AS TALLINNA KAUBAMAJA
Annual Report for the year 2002

The main activities of AS Tallinna Kaubamaja and the group companies are retail and wholesale. At the end of 2002 Tallinna Kaubamaja group employs more than 1200 employees.

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Beginning of the financial year:	01.01.2002
End of the financial year:	31.12.2002
Managing director:	
Auditor:	AS PricewaterhouseCoopers
Bank:	Hansapank Eesti Ühispank
Lawyer's office:	Teder & Rask
Lawyer	Helde Truusa

Subsidiaries and associated companies:	
AS A-Selver	Share capital: 22,0 MEEK Ownership:100%
Tartu Kaubamaja AS	Share capital: 8,3 MEEK Ownership: 100%
Tallinna Kaubamaja Suomi OY	Share capital: 0,9 MFIM Ownership:100%
Tallinna Kaubamaja Kinnisvara AS	Share capital: 0,4MEEK Ownership: 100%
AS Rävala Parkla	Share capital: 10,0 MEEK Ownership: 50,0%

All subsidiaries and associated companies are registered in Estonia, except Tallinna Kaubamaja Suomi OY, which is registered in Finland.

The Annual Report consists of the management report, financial statements, the auditors' opinion, and the profit allocation report.

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MANAGEMENT REPORT

The Group

The consolidated results of Tallinna Kaubamaja Group include 100% subsidiaries AS A-Selver, AS Tartu Kaubamaja, Tallinna Kaubamaja Kinnisvara AS and associated company Rävala Parkla AS (50%).

The consolidated net sales for the year 2002 were1,53 billion kroons; 97,9 million euros (including parent company 584,6 million kroons; 37,4 million euros). The increase in net sales was 5,7% during the year and the increase in selling area was 7,4 % The market share of Tallinna Kaubamaja Group in the retail market was 6,2% by the end of 2002.

The audited net profit of Tallinna Kaubamaja Group was 45 million kroons; 2,9 million euros with an increase of 9,3 million kroons; 0,6 million euros or 26% over the net profit for 2001. The net profit margin was 2,9% and the respective indicator of the previous year was 2,5%. Net profit per share was 6,6 kroons; 0,4 euros in 2002 and 5,3 kroons; 0,3 euros in 2001.

The total assets of Tallinna Kaubamaja Group were 776,4 million kroons; 49,6 million euros as at 31 December 2002, showing an increase of 77,7 million kroons; 5 million euros.

During the year 2002 the investments in tangible fixed assets were 185,3 million kroons; 11,8 million euros Major investments included the buildings of Merimetsa Selver in the amount of 35 million kroons; 2,2 million euros and Torupilli Selver in the amount of 32,9 million kroons; 2,1 million euros. The lease agreement of Mai Selver in Pärnu has been capitalized in the amount of 42,8 million kroons; 2,7 million euros. Investments in furniture and fixtures of new Selvers were made in the amount of 21,5 million kroons; 1,4 million euros and investments of equipment of Selvers amounted to 26,7 million kroons; 1,7 million euros. The liabilities of the Group have been increased by 100,6 million kroons; 6,4 million euros. The main sources of the increase in liabilities were an increase of debt by 55,8 million kroons; 3,6 million euros and an increase of commercial credit by 39,6 million kroons; 2,5 million euros. The increase in debt is attributable to the payout of higher than regular dividends in the amount of 67,9 million kroons; 4,3 million euros. The size of dividends was caused by the necessity to redesign the capital structure of the Group and pave the way to an improved return on equity in the future.

The owners' equity was 376 million kroons; 24 million euros as at 31 December 2002, i.e. 48% of assets.

The average number of employees was 1215 in 2002.

The efficiency of the Group considerably improved in 2002: the net sales per employee increased by 17% and the sales area per employees increased by 19% over the previous year. The average number of employees decreased by 9,7%. The stock turnover improved by 9,8% in 2002.

The total personnel expenses of the Group in 2002 were 130,4 million kroons; 8,3 million euros. The amount paid to the Chairman of the Board including the social tax was as follows: the remuneration and compensation for resignation of Toomas Tamsar amounted to 848 thousand kroons; 54,2 thousand euros and the remuneration of Raul Puusepp totaled to 224,4 thousand kroons; 14,3 thousand euros. The amount paid to members of the Supervisory Board was 990,1 thousand kroons; 63,3 thousand euros.

The number of loyal customers has increased by 35% during 2002, reaching 93 000 private persons by the end of the year.

In May 2002 new loyal customer card was launched – Partner Card. In connection with that the programs of loyal customers in Kaubamaja and Selver were separated from each other. The department stores maintained the existing conception of the program (5% discount on every purchase, 10% discount during the birthday of the customer, special offers). The new conception of the program of loyal customers in Selver was driven by the mismatch of the existing program launched in 1995 in Kaubamaja and extended to Selver with the needs of the expanded Selver chain and the current market situation in the supermarket sector. Under the new program customers receive bonus points on every purchase and take part in lotteries with good chances to win and also get special offers. A great number of retail and services companies have joined the program offering special terms to customers in 100 different outlets.

Tallinna Kaubamaja AS Supervisory Board released Toomas Tamsar from his duties as Chairman of the Management Board, effective January 26, 2002. Employment contract was terminated by agreement of the parties. Since March 7 the Supervisory Board appointed Raul Puusepp, Chairman of the Management Board of Tartu Kaubamaja, as new Chairman of the Group. Raul Puusepp simultaneously continued to hold his position as Chairman of the Management Board of Tartu Kaubamaja.

The Supervisory Board of AS A-Selver released Urmo Vallner from his duties as Chairman of the Management Board, effective November 4, 2002 and nominated Ain Taube, Development Director of A-Selver, as new Chairman of the Management Board.

Outlook of the retail market in 2003

In 2003 a big increase in the shopping space will have a strong effect on retail market, started in 2002 already. In 2002 major shopping centres opened ca 70 thousand sq m of new shopping space. Most of the new space (with the exception of the expansion of Kristiine Centre) took place in 4th quarter of 2002, so its influence was within a short period. The time-weighted increase in shopping space in 2002 was ca 13%. At the same time the increase in the retail sales (excluding motor cars and gasoline) was ca 15,8% according to preliminary statistics – the biggest increase since 1997.

Although 2003 will not see an increase in shopping space of comparable size, the time-weighted increase will be ca 20%. That is mainly due to the full effect of the space opened in the 4th quarter of 2002. Most important centres to be opened in 2003 are the Mustakivi Centre in Lasnamäe and the development in Sõpruse pst. in Mustamäe. The anchor tenant of both of them will presumably be Citymarket (Kesko).

The expected increase in personal savings and other costs outside the retail sector (household and mortgage costs, etc) do not allow forecast the increase in retail sales in 2003 to be as optimistic as in 2002. The formerly important increase component of gradually legalized open market sales will have a much lesser effect in 2003. Our expectation of the increase in retail sales in 2003 is ca 7-10%.

<u>Tallinna Kaubamaja and Tartu Kaubamaja</u>

There have been some significant changes in the activities of Tallinna and Tartu Kaubamaja.

As of January 2002 the sales staff in both department stores works in 8-9 hour shifts. The planning of workforce by week and day has thereby been synchronized with customer flows, resulting in considerable improvement in labour efficiency.

The most important change in Kaubamaja's main process was the start of category management in October. It means that the sales area and assortment are managed by dividing the whole sales environment into specific parts, characterized by fixed sales area and location in the department, stylistic consistency in visual merchandising and fixed assortment. Sales planning relies on category-based goals. In connection with the change, the roles of sales and service staff have been partially redefined.

The number of suppliers has been significally reduced and better contract terms agreed upon. Some additional new suppliers and brands have been added to the brand portfolio. A great emphasis has been laid on the completeness of fashion collections. New visual merchandising standard has been implemented, helping the client make easier purchase decisions.

An important issue of 2002 has been inventory management. Purchasing volumes have been planned more accurately than before and the supply cycle has been improved. The new more flexible pricing strategy enables to consider more precisely the expectations of target customers, competitive situation in the market and existing inventory.

2002 has brought along specific attention to creating an entertaining retail environment. Several new ideas and events were carried out, climaxing in the Christmas campaign and its opening extravaganza.

In relations with our loyal customers, we have taken a firm course towards personalizing the relationship. 2002 was the first year of Kaubamaja's new loyal customer magazine Hooaeg (The Season) that has received very positive feedback from the customers and with its circulation of 60 000 is on its way to being an integral part of the Estonian media landscape also from the advertisers' point of view.

An important task of 2003 is the revamping of the supply chain with an aim of cutting costs and being able to plan the supply cycle better. The plan is to outsource handling and storage-related activities to a strategic partner.

Inventory management will continuously be improved. A new inventory provision system is being introduced as part of the plan, helping us to deal with the structure of the inventory on arrival-time basis.

The most important development project of Tallinna Kaubamaja in 2003 is connected with the planned opening of a new wing in the Viru Keskus shopping centre which is currently under construction and will be open for business in the spring of 2004. Tallinna Kaubamaja will rent ca 7150 sq.m sales area in the new centre. Part of the existing 9 500 sq m sales area will be rented out and the total sales area of the department store after opening in the shopping centre will be ca 13 500 sq m.

The priority of Tartu Kaubamaja is to maintain its leading position on the retail market of Tartu and continue development activities for opening in the new Hansakvartal center that will be open in the autumn of 2004. According to preliminary plans, the sales area of the new Tartu Kaubamaja will be ca 7 500 sq m

<u>A-Selver</u>

The number of Selver stores was doubled in 2003, reaching 10 by the end of the year. On May 10 Mai Selver was opened in Pärnu, on May 30 Merimetsa Selver in Tallinn, on October 5 Krooni Selver in Rakvere, on October 17 Männimäe Selver in Viljandi and on December 12 Torupilli Selver in Tallinn. With the opening of five new Selvers the selling space increased by 6 914 sq m.

As the majority of retail sales has been concentrated in big chains and the expected increase in sales will be below the rates of previous years, the competition among big chains will be even tougher. Selver already began its adaptation to the changes in the market situation in the spring of 2002 by reducing the prices.

In 2003 the policy to offer good prices in Selver stores will be continued. More attention will be paid to price-sensitive sector of potential customers, widening so the amount of target customers. In addition to improving the assortment and offering better prices Selver will also focus on the further improvement of customer service, sales environment and the Selver Cousine with the aim of maintaining the values of Selver: quick service, convenience, good prices and good assortment.

The main target of 2003 is to increase the sales of the Selver chain. This is supported by the five new Selvers opened in 2002 and also the increase of opening time by two hours, changes in market communication and widening of the target customer segment. In 2003 it is planned to open new Selver stores. The concentration of retail space is varied in different regions of Estonia. In Tallinn and other cities there is still room for new stores.

Tallinna Kaubamaja Kinnisvara

The buildings of Tallinna Kaubamaja Kinnisvara are leased to other members of the Tallinna Kaubamaja Group (Tallinna Kaubamaja and A-Selver).

The most important event in 2002 was the construction of the buildings of Merimetsa and Torupilli Selver. The parking lot of Pirita Selver was extended. Improvements were made to the buildings leased by Tallinna Kaubamaja and Pirita Selver. With the aim of building new Selver stores land was purchased in Narva, in Vesivärava Street in Tallinn and in Saaremaa.

Preparations for the construction of the new building for Tartu Kaubamaja were continued: additional archaeological excavations were carried out and competition for architectural design organised.

The main objective of 2003 is the construction of the Tartu Kaubamaja building and finding new sites for the expansion of the Selver chain. The building of Tartu Kaubamaja will have ca 20 000 sq m of selling, service and office space.

The company shall continue preparations for the extension of the building leased by Pirita Selver and the redesign of some of the space presently leased by Tallinna Kaubamaja after its expansion to the Viru Keskus Shopping Centre.

FINANCIAL STATEMENTS

Management Board's Confirmation of the Financial Statements

The Management Board confirms the completeness and correctness of the financial statements of AS Tallinna Kaubamaja for the year 2002 and the consolidated financial statements of Tallinna Kaubamaja Group for the year 2001 set out on pages 6-26:

The Management Board confirms that:

1. the accounting principles used in preparing the financial statements are in compliance with International Accounting Standards;
2. the financial statements present a true and fair view of the financial situation and the profit (loss) of the company;
3. AS Tallinna Kaubamaja is a going concern.

Raul Puusepp
Member of the Management Board

Tallinn 28.February 2003

BALANCE SHEET

thousands EEK/EUR

		31.12.2002				31.12.2001			
		Group		Parent		Group		Parent	
ASSETS	Note	EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
Current assets									
Cash and bank	1	34 258	2 189	26 267	1 679	76 199	4 870	57 270	3 660
Trade receivables	2	10 250	655	2 336	149	5 100	326	1 720	110
Other receivables	3	3 454	221	52 710	3 369	3 063	196	22 892	1 463
Accrued income	4	98	6	98	6	83	5	83	5
Prepaid expenses	5	7 611	486	848	54	2 496	160	1 334	85
Inventories	6	163 442	10 446	68 500	4 378	170 693	10 909	81 437	5 205
Total current assets		219 112	14 004	150 759	9 635	257 633	16 466	164 735	10 529
Non-current assets									
Long-term financial assets									
Investment in subsidiaries	7	0	0	349 802	22 356	0	0	341 101	21 800
Investment in associated companies	8	3 943	252	3 943	252	2 844	182	2 844	182
Long-term receivables from associated companies	9	12 028	769	12 028	769	12 028	769	12 028	769
Total long-term financial assets		15 971	1 021	365 773	23 377	14 872	951	355 973	22 751
Tangible fixed assets	10	542 744	34 688	12 994	830	427 949	27 351	21 882	1 398
Intangible assets	11	-1 384	-88	0	0	-1 713	-110	0	0
Total non-current assets		557 331	35 620	378 767	24 208	441 108	28 192	377 855	24 149
TOTAL ASSETS		776 443	49 624	529 527	33 843	698 741	44 658	542 590	34 678
LIABILITIES AND OWNERS' EQUITY									
Debt liabilities	12	76 192	4 870	55 109	3 522	131 053	8 376	88 036	5 627
Customers advances for goods and services		3 648	233	1 710	109	3 161	202	1 519	97
Suppliers payables		148 158	9 469	45 299	2 895	108 552	6 938	41 746	2 668
Other payables	14	28 739	1 837	16 364	1 046	24 031	1 536	12 376	791
Total current liabilities		256 737	16 408	118 483	7 572	266 796	17 051	143 677	9 183
Long term debt liabilities	12	143 663	9 182	35 000	2 237	33 032	2 111	0	0
Total liabilities		400 400	25 590	153 483	9 809	299 828	19 162	143 677	9 183
Owners' equity									
Share capital	15	67 882	4 338	67 882	4 338	67 882	4 338	67 882	4 338
Statutory legal reserve		7 269	465	7 269	465	7 269	465	7 269	465
Revaluation reserve of fixed assets		156 490	10 002	156 490	10 002	160 964	10 287	160 964	10 287
Retained earnings		99 390	6 352	99 390	6 352	127 040	8 119	127 040	8 119
Net profit for the financial year		45 012	2 877	45 012	2 877	35 758	2 285	35 758	2 285
Total owners' equity		376 044	24 034	376 044	24 034	398 913	25 495	398 913	25 495
TOTAL LIABILITIES AND OWNERS EQUITY		776 443	49 624	529 527	33 843	698 741	44 658	542 590	34 678

Accounting principles on pages 11-13 and Notes to the Financial Statements on pages 14-26 are the inseparable parts of the Annual Report.

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Kuupäev/date 28.02.2003
PricewaterhouseCoopers, Tallinn

INCOME STATEMENT

thousand EEK/EUR

	Note	2002 Group		2002 Parent		2001 Group		2001 Parent	
Operating income		EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
Net sales	16	1 532 325	97 933	584 597	37 363	1 449 973	92 670	577 070	36 882
Other operating income	17	41 689	2 664	44 557	2 848	24 777	1 584	50 767	3 245
Total operating income		1 574 014	100 598	629 153	40 210	1 474 750	94 254	627 837	40 126
Operating expenses									
Cost of goods sold		-1 147 961	-73 368	-421 321	-26 927	-1 084 086	-69 286	-418 432	-26 743
Other operating expenses	18	-177 111	-11 319	-109 039	-6 969	-154 732	-9 889	-114 488	-7 317
Personnel expenses	19	-130 413	-8 335	-57 705	-3 688	-129 744	-8 292	-61 468	-3 929
Depreciation	10	-55 319	-3 536	-12 622	-807	-53 056	-3 391	-16 637	-1 063
Amortisation of goodwill	11	329	21	0	0	212	13	0	0
Other expenses		-8 168	-522	-4 682	-299	-5 589	-357	-4 290	-274
Total operating expenses		-1 518 643	-97 059	-605 369	-38 690	-1 426 995	-91 202	-615 316	-39 326
Operating profit		55 371	3 539	23 784	1 520	47 755	3 052	12 521	800
Financial income									
Financial income on shares in subsidiaries	7	0	0	32 312	2 065	0	0	26 641	1 703
Financial income on shares in associates	8	1 099	70	1 099	70	102	7	102	7
Interest income		2 109	135	4 178	267	833	53	4 356	278
Other financial income		0	0	0	0	871	56	871	56
Total financial income		3 208	205	37 589	2 402	1 806	115	31 970	2 043
Financial expenses									
Financial expenses on shares in subsidiaries	7	0	0	-9 970	-637	0	0	-1 429	-91
Interest expenses	20	-13 397	-856	-6 269	-401	-13 762	-880	-7 154	-457
Other financial expenses		-169	-11	-122	-8	-151	-10	-150	-10
Total financial expenses		-13 566	-867	-16 361	-1 046	-13 913	-889	-8 733	-558
Profit before minority interest		45 012	2 877	45 012	2 877	35 649	2 278	35 758	2 285
Minority interests		0	0	0	0	109	7	0	0
NET PROFIT		45 012	2 877	45 012	2 877	35 758	2 285	35 758	2 285
Basic earnings per share (kroons)		6,63	0,42			5,27	0,34		
Diluted earnings per share (kroons)		6,63	0,42			5,27	0,34		

Accounting principles on pages 11-13 and Notes to the Financial Statements on pages 14-26 are the inseparable parts of the Annual Report.

CASH FLOW STATEMENT

thousand EEK/EUR

		2 002				2 001			
		Group		Parent		Group		Parent	
	Note	EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
CASH FLOW FROM OPERATING ACTIVITIES									
Net profit before minority interest		45 012	2 877	45 012	2 877	35 649	2 278	35 758	2 285
Interest expenses		13 397	856	6 269	401	13 762	880	7 154	457
Interest income		-2 109	-135	-4 178	-267	-833	-53	-4 356	-278
Depreciation	10	54 989	3 514	12 622	807	52 844	3 377	16 637	1 063
Profit/loss from sale and liquidation on non-current assets		-483	-31	-31	-2	1 311	84	1 381	88
Impact of equity method	8	-1 099	-70	-23 441	-1 498	-102	-7	-25 314	-1 618
Change in inventories		7 251	463	12 936	827	4 968	318	8 141	520
Change in receivables		-10 656	-681	-28 975	-1 852	11 945	763	-3 448	-220
Change in liabilities		45 142	2 885	7 732	494	15 266	976	-4 521	-289
NET CASH FLOW FROM OPERATING ACTIVITIES		151 444	9 679	27 946	1 786	134 808	8 616	31 432	2 009
CASH FLOW FROM INVESTING ACTIVITIES									
Acquisition of shares		0	0	0	0	-6 000	-383	-6 000	-383
Other loans granted		0	0	0	0	18 300	1 170	18 300	1 170
Dividends received		0	0	12 668	810	0	0	0	0
Fixed assets acquired and renovated (excl finance lease)	10	-136 033	-8 694	-4 125	-264	-64 628	-4 130	-14 556	-930
Interest received		2 095	134	4 164	266	923	59	4 445	284
Tangible fixed assets sold	10	9 164	586	422	27	2 381	152	2 214	142
NET CASH FROM INVESTING ACTIVITIES		-124 775	-7 975	13 129	839	-49 024	-3 133	4 403	281
CASH FLOW FROM FINANCING ACTIVITIES									
Loans received and bonds issued	21	155 091	9 912	100 109	6 398	120 501	7 701	120 501	7 701
Repayment of loans and redemption of bonds	21	-140 052	-8 951	-98 035	-6 266	-131 802	-8 424	-100 781	-6 441
Finance lease payments	13	-2 029	-130	0	0	-3 981	-254	-110	-7
Dividends paid	15	-67 882	-4 338	-67 882	-4 338	-10 182	-651	-10 182	-651
Interest paid		-13 738	-878	-6 270	-401	-13 821	-883	-7 244	-463
NET CASH FROM FINANCING ACTIVITIES		-68 610	-4 385	-72 078	-4 607	-39 286	-2 511	2 184	140
TOTAL CASH FLOW		-41 941	-2 681	-31 003	-1 981	46 498	2 972	38 019	2 430
Cash and cash equivalents at the beginning of period	1	76 199	4 870	57 270	3 660	29 701	1 898	19 251	1 230
Cash and cash equivalent at the end of period	1	34 258	2 189	26 267	1 679	76 199	4 870	57 270	3 660
Change in cash and cash equivalents		-41 941	-2 681	-31 003	-1 981	46 498	2 972	38 019	2 430

Accounting principles on pages 11-13 and Notes to the Financial Statements on pages 14-26 are the inseparable parts of the Annual Report.

STATEMENT OF CHANGES IN EQUITY

Group/parent *thousand EEK*

	Share capital	Revaluation reserve	Reserves	Retained earnings	Profit for the financial year	Total
31.12.2000	67 882	169 719	7 269	72 166	60 389	377 425
Retained earnings of 2000	0	0	0	60 389	-60 389	0
Dividends	0	0	0	-10 182	0	-10 182
Revaluation reserve of fixed assets	0	-8 755	0	4667	0	-4 088
Profit for the financial year	0	0	0	0	35 758	35 758
31.12.2001	67 882	160 964	7 269	127 040	35 758	398 913
Retained earnings of 2001	0	0	0	35 758	-35 758	0
Dividends	0	0	0	-67 882	0	-67 882
Revaluation reserve of fixed assets	0	-4 474	0	4 474	0	0
Profit for the financial year	0	0	0	0	45 012	45 012
31.12.2002	67 882	156 490	7 269	99 390	45 012	376 044

thousand EUR

	Share capital	Revaluation reserve	Reserves	Retained earnings	Profit for the financial year	Total
31.12.2000	4 338	10 847	465	4 612	3 860	24 122
Retained earnings of 2000	0	0	0	3 860	-3 860	0
Dividends	0	0	0	-651	0	-651
Revaluation reserve of fixed assets	0	-560	0	298	0	-261
Profit for the financial year	0	0	0	0	2 285	2 285
31.12.2001	4 338	10 287	465	8 119	2 285	25 495
Retained earnings of 2001	0	0	0	2 285	-2 285	0
Dividends	0	0	0	-4 338	0	-4 338
Revaluation reserve of fixed assets	0	-286	0	286	0	0
Profit for the financial year	0	0	0	0	2 877	2 877
31.12.2002	4 338	10 002	465	6 352	2 877	24 034

Accounting principles on pages 11-13 and Notes to the Financial Statements on pages 14-26 are the inseparable parts of the Annual Report.

Accounting methods and principles used in preparing the financial statements

Accounting principles

AS Tallinna Kaubamaja (hereinafter Tallinna Kaubamaja) is the business entity registered in the Republic of Estonia on 18 October 1994. The shares of AS Tallinna Kaubamaja are quoted on Tallinn Stock Exchange.
The consolidated financial statements of Tallinna Kaubamaja Group for the year ended on 31 December 2002 involve the parent company and its subsidiaries (hereinafter Group) and the share of Group in the associated company.
The Group's consolidated financial statements and the annual report of Tallinna Kaubamaja have been prepared in accordance with International Accounting Standards (IAS).

Bases of preparing the financial statements

The financial statements have been prepared in Estonian kroons rounded to the closest thousand. The data provided in the financial statements have been presented under the historical cost convention, except as disclosure in the accounting policies below.

Consolidation

Subsidiaries are the companies controlled by the parent company. The control exists when the parent company has direct or indirect authority to determine the financial and operating principles and gain profit from the activities of investment object. The existence of control is expected when the parent company has direct or indirect share of over 50%. The activities of the subsidiary are recorded in the financial statements from the start of the control up to its termination.
The financial statements of parent company and subsidiaries are consolidated line by line in the Group report. Unrealised profits, receivables, liabilities, income and expenses from the transactions between the Group companies in the Group consolidated report have been eliminated.
The subsidiaries have been accounted for using the equity method in the report of Tallinna Kaubamaja.

Associated companies

Associated companies are the investment objects, where the Group has direct or indirect authority but not control over determining the financial and operating principles. The presumption of material share is considered the 20-50% share in the company as the investment object. The share of Tallinna Kaubamaja and Group from the profits and loss of the associated company is recorded in the financial statements from the start of material control up to its termination. The associated companies have been recorded using the equity method in the report of Tallinna Kaubamaja and the Group.

Cash and cash equivalents

Cash in hand, bank account balances (excl. overdraft), term deposits up to 3-month and liquid shares in the banks are recorded as cash and cash equivalents. Liquid shares in the banks' money market funds are presented in the fair value.

Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of the receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables.

Inventories

Inventories are recorded at acquisition cost consisting of the purchase price, transportation costs and other direct costs related to acquisition. Inventories are accounted for by using the FIFO method.
Inventories are carried at the lower of cost and net realisable value. The write-down of inventories is recorded as the cost of goods sold in the income statement.
Unrealised food inventories in the canteen and unused requisites not acquired for resale are recorded as raw materials and work-in-progress.
The amounts paid to the suppliers for the purchases of goods, but which have not arrived for the balance sheet date, are recorded as prepayments.

Fixed assets

Assets with a useful life of over 1 year and an acquisition cost of over 10 000 kroons are recognised to be fixed assets. Assets with a useful life of over 1 year but acquisition cost less than 10 000 kroons are fully expensed. Low-value items that have been expensed are accounted for off-balance sheet.
Tangible fixed assets are recorded at residual value in the balance sheet, presenting the acquisition cost and accumulated depreciation. The acquisition cost of fixed assets purchased includes in addition to purchase price the transport and installation costs and other expenses related to acquisition and bringing the asset into use.
Depreciation is calculated based on the straight-line method. The depreciation rates are determined for each fixed asset item individually depending on its useful life.

The annual depreciation rates for the groups of fixed assets are as follows:

- Buildings and facilities 3-8 %
- Plant and equipment 20 %
- Computer hardware and software 35 %
- Transport and equipment 25 %

Buildings and facilities includes capitalized repair works for leased buildings which is depreciated over their useful life or during the lease period, depending which is shorter
Land is not depreciated.

Since the year 2000 the fixed asset group "Land and buildings" is recorded based on the revaluation method. The revaluation is carried out by independent real estate experts. The revaluation surplus is recorded in the revaluation reserve and the revaluation decrease (exceeding the earlier valuation surplus) in the expenses. In the course of revaluation the earlier accumulated depreciation is eliminated and the revalued amount is considered so-called "new acquisition cost".

Intangible assets
Positive and negative goodwill arising on an acquisition of investment objects is accounted for as intangible assets. Goodwill is recognized if the acquisition cost differentiates from the fair value of net assets of investment object. The straight-line method is used for calculating the depreciation of intangible assets.

Negative goodwill is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable assets (assumed to be 5 years).
Positive goodwill is depreciated to the expenses during the 5 year period.

Organisation costs are not capitalised. Usually the research and development costs are expensed. The exception is the development costs that can be identified and that are likely to contribute to the generation of profit in the future periods.

Finance and operating leases
The leased assets, in case of which the risks and compensations related to assets have been transferred to the Company, are treated as finance lease. Other lease agreements are recorded as operating lease.

Company as the lessee:
Finance leases are capitalised as an asset and liability at the lower of the fair value of the leased property or the present value of the minimum lease payments. The assets acquired under finance leases are depreciated similarly to the purchased tangible assets, over the shorter of the useful life of the asset or the lease term. Payments made under operating leases are charged to the income statement on accrual basis over the lease term.

Company as the lessor:
Assets leased out under operating leases are included in the balance sheet similar to other fixed assets. Payments made under the operating leases are credited to the income statement on accrual basis over the lease term.

Provisions and contingent liabilities
The company's liabilities that arose in the reporting period or in previous periods, that have a legal or contractual basis, require the disposal of assets and whose cost can be determined reliably but whose final cost or payment date is not clearly fixed are recorded in the balance sheet as provisions. The management's estimates, experience and, if necessary, the evaluations of independent experts are taken as the basis for evaluating the provisions.
Promises, guarantees and other commitments that in certain circumstances may become liabilities are disclosed in the Notes to the financial statements as contingent liabilities.

Corporate income tax
Up to 31 December 2002 according to Estonian Income Tax Law, which took effect on 1 January 2000, dividends paid by the company to resident natural persons and non-residents are subject to income tax (26/74 of net dividend paid). According to the change in Estonian Income Tax Law, which takes effect on 1 January 2003, dividends paid by the company are subject to income tax, not depending of the receiver of the dividends. Tax rate is 26/74 of net dividend paid.

The company's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The maximum possible tax liability, which would become payable if the retained earnings would be fully paid out as dividends, is disclosed in Note 29.

Income tax from the payment of dividends is recorded as expenses at the moment of paying the dividends.

Foreign currency transactions
Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Assets and liabilities denominated in foreign currency as at 31 December 2002 have been revalued into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia officially valid on the balance sheet date. Profits and losses from foreign currency transactions are recorded in the income statement as income or expenses of the period.

Borrowings
Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any differences between proceeds and the redemption value is recognised in the income statement over the period of the borrowings.

Recognising revenue
Revenue from the sales of goods is recognised when the goods are sold and revenue from the sales of services is recorded upon rendering the service. Net sales includes the cost of goods and services sold during the reporting year less VAT, discounts and returned goods. Fine claims are recorded on the cash basis. Dividend income is recognised at the moment when the company's right to receive payment is established.

Main and side activities
A geographical segment is considered as a main segment of the Group. 100% of net sales take place in Republic of Estonia, thus no segment reporting has been provided in the Notes of the Financial Statements. In preparing the financial statements retail, wholesale and catering are considered to be the main activities of the Group. All other activities are considered the side activities, the results of which are presented as other revenue and expenses or financial income and expenses. Retail sale makes over 95% of the total sales and total revenue from sales is earned in Estonia.

Earnings per share
Basic earnings per share are found by dividing the net profit for the financial year with the average number of issued common shares. As the company has no potential common shares the diluted earnings per share is equal to the basic earnings per share.

Subsequent events
Material matters that have an effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Subsequent events that have not been taken into consideration when evaluating the assets and liabilities but have material effect on the result of the next financial year are disclosed in the Notes to the financial statements.

Statutory legal reserve
The Commercial Code of Republic of Estonia requires that the companies should make the statutory legal reserve, the minimum size of which is 1/10 of the share capital. 1/20 of the approved net profit of the financial year is to be transferred to capital reserve as the annual statutory provision (up to fulfilment of reserve).

Revaluation reserve of fixed assets
Revaluation reserve of fixed assets is the part of tied-up equity and is not to be allocated between the shareholders. The revaluation surplus is reduced every year by the depreciation calculated on the difference occurring from revaluation. This amount is added to the retained earnings from previous periods.

Related parties
In the financial statements the shareholders, subsidiaries, associates, members of the management and supervisory boards, employees, and other key persons and the companies under their control are considered as related parties.

Notes to the Financial Statements

Thousand kroons

Note 1 Cash and bank

	31 December 2002		31 December 2001	
	Group	**Parent**	**Group**	**Parent**
Cash in hand	1 378	125	474	2
Bank accounts	8 590	57 852	22 597	27 433
Cash in transit	7 290	2 386	6 128	2 019
The shares of the money market fund (1)	17 000	17 000	47 000	47 000
Group accounts	0	-51 096	0	-19 184
Total cash and bank	**34 258**	**26 267**	**76 199**	**57 270**

(1) The shares of money market fund were realised on 16 January 2003 and the revenue was 16 thousand kroons.

Note 2 Trade receivables

	31 December 2002		31 December 2001	
	Group	**Parent**	**Group**	**Parent**
Trade receivables	10 250	2 336	5 100	1 720
Total trade receivables	**10 250**	**2 336**	**5 100**	**1 720**

Note 3 Other receivables

	31 December 2002		31 December 2001	
	Group	**Parent**	**Group**	**Parent**
Receivables from subsidiaries (1)	0	1 543	0	22 260
Group accounts (1)	0	51 096	0	0
Supplier bonuses	2 826	0	2 936	616
Other short-term receivables	628	71	126	16
Total other receivables	**3 454**	**52 710**	**3 063**	**22 892**

(1) See Note 24 Transactions with related parties.

Note 4 Accrued income

The interest receivables in amount of 98 thousand kroons (2001: 83 thousand kroons) are recorded as accrued income as at the balance sheet date.

Note 5 Prepaid expenses

	31 December 2002		31 December 2001	
	Group	**Parent**	**Group**	**Parent**
Prepaid lease payments	0	0	993	0
Other prepaid expenses	387	233	382	262
Prepaid membership fees	351	351	340	340
Prepaid insurance fees	25	16	20	2
Prepaid electricity expenses	0	0	61	56
VAT liability	6 733	248	674	674
Income tax liability on fringe benefits	0	0	26	0
Maintenance of software licences	115	0	0	0
Total	**7 611**	**848**	**2 496**	**1 334**

Note 6 Inventories

	31 December 2002		31 December 2001	
	Group	**Parent**	**Group**	**Parent**
Merchandise for resale	155 101	65 686	163 747	77 934
Raw materials	2 955	1 208	3 047	2 054
Work-in-progress	0	0	11	11
Prepayment to suppliers	5 386	1 606	3 888	1 438
Total inventories	**163 442**	**68 500**	**170 693**	**81 437**

The balance of inventories as at 31 December 2002 is divided between the group companies as follows:

	Tallinna Kaubamaja	Tartu Kaubamaja	A-Selver	Total
Merchandise for resale	65 686	22 717	66 698	**155 101**
Raw materials	1 208	174	1 572	**2 955**
Prepayment to suppliers	1 606	89	3 691	**5 386**
Total inventories	**68 500**	**22 980**	**71 961**	**163 442**

The balance of inventories as at 31 December 2001 is divided between the group companies as follows:

	Tallinna Kaubamaja	Tartu Kaubamaja	A-Selver	Total
Merchandise for resale	77 934	26 703	59 110	**163 747**
Raw materials	2 054	156	837	**3 047**
Work-in-progress	11	0	0	**11**
Prepayment to suppliers	1 438	118	2 332	**3 888**
Total inventories	**81 437**	**26 977**	**62 279**	**170 693**

Write-down of inventories, write-off of inventories and shortage of stock count is divided as follows:

2002	Tallinna Kaubamaja	Tartu Kaubamaja	A-Selver	Total
Write-down of inventories	6 329	2 235	4 200	**12 764**
Write-off of inventories	993	345	3 725	**5 063**
Shortage of stock count	2 442	602	5 668	**8 712**
Total	**9 764**	**3 182**	**13 593**	**26 539**

2001	Tallinna Kaubamaja	Tartu Kaubamaja	A-Selver	Total
Write-down of inventories	9 634	3 784	4 386	**17 804**
Write-off of inventories	1 075	374	1 918	**3 367**
Shortage of stock count	2 863	841	6 414	**10 118**
Total	**13 572**	**4 999**	**12 718**	**31 290**

Pledged assets see Note 22.

Note 7 Shares of subsidiaries

Subsidiaries of Tallinna Kaubamaja Group:

Subsidiary	Location	Activity	Share
A-Selver AS	Tallinn Pärnu mnt.238	Retail trade	100%
Tartu Kaubamaja AS	Tartu Riia 2	Retail trade	100%
Tallinna Kaubamaja Suomi OY	Helsinki Kaisaniemenkatu 3	Retail trade	100%
Tallinna Kaubamaja Kinnisvara AS	Tallinn Gonsiori 2	Real estate management	100%

	Tartu Kaubamaja AS	A-Selver AS	Tallinna Kaubamaja Kinnisvara AS	Tallinna Kaubamaja Suomi OY
Number of shares 31 December 2001	**829 412**	**22 000**	**40 000**	**900**
No shares purchased and sold in the reporting year				
Number of shares 31 December 2002	**829 412**	**22 000**	**40 000**	**900**
Share % 31 December 2002 / (31 December 2001)	**100 / (100)**	**100/ (100)**	**100 / (100)**	**100 / (100)**

	Tartu Kaubamaja AS	A-Selver AS	AS Tallinna Kaubamaja Kinnisvara	Tallinna Kaubamaja Suomi OY	Total
Acquisition cost at the beginning of year	**15 849**	**22 000**	**46 285**	**2 420**	**86 554**
Market value 31 December 2001		Not quoted on stock exchange			
Book value 31 December 2001	**35 070**	**30 805**	**274 253**	**972**	**341 101**
Dividends paid	-12 668	0	0	0	-12 668
Book value adjustments	0	0	0	-972	-972
Income from equity method in the reporting year	7 637	0	24 206	0	31 843
Amortisation of goodwill	-140	0	0	0	-140
Amortisation of negative goodwill	469	0	0	0	469
Expense from equity method in the reporting year	0	-9 830	0	0	-9 830
Book value 31 December 2002	**30 368**	**20 975**	**298 459**	**0**	**349 802**
Market value 31 December 2002		Not quoted on stock exchange			
Acquisition cost at the end of year	**15 849**	**22 000**	**46 285**	**2 420**	**86 554**

Owners' equity of subsidiaries as at 31 December 2002:

	AS Tartu Kaubamaja	AS A-Selver	AS Tallinna Kