.L.U store was opened in Tallinn. A total of 11.6 million kroons (0.7 million euros) was invested in the opening and reconstruction of the stores. The investments made into the footwear trade totalled 8.6 million kroons (0.5 million euros). New footwear stores were opened at Tartu Kaubamaja and Kristiine Centre, Tallinn and 10 stores were brought under the SHU concept. In the real estate segment, investment totalled 4.3 million kroons (0.3 million euros).

### The share

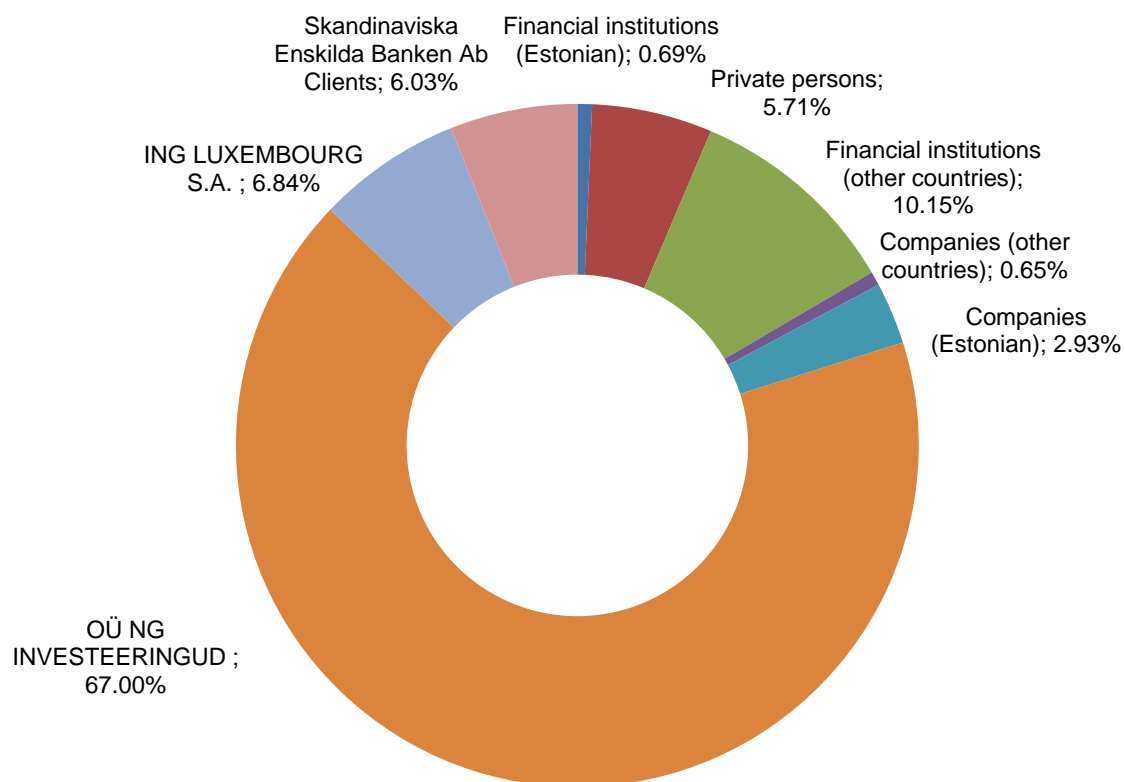
#### Security information

ISIN	EE0000001105
Ticker	TKM1T
Nominal value	10.00 EEK/ 0.64 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 AS are listed on the Tallinn Stock Exchange from 6 September 1996 and in the Main List, from 19 August 1997. Tallinna Kaubamaja AS has issued 40,729.2 thousand registered shares of the same class, each with the nominal value of 10 kroons (0.64 euros). Common shareholders are entitled to receive dividends when the Company distributes them. Each ordinary share gives one vote at the General Meeting of Shareholders of Tallinna Kaubamaja AS. The shares are freely transferable, there are no restrictions imposed on them by the articles of association, likewise, there are no restrictions imposed on the transfer of securities concluded between the Company and its shareholders. There are no known restrictions imposed on the transfer of securities laid down in the contracts between the shareholders. NG Investeeringud OÜ has direct majority ownership. Shares granting special rights to their owners have not been issued.

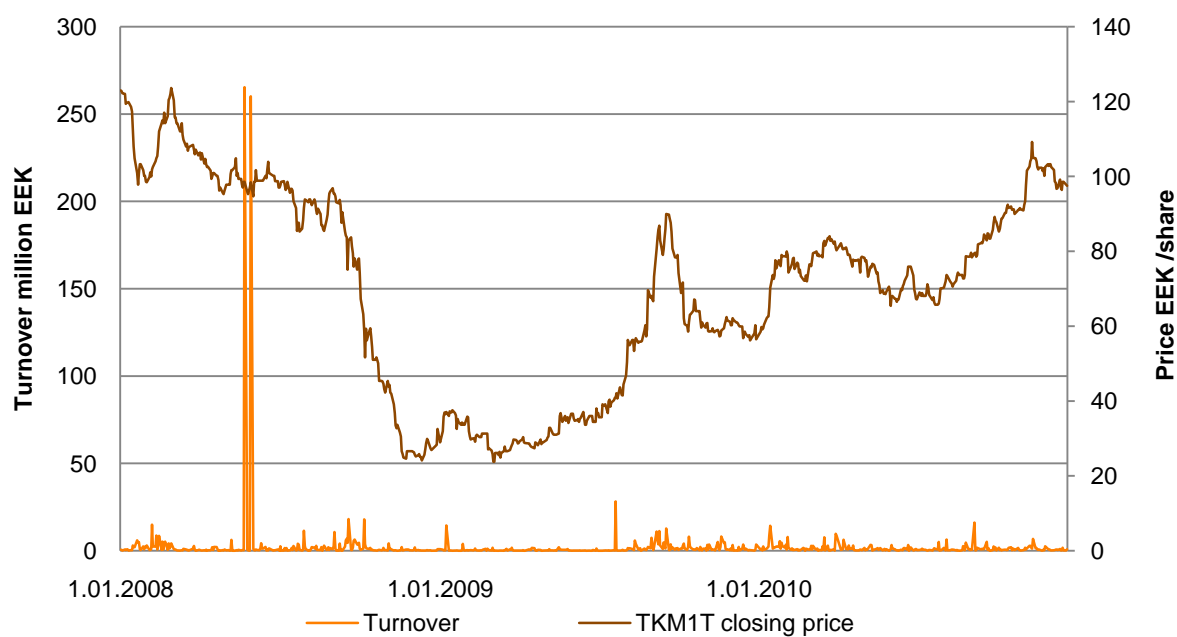
The members of the Management Board of Tallinna Kaubamaja AS have no right to issue or buy back shares. In addition, there are no commitments between the Company and its employees providing for compensation in case of mergers and acquisitions under section 19' of Securities Market Trade Act.

The Group has approximately 3 000 shareholders and division of shares is following:

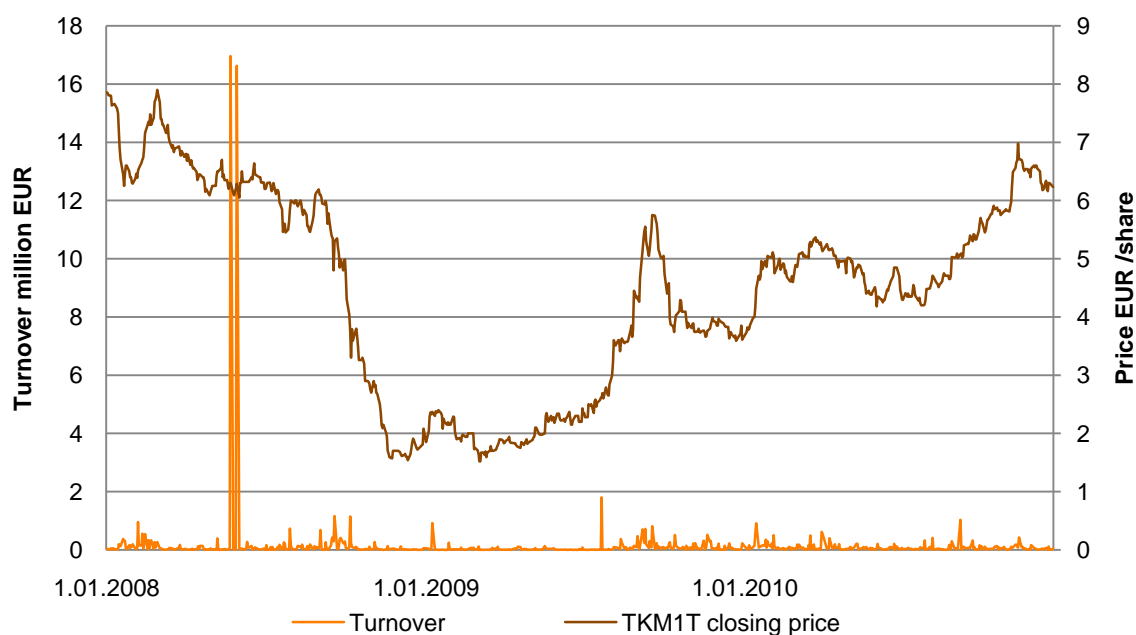


#### Share price and trading statistics in Tallinn Stock Exchange during 01.01.2008-31.12.2010

In Estonian kroons



In euros



#### Share price change in 2010 compared to the main comparison index OMX Tallinn



Index/Equity	01.01.2010	31.12.2010	+/- %
— OMX Tallinn	404.58	698.38	72.62 ↑
— TKM1T	3.61 EUR	6.21 EUR	72.02 ↑

The price of the share of Tallinna Kaubamaja has followed the general trends in the Baltic equity market. The share with a price of 56.48 kroons (3.61 euros) at the end of 2009 was closed in late December at 97.165 kroons (6.21 euros), increased by 72% as compared to the previous year.



### 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 23 April 2010, the Management Board proposed to pay 26.5 million kroons (1.7 million euros) as dividends that is 0.65 kroons (0.04 euros) per share. The general meeting of shareholders approved the proposal. The amount of a dividend distribution has been determined by reference to:

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

### Share trading history

	2010	2009	2008	2007	2006
Average number of shares (1000 pcs)	40,729	40,729	40,729	40,729	40,729
Traded shares (1000 pcs)	1,184,424	5,558,846	9,888,854	7,960,638	3,234,117
Dividend / net profit	69%*	-13%	19%	20%	15%
P/E	12.0	-11.7	15.9	12.1	21.3
P/BV	1.5	1.4	0.7	2.6	4.7

#### EEK

Opening price	56.64	32.54	122.36	143.64	350.48
Share price, highest	80.58	92	125.64	161.47	350.48
Share price, lowest	56.64	23.47	23.31	107.18	53.2
Share price, at the year-end	76.51	56.48	32.54	122.04	143.64
Sales (million)	84.8	290.7	880.5	1060.7	385.4
Market value (million)	3,116.3	2,300.6	1,325.5	4,970.7	5,850.2
Earnings per share	6.4	-4.8	2.0	10.1	6.7
Dividend per share	4.38*	0.65	0.40	2.00	1.00
Equity per share	49.5	39.6	45.1	46.5	30.5

#### EUR

Opening price	3.62	2.08	7.82	9.18	22.4
Share price, highest	5.15	5.88	8.03	10.32	22.4
Share price, lowest	3.62	1.5	1.49	6.85	3.4
Share price, at the year-end	4.89	3.61	2.08	7.8	9.18
Sales (million)	5.42	18.58	56.27	67.79	24.63
Market value (million)	199.17	147.03	84.72	317.69	373.89
Earnings per share	0.4	-0.3	0.1	0.6	0.4
Dividend per share	0.28*	0.04	0.03	0.13	0.06
Equity per share	3.2	2.5	2.9	3.0	2.0

\* 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

## **Corporate Governance Report**

The Corporate Governance (CG) is a set of guidelines and recommended rules, which is intended to be observed mainly by publicly traded companies. The principles specified in the Corporate Governance Code are recommendable and the companies have to decide themselves as to how and whether to take into account these principles in organising the management. Below is a description of the management principles of Tallinna Kaubamaja and justification is given in the events when some clauses of the Code are not observed.

### **General meeting**

#### *Exercise of shareholders' rights*

The general meeting of shareholders is the highest governing body of Tallinna Kaubamaja. 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 articles of association do not provide for any rights to shares of a different class which would bring about unequal treatment of shareholders in voting. The general meeting is competent to change the articles of association, elect members of the Supervisory Board and decide on their remuneration, appoint an auditor, approve the annual report and allocate profit, as well as decide on other matters stipulated by the articles of association and laws.

#### *Convening the general meeting and disclosures*

Tallinna Kaubamaja published a notice convening the general meeting through a daily newspaper and information system of the Tallinn Stock Exchange as well as on its website on 23 April 2010. The company 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 examine the annual report on its website and in its office at Gonsiori 2, Tallinn, starting from 23 April 2010.

The general meeting of shareholders of Tallinna Kaubamaja was held in the conference hall of Tallinna Kaubamaja at Gonsiori 2, Tallinn, on 18 May 2010 beginning at 12.00 p.m. The resolutions made at the general meeting are published in the press releases on the website of Tallinn Stock Exchange and on the website of Tallinna Kaubamaja.

At the choice of a member of the Supervisory Board, data of a candidate with regard to his or her participation in the work of the Supervisory Boards, Management Boards or executive managements of other companies have been disclosed.

#### *Holding of the general meeting*

A general meeting can adopt resolutions if over one-half of the votes represented by shares are present. A resolution of general meeting is adopted if over one-half of the votes represented at the meeting are in favour unless a larger majority is required by law.

The language of the general meeting held in 2010 was Estonian and the meeting was chaired by the Sales and Marketing Director Enn Parel. The meeting was also attended by the chairman of the Supervisory Board Jüri Kõo and member of the Management Board Raul Puusepp. 70.98% of the votes represented by shares were present at the general meeting. Tallinna Kaubamaja did not consider it expedient to use the Internet to organise its monitoring and participation in the general meeting. At the general meeting, allocation of profit was discussed as a separate theme and a separate resolution was adopted with regard to it.

Considering the aforementioned principles in the management of Tallinna Kaubamaja, in 2010, the Company has 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 that represents and directs the Company on a daily basis. In accordance with the articles of association, the Management Board may have one to six members. Members of the Management Board are elected by the Supervisory Board for three years.

Unlike clause 2.2.1 of the Corporate Governance Code, the Management Board of Tallinna Kaubamaja AS consists of one member. It is a historical tradition, but at the same time the management team of the Parent has four members who are the directors of the main areas. All resolutions are adopted by the Management Board in collaboration with the management. In 2010, 27 meetings of the management were held. Areas of responsibility, duties and authorities are exactly specified between the members of the Management Board; the same also applies to all the subsidiaries. The Group believes that such a division protects the best the interests of all shareholders and ensures sustainability of the company.

For the daily management of the Company, the Supervisory Board appoints member(s) of the Management Board of the Tallinna Kaubamaja AS in accordance with the Commercial Code. 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 AS has one member. The term of office of the Management Board member Raul Puusepp was extended on 23 February 2011 and his term of office will expire on 6 March 2014.

The duties and remuneration of the Chairman of the Management Board Raul Puusepp are specified in the board member contract concluded with the Chairman. In accordance with the contract, the Chairman of the Management Board may receive performance pay according to the results of operations of the Group. In 2010, the remuneration and benefits (including social security taxes) calculated and paid to the Chairman of the Management Board amounted to 570 thousand kroons (36 thousand euros) (in 2009 1,019 thousand kroons, 65 thousand euros).

### **Supervisory Board**

The Supervisory Board plans the activities of Tallinna Kaubamaja, 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 Company, 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. In 2010, 10 scheduled meetings and 1 extraordinary meeting of the Supervisory Board were held and in 2009, 13 meetings were held.

The Supervisory Board has three to six members according to the resolution of the general meeting and the member is elected for up to three years. The work of the Supervisory Board is organised by the Chairman of the Supervisory Board. The meetings of the Supervisory Board are held as necessary, but not less frequently than once every three months.

By the resolution of the general meeting held on 20 May 2009, Andres Järving, Jüri Kõo, Enn Kunila, Meelis Milder and Gunnar Kraft were elected as the members of the Supervisory Board. Authorities of the current members of the Supervisory Board will expire: Andres Järving on 20.05.2012, Jüri Kõo on 20.05.2012, Enn Kunila on 20.05.2012, Meelis Milder on 20.05.2012 and Gunnar Kraft on 20.05.2012. At the meeting of 22 May 2009, the Supervisory Board elected Jüri Kõo as the Chairman of the Supervisory Board, he has been a member of the Supervisory Board of Tallinna Kaubamaja from 1997 and has been a Chairman of the Supervisory Board in 2000-2001.

In accordance with the resolution of the annual general meeting held on 17.05.2007, the remuneration of a member of the Supervisory Board of Tallinna Kaubamaja AS is 15,000 kroons (959 euros) a month, the remuneration of the Chairman of the Supervisory Board is 18,000 kroons (1,150 euros) a month. In 2010, the total remuneration calculated for the members of the Supervisory Board of Tallinna Kaubamaja totalled 1,245 thousand kroons (80 thousand euros), (in 2009 1,245 thousand kroons, 80 thousand euros), including 287 thousand kroons (18 thousand euros) (in 2009 269 thousand kroons, 17 thousand euros) for the Chairman of the Supervisory Board.

### **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. The Management Board, management and the Supervisory Board jointly participate in development of the strategy of the Company. In making management decisions, the Management Board and management are guided by the strategic instructions supplied by the Supervisory Board.

The Management Board regularly notifies the Supervisory Board of any important circumstances concerning the planning and business activities of the Company's activities, and separately draws attention to any important changes in the business activities of Tallinna Kaubamaja. 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 Company shall be based on the legislation, articles of association, resolutions of meetings of shareholders and Supervisory Board, and the set objectives. 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. A resolution on amending the articles of association shall enter into force as of the making of a respective entry in the commercial register. The articles of association of Tallinna Kaubamaja AS do not provide for a larger majority requirement.

### **Disclosure of information**

Tallinna Kaubamaja treats all shareholders equally and notifies all shareholders of important circumstances equally, by using its own website as well as the information system of the Tallinn Stock Exchange.

Tallinna Kaubamaja's website [www.kaubamaja.ee](http://www.kaubamaja.ee) contains general introduction of the Company and key employees, press releases and reports. The annual and interim reports include information on the strategy and financial results of the Company as well as the Corporate Governance Report. In the subsection of press releases, information is disclosed with regard to the membership of the Supervisory Board and auditor, resolutions of the general meeting, and other important information.

### **Financial reporting and auditing**

The Management Board of Tallinna Kaubamaja publishes the annual report once each year and interim reports during the financial year. A meeting of the Supervisory Board, where the annual report is reviewed, is also attended by the auditor of the Company at the invitation of the Supervisory Board. The annual report, which is signed by the members of the Management Board and Supervisory Board, is submitted to shareholders for examination.

### **Audit Committee**

The Audit Committee of Kaubamaja AS Group was established in March 2010, its statutes were approved at the meeting of the Supervisory Board of Tallinna Kaubamaja AS held at 21.05.2010. With the establishment of the Audit Committee, the former Audit Committee of AS A-Selver was liquidated.

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

- (i) adherence to accounting principles;
- (ii) preparation and approval of the financial budget and reporting;
- (iii) sufficiency and effectiveness of performing an external audit;
- (iv) development and functioning of an internal control system (incl. risk management);
- (v) monitoring of the legality of the Company's operations. The Committee separately participates in guaranteeing the independence of the process and activities of an external audit, and planning and assessment of an internal audit.

In performing its tasks, the Committee collaborates with the Supervisory Board, the Management Board, internal and external auditors and if necessary, external experts. The Committee has between 3 and 5 members, at least half of whom are appointed from among the members of the Supervisory Board. The members are appointed by the Supervisory Board for three years.

The Committee prepares an annual summary report about meeting the goals laid down in the statutes and presents it to the Supervisory Board, in which it assesses its activities and gives its opinion in respect of the monitoring of (i) adherence to accounting principles, (ii) preparation and approval of the financial budget and reporting, (iii) sufficiency and effectiveness of performing an external audit, (iv) development and functioning of an internal control system (incl. risk management), (v) legal compliance, (vi) activities of an internal audit and (vii) independence of an external audit provider. Based on its duties, the Committee provides ongoing evaluations and makes proposals to the Supervisory Board, the Management Board, the internal audit and/or an external audit provider.

### **Goals for 2011**

The most important development trends and goals of Tallinna Kaubamaja Group for the year 2011 include:

- More uniform use of procurement channels outside the Group.
- Further development of the concept of Selver supermarkets. Expansion of the product range through an increase of foreign purchases.
- Increase of the market share of the shoe business and strengthening of the leadership position in the Estonian market. Development of the private label brand SHU.
- At Kaubamaja department store, further development of the information system with the goal of improving margin management opportunities and restoring of the sales margins in the upcoming years to the pre-recession level. Introduction of private label brands to the market. Increasing of the profitability of the sales departments and development of the product range.
- Increasing of the sales volumes of the car trade segment while preserving the attained efficiency. The growth of the market share through sales and servicing of mini, compact and medium class car models. Launch of the customer loyalty programmes and transition of the first dealers to the new standards.
- Opening of the new store of the cosmetics store chain I.L.U. and improvement of the results of operations.

#### Chairman's confirmation of and signature to the management report

The Chairman confirms that management report 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 remaining period of the financial year and provides an overview of important transactions with the related parties.



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Raul Puusepp  
Chairman

Tallinn, 31 March 2011

## 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 AS consolidated financial statements for the year 2010 as set out on pages 20-68.

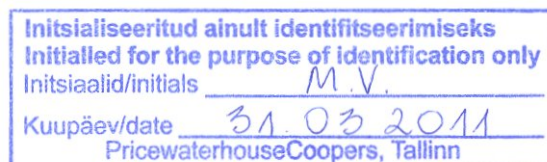
The Chairman of the Management Board confirms that:

1. the accounting policies used in preparing the financial statements are in compliance with International Financial Reporting Standard as adopted in the European Union;
2. the financial statements give a true and fair view of the financial position, the results of the operations and the cash flows of the Parent and the Group;
3. Tallinna Kaubamaja AS and its subsidiaries are going concerns.



Raul Puusepp  
Chairman of the Management Board

Tallinn, 31 March 2011



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of

		EEK		EUR	
	Note	31.12.2010	31.12.2009	31.12.2010	31.12.2009
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and bank	5	246,176	223,691	15,734	14,296
Trade receivables	6	95,160	75,655	6,082	4,835
Other short-term receivables	7	86,833	82,032	5,549	5,242
Prepaid taxes	8	5,455	8,820	349	564
Other prepayments	8	11,711	12,404	748	793
Inventories	9	616,234	616,554	39,385	39,405
<b>Total current assets</b>		<b>1,061,569</b>	<b>1,019,156</b>	<b>67,847</b>	<b>65,135</b>
<b>Non-current assets</b>					
Prepayments	8	19,904	25,499	1,272	1 630
Investments in associates	11	23,527	20,323	1,504	1 299
Other long-term receivables	12	2,207	3,613	141	231
Investment property	13	55,800	55,800	3,566	3 566
Property, plant and equipment	14	2,748,134	2,689,639	175,638	171 900
Intangible assets	15	55,288	62,018	3,533	3 964
Goodwill	15	104,993	104,993	6,710	6 710
<b>Total non-current assets</b>		<b>3,009,853</b>	<b>2,961,885</b>	<b>192,364</b>	<b>189 300</b>
<b>TOTAL ASSETS</b>		<b>4,071,422</b>	<b>3,981,041</b>	<b>260,211</b>	<b>254 435</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Borrowings	16,17	275,926	254,524	17,635	16 267
Prepayments received		8,964	2,983	573	190
Trade payables		631,765	713,855	40,377	45 623
Tax liabilities	18	73,174	63,490	4,677	4 058
Other current liabilities	18	63,828	62,720	4,079	4 009
Provisions	18	1,982	445	127	28
<b>Total current liabilities</b>		<b>1,055,639</b>	<b>1,098,017</b>	<b>67,468</b>	<b>70 175</b>
<b>Non-current liabilities</b>					
Borrowings	16,17	998,948	1,267,096	63,844	80 982
Provisions	18	1,382	1,736	88	111
<b>Total non-current liabilities</b>		<b>1,000,330</b>	<b>1,268,832</b>	<b>63,932</b>	<b>81 093</b>
<b>TOTAL LIABILITIES</b>		<b>2,055,969</b>	<b>2,366,849</b>	<b>131,400</b>	<b>151 268</b>
<b>Equity</b>					
Share capital	19	407,292	407,292	26,031	26 031
Statutory reserve capital		40,729	40,729	2,603	2 603
Revaluation reserve		834,085	673,976	53,308	43 075
Retained earnings		743,141	500,730	47,495	32 004
Currency translation differences		-9,794	-8,535	-626	-546
<b>TOTAL EQUITY</b>		<b>2,015,453</b>	<b>1,614,192</b>	<b>128,811</b>	<b>103 167</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,071 422</b>	<b>3,981,041</b>	<b>260,211</b>	<b>254,435</b>

The notes presented on pages 25-68 form an integral part of these consolidated financial statements.

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 Kuupäev/date 31.03.2011  
 PricewaterhouseCoopers, Tallinn

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of

	Note	EEK		EUR	
		2010	2009	2010	2009
Revenue	20	6,302,023	6,388,127	402,773	408,276
Other operating income	21	205,216	217,898	13,116	13,926
Materials and consumables used	9	-4,802,729	-4,966,417	-306,951	-317,412
Other operating expenses	22	-693,167	-727,064	-44,301	-46,468
Staff costs	23	-543,931	-614,084	-34,764	-39,247
Depreciation and amortisation	14,15	-164,013	-179,055	-10,482	-11,444
Impairment losses	14	778	-239,461	50	-15,304
Other expenses	24	-13,141	-34,339	-840	-2,195
<b>Operating profit (loss)</b>		<b>291,036</b>	<b>-154,395</b>	<b>18,601</b>	<b>-9,868</b>
Finance income	25	4,669	5,565	298	356
Finance costs	25	-31,417	-46,406	-2,008	-2,966
Finance income on shares of associates	11	3,204	2,818	205	180
<b>Profit (loss) before tax</b>		<b>267,492</b>	<b>-192,418</b>	<b>17,096</b>	<b>-12,298</b>
Corporate income tax	19	-7,037	-4,331	-450	-277
<b>NET PROFIT (LOSS) FOR THE FINANCIAL YEAR</b>		<b>260,455</b>	<b>-196,749</b>	<b>16,646</b>	<b>-12,575</b>
<b>Other comprehensive income/loss:</b>					
Revaluation of land and buildings		168,539	0	10,771	0
Currency translation differences		-1,259	-8,120	-80	-519
<b>Other comprehensive income/loss for the financial year</b>		<b>167,280</b>	<b>-8,120</b>	<b>10,691</b>	<b>-519</b>
<b>TOTAL COMPREHENSIVE INCOME/LOSS FOR THE FINANCIAL YEAR</b>		<b>427,735</b>	<b>-204,869</b>	<b>27,337</b>	<b>-13,094</b>
Basic and diluted earnings per share (EEK/EUR)	26	6.39	-4.83	0.41	-0.31

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

The notes presented on pages 25-68 form an integral part of these consolidated financial statements.

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## CONSOLIDATED CASH FLOW STATEMENT

in thousands of

in thousands of

		EEK		EUR	
	Note	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit		260,455	-196,749	16,646	-12,575
Adjustments:					
Income tax on dividends paid	19	7,037	4,331	450	277
Interest expense	25	31,417	46,406	2,008	2,966
Interest income	25	-4,669	-5,565	-298	-356
Depreciation and amortisation	14,15	164,013	179,055	10,482	11,444
Impairment losses		-778	244,047	-50	15,597
Gain from the change in fair value of investment property	13	0	-20,400	0	-1,304
Loss on sale and write-off of non-current assets	14,21,24	10,882	2,344	695	150
Loss from associates	11	-3,204	-2,818	-205	-180
Change in inventories		320	164,750	20	10,529
Change in receivables and prepayments related to operating activities		-8,294	47,228	-529	3,019
Change in liabilities and prepayments related to operating activities		-64,008	-117,391	-4,091	-7,503
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>393,171</b>	<b>345,238</b>	<b>25,128</b>	<b>22,064</b>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment (excl. finance lease)	14	-58,898	-188,499	-3,764	-12,049
Proceeds from sale of property, plant and equipment	14	1,411	39,987	90	2,556
Purchase of intangible assets	15	0	-300	0	-19
Loan to group account	28	-7,402	624	-473	40
Repayments of loans to associates	28	2,078	2,500	133	160
Interest received		5,041	5,388	322	344
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-57,770</b>	<b>-140,300</b>	<b>-3,692</b>	<b>-8,968</b>
CASH FLOWS FROM FINANCING ACTIVITIES					
Loans received	16	122,447	360,604	7,826	23,047
Repayments of loans received	16	-362,936	-324,575	-23,196	-20,744
Change in overdraft balance	16	0	-42,298	0	-2,703
Dividends paid	19	-26,474	-16,292	-1,693	-1,041
Income tax on dividends paid		-7,037	-4,331	-450	-277
Repayments of finance lease principal	16	-6,257	-5,617	-400	-359
Interest paid		-31,544	-49,161	-2,015	-3,142
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>-311,801</b>	<b>-81,670</b>	<b>-19,928</b>	<b>-5,219</b>
<b>TOTAL CASH FLOWS</b>		<b>23,600</b>	<b>123,268</b>	<b>1,508</b>	<b>7,877</b>
Effect of exchange rate changes		-1,115	-930	-70	-59
Cash and cash equivalents at the beginning of the period	5	223,691	101,353	14,296	6,478
Cash and cash equivalents at the end of the period	5	246,176	223,691	15,734	14,296
<b>Net change in cash and cash equivalents</b>		<b>22,485</b>	<b>122,338</b>	<b>1,438</b>	<b>7,818</b>

The notes presented on pages 25-68 form an integral part of these consolidated financial statements.

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of EEK

	Share capital	Statutory reserve capital	Revaluation reserve	Retained earnings	Currency translation differences	Total
<b>Balance as of 31.12.2008</b>	<b>407,292</b>	<b>40,729</b>	<b>682,028</b>	<b>705,719</b>	<b>-415</b>	<b>1,835,353</b>
Total comprehensive loss for the reporting period	0	0	0	-196,749	-8,120	-204,869
Reclassification of depreciation of revalued land and buildings	0	0	-8,052	8,052	0	0
Dividends paid	0	0	0	-16,292	0	-16,292
<b>Balance as of 31.12.2009</b>	<b>407,292</b>	<b>40,729</b>	<b>673,976</b>	<b>500,730</b>	<b>-8,535</b>	<b>1,614,192</b>
Total comprehensive income for the reporting period	0	0	168,539	260,455	-1,259	427,735
Reclassification of depreciation of revalued land and buildings	0	0	-8,430	8,430	0	0
Dividends paid	0	0	0	-26,474	0	-26,474
<b>Balance as of 31.12.2010</b>	<b>407,292</b>	<b>40,729</b>	<b>834,085</b>	<b>743,141</b>	<b>-9,794</b>	<b>2,015,453</b>

in thousands of EUR

	Share capital	Statutory reserve capital	Revaluation reserve	Retained earnings	Currency translation differences	Total
<b>Balance as of 31.12.2008</b>	<b>26,031</b>	<b>2,603</b>	<b>43,590</b>	<b>45,105</b>	<b>-27</b>	<b>117,302</b>
Total comprehensive loss for the reporting period	0	0	0	-12,575	-519	-13,094
Reclassification of depreciation of revalued land and buildings	0	0	-515	515	0	0
Dividends paid	0	0	0	-1,041	0	-1,041
<b>Balance as of 31.12.2009</b>	<b>26,031</b>	<b>2,603</b>	<b>43,075</b>	<b>32,004</b>	<b>-546</b>	<b>103,167</b>
Total comprehensive income for the reporting period	0	0	10,771	16,646	-80	27,337
Reclassification of depreciation of revalued land and buildings	0	0	-538	538	0	0
Dividends paid	0	0	0	-1,693	0	-1,693
<b>Balance as of 31.12.2010</b>	<b>26,031</b>	<b>2,603</b>	<b>53,308</b>	<b>47,495</b>	<b>-626</b>	<b>128,811</b>

Additional information on share capital is set out in Note 19.

The notes presented on pages 25-68 form an integral part of these consolidated financial statements.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 General information

Tallinna Kaubamaja AS (the Company) and its subsidiaries (together as the Group) are entities engaged in retail trade and provision of related services. Tallinna Kaubamaja AS is a company registered on 18 October 1994 in the Republic of Estonia with the legal address of Gonsiori 2, Tallinn. The shares of Tallinna Kaubamaja AS are listed on the Tallinn Stock Exchange. The majority shareholder of Tallinna Kaubamaja AS is OÜ NG Investeeringud (see Note 31), the majority owner of which is NG Kapital OÜ. NG Kapital OÜ is an entity with ultimate control over Tallinna Kaubamaja Group.

These consolidated financial statements have been authorised by the Management Board on 31 March 2011 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 AS Tallinna Kaubamaja for the year 2010 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 investment property which is reported at fair value.

The functional and presentation currency of AS Tallinna Kaubamaja is the Estonian kroon (EEK). In accordance with the requirements of the rules and regulation of the Tallinn Stock Exchange, all amounts are also simultaneously disclosed in euros (EUR). The Estonian kroon is pegged to the euro at the exchange rate of EEK 15.6466 per EUR 1. Therefore, no translation differences arise when presenting the financial statements in euros. 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 accounting policies and presentation

The accounting policies and presentation used in preparing these financial statements are the same as those used in preparing the last year's financial statements. In addition, the following new or amended standards or interpretations have been used:

- IAS 27, Consolidated and Separate Financial Statements, revised in January 2008. The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The implementation of amended standard has had no material impact on these financial statements.
- IFRS 3, Business Combinations. The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise at the acquisition date a liability for any contingent purchase consideration.

Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The amended standard has had no impact on the Group's financial statements as no business combinations occurred in the current period.

- Improvements to International Financial Reporting Standards, issued in April 2009. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The amendments did not have a material impact on these financial statements.

Following new standards, amendments to published standards and interpretations to current standards became mandatory for the Company from 1 January 2010 but are not relevant to the Company's operations:

- IFRIC 12, Service Concession Arrangements
- IFRIC 15, Agreements for the Construction of Real Estate
- Embedded Derivatives - Amendments to IFRIC 9 and IAS 39;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation
- IFRIC 17, Distributions of Non-Cash Assets to Owners
- IFRIC 18, Transfers of Assets from Customers
- Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1)
- Eligible Hedged Items—Amendment to IAS 39
- IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008
- Additional Exemptions for First-time Adopters - Amendments to IFRS 1
- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2

### New accounting pronouncements and their interpretation

Following new or amended standards and interpretations that are not yet effective will be adopted by the Group after their commencement:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2009 to address the classification and measurement of financial liabilities. Key features are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- Amendment to IAS 24, Related Party Disclosures, issued in November 2009 (effective for annual periods beginning on or after 1 January 2011). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.
- Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

New or amended standards and interpretations that are not yet effective and not early adopted by the Group, and not expected to have a significant effect on the Group's financial statements:

- Classification of Rights Issues - Amendment to IAS 32, issued in October 2009, effective for annual periods beginning on or after 1 February 2010
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14, effective for annual periods beginning on or after 1 January 2011
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1, effective for annual periods beginning on or after 1 July 2010
- Disclosures—Transfers of Financial Assets – Amendments to IFRS 7, effective for annual periods beginning on or

after 1 July 2011; not yet adopted by the EU

- Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12, effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU
- Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1, effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU.

### 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 33, have been prepared using the same accounting methods and measurement bases as those that have been used for preparing the consolidated financial statements. In the separate primary statements, investment in subsidiaries and associates are carried at historical cost. According to the cost method, the investment is initially recognised at cost which is the fair value of the consideration paid upon acquisition which is subsequently adjusted by any impairment losses.

### Foreign currency transactions

#### *Functional and presentation currency*

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

#### *Accounting for foreign currency transactions*

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

#### *Financial statements of foreign entities*

When the functional currency of subsidiaries differs from the functional currency of the Parent (for example, the Latvian lats in case of the entities operating in Latvia), the following principles have been applied to translate the financial statements of subsidiaries prepared in foreign currencies:

- The assets and liabilities of all foreign subsidiaries have been translated using the exchange rate prevailing on the balance sheet date;
- The income and expenses of subsidiaries have been translated using the weighted average exchange rate for the year (unless this average cannot be considered a reasonable rounding of the cumulative effect of the rates prevailing on the transaction date in which case income and expenses are translated on the dates of the transaction).

The exchange rate differences 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*

A subsidiary is an entity controlled by the Parent. Control is presumed to exist when the Parent owns, directly or indirectly through subsidiaries, more than 50% of the voting power of an subsidiary or otherwise has power to govern its financial and operating policies. Subsidiaries are consolidated from the date of their acquisition (obtaining of control) until the date of sale (loss of control).

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 costs directly attributable to the acquisition. 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, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

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

#### *Associates*

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

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

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

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

#### **Segment reporting**

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

#### **Cash and cash equivalents**

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

#### **Financial assets**

The Group's financial assets are classified only in the category of loans and receivables. Classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Loans and receivables are initially recognised at their cost which is the fair value of consideration paid for the financial asset. Initial cost includes all transactions costs directly attributable to the financial asset.

Subsequently, the Group carries loans and receivables at amortised cost (less any impairment losses), calculating interest income on the receivable in the following periods using the effective interest rate method. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included within current assets except for maturities greater than 12 months after the balance sheet date. Such assets are classified as non-current assets. Loans and receivables are reported as trade receivables and other receivables in the balance sheet.

An impairment loss is recognised when there is objective evidence that the Group is unable to collect all amounts due according to the original terms of receivables. Such situations may include significant financial difficulties of the debtor, bankruptcy or delinquency in payments to the Group. The amount of the impairment loss is the difference between the carrying amount and the present value of cash flows to be received from the present value, discounted at the initial effective interest rate of the receivable.

Financial assets are derecognised from the balance sheet when the entity loses its right to receive cash flows from the financial asset or when it transfers the cash flows from the asset and most of the related risks and benefits to a third

party.

Purchases and sales of financial assets are recognised consistently from the day on which the Company becomes the owner of the financial asset or loses its ownership interest in the financial asset

### Inventories

Inventories are initially recognised at cost which includes the purchase price, the related customs duties and other non-refundable taxes and costs of transportation directly attributable to the acquisition of inventories, less any discounts and volume rebates. The FIFO method is used to account for the cost of industrial goods inventories, the cost of food products is recognised by means of the weighted average acquisition cost method. 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 a piece 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 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 by independent appraisers, based on the prices of recent transactions involving similar items (adjusting the estimate for the differences) or using the discounted cash flow method. Changes in fair value are recorded under the income statement items "Other operating expenses"/"Other operating income". No depreciation is calculated on investment property recognised at fair value.

Investment property whose fair value cannot be determined reliably, is measured at cost less any accumulated depreciation and any accumulated impairment losses.

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

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

### Property, plant and equipment

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

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

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

Other 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 12-50 years  
*incl. Renovation of buildings* 12-23 years
- Machinery and equipment 5 years
- Other fixtures and fittings
  - IT equipment and software 3 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 income statement.

### 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 less any accumulated amortisation and any impairment losses.

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

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

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

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

## Impairment of assets

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

## Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired, reflecting that portion of the payment made for such assets of the investee which cannot be individually identified and separately recognised. Goodwill is initially recognised at cost.

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 is recognised. Impairment losses of goodwill are not reversed.

## Finance and operating leases

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

### *The Company is the lessee*

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

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

### *The Company is the lessor*

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

## Financial liabilities

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

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

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



liabilities. Borrowings that the lender has the right to recall on the balance sheet date as a consequence of a breach of contractual terms are also recognised as current liabilities.

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

### Provisions and contingent liabilities

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

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

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

### Corporate income tax and deferred corporate income tax

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

#### *Group's Estonian entities*

In accordance with applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on profits. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The current tax rate is 21/79 on the amount paid out as net dividends. As income tax is paid on dividends and not on profit, no temporary differences arise between the tax bases of assets and liabilities and the carrying amounts of assets and liabilities which may give rise to deferred income tax assets and liabilities.

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

The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in Note 31 to the consolidated financial statements.

#### *Group's Latvian and Lithuanian entities*

In Latvia and in Lithuania, corporate profits are subject to income tax. The corporate income tax rate is 15% in Latvia and 15% in Lithuania (2009: 20%) on taxable income. Taxable income is calculated by adjusting profit before tax for permanent and temporary differences as permitted by local tax laws.

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

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates granted.

Revenue from the sale of goods is recognised when all significant risks and rewards of ownership of the goods have been transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and the receipt of economic benefits associated with the transaction is probable.

#### *Revenue from the sale of goods – retail sales*

Revenue from the sale of goods is recognised at the time when a sales transaction is completed for the client in a retail store. The client generally pays in cash or by credit card. The probability of returning goods is estimated based on prior experience, and returns are recognised in the period of the sales transaction as a reduction of revenue.

#### *Revenue from the sale of goods – wholesale*

Revenue from the sale of goods is recognised when all the risks and rewards have been transferred to the client in accordance with the terms of delivery. The probability of returning goods is estimated based on prior experience, and returns are recognised in the period of the sales transaction as a reduction of revenue.

#### *Revenue from provision of services*

Revenue from provision of services is recorded upon the provision of services or (when services are performed over a longer period of time), based on the stage of completion on the balance sheet date.

#### *Income from joint advertising*

The provision of marketing services arising from contractual relations is recorded as income from joint advertising as the group has a contractual obligation to advertise its sublessees and their products for common benefit throughout the year during various campaigns and joint events via various media channels and outlets.

#### *Interest income*

Interest income is recognised using the effective interest rate. Interest income is recognised when the receipt of revenue is probable and the amount of revenue can be estimated reliably. If the receipt of interest is uncertain, interest income is recognised on a cash basis.

In cooperation with credit institutions, the group offers its clients the loyalty card Partner Krediidkaart with credit options. The clients are required to pay a fixed interest for the credit used with Partner Krediidkaart and the interest income is divided between the bank and the group in proportion to the distribution of risks related to the crediting activity.

#### *Dividend income*

Dividend income is recognised when the right to receive payment is established.

### **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 to reserve capital, until reserve capital is at least 10% of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

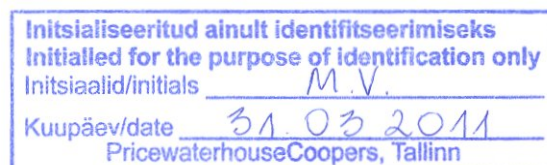
### **Earnings per share**

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

### **Payables to employees**

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

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



### Note 3 Critical accounting estimates and judgements

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

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

- *Estimation of the useful lives of property, plant and equipment:* the Group owns several recently completed shopping centres, the useful lives of significant components of which have been estimated using the data of technical project documentation and historical data. Actual useful lives may differ from those initially estimated by management.
- *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 expert opinions to determine the fair value of revalued non-current assets, whereby the estimates of external experts are used at least every 4 years. As a result of the valuation performed in the 4<sup>th</sup> quarter of 2010, the value of land and buildings located in Latvia (carrying amount: 228,104 thousand kroons, 14,578 thousand euros as at 31.12.2010) increased by 10,893 thousand kroons (696 thousand euros), which was recognised through profit or loss. In 2010, an increase in the value of land and buildings located in Estonia (carrying amount: 1,240,030 thousand kroons, 79,252 thousand euros as at 31.12.2010) in the amount of 174,947 thousand kroons (11,181 thousand euros), incl. 6,408 thousand kroons (410 thousand euros) which was recognised through profit or loss. As at 31.12.2010, the carrying amount of land and buildings using revaluation method was 1,998,725 thousand kroons (127,741 thousand euros) (2009: 1,867,272 thousand kroons, 119,340 thousand euros). More detailed information is disclosed in Note 14.
- *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 performed. 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 and the investment value is found. Internal and external valuers were used for determining the value in use. As a result of the impairment test performed in the 4<sup>th</sup> quarter of 2010, the impairment loss of buildings under construction located in Estonia (carrying amount: 231,659 thousand kroons, 14,806 thousand euros as at 31.12.2010) amounted to 4,331 thousand kroons (277 thousand euros) which was recognised through profit or loss. As a result of the impairment test, the value of buildings under construction located in Latvia (carrying amount: 277,512 thousand kroons, 17,736 thousand euros as at 31.12.2010) was reduced by 12,191 thousand kroons (779 thousand euros) which was recognised through profit or loss. In 2009, the impairment loss of buildings under construction located in Latvia (carrying amount: 286,937 thousand kroons, 18,339 thousand euros) totalled 108,303 thousand kroons (6,922 thousand euros). No impairment was identified for the remaining buildings under construction, see more detailed information in Note 14.
- *Assessment of impairment of goodwill:* at least annually, the Group evaluates possible impairment of goodwill which arose in the acquisition of subsidiaries. For the purpose of determining the value, the fair value is determined for cash-generating units which goodwill has been allocated to. For determining the value in use, management has forecast future net cash flows of cash-generating units and selected an appropriate discount rate for determining the present value of cash flows. As at 31.12.2010, the carrying amount of goodwill was 104,993 thousand kroons (6,710 thousand euros) (2009: 104,993 thousand kroons, 6,710 thousand euros). The results of the impairment tests performed in the financial year showed that no recognition of impairment of goodwill was necessary (2009: an impairment loss of 4,506 thousand kroons, 288 thousand euros was recognised for goodwill). More detailed information is disclosed in Note 15.
- *Classification of lease agreements:* The Group has concluded lease agreements whose classification into operating or finance leases depends on the fair value of the leased asset at the time of conclusion of the lease agreements. In such cases, external appraisers have been involved in determining fair value.

### Note 4 Risk management and description of key risks

Management of financial risks related to the Group's operating activities is an important and integral part of management of the Group's business processes. The Group's ability to identify, measure and control different risks has a major impact on the Group's profitability. Management defines risk as a possible negative deviation from the expected financial results. In 2010, the Group started to systematically implement the risk management process in accordance with the principles of *Enterprise Risk Management (ERM)*, in order to further foster risk awareness and management culture. Identification and evaluation of risks was performed at all group entities, a tolerance level has been determined and

preparation of risk hedging plans has been launched. In risk management, risk is treated both as a danger as well as an opportunity, and quantification of risks enables to compare both financial and non-financial risks. Risk management activities are coordinated by the internal auditor and risk manager, who reports to the Audit Committee. The responsibilities of the Audit Committee include, inter alia, regular monitoring of risk related issues and preparation of the risk report twice a year. The full-scale implementation of the ERM methodology is planned to be completed in 2011.

### **Management of financial risks**

The Group's activities may expose it to several financial risks, the key ones of which are liquidity risk, credit risk, market risk (incl. foreign currency risk, interest rate risk and price risk), operational risk and capital risk. Risk management falls within the competence of the Management Board of the Parent and includes risk identification, measurement and control. Supervision over the measures applied by management to hedge risks is exercised by the Supervisory Board of the Parent. The Group analyses and controls risks on a systematic basis through the financial unit that deals with the financing of the Parent as well as its subsidiaries and, as a direct result thereof, with the management of liquidity risk and interest rate risks, the managements and financial units of subsidiaries are also involved in the process. The help of the specialists of the core shareholder NG Investeeringud OÜ is also used.

All financial assets of the Group are in the category of "Loans and receivables" and they include cash and cash equivalents (Note 5), trade receivables (Note 6), other short-term receivables (Note 7) and other long-term receivables (Note 12). All financial liabilities of the Group are in the category of "Other financial liabilities" and they include borrowings (Note 16), trade payables, interest payables, other accrued expenses and prepayments by tenants (Note 18).

### **Market risk**

#### *Foreign currency risk*

Foreign currency risk is the risk that the fair value of financial instruments or cash flows fluctuates in the future due to changes in exchange rates. The financial assets and liabilities which do not carry foreign currency risk include financial assets and liabilities denominated in euros. The Estonian kroon is pegged to the euro at the fixed exchange rate of EUR 1 = EEK 15.6466. The Group's main foreign currency risk is related to the purchase contracts concluded in different foreign currencies, incl. USD. The only major volatile currency is USD, which however does not make up a majority of such contracts, but its open position arises seasonally in spring when the largest purchases of the season are made. As at the end of the reporting period, the Group did not have any major financial assets and liabilities denominated in currencies not pegged to the euro. For hedging the Group's foreign currency risk, most of the contracts are based on the Estonian kroon or the euro. The key long-term loan contracts have also been concluded in euros, as a result of which they are treated as liabilities which do not carry foreign currency risk. In 2010, the Group has evaluated its foreign currency risks and does not consider it necessary to use additional measures to hedge foreign currency risk.

The Group operates through its subsidiaries both in Latvia and Lithuania. The currencies of all these countries in which the Group has operations, are strictly tied to the euro (Estonia and Lithuania) or are in the euro corridor (Latvia), lowering the foreign currency risk arising from intra-group transactions and other similar transactions.

#### *Price risk*

The Group does not have securities held for sale related price 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 deposits of the Group's cash and cash equivalents have fixed interest rates, therefore, the change in the market interest rates neither impacts the Group's results of operations nor cash flows from operating activities.

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 2010, the 6-month Euribor increased from 0.996% at the beginning of the year to 1.227% at the year-end. At the beginning of 2011, Euribor has further increased. The Group's estimates that Euribor will not increase to the extent of having an impact on the Group's profit.

Had the interest rates of financial liabilities with floating interest rates been 1 percentage points higher as at 31.12.2010 (31.12.2009: 1 percentage point), the Group's finance costs would have increased by 11,549 thousand kroons (739 thousand euros) (2009: by 14,641 thousand kroons, 936 thousand euros). Had the interest rates been 0.3 percentage



points lower as at 31.12.2010 (31.12.2009: 0.1 percentage points), the Group's finance costs would have been lower by 3,226 thousand kroons (206 thousand euros) (2009: by 1,308 thousand kroons (84 thousand euros)).

During the interest rate analysis, different options to hedge risks are considered. Such options include refinancing, renewal of existing positions and alternative financing. In the current and preceding financial year, no transactions have been concluded to hedge interest rate risk with financial instruments because management estimates that the costs attributable to hedged risk would have exceeded the possible losses arising from changes in interest rates.

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

in thousands

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Up to 3 months	2,188	697	140	44
3 – 6 months	1,264,261	1,505,960	80,801	96,248
<b>Total borrowings at floating interest rate</b>	<b>1,266,449</b>	<b>1,506,657</b>	<b>80,941</b>	<b>96,292</b>
Borrowings with fixed interest rate	8,425	14,963	538	956
<b>Total borrowings</b>	<b>1,274,874</b>	<b>1,521,620</b>	<b>81,479</b>	<b>97,248</b>

### Credit risk

Credit risk is a risk the Group will suffer a financial loss arising from a financial asset counterparty that is not able to make the payments.

The Group is exposed to credit risks, which arise from its operating activities (mainly receivables) and investment 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 according to the strategy of the Group.

In the allocation of short term liquid funds the following principles are followed in the order of priority:

- Assuring liquidity;
- capital retention;
- earning income.

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

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
A1	11,236	10,389	718	664
A2	171,879	160,719	10,985	10,272
Aa2	59,936	47,495	3,831	3,035
<b>Total</b>	<b>243,051</b>	<b>218,603</b>	<b>15,534</b>	<b>13,971</b>

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. The amount of trade receivables totalled 75,863 thousand kroons (4,849 thousand euros) (2009: 55,895 thousand kroons, 3,572 thousand euros) and the receivables from retail customers for card payments totalled 19,297 thousand kroons (1 233 thousand euros) (as at 31.12.2009: 19,760 thousand kroons, 1,263 thousand euros). As at 31 December 2010, the maximum credit risk arising from receivables is in the amount of 184,200 thousand kroons (11,772 thousand euros) (2009: 161,300 thousand kroons, 10,308 thousand euros).

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

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Not due	162,605	119,295	10,393	7,624
<i>Incl. receivables from the group account</i>	23,609	16,207	1,509	1,036
<i>Incl. receivables from card payments</i>	19,297	19,760	1,233	1,263
<i>Incl. receivables from bonuses</i>	41,718	41,807	2,666	2,672
<i>Incl. trade receivables</i>	77,981	41,521	4,984	2,654
Overdue < 3 months	20,128	35,524	1,286	2,270
Overdue 3 - 6 months	570	6,026	36	385
Overdue 6 - 12 months	593	264	38	17
Overdue > 12 months	304	191	19	12
<b>Total receivables</b>	<b>184,200</b>	<b>161,300</b>	<b>11,772</b>	<b>10,308</b>

With regard to receivables not yet overdue, the claims against the group account is secured by the group account contract of the head group (NG Investeeringud OÜ). According to the contract, the group members are solidarily responsible for any unpaid amounts. The receivables arising from card payments are secured by the card payment agreement of Nordea Bank Finland Plc Estonia Branch, ensuring the receipt of card payments during two banking days. Bonuses and 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.

The Company does not consider it necessary to write down its overdue receivables, because the customers with overdue receivables are also the Group's suppliers whose liabilities exceed the amount of receivables.

### Liquidity risk

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

Preservation of liquidity, i.e. the existence of adequate financial resources to settle the liabilities arising from the activities of the Group has been one of the priorities of Tallinna Kaubamaja Group in 2010. 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. The group accounts have been opened in Estonia. According to the Group's policy, the subsidiaries that have joined the group accounts prepare cash flow forecasts on a weekly basis for the current calendar year by banking days. To manage liquidity risk, the Group uses different sources of financing, including bank loans, overdraft, regular monitoring or trade receivables and delivery contracts.

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

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

In thousands of EEK	< 3 months	3-12 months	2-3 years	4-5 years	after 5 years	Total 31.12.2010
Borrowings	73,170	229,485	391,505	209,163	491,660	1,394,983
Trade payables	631,765	0	0	0	0	631,765
Current financial liabilities*	8,701	0	0	0	0	8,701

In thousands of EUR	< 3 months	3-12 months	2-3 years	4-5 years	after 5 years	Total 31.12.2010
Borrowings	4,676	14,667	25,022	13,368	31,423	89,156
Trade payables	40,377	0	0	0	0	40,377
Current financial liabilities*	555	0	0	0	0	555

In thousands of EEK	< 3 months	3-12 months	2-3 years	4-5 years	after 5 years	Total 31.12.2009
Borrowings	64,911	226,892	513,716	359,102	527,914	1,692,535
Trade payables	713,855	0	0	0	0	713,855
Current financial liabilities*	9,399	0	0	0	0	9,399

In thousands of EUR	< 3 months	3-12 months	2-3 years	4-5 years	after 5 years	Total 31.12.2009
Borrowings	4,149	14,501	32,832	22,951	33,740	108,173
Trade payables	45,624	0	0	0	0	45,624
Current financial liabilities*	601	0	0	0	0	601

\* Current financial liabilities include interest payables, other accrued expenses and prepayments by tenants presented in Note 18.

For calculating future cash flows, the floating interest rates prevailing at the balance sheet date of 31.12.2010 and 31.12.2009, have been used.

As at the end of the financial year, the Group's available funds totalled 246,176 thousand kroons (15,734 thousand euros) (2009: 142,495 thousand kroons, 9,107 thousand euros). Depositing of the cash flow surplus is strictly regulated at the Group through a procedure, the aim of which is to deposit available funds in a deposit. As at 31.12.2010, 0 kroons (0 euros) (2009: 81,196 thousand kroons, 5,189 thousand euros) had been deposited in the deposit.

As at 31 December 20, the working capital was positive 5,930 thousand kroons (379 thousand euros) (2009: negative 78,861 thousand kroons, 5,040 thousand euros). The growth of working capital is related to the decline in trade payables. Despite a sales decline of 1.3%, the EBITDA margin (net profit before finance income and costs, corporate income tax, depreciation, amortisation and impairment of property, plant and equipment and intangible assets) increased by 195,150 thousand kroons (12,153 thousand) in 2010 as compared to the previous financial year (EBITDA fell in 2009, 103,884 thousand kroons, 6,639 thousand euros) as a result of better management of processes and inventories. The liquidity ratio of Tallinna Kaubamaja Group (current assets less inventories/current liabilities) has improved year after year due to serious efforts made to improve the EBITDA margin and it increased to 0.42 in 2010. In 2009, the respective figure was 0.37. Management estimates that Tallinna Kaubamaja Group does not have any liquidity problems.

### 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 Company'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.

According to the practice prevailing in retail trade, the Group uses the **debt to capital ratio** to monitor its capital. The **debt to capital ratio** is calculated as a ratio of net debt to total capital. As at 31.12.2010, the ratio of 34% has improved as compared to 45% as at 31.12.2009 due to positive results of operations in the reporting period, lower debt burden and revaluation of items of property, plant and equipment.

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Interest-bearing liabilities	1,274,874	1,521,620	81,479	97,249
Cash and bank	-246,176	-223,691	-15,734	-14,296
<b>Net debt</b>	<b>1,028,698</b>	<b>1,297,929</b>	<b>65,745</b>	<b>82,953</b>
Equity	2,015,453	1,614,192	128,811	103,166
<b>Total equity and borrowings</b>	<b>3,044,151</b>	<b>2,912,121</b>	<b>194,556</b>	<b>186,119</b>
Debt to equity ratio*	34%	45%	34%	45%

\*Debt to equity ratio = Net debt / Total equity and borrowings

In terms of the Group's real estate business segment the property damage, business interruption and third party claims for damages can be considered as substantial risks, which are all covered with centrally managed security agreements.

### 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. In management's estimation, the Group's risk margins have not significantly changed compared to the time when the borrowings were received and the interest rates of the Group's borrowings correspond to the market conditions. The interest rates of receivables and liabilities with fixed interest rates are not significantly different from the current market interest rates according to the estimation of the management. 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.

### **Note 5 Cash and bank**

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Cash on hand	3,125	5,987	200	383
Bank accounts	219,052	202,396	14,000	12,935
Cash in transit	23,999	15,308	1,534	978
<b>Total cash and bank</b>	<b>246,176</b>	<b>223,691</b>	<b>15,734</b>	<b>14,296</b>

### **Note 6 Trade receivables**

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Trade receivables	75,863	55,895	4,849	3,572
Credit card payments	19,297	19,760	1,233	1,263
<b>Total trade receivables</b>	<b>95,160</b>	<b>75,655</b>	<b>6,082</b>	<b>4,835</b>

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### Note 7 Other short-term receivables

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Bonuses receivable from suppliers	41,718	41,807	2,666	2,672
Short-term receivables from associate ( Note 28)	0	250	0	16
Other short-term receivables from related parties (Note 28)	43,424	38,674	2,776	2,472
Interest receivable from related parties (Note 28 )	0	372	0	24
Other short-term receivables	1,691	929	107	58
<b>Total other short-term receivables</b>	<b>86,833</b>	<b>82,032</b>	<b>5,549</b>	<b>5,242</b>

### Note 8 Prepayments

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Prepaid taxes	5,455	8,820	349	564
<b>Total prepaid taxes</b>	<b>5,455</b>	<b>8,820</b>	<b>349</b>	<b>564</b>
Prepaid rental expenses	6,246	6,372	399	407
Other prepaid expenses	5,465	6,032	349	386
<b>Total other short-term prepayments</b>	<b>11,711</b>	<b>12,404</b>	<b>748</b>	<b>793</b>
Prepaid rental expenses	19,904	25,499	1,272	1,630
<b>Total long-term prepayments</b>	<b>19,904</b>	<b>25,499</b>	<b>1,272</b>	<b>1,630</b>

### Note 9 Inventories

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Goods purchased for resale	582,846	569,906	37,251	36,424
Passenger cars purchased for resale	17,209	34,313	1,100	2,193
Raw materials and materials	10,395	9,599	664	613
Prepayment for goods	5,784	2,736	370	175
<b>Total inventories</b>	<b>616,234</b>	<b>616,554</b>	<b>39,385</b>	<b>39,405</b>

The income statement line "Materials and consumables used" includes the write-down and write-off expenses of inventories and shortages of inventory stocktaking as follows:

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
Write-down and write-off of inventories	55,956	59,806	3,576	3,822
Shortages of inventory stocktaking	25,916	29,259	1,656	1,870
<b>Total materials and consumables used</b>	<b>81,872</b>	<b>89,065</b>	<b>5,232</b>	<b>5,692</b>

The basis for writing down inventories is their aging structure and in case of fashion goods, the seasonality of inventories. The carrying amount of inventories is adjusted through the allowance account. As of 31 December 2010, the allowance account amounted to 25,580 thousand kroons (1,635 thousand euros) (31.12.2009: 23,147 thousand kroons,

1,479 thousand euros).

As of 31.12.2010, the inventories carried at net realisable value in the balance sheet amounted to 943 thousand kroons (60 thousand euros) (31.12.2009: 2,288 thousand kroons, 146 thousand euros).

Inventories have been pledged as part of the commercial pledge, information on pledged assets is disclosed in Note 27.

#### Note 10 Group structure and business combinations

Tallinna Kaubamaja Group consists of:

Name	Location	Area of activity	Ownership interest 31.12.2010 and 31.12.2009	Year of acquisition
A-Selver AS	Tallinn Pärnu mnt.238	Retail trade	100%	1996
AS Tartu Kaubamaja	Tartu Riia 2	Retail trade	100%	1996
Tallinna Kaubamaja Kinnisvara AS	Tallinn Gonsiori 2	Real estate management	100%	1999
OptiGroup Invest OÜ	Tallinn Gonsiori 2	Commercial and finance activities	100%	2007
KIA Auto AS	Tallinn Ülemiste tee 1	Retail trade	100%	2007
Ülemiste Autokeskus OÜ	Tallinn Ülemiste tee 1	Retail trade	100%	2007
KIA Automobile SIA	Riga Pulkeveza Brieza 31	Retail trade	100%	2007
KIA Auto UAB	Vilnius, Perkunkiemo g.2	Retail trade	100%	2007
TKM Beauty OÜ	Tallinn Gonsiori 2	Retail trade	100%	2007
TKM Beauty Eesti OÜ	Tallinn Gonsiori 2	Retail trade	100%	2007
AS ABC King	Tallinn Pärnu mnt. 139E	Retail trade	100%	2008
ABC King SIA	Riga Ieriku iela 3	Retail trade	100%	2008
OÜ Suurtüki NK	Tallinn Ehitajate tee 110	Retail trade	100%	2008
SIA Suurtüki	Riga Ieriku iela 3	Retail trade	100%	2008
Tartu Kaubamaja Kinnisvara OÜ	Tartu Riia 1	Real estate management	100%	2004
SIA TKM Latvia	Riga Ieriku iela 3	Real estate management	100%	2006
SIA Selver Latvija	Riga Ieriku iela 3	Retail trade	100%	2006

In 2009 and 2010, there were no business combinations.

#### Note 11 Shares of associates

in thousands of

Tallinna Kaubamaja AS has ownership of 50% (2009: 50%) interest in the entity AS Rävälä Parkla which provides the services of a parking house in Tallinn.

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
<b>Investment in the associate at beginning of the year</b>	<b>20,323</b>	<b>17,505</b>	<b>1,299</b>	<b>1,119</b>
Profit for the reporting period under equity method	3,204	2,818	205	180
<b>Investment in the associate at end of the year</b>	<b>23,527</b>	<b>20,323</b>	<b>1,504</b>	<b>1,299</b>

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

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Assets	58,671	59,174	3,750	3,782
Liabilities	11,649	18,554	745	1,186
Revenue	7,800	7,900	499	505
Profit	6,408	5,635	410	360

#### Note 12 Other long-term receivables

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Receivables from associate (Note 28)	0	1,828	0	117
Other long-term receivables	2,207	1,785	141	114
<b>Total other long-term receivables</b>	<b>2,207</b>	<b>3,613</b>	<b>141</b>	<b>231</b>

#### Note 13 Investment property

in thousands of

	EEK	EUR
<b>Carrying value as at 01.01.2009</b>	<b>0</b>	<b>0</b>
<b>Changes occurred in 2009</b>		
Reclassification (Note 14)	35,400	2,263
Gain from change in fair value upon reclassification (Note 21)	20,400	1,303
<b>Carrying value as at 31.12.2009</b>	<b>55,800</b>	<b>3,566</b>
<b>Carrying value as at 31.12.2010</b>	<b>55,800</b>	<b>3,566</b>

Construction in progress (undeveloped plot of land) represents investment property. Determination of fair value is based on the expert opinion of a real estate expert, using a comparative method. Expert opinion has been adjusted by -10% which management believes is a fairer reflection of the fact that the detailed plan has not been approved yet.

In 2010, the value of investment properties did not change.

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**Note 14 Property, plant and equipment**

in thousands of EEK

	Land and buildings	Machinery and equipment	Other fixtures and fittings	Prepay- ments for property, plant and equipment	Construc- tion in progress	Total
<b>31.12.2008</b>						
Cost or revalued amount	1,969,527	355,830	362,439	34,534	912,686	3,635,016
Accumulated depreciation and impairment losses	-154,399	-190,179	-217,365	0	-75,000	-636,943
<b>Carrying amount</b>	<b>1,815,128</b>	<b>165,651</b>	<b>145,074</b>	<b>34,534</b>	<b>837,686</b>	<b>2,998,073</b>
<b>Changes occurred in 2009</b>						
Purchases and improvements	22,611	64,872	37,814	24,909	38,293	188,499
Reclassification (Note 13)	158,063	26,600	3,240	-17,897	-205,406	-35,400
Sales	0	-287	-474	0	0	-761
Write-offs	-1,057	-40,579	-708	0	0	-42,344
Impairment loss	-66,444	-24,208	0	-4,586	-144,303	-239,541
Depreciation	-58,006	-60,023	-54,313	0	0	-172,342
Currency difference	-3,023	0	0	0	-3,522	-6,545
<b>31.12.2009</b>						
Cost or revalued amount	2,157,776	351,411	391,885	36,960	742,051	3,680,083
Accumulated depreciation and impairment losses	-290,504	-219,385	-261,252	0	-219,303	-990,444
<b>Carrying amount</b>	<b>1,867,272</b>	<b>132,026</b>	<b>130,633</b>	<b>36,960</b>	<b>522,748</b>	<b>2,689,639</b>
<b>Changes occurred in 2010</b>						
Purchases and improvements	2,118	3,214	24,379	25,642	3,545	58,898
Reclassification	1,720	8,344	10,214	-19,767	-511	0
Sales	0	-519	-590	0	0	-1,109
Write-offs	-13	-448	-10,723	0	0	-11,184
Increase in value through revaluation reserve	168,539	0	0	0	0	168,539
Decline/increase in value through profit or loss	17,300	0	0	0	-16,522	778
Depreciation	-58,150	-48,333	-50,800	0	0	-157,283
Currency difference	-61	3	3	0	-89	-144
<b>31.12.2010</b>						
Cost or revalued amount	2,159,713	339,811	327,907	42,835	744,996	3,615,262
Accumulated depreciation and impairment losses	-160,988	-245,524	-224,791	0	-235,825	-867,128
<b>Carrying amount</b>	<b>1,998,725</b>	<b>94,287</b>	<b>103,116</b>	<b>42,835</b>	<b>509,171</b>	<b>2,748,134</b>

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in thousands of EUR

	Land and buildings	Machinery and equipment	Other fixtures and fittings	Prepay- ments for property, plant and equipment	Construc- tion in progress	Total
<b>31.12.2008</b>						
Cost or revalued amount	125,876	22,742	23,164	2,207	58,331	232,320
Accumulated depreciation and impairment losses	-9,868	-12,155	-13,892	0	-4,793	-40,708
<b>Carrying amount</b>	<b>116,008</b>	<b>10,587</b>	<b>9,272</b>	<b>2,207</b>	<b>53,538</b>	<b>191,612</b>
<b>Changes occurred in 12 months of 2009</b>						
Purchases and improvements	1,445	4,147	2,418	1,592	2,447	12,049
Reclassification (Note 13)	10,102	1,700	207	-1,144	-13,128	-2,263
Sales	0	-18	-30	0	0	-48
Write-offs	-68	-2,594	-46	0	0	-2,708
Impairment loss	-4,247	-1,547	0	-293	-9,223	-15,310
Depreciation	-3,707	-3,836	-3,472	0	0	-11,015
Currency difference	-193	0	0	0	-224	-417
<b>31.12.2009</b>						
Cost or revalued amount	137,907	22,460	25,048	2,362	47,426	235,203
Accumulated depreciation and impairment losses	-18,567	-14,021	-16,699	0	-14,016	-63,303
<b>Carrying amount</b>	<b>119,340</b>	<b>8,439</b>	<b>8,349</b>	<b>2,362</b>	<b>33,410</b>	<b>171,900</b>
<b>Changes occurred in 2010</b>						
Purchases and improvements	135	205	1,558	1,639	227	3,764
Reclassification	111	533	652	-1,263	-33	0
Sales	0	-33	-38	0	0	-71
Write-offs	-1	-29	-685	0	0	-715
Increase in value through revaluation reserve	10,771	0	0	0	0	10,771
Increase/decrease in value through profit or loss	1,106	0	0	0	-1,056	50
Depreciation	-3,715	-3,089	-3,247	0	0	-10,051
Currency difference	-5	0	1	0	-6	-10
<b>31.12.2010</b>						
Cost or revalued amount	138,031	21,718	20,959	2,738	47,614	231,060
Accumulated depreciation and impairment losses	-10,290	-15,691	-14,369	0	-15,072	-55,422
<b>Carrying amount</b>	<b>127,741</b>	<b>6,027</b>	<b>6,590</b>	<b>2,738</b>	<b>32,542</b>	<b>175,638</b>

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### Investments in non-current assets

In the reporting period, the cost of items of property, plant and equipment totalled 58,898 thousand kroons (3,764 thousand euros).

In the reporting period, a new supermarket of Rannarootsi Selver was opened. A new and modern music floor was reconstructed at Kaubamaja department store; the fittings of sales departments and the equipment of the food department were upgraded. Development of the new software was launched and existing software systems were renewed. In the footwear trade, the launching of the store departments under the new SHU concept continued. Major overhaul work was implemented for buildings under construction located in Latvia.

In the supermarket segment, the cost of items of property, plant and equipment totalled 14,313 thousand kroons (915 thousand euros) in the reporting period. The cost of the investment in Rannarootsi Selver supermarket totalled 6,547 thousand kroons (418 thousand euros), of which the investment made in the reporting period totalled 3,105 thousand kroons (198 thousand euros). In the reporting period, the renovation works of stores were completed for 1,257 thousand kroons (80 thousand euros). A prepayment for the store fixtures was made in the amount of 9,951 thousand kroons (636 thousand euros). In addition, software was written down in the amount of 2,303 thousand kroons (147 thousand euros) in the reporting period.

In the reporting period, the cost of items of property, plant and equipment acquired at Kaubamaja department store segment totalled 31,211 thousand kroons (1,994 thousand euros). At Viru Keskus, a major overhaul work was completed for 1,659 thousand kroons (106 thousand euros). The investment into the music floor amounted to 1,749 thousand kroons (112 thousand euros), fittings and equipment were acquired for 2,206 thousand kroons (141 thousand euros). The existing software and hardware systems (Oscar, BO, Wifi) were upgraded for 8,711 thousand kroons (557 thousand euros). Prepayments for acquisition of new software totalled 10,895 thousand kroons (696 thousand euros). Investments made into the I.L.U. store opened at Kristiine Shopping Centre at 30 September totalled 5,991 thousand kroons (382 thousand euros).

In the reporting period, the cost of items of property, plant and equipment in the car trade segment totalled 380 thousand kroons (24 thousand euros). The consolidation group entities of Tallinna Kaubamaja have no binding commitments to purchase items of property, plant and equipment.

In the footwear segment, the cost of items of property, plant and equipment includes the fixtures purchased in conjunction with the opening of SHU and ABC King stores, i.e. 8,636 thousand kroons (552 thousand euros).

In the real estate segment, the cost of items of property, plant and equipment totalled 4,358 thousand kroons (279 thousand euros). In Latvia, the cost of the major overhaul work which has not been completed yet totalled 2,508 thousand kroons (160 thousand euros).

At the year-end 2010, the recoverable amount of "Land and buildings" and "Construction in progress" was estimated. The fair values of "Land and buildings" and the recoverable amounts of buildings under construction (based on the value in use) were determined according to management's decision, using the estimates of certified independent real estate experts for determining the inputs to be used or the fair value of the items. The discounted cash flow model and market data (comparable transactions, rental income, etc.) were used both for determining fair value as well as recoverable amounts.

### Estimation of fair value of "Land and buildings"

For estimating the value of "Land and buildings" located in Estonia, the estimates of a certified independent real estate expert were used in respect of 4 properties. The same expert also provided an expert opinion with regard to the discount and capitalisation rates in respect of 10 properties. The estimates were prepared internally using these inputs, applying the discounted cash flow model. The discount rates used for estimation were 9.0% - 13.0% (2009: 9.0%-13.5%) depending on the location of the property and the rental growth rates were 0% - 1.0% (2009: 0% - 1.0%). 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. Management estimated the fair value of the remaining items of "Land and buildings" on the basis of the replacement cost method and determined that their fair value approximates their carrying amount.

For the purpose of estimating the value of "Land and buildings" located in Latvia as at 31.12.2010, the estimates of a certified independent real estate expert were used in respect of 4 completed items, but they were adjusted by up to - 14%. The same inputs were used as for the remaining buildings under construction located in Latvia. The discount rate used for estimation was 11.3% (2009: 11.5%) and the growth rates of rental income were 1.0% - 1.5% (2009: 1.0% - 1.5%).



Carrying amounts of "Land and buildings":

In thousands of	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
PPE items in Estonia, for which an expert opinion was provided	1,240,030	1,089,150	79,252	69,609
PPE items in Estonia, for which estimates were provided by experts in respect of discount and capitalisation rates	428,255	430,061	27,370	27,486
Remaining PPE items in Estonia	102,336	125,283	6,540	8,007
PPE items in Latvia for which an expert opinion was provided	228,104	222,778	14,579	14,238
<b>Total</b>	<b>1,998,725</b>	<b>1,867,272</b>	<b>127,741</b>	<b>119,340</b>

As a result of estimation, the items of "Land and buildings" located in Estonia were adjusted upwards in the amount of 174,946 thousand kroons (11,181 thousand euros), of which 168,539 thousand kroons (10,771 thousand euros) was recognised through the revaluation reserve and 6,407 thousand kroons (410 thousand euros) through profit or loss (2009: completed PPE items were not adjusted upwards). As a result of the estimation, the items of "Land and buildings" located in Latvia were adjusted upwards in the amount of 10,893 thousand kroons (696 thousand euros). In 2009, no completed items were adjusted upwards, but an impairment loss was recognised in the amount of 66,444 thousand kroons (4,247 thousand euros).

In summary, for determining the fair value in 2010, the items of "Land and buildings" were adjusted upwards in the amount of 168,539 thousand kroons (10,771 thousand euros) through the revaluation reserve and in the amount of 17,300 thousand kroons (1,106 thousand euros) through profit or loss. In 2009, completed items were written down in the amount of 66,444 thousand kroons (4,247 thousand euros).

#### Determination of fair values of buildings under construction

For determining the value of buildings under construction located in Estonia, the estimates of a certified independent real estate expert were used in respect of 3 items. The estimates for other item were determined internally. For valuation purposes, the discount rates used were 10.5%-13% (2009: 10.5%-13%) and the growth rate was 1.0% (2009: 1.0%). The buildings under construction located in Latvia were valued internally, based on the value in use. For valuation purposes, the discount rates used were 11.3%- 12.8% (2009: 11.5%-13.0%) depending on the location of the item, and the growth rates were 1.0% - 1.5% (2009: 1.0%-1.5%). For determining the investment value, the discounted cash flow method was used. The capitalisation rates of 9.8%-10.8% (2009: 9%-10.5%) provided by a certified expert were used for valuation. 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.

Carrying amounts of buildings under construction:

in thousands of	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
PPE items in Estonia, for which an expert opinion was provided	80,714	111,731	5,159	7,141
PPE items in Estonia for which an internal estimate was provided	150,945	124,080	9,647	7,930
PPE items in Latvia, for which an internal estimate was provided	277,512	286,937	17,736	18,339
<b>Total</b>	<b>509,171</b>	<b>522,748</b>	<b>32,542</b>	<b>33,410</b>

Based on the results of valuation, the building under construction were written down in the amount of 4,331 thousand kroons (277 thousand euros) in Estonia (2009: 36,000 thousand kroons (2,301 thousand euros)). Based on the results of valuation, buildings under construction were written down in the amount of 12,191 thousand kroons (779 thousand euros) in Latvia (2009: 108 303 thousand kroons (6 922 thousand euros)).

In summary, buildings under construction were written down in the amount of 16,522 thousand kroons (1,056 thousand euros) in 2010. In 2009, buildings under construction were written down in the amount of 144,303 thousand kroons (9,223 thousand euros).

#### Estimation of the recoverable amount of non-current assets

In conjunction with a continuing recession in the retail market, the recoverable amount of the non-current assets of I.L.U. cosmetics stores (carrying amount: 19,274 thousand kroons, 1,232 thousand euros, in 2009: 16,787 thousand kroons, 1,073 thousand euros) which are part of Kaubamaja department store segment 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 7.2% in 2012-2015. I.L.U. launched its operations in 2009 and also opened a store at the end of 2010. Hence, the sales growth estimated for 2011 is significantly different from that of 2010. The sales growth was forecast on the basis of purchases made at the beauty departments of Tallinna and Tartu Kaubamaja as well as the sales per square meter. The discount rate applied is 8.0% and the future growth rate (after year 5) is 2%. No impairment loss was identified as a result of the impairment test.

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:

31.12.2010 1,389,379 thousand kroons (88,798 thousand euros)

31.12.2009 1,442,119 thousand kroons (92,168 thousand euros)

#### Capitalisation of borrowing costs

In the financial year, the borrowing costs of the PPE items completed in Latvia were not capitalised; in 2009, the respective costs were capitalised in the amount 8,138 thousand kroons, 520 thousand euros, using the capitalisation rate of 3.5%. In 2009, the capitalisation of borrowing costs of the buildings under construction was suspended in Latvia, due to the suspension of active development of the registered immovables.

As at 31.12.2010, the cost of non-current assets with a zero carrying amount was 256,808 thousand kroons (16,413 thousand euros) (2009: 244,625 thousand kroons, 15,634 thousand euros).

As at 31.12.2010, property, plant and equipment with the carrying amount of 1,680,433 thousand kroons (107,399 thousand euros) (2009: 1,563,403 thousand kroons, 99,920 thousand euros) was used as collateral for the borrowings. More detailed information is disclosed in Note 27.

Information about non-current assets leased under finance lease terms is disclosed in Note 17.

### **Note 15 Intangible assets**

in thousands of EEK

	Goodwill	Trademark	Beneficial contracts	Development expenditure	Total
<b>31.12.2008</b>					
Cost	114,187	54,887	16,900	0	185,974
Accumulated amortisation and impairment	-4,688	-1,820	-1,536	0	-8,044
<b>Carrying amount</b>	<b>109,499</b>	<b>53,067</b>	<b>15,364</b>	<b>0</b>	<b>177,930</b>
<b>Changes occurred in 2009</b>					
Purchases	0	0	0	300	300
Amortisation	0	-3,640	-3,073	0	-6,713
Impairment losses	-4,506	0	0	0	-4,506
<b>31.12.2009</b>					
Cost	114,187	54,887	16,900	300	186,274
Accumulated amortisation and impairment	-9,194	-5,460	-4,609	0	-19,263
<b>Carrying amount</b>	<b>104,993</b>	<b>49,427</b>	<b>12,291</b>	<b>300</b>	<b>167,011</b>
<b>Changes occurred in 2010</b>					
Reclassification	0	14	0	-14	0
Amortisation	0	-3,657	-3,073	0	-6,730
<b>31.12.2010</b>					
Cost	114,187	54,901	16,900	286	186,274
Accumulated amortisation and impairment	-9,194	-9,117	-7,682	0	-25,993
<b>Carrying amount</b>	<b>104,993</b>	<b>45,784</b>	<b>9,218</b>	<b>286</b>	<b>160,281</b>

in thousands of EUR

	Goodwill	Trademark	Beneficial contracts	Development expenditure	Total
<b>31.12.2008</b>					
Cost	7,298	3,508	1,080	0	11,886
Accumulated amortisation and impairment	-300	-116	-98	0	-514
<b>Carrying amount</b>	<b>6,998</b>	<b>3,392</b>	<b>982</b>	<b>0</b>	<b>11,372</b>
<b>Changes occurred in 2009</b>					
Purchases	0	0	0	19	19
Amortisation	0	-233	-196	0	-429
Impairment losses	-288	0	0	0	-288
<b>31.12.2009</b>					
Cost	7,298	3,508	1,080	19	11,905
Accumulated amortisation and impairment	-588	-349	-294	0	-1,231
<b>Carrying amount</b>	<b>6,710</b>	<b>3,159</b>	<b>786</b>	<b>19</b>	<b>10,674</b>
<b>Changes occurred in 2010</b>					
Reclassification	0	1	0	-1	0
Amortisation	0	-234	-197	0	-431
<b>31.12.2010</b>					
Cost	7,298	3,509	1,080	18	11,905
Accumulated amortisation and impairment	-588	-583	-491	0	-1,662
<b>Carrying amount</b>	<b>6,710</b>	<b>2,926</b>	<b>589</b>	<b>18</b>	<b>10,243</b>

As a trademark, the Group has recognised the image of ABC King acquired in acquisition of footwear trade segment companies AS ABC King and SIA ABC King; the image contains a combination of the name, symbol and design together with recognition and preference by consumers. The remaining useful life of the trademark as at 31.12.2010 is 12.5 years.

Impairment tests of goodwill and other intangible assets were carried out as of 31 December 2010 and 2009.

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

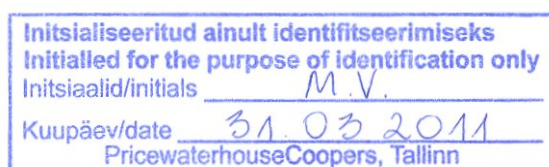
In thousands of	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Car trade	49,388	49,388	3,156	3,156
Footwear trade	55,605	55,605	3,554	3,554

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

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

	Car trade		Footwear trade	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Operating profit margin	1.9% - 4.8%	-1.2 - 3.0%	-3.0% - 0.7%	-4.6 - 5.6%
Discount rate	7.1%	10.9%	6.65%	10.7 - 12.0%
Sales growth	15% - 23%	-2% - 40%	2% - 12.4%	-18 - 42%
Future growth rate*	2%	2%	2%	2%

\*Future growth rate is estimated cash flow growth after the fifth year.



Pre-tax discount rates have been used, reflecting the risks inherent in the respective segments. The weighted average growth rates used are based on the Group's experience and the estimates of the economic environment. The key assumptions used for calculating the value in use include the growth rate of sales volumes and the operating margin. As compared to the assumptions used for estimating the value in use in 2009, the assumptions used for 2010 factor in lower volatility of sales volumes due to the expected stabilisation of the economic environment in the upcoming years.

The 5-year average growth rate in the car trade is 19.5% (In 2010: 7.3%), taking into consideration the fact that the automobile market has started to recover after the deep recession of 2009 and by 2015, the sales levels for the year 2009 will be restored to a great extent.

The 5-year average growth rate in the footwear trade is 5.9%. Due to the new, successfully launched trademark of SHU, the sales growth in 2011 is estimated to be 12.4% which is the highest sales growth over the next 5-year period. The 5-year average growth rate of ABC King is estimated at 5.0%. The operating margin used in the impairment test performed for the footwear trade segment is -0.5% (2009: -0.1%) on average, whereby the segment is expected to earn an operating profit in 2014 (according to the test, the segment is expected to become profitable in 2012).

Management estimates that the assumptions used in the impairment test are realistic and conservative. If the following changes were to occur in the assumptions used in the impairment test, the recoverable amount would equal the carrying amount:

	Car trade		Footwear trade*	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Difference between the carrying amount and recoverable amount of the cash generating unit, th. EEK	238,545	25,629	36,026	36,582
Difference between the carrying amount and recoverable amount of the cash generating unit, th. EUR	15,246	1,638	2,302	2,338
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:	-31.9%	-6.0%	-6.7%	-7.5%
Decrease of the average operating profit margin	-288 pp	-60 pp	-66 pp	-110 pp

\* excluding cash generating unit Suurtüki SIA, where impairment loss of goodwill has been recognised in 2009.

## Note 16 Interest bearing borrowings

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
<b>Long-term borrowings</b>				
Bank loans	995,288	1,255,630	63,610	80,250
Finance lease liability (Note 17)	2,058	8,363	132	534
Other borrowings	1,602	3,103	102	198
<b>Total long-term borrowings</b>	<b>998,948</b>	<b>1,267,096</b>	<b>63,844</b>	<b>80,982</b>

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
<b>Short-term borrowings</b>				
Overdraft	2,266	2,266	145	145
Bank loans	262,949	242,463	16,805	15,496
Finance lease liability (Note 17)	6,367	6,114	407	391
Other borrowings	4,344	3,681	278	235
<b>Total short-term borrowings</b>	<b>275,926</b>	<b>254,524</b>	<b>17,635</b>	<b>16,267</b>
<b>Total borrowings</b>	<b>1,274,874</b>	<b>1,521,620</b>	<b>81,479</b>	<b>97,249</b>

#### Borrowings received

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
Bank loans	110,265	353,520	7,048	22,594
Finance lease liability	204	0	13	0
Other borrowings	11,978	7,084	765	453
<b>Total borrowings received</b>	<b>122,447</b>	<b>360,604</b>	<b>7,826</b>	<b>23,047</b>

#### Borrowings paid

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
Overdraft	0	42,298	0	2,703
Bank loans	350,121	312,570	22,377	19,977
Finance lease liability	6,257	5,617	400	359
Other borrowings	12,815	12,005	819	767
<b>Total Borrowings paid</b>	<b>369,193</b>	<b>372,490</b>	<b>23,596</b>	<b>23,806</b>

Bank loans are denominated in euros and finance lease liabilities are denominated in Estonian kroons. Information on pledged assets is disclosed in Note 27.

As of 31.12.2010, the repayment dates of bank loans are between 7.05.2011 and 20.06.2018 (2009: between 1.03.2010 and 20.06.2018), interest is tied both to 3-month and 6-month EURIBOR as well as EONIA. Weighted average interest rate was 2.29% (2009: 3.20%).

#### Note 17 Finance and operating lease

in thousands of

##### Group is the lessee –finance lease agreements

The Group leases buildings under finance lease terms with the carrying amount of 5,701 thousand kroons (364 thousand euros) as of 31.12.2010 (2009: 9,997 thousand kroons; 639 thousand euros).

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
due in less than 1 year	6,742	6,914	431	442
due between 1 and 5 years	2,091	8,763	134	560
<b>Total</b>	<b>8,833</b>	<b>15,677</b>	<b>565</b>	<b>1,002</b>
Future interest expense	-408	-1,200	-26	-77
<b>Present value of lease payments (Note 16)</b>	<b>8,425</b>	<b>14,477</b>	<b>539</b>	<b>925</b>
<b>Present value of lease payments</b>				
due in less than 1 year	6,367	6,115	407	392
due between 1 and 5 years	2,058	8,362	132	533
<b>Total (Note 16)</b>	<b>8,425</b>	<b>14,477</b>	<b>539</b>	<b>925</b>



The Group leases 3500 m<sup>2</sup> commercial premises at Papiniidu 42, Pärnu under operating lease terms. The lease term is valid from the conclusion of the agreement until 2012. The agreement can be terminated prematurely by a written notice one month in advance. Upon the expiration of the agreement, the lessee has the right of renewal before other persons.

*Subleases of buildings leased under finance lease terms*

Information on rental income for the reporting period is disclosed in Note 21.

Future minimum lease payments under non-cancellable subleases:

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
due in less than 1 year	5,933	5,933	379	379
due between 1 and 5 years	600	6,534	38	418
<b>Total</b>	<b>6,533</b>	<b>12,467</b>	<b>417</b>	<b>797</b>

**Group is the lessee – operating lease agreements**

Operating lease expenses include the costs for leasing retail premises. Information about the rental expenses in the reporting period is disclosed in Note 22.

Future minimum lease payments under non-cancellable operating leases:

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
due in less than 1 year	206,984	204,292	13,229	13,057
due between 1 and 5 years	689,426	748,147	44,062	47,815
due after 5 years	108,284	134,081	6,921	8,569
<b>Total</b>	<b>1,004,694</b>	<b>1,086,520</b>	<b>64,212</b>	<b>69,441</b>

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

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

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

*Subleases of buildings leased under operating lease terms:*

Information about lease income in the reporting period is disclosed in Note 21.

Future minimum lease payments under non-cancellable subleases:

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
due in less than 1 year	15,678	14,663	1,002	937
due between 1 and 5 years	31,361	42,284	2,004	2,702
<b>Total</b>	<b>47,039</b>	<b>56,947</b>	<b>3,006</b>	<b>3,639</b>

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 PricewaterhouseCoopers, Tallinn



## Group as the lessor

### Operating lease

Rental income received is made up of income received for the leasing out of premises. Information about the rental income from leases and subleases is disclosed in Note 21.

Future minimum lease payments under non-cancellable operating leases (other than the sublease payments mentioned above):

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
due in less than 1 year	35,225	41,162	2,251	2,631
due between 1 and 5 years	115,902	119,817	7,407	7,658
due after 5 years	4	28,001	0	1,790
<b>Total</b>	<b>151,131</b>	<b>188,980</b>	<b>9,658</b>	<b>12,079</b>

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

## Note 18 Taxes, other short- and long-term payables, and provisions

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Value added tax	40,500	28,311	2,589	1,809
Sales tax	426	0	27	0
Corporate income tax	3	3	0	0
Personal income tax	9,045	10,201	578	652
Social security taxes	20,047	21,945	1,281	1,403
Corporate income tax on fringe benefits	292	278	19	18
Unemployment insurance	2,342	2,543	150	163
Mandatory funded pension	519	209	33	13
<b>Total tax liabilities</b>	<b>73,174</b>	<b>63,490</b>	<b>4,677</b>	<b>4,058</b>
Employee payables	55,127	53,321	3,524	3,408
Interest payable	600	727	38	46
Other accrued expenses	460	1,188	29	77
Prepayments by tenants	7,641	7,484	488	478
<b>Total other short-term payables</b>	<b>63,828</b>	<b>62,720</b>	<b>4,079</b>	<b>4,009</b>
Short-term provisions	1,982	445	127	28
Long-term provisions	1,382	1,736	88	111
<b>Total provisions</b>	<b>3,364</b>	<b>2,181</b>	<b>215</b>	<b>139</b>

Short-term and long-term provisions represent warranty provisions related to footwear and vehicle trade.

### Note 19 Share capital

As of 31.12.2010, the share capital in the amount of 407,292 thousand kroons (26,031 thousand euros) consisted of 40,729,200 ordinary shares with the nominal value of 10 kroons (0.64 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 2010, dividends were paid shareholders in the amount of 26,474 thousand kroons (1,692 thousand euros) (2009: 16,292 thousand kroons, 1,041 thousand euros), or 0.65 kroons (0.04 euros) per share (2009: 0.4 kroons, 0.03 euros per share), and income tax on dividends totalled 7,037 thousand kroons (450 thousand euros) (2009: 4,331 thousand kroons, 277 thousand euros).

Information about contingent income tax liability which would arise from the distribution of retained earnings is disclosed in Note 31.

### 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 operating activities on the basis of area of activities. With regard to areas of activity, the operating activities are monitored in the department store, supermarket, real estate, car trade, footwear trade, beauty products (I.L.U.) and security segments. The measures of I.L.U. and security segment are below the quantitative criteria of the reporting segment specified in IFRS 8; these segments have been aggregated with the department store segment because they have similar economic characteristics and are similar in other respects specified in IFRS 8.

The main area of activity of department stores, supermarkets, footwear trade and car trade is retail trade. Supermarkets focus on the sale of food products and convenience goods, the department stores on the sale of beauty and fashion products, the car trade on the sale of cars and spare parts to cars. In the car trade segment, cars are sold at wholesale prices to authorised car dealers. In the footwear trade segment, footwear is sold at wholesale prices to family markets. The share of wholesale trade in other segments is insignificant. The real estate segment deals with the 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 five operating segments in Estonia. The Company is engaged in footwear trade, car trade and retail trade in supermarkets and real estate development in Latvia; and in car trade in Lithuania.

The disclosures of financial information correspond to the information that is periodically reported to the Supervisory Board. Measures of income statement, segment assets and liabilities have been measured in accordance with accounting policies used in the preparation of the financial statements.

Due to the change made to management reports concerning the monitoring of segments, the comparative information for 2009 has been adjusted.

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PricewaterhouseCoopers, Tallinn

in thousands of EEK

2010	Department store	Super markets	Real estate	Vehicle trade	Footwear trade	Inter-segment transactions	Total segments
<b>External revenue</b>	<b>1,153,150</b>	<b>4,697,021</b>	<b>38,793</b>	<b>202,041</b>	<b>211,018</b>	<b>0</b>	<b>6,302,023</b>
Inter-segment revenue	2,304	7,992	121,644	236	2,175	-134,351	0
Total revenue	1,155,454	4,705,013	160,437	202,277	213,193	-134,351	6,302,023
<b>Operating profit</b>	<b>15,272</b>	<b>144,810</b>	<b>129,249</b>	<b>5,969</b>	<b>-4,264</b>	<b>0</b>	<b>291,036</b>
Finance income (Note 25)	3,885	739	0	34	11	0	4,669
Finance income on shares of associates	3,204	0	0	0	0	0	3,204
Finance costs (Note 25)	-15,039	-727	-12,918	-1,219	-1,514	0	-31,417
Corporate income tax	0	-7,037	0	0	0	0	-7,037
<b>Net profit</b>	<b>21,177</b>	<b>139,047</b>	<b>104,614</b>	<b>3,386</b>	<b>-7,769</b>	<b>0</b>	<b>260,455</b>
incl. in Estonia	21,177	186,036	97,218	7,446	-6,561	0	305,316
incl. in Latvia	0	-46,989	7,396	-2,590	-1,208	0	-43,391
incl. in Lithuania	0	0	0	-1,470	0	0	-1,470
<b>Segment assets</b>	<b>2,493,064</b>	<b>986,181</b>	<b>2,577,017</b>	<b>136,939</b>	<b>192,097</b>	<b>-2,313,876</b>	<b>4,071,422</b>
<b>Segment liabilities</b>	<b>654,187</b>	<b>605,600</b>	<b>1,373,694</b>	<b>158,408</b>	<b>206,769</b>	<b>-942,689</b>	<b>2,055,969</b>
Segment investment in non-current assets (Note 14, 15)	31,211	14,313	4,358	380	8,636	0	58,898
Segment depreciation (Note 14, 15)	22,085	84,998	43,392	2,306	11,232	0	164,013
Impairment of non-current assets recognised in income statement (Note 14, 15, 24)	0	0	-778	0	0	0	-778

in thousands of EUR

2010	Department store	Super markets	Real estate	Vehicle trade	Footwear trade	Inter-segment transactions	Total segments
<b>External revenue</b>	<b>73,700</b>	<b>300,194</b>	<b>2,479</b>	<b>12,913</b>	<b>13,487</b>	<b>0</b>	<b>402,773</b>
Inter-segment revenue	147	511	7,774	15	139	-8,586	0
Total revenue	73,847	300,705	10,253	12,928	13,626	-8,586	402,773
<b>Operating profit</b>	<b>976</b>	<b>9,255</b>	<b>8,262</b>	<b>381</b>	<b>-273</b>	<b>0</b>	<b>18,601</b>
Finance income (Note 25)	248	47	0	2	1	0	298
Finance income on shares of associates	205	0	0	0	0	0	205
Finance costs (Note 25)	-961	-46	-826	-78	-97	0	-2,008
Corporate income tax	0	-450	0	0	0	0	-450
<b>Net profit</b>	<b>1,353</b>	<b>8,887</b>	<b>6,687</b>	<b>216</b>	<b>-497</b>	<b>0</b>	<b>16,646</b>
incl. in Estonia	1,353	11,890	6,214	477	-420	0	19,514
incl. in Latvia	0	-3,003	473	-166	-77	0	-2,773
incl. in Lithuania	0	0	0	-95	0	0	-95
<b>Segment assets</b>	<b>159,336</b>	<b>63,028</b>	<b>164,702</b>	<b>8,752</b>	<b>12,277</b>	<b>-147,884</b>	<b>260,211</b>
<b>Segment liabilities</b>	<b>41,810</b>	<b>38,705</b>	<b>87,796</b>	<b>10,124</b>	<b>13,215</b>	<b>-60,250</b>	<b>131,400</b>
Segment investment in non-current assets (Note 14, 15)	1,994	915	279	24	552	0	3,764
Segment depreciation (Note 14, 15)	1,412	5,432	2,773	147	718	0	10,482
Impairment of non-current assets recognised in income statement (Note 14, 15, 24)	0	0	-50	0	0	0	-50

The revaluation increase of assets in all segments amounted to 778 thousand kroons (50 thousand euros) (2009: 244,047 thousand kroons, -15,597 thousand euros).

in thousands of EEK

2009	Depart- ment store	Super markets	Real estate	Vehicle trade	Footwear trade	Inter- segment tran- sactions	Total segment s
<b>External revenue</b>	<b>1,196,505</b>	<b>4,761,355</b>	<b>42,639</b>	<b>207,921</b>	<b>179,707</b>	<b>0</b>	<b>6,388,127</b>
Inter-segment revenue	1,610	7,971	142,837	177	3,636	-156,231	0
<b>Total revenue</b>	<b>1,198,115</b>	<b>4,769,326</b>	<b>185,476</b>	<b>208,098</b>	<b>183,343</b>	<b>-156,231</b>	<b>6,388,127</b>
<b>Operating profit</b>	<b>5,707</b>	<b>-32,690</b>	<b>-67,895</b>	<b>-15,793</b>	<b>-43,724</b>	<b>0</b>	<b>-154,395</b>
Finance income (Note 25)	5 225	297	3	30	10	0	5 565
Finance income on shares of associates	2 818	0	0	0	0	0	2 818
Finance costs (Note 25)	-16 288	-1 084	-23 003	-2 780	-3 251	0	-46 406
Corporate income tax	0	-4 331	0	0	0	0	-4 331
<b>Net profit</b>	<b>27,997</b>	<b>-34,942</b>	<b>-115,619</b>	<b>-22,979</b>	<b>-51,206</b>	<b>0</b>	<b>-196,749</b>
incl. in Estonia	27,997	111,333	67,399	-15,380	-40,308	0	151,041
incl. in Latvia	0	-146,275*	-183,018*	-4,358	-10,898	0	-344,549
incl. in Lithuania	0	0	0	-3,241	0	0	-3,241
<b>Segment assets</b>	<b>2,079,055</b>	<b>941,877</b>	<b>2,405,917</b>	<b>143,786</b>	<b>197,135</b>	<b>-1,786,729</b>	<b>3,981,041</b>
<b>Segment liabilities</b>	<b>799,322</b>	<b>672,777</b>	<b>1,475,758</b>	<b>168,075</b>	<b>232,627</b>	<b>-981,710</b>	<b>2,366,849</b>
Gain from change in fair value of investment property (Note 13)	0	0	20,400	0	0	0	20,400
Segment investment in non-current assets (Note 14, 15)	38,864	94,214	47,454	146	7,821	0	188,499
Depreciation (Note 14, 15)	24,279	98,948	42,873	2,540	10,415	0	179,055
Impairment of non-current assets recognised in income statement (Note 14, 15)	0	28,794	210,747	0	4,506	0	244,047

\* includes costs related to the termination of operations of Selver supermarkets in Latvia, which is clarified in Notes 14 and 24.

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in thousands of EUR

	Department store	Super markets	Real estate	Vehicle trade	Footwear trade	Inter- segment transac- tions	Total seg- ments
<b>2009</b>							
<b>External revenue</b>	<b>76,471</b>	<b>304,306</b>	<b>2,725</b>	<b>13,289</b>	<b>11,485</b>	<b>0</b>	<b>408,276</b>
Inter-segment revenue	103	509	9,129	11	232	-9,984	0
<b>Total revenue</b>	<b>76,574</b>	<b>304,815</b>	<b>11,854</b>	<b>13,300</b>	<b>11,717</b>	<b>-9,984</b>	<b>408,276</b>
<b>Operating profit</b>	<b>365</b>	<b>-2,089</b>	<b>-4,339</b>	<b>-1,009</b>	<b>-2,796</b>	<b>0</b>	<b>-9,868</b>
Finance income (Note 25)	334	19	0	2	1	0	356
Finance income on shares of associates	180	0	0	0	0	0	180
Finance costs (Note 25)	-1 041	-69	-1 470	-178	-208	0	-2 966
Corporate income tax	0	-277	0	0	0	0	-277
<b>Net profit</b>	<b>1,789</b>	<b>-2,233</b>	<b>-7,389</b>	<b>-1,469</b>	<b>-3,273</b>	<b>0</b>	<b>-12,575</b>
incl. in Estonia	1,789	7,115	4,308	-983	-2,576	0	9,653
incl. in Latvia	0	-9,348*	-11,697*	-279	-697	0	-22,021
incl. in Lithuania	0	0	0	-207	0	0	-207
<b>Segment assets</b>	<b>132,876</b>	<b>60,197</b>	<b>153,766</b>	<b>9,190</b>	<b>12,599</b>	<b>-114,193</b>	<b>254,435</b>
<b>Segment liabilities</b>	<b>51,085</b>	<b>42,998</b>	<b>94,318</b>	<b>10,742</b>	<b>14,868</b>	<b>-62,743</b>	<b>151,268</b>
Gain from change in fair value of investment property (Note 13)	0	0	1,304	0	0	0	1,304
Segment investment in non-current assets (Note 14, 15)	2,484	6,021	3,035	9	500	0	12,049
Depreciation (Note 14, 15)	1,552	6,324	2,740	162	666	0	11,444
Impairment of non-current assets recognised in income statement (Note 14,15)	0	1,840	13,469	0	288	0	15,597

\* includes costs related to the termination of operations of Selver supermarkets in Latvia, which is clarified in Notes 14 and 24.

#### External revenue according to types of goods and services sold

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
Retail revenue	6,194,135	6,298,903	395,878	402,574
Wholesale revenue	59,131	37,728	3,779	2,411
Rental income	38,792	42,638	2,479	2,725
Services and catering revenue	9,965	8,858	637	566
<b>Total revenue</b>	<b>6,302,023</b>	<b>6,388,127</b>	<b>402,773</b>	<b>408,276</b>

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**External revenue by client location**

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
<b>Estonia</b>	6,200,561	6,115,004	396,289	390,820
<b>Latvia</b>	48,181	243,611	3,079	15,570
<b>Lithuania</b>	53,281	29,512	3,405	1,886
<b>Total</b>	<b>6,302,023</b>	<b>6,388,127</b>	<b>402,773</b>	<b>408,276</b>

**Distribution of non-current assets\* by location of assets**

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
<b>Estonia</b>	2,476,018	2,425,948	158,246	155,046
<b>Latvia</b>	506,344	511,332	32,361	32,680
<b>Lithuania</b>	3,427	3,744	219	239
<b>Total</b>	<b>2,985,789</b>	<b>2,941,024</b>	<b>190,826</b>	<b>187,965</b>

\* 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's revenue.

**Note 21 Other operating income**

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
Joint advertising income*	107,227	94,830	6,853	6,061
Rental income**	51,011	57,115	3,260	3,650
Change in fair value of investment property (Note 13)	0	20,400	0	1,304
Income from foreign currency translation	242	775	15	50
Revenue from non-current assets	543	135	35	9
Income from parking services	878	719	56	46
Package handling income	4,761	4,598	304	294
Income from other services provided to tenants	12,974	14,984	829	958
Other operating income***	27,580	24,342	1,764	1,554
<b>Total other operating income</b>	<b>205,216</b>	<b>217,898</b>	<b>13,116</b>	<b>13,926</b>

\*Joint advertising income includes income received from sublessees and income received from suppliers for arrangement of joint advertising campaigns.

\*\*Rental income comprises income from subleases.

\*\*\*Other operating income includes income from the sale of lottery and theatre tickets, processing of invoices, receivables and other income related to operating activities.

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## Note 22 Other operating expenses

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
Rental expenses	211,095	217,246	13,491	13,885
Operating costs	95,236	100,305	6,087	6,411
Advertising expenses	75,467	75,654	4,823	4,835
Bank expenses	48,621	47,208	3,107	3,017
Security costs	28,428	33,783	1,817	2,159
Heat and electricity expenses	101,797	100,407	6,506	6,417
Cost of materials	47,676	56,776	3,047	3,629
Computer and postage costs	31,660	34,058	2,023	2,177
Business trip expenses	5,022	5,437	321	347
Training expenses	2,544	2,458	163	157
Insurance expenses	1,270	1,760	81	112
Logistics expenses	10,226	14,022	654	896
Miscellaneous other operating expenses	34,125	37,950	2,181	2,426
<b>Total other operating expenses</b>	<b>693,167</b>	<b>727,064</b>	<b>44,301</b>	<b>46,468</b>

## Note 23 Staff costs

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
Wages and salaries	406,108	461,197	25,956	29,476
Social security taxes	137,823	152,887	8,808	9,771
<b>Total staff costs</b>	<b>543,931</b>	<b>614,084</b>	<b>34,764</b>	<b>39,247</b>
Average wages per employee per month (kroons/euros)	10,629	10,401	679	665
Average number of employees in the reporting period	3,184	3,695	3,184	3,695

Staff costs also include accrued holiday pay as well as bonuses and termination benefits for 2010 not yet paid.

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#### Note 24 Other expenses

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
Loss from sale and liquidation of property, plant and equipment	5,090	2,479	325	158
Impairment of property, plant and equipment	0	4,586	0	293
Foreign currency exchange losses	485	773	31	49
State fees, fines, penalties*	546	18,373*	35	1,174*
Costs of entertaining guests	688	384	44	25
Other expenses	6,332	7,744	405	496
<b>Total other expenses</b>	<b>13,141</b>	<b>34,339</b>	<b>840</b>	<b>2,195</b>

\*in conjunction with the termination of operations of Latvia's Selver supermarkets in 2009, include contractual penalties in the amount of 17,231 thousand kroons (1,101 thousand euros).

#### Note 25 Finance income and costs

in thousands of

##### Finance income

	EEK		EUR	
	2010	2009	2010	2009
Interest income on cash and cash equivalents	939	1,187	60	75
Interest income on Partner card	1,927	2,215	123	142
Interest income on NGI Group's group account (Note 28)	1,655	1,810	106	116
Interest income on associate's loan	108	312	7	20
Other finance income	40	41	2	3
<b>Total finance income</b>	<b>4,669</b>	<b>5,565</b>	<b>298</b>	<b>356</b>

##### Finance costs

	EEK		EUR	
	2010	2009	2010	2009
Interest expense of bank loans	-29,824	-44,431	-1,906	-2,840
Interest expense of finance lease	-801	-1,236	-51	-79
Interest expense on NGI Group's group accounts (Note 28)	0	-189	0	-12
Other finance costs*	-792	-550	-51	-35
<b>Total finance costs</b>	<b>-31,417</b>	<b>-46,406</b>	<b>-2,008</b>	<b>-2,966</b>

\* Other finance costs consist of the fees for conclusion and changing of lease agreements and factoring agreements.

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### Note 26 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. As the Company does not have potential ordinary shares, the diluted earnings per share equal basic earnings per share.

	EEK		EUR	
	2010	2009	2010	2009
Net profit/loss	260,455	-196,749	16,646	-12,575
Weighted average number of shares	40,729,200	40,729,200	40,729,200	40,729,200
Basic and diluted earnings per share	6.39	-4.83	0.41	-0.31

### Note 27 Loan collateral and pledged assets

The loans assumed by group entities have the following collateral with their carrying amounts:

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Property, plant and equipment	1,680,433	1,563,403	107,399	99,920
Inventories	275,960	286,715	17,637	18,324
Financial assets	31,973	23,175	2,043	1,481

In addition, 350,000 shares of Tallinna Kaubamaja AS, 500 shares of AS ABC and 1 share of Suurtüki NK OÜ have been pledged as collateral.

### Note 28 Related party transactions

in thousands of

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

- owners (Parent and the persons controlling or having significant influence over the Parent);
- associates;
- other entities in the Parent's consolidation group.
- management and supervisory boards;
- close family members of the persons described above and the entities under their control or significant influence.

The Group of Tallinna Kaubamaja has purchased and sold goods and non-current assets as well as provided services as follows:

	EEK		EUR	
	Purchases 2010	Sales 2010	Purchases 2010	Sales 2010
Parent	4,430	1,870	283	120
Entities in the Parent's consolidation group	243,248	17,282	15,546	1,105
incl. property, plant and equipment	12,998	303	831	19
Associate	0	108	0	7
Members of the Management and Supervisory Boards	0	7	0	0
Other related parties	1,660	52	106	3
<b>Total</b>	<b>249,338</b>	<b>19,319</b>	<b>15,935</b>	<b>1,235</b>

	EEK		EUR	
	Purchases 2009	Sales 2009	Purchases 2009	Sales 2009
Parent	376	1,885	24	120
Entities in the Parent's consolidation group (goods and services)	254,133	49,650	16,242	3,173
incl. property, plant and equipment	65,576	37,815	4,191	2,417
Associate	0	389	0	25
Members of the Management and Supervisory Boards	11	0	1	0
Other related parties	48	2,263	3	145
<b>Total</b>	<b>254,568</b>	<b>54,187</b>	<b>16,270</b>	<b>3,463</b>

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

#### Balances with related parties:

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Parent's interest payable	0	372	0	24
Parent's group account payable	23,609	16,207	1,509	1,036
Payables of entities in the in the Parent's consolidation group	18,192	20,941	1,163	1,346
Sales bonuses payable of entities in the Parent's consolidation group	1,615	1,526	103	90
Short-term loans to associate	0	250	0	16
Members of the Management and Supervisory Boards	8	0	1	0
<b>Total short-term receivables (Note 7)</b>	<b>43,424</b>	<b>39,296</b>	<b>2,776</b>	<b>2,512</b>
Long-term loans to associate (Note 12)	0	1,828	0	117
<b>Total receivables from related parties</b>	<b>43,424</b>	<b>41,124</b>	<b>2,776</b>	<b>2,629</b>

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Parent	60	164	4	10
Entities in the Parent's consolidation group	48,614	45,571	3,107	2,913
Other related parties	315	82	20	5
<b>Total liabilities to related parties</b>	<b>48,989</b>	<b>45,817</b>	<b>3,131</b>	<b>2,928</b>

Receivables from and liabilities to related parties are unsecured and carry no interest because they have regular payment terms.

#### Loans granted to associate:

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
<b>Balance at beginning of the year</b>	<b>2,078</b>	<b>4,578</b>	<b>133</b>	<b>293</b>
Repayments of loans received	-2,078	-2,500	-133	-160
<b>Balance at end of period</b>	<b>0</b>	<b>2,078</b>	<b>0</b>	<b>133</b>

The interest rate on the loan granted to the associates was 6%; the repayment date is in 2010. The loan was unsecured.

### Group account

For providing funding for its subsidiaries, the Group uses the group account, the members of which are most of the group entities. In its turn, this group as a subgroup has joined the contract of the group account of NG Investeeringud OÜ (hereinafter head group). From autumn 2001, Tallinna Kaubamaja Group has been keeping its available funds at the head group, earning interest income on its deposits. In 2010, Tallinna Kaubamaja Group earned interest income on its deposits of available funds in the amount of 1,655 thousand kroons (106 thousand euros) (2009: 1,810 thousand kroons, 116 thousand euros). In 2010, Tallinna Kaubamaja Group did not use or pay any interest to the head group in 2010 (2009: 189 thousand kroons, 12 thousand euros). The average interest rate on available funds deposited to the group account of NG Investeeringud OÜ was 0.58% in the Estonian kroon account and 0.18% in the euro account (2009: 4.48%, 0.84%). 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

The remuneration of the entities of Tallinna Kaubamaja Group for the reporting year including social security taxes in the amount 8,389 thousand kroons (536 thousand euros), in 2009, 9,457 thousand kroons (604 thousand euros) and the remuneration of the members of the Supervisory Board including social security taxes totalled 3,403 thousand kroons (217 thousand euros), in 2009, the remuneration of the members of the Supervisory Board including social security taxes totalled 3,939 thousand kroons (252 thousand euros).

### Note 29 Interests of the members of the Supervisory Board and Management

As of 31.12.2010, the following members of the Management and Supervisory Board own or represent the shares of Tallinna Kaubamaja AS:

Andres Järving	Represents 4,795,730 (11.8%) shares of Tallinna Kaubamaja AS
Jüri Kõo	Represents 4,768,614 (11.7%) shares of Tallinna Kaubamaja AS
Enn Kunila	Represents 4,692,370 (11.5%) shares of Tallinna Kaubamaja AS
Raul Puusepp	Owens 10,002 (0,0246%) shares of Tallinna Kaubamaja AS

### Note 30 Shareholders with more than 5% of the shares of Tallinna Kaubamaja AS

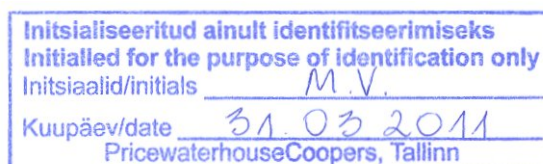
Shareholders	31.12.2010 Ownership interest	31.12.2009 Ownership interest
OÜ NG Investeeringud (Parent)	67.00%	67.00%
ING Luxembourg S.A.	6.84%	6.84%
Skandinaviska Enskilda Banken Ab	6.03%	5.69%

As of 31 December 2010, 68.75% of the shares of NG Investeeringud OÜ are owned by NG Kapital OÜ which is the ultimate controlling party of Tallinna Kaubamaja Group.

### Note 31 Contingent liabilities

#### Contingent liability relating to income tax on dividends

As of 31 December 2010, the retained earnings of Tallinna Kaubamaja AS Group were 743,141 thousand kroons (47,495 thousand euros) (31 December 2009: 500,730 thousand kroons or 32,004 thousand euros). Payment of dividends to owners from 1 January 2009 is accompanied by income tax expense 21/79 on the amount paid as net dividends. Hence, of the retained earnings existing as of the balance sheet date, the owners can be paid 587,081 thousand kroons (37,521 thousand euros) as dividends (31 December 2009: 395,577 thousand kroons or 25,283 thousand euros) and the payment of dividends would be accompanied by income tax on dividends in the amount of 156,060 thousand kroons (9,974 thousand euros) (31 December 2009: 105,153 thousand euros or 6,721 thousand euros).



**Contingent liabilities relating to bank loans**

In the loan agreements in the amount of 63,059 thousand kroons (4,030 thousand euros), the borrower is required under the conditions of the loan agreement to comply with the levels established for certain financial ratios such as the debt to EBITDA ratio (net profit before financial income and expenses, corporate income tax, impairment of property, plant and equipment and intangible assets and amortisation/depreciation charges). As of the balance sheet date 31.12.2010 the financial covenants were met.

**Contingent liabilities relating to the Tax Board**

The tax authorities may at any time inspect the books and records of the company within 6 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties. In 2009 and 2010 the tax authority did not conduct any tax audits. The management of the company is not aware of any circumstances which may give rise to a potential material liability in this respect.

**Note 32 Events after the balance sheet date****Conversion to euro**

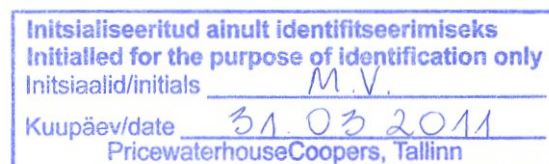
Estonia joined the euro zone on 1st of January 2011 and Estonian kroon (EEK) was replaced with euro (EUR). In connection, the company converted its accounting into euro as of this date and the 2011 financial statements and all the proceeding financial statements will be compiled in euro. Comparative data will be converted into euro with its official rate 15.6466 EEK/EUR.

**Sub-frontloaded euros**

Group companies concluded with SWEDBANK AS in December 2010 sub-frontloading agreements. Resultant from the contract the Group procured 3,069 thousand euros. The sub-frontloaded euros were recorded as off balance sheet item (as assets under custody), which were not allowed to be put to circulation prior to 1 January 2011, as a guarantee for the agreement the same amount was reserved on the bank account. The bank charged the latter amount on 17 January 2011 from the Group current account.

**Subsidiary business name change**

The new business name of Tallinna Kaubamaja AS subsidiary A-Selver AS (group direct ownership 100%) is Selver AS. The change was made in the Central Commercial Register on 14.02.2011. The change of business name was made in order to link the business name with the brand name. The field of business does not change due to the change of the business name. Neither will the general contact information be changed. The change of the business name of the subsidiary does not affect the economic activity of group Tallinna Kaubamaja nor the interest of its shareholders.





### Note 33 Financial information of the Parent

The Parent's separate primary statements have been prepared in accordance with the Accounting Act of Estonia which are not separate financial statements in the meaning of IAS 27 *Consolidated and Separate Financial Statements*.

#### BALANCE SHEET

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and bank	89,003	111,380	5,688	7,118
Trade receivables	5,442	3,934	348	251
Other receivables	773,638	901,843	49,444	57,638
Accrued income	0	372	0	24
Prepaid expenses	1,532	898	98	57
Inventories	186,174	196,341	11,899	12,548
<b>Total current assets</b>	<b>1,055,789</b>	<b>1,214,768</b>	<b>67,477</b>	<b>77,636</b>
<b>Non-current assets</b>				
Shares of subsidiaries	84,174	84,174	5,380	5,380
Share of associates	6,500	6,500	415	415
Other long-term receivables	0	2,078	0	133
Property, plant and equipment	55,338	50,029	3,537	3,197
<b>Total non-current assets</b>	<b>146,012</b>	<b>142,781</b>	<b>9,332</b>	<b>9,125</b>
<b>TOTAL ASSETS</b>	<b>1,201,801</b>	<b>1,357,549</b>	<b>76,809</b>	<b>86,761</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Borrowings	193,688	162,191	12,379	10,366
Customer prepayments for goods and services	508	1,325	32	85
Trade payables	92,006	109,994	5,881	7,028
Other short-term payables	36,380	34,171	2,325	2,184
<b>Total current liabilities</b>	<b>322,582</b>	<b>307,681</b>	<b>20,617</b>	<b>19,663</b>
<b>Non-current liabilities</b>				
Borrowings	259,817	461,680	16,605	29,507
<b>Total non-current liabilities</b>	<b>259,817</b>	<b>461,680</b>	<b>16,605</b>	<b>29,507</b>
<b>TOTAL LIABILITIES</b>	<b>582,399</b>	<b>769,361</b>	<b>37,222</b>	<b>49,170</b>
<b>Equity</b>				
Share capital	407,292	407,292	26,031	26,031
Statutory reserve capital	40,729	40,729	2,603	2,603
Retained earnings	171,381	140,167	10,953	8,957
<b>TOTAL EQUITY</b>	<b>619,402</b>	<b>588,188</b>	<b>39,587</b>	<b>37,591</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,201,801</b>	<b>1,357,549</b>	<b>76,809</b>	<b>86,761</b>

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**STATEMENT OF COMPREHENSIVE INCOME**

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
Revenue	1,118,542	1,183,915	71,488	75,666
Other operating income	30,694	29,606	1,962	1,892
Cost of goods sold	-771,732	-842,303	-49,322	-53,831
Other operating expenses	-202,882	-196,861	-12,967	-12,582
Staff costs	-131,813	-135,514	-8,424	-8,661
Depreciation and impairment	-19,635	-23,010	-1,255	-1,471
Other expenses	-3,507	-3,432	-224	-219
<b>Operating profit</b>	<b>19,667</b>	<b>12,402</b>	<b>1,258</b>	<b>793</b>
Interest income and expenses	3,452	20,797	221	1,329
Other finance income and costs	34,569	7,879	2,209	504
<b>Total finance income and costs</b>	<b>38,021</b>	<b>28,676</b>	<b>2,430</b>	<b>1,833</b>
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>	<b>57,688</b>	<b>41,077</b>	<b>3,688</b>	<b>2,626</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	<b>57,688</b>	<b>41,077</b>	<b>3,688</b>	<b>2,626</b>
Basic and diluted earnings per share (EEK/EUR)	1.42	1.01	0.09	0.06

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## CASH FLOW STATEMENT

in thousands of

	EEK		EUR	
	2010	2009	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net profit	57,686	41,077	3,687	2,626
Adjustments:				
Interest expense	17,080	26,625	1,092	1,702
Interest income	-20,452	-39,009	-1,307	-2,493
Depreciation and impairment	19,635	23,010	1,255	1,471
Gain (loss) from sale and write-off of non-current assets	200	22	13	1
Dividend income	-26,474	-16,292	-1,692	-1,041
Change in inventories	10,165	42,920	650	2,743
Change in receivables and prepayments related to operating activities	6,889	18,459	439	1,178
Change in liabilities and prepayments related to operating activities	-24,449	-18,613	-1,563	-1,190
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>40,280</b>	<b>78,200</b>	<b>2,574</b>	<b>4,997</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment (excl. finance leas)	-25,220	-25,330	-1,612	-1,619
Interest received	20,824	38,739	1,331	2,476
Change in group account receivable	118,985	-112,057	7,605	-7,162
Loans to subsidiaries	0	0	0	0
Repayments of loans granted to subsidiaries	0	0	0	0
Repayments of loans granted to associates	2,078	2,500	133	160
Proceeds from sale of property, plant and equipment	75	1,096	5	70
Dividends received	26,474	16,292	1,692	1,041
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>143,216</b>	<b>-78,759</b>	<b>9,154</b>	<b>-5,034</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Change in overdraft balance	0	-42,298	0	-2,703
Loans received	0	234,699	0	15,000
Repayments of loans received	-162,191	-65,623	-10,366	-4,194
Interest paid	-17,208	-27,753	-1,100	-1,774
Dividends paid	-26,474	-16,292	-1,692	-1,041
Changes in group account liabilities	0	0	0	0
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-205,873</b>	<b>82,733</b>	<b>-13,158</b>	<b>5,288</b>
<b>TOTAL CASH FLOWS</b>	<b>-22,377</b>	<b>82,174</b>	<b>-1,430</b>	<b>5,251</b>
Cash and cash equivalents at beginning of the period	111,380	29,206	7,118	1,867
Cash and cash equivalents at end of the period	89,003	111,380	5,688	7,118
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-22,377</b>	<b>82,174</b>	<b>-1,430</b>	<b>5,251</b>

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**STATEMENT OF CHANGES IN EQUITY**

in thousands of EEK

	Share capital	Statutory reserve capital	Retained earnings	Total
<b>Balance as of 31.12.2008</b>	<b>407,292</b>	<b>40,729</b>	<b>115,342</b>	<b>563,363</b>
Dividends paid	0	0	-16,252	-16,252
Profit for the reporting period	0	0	41,077	41,077
<b>Balance as of 31.12.2009</b>	<b>407,292</b>	<b>40,729</b>	<b>140,167</b>	<b>588,188</b>
Dividends paid	0	0	-26,474	-26,474
Profit for the reporting period	0	0	57,688	57,688
<b>Balance as of 31.12.2010</b>	<b>407,292</b>	<b>40,729</b>	<b>171,381</b>	<b>619,402</b>

in thousands of EUR

	Share capital	Statutory reserve capital	Retained earnings	Total
<b>Balance as of 31.12.2008</b>	<b>26,031</b>	<b>2,603</b>	<b>7,373</b>	<b>36,007</b>
Dividends paid	0	0	-1,041	-1,041
Profit for the reporting period	0	0	2,626	2,626
<b>Balance as of 31.12.2009</b>	<b>26,031</b>	<b>2,603</b>	<b>8,957</b>	<b>37,591</b>
Dividends paid	0	0	-1,692	-1,692
Profit for the reporting period	0	0	3,688	3,688
<b>Balance as of 31.12.2010</b>	<b>26,031</b>	<b>2,603</b>	<b>10,953</b>	<b>39,587</b>

The Parent's adjusted equity as of 31 December is as follows:

in thousands of

	EEK		EUR	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Parent's unconsolidated equity	619,402	588,188	39,587	37,592
Value of subsidiaries, joint ventures and associates in the Parent's separate balance sheet	-90,674	-90,674	-5,795	-5,795
Value of subsidiaries, joint ventures and associates under the equity method	1,496,709	1,125,400	95,657	71,926
<b>Adjusted unconsolidated equity</b>	<b>2,025,437</b>	<b>1,622,914</b>	<b>129,449</b>	<b>103,723</b>

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## **INDEPENDENT AUDITOR'S REPORT**

(Translation of the Estonian original)\*

To the Shareholders of Tallinna Kaubamaja AS

We have audited the accompanying consolidated financial statements of Tallinna Kaubamaja AS and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management Board's Responsibility for the Consolidated Financial Statements**

Management Board is responsible for the preparation, and true and fair presentation of these 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation, and true and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Tallinna Kaubamaja AS and its subsidiaries as of 31 December 2010, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Ago Vilu'.

Ago Vilu  
Auditor's Certificate No.325

A handwritten signature in blue ink, appearing to read 'Eva Jansen'.

Eva Jansen  
Auditor's Certificate No.501

31 March 2011

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



## PROFIT ALLOCATION PROPOSAL

The retained earnings of Tallinna Kaubamaja AS are:

Total retained earnings 31 December 2010

743,141 thousand kroons (47,495 thousand euros)

The Chairman of the Management Board of Tallinna Kaubamaja AS proposes to the General Meeting of Shareholders to pay dividends in the amount of 178,437 thousand kroons (11,404 thousand euros) out of retained earnings accumulated until 31 December 2010.



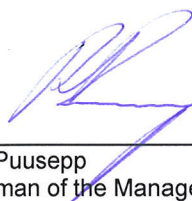
Raul Puusepp  
Chairman

Tallinn, 31 March 2011

**SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2010**

The supervisory board of Tallinna Kaubamaja AS has reviewed the annual report, prepared by the management board, consisting of the management report, the consolidated financial statements, the management board's recommendation for profit allocation and the independent auditor's report, and has approved the annual report for presentation on the annual general meeting.

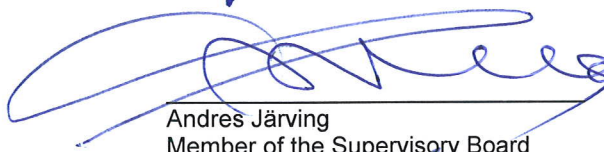
Hereby we confirm the correctness of information presented in the consolidated annual report 2010 of Tallinna Kaubamaja AS:



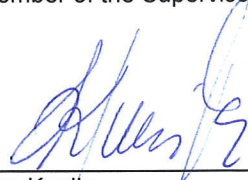
Raul Puusepp  
Chairman of the Management Board



Jüri Kõo  
Chairman of the Supervisory Board



Andres Järving  
Member of the Supervisory Board



Enn Kunila  
Member of the Supervisory Board



Meelis Milder  
Member of the Supervisory Board



Gunnar Kraft  
Member of the Supervisory Board

Tallinn, 5 April 2011

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

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

in thousands of EEK per year

EMTAK code	Title of EMTAK Group	EEK	EUR
		2010	
47191	Other retail sales in non-specialised stores	1,118,542	71,488
	<b>Total revenue</b>	<b>1,118,542</b>	<b>71,488</b>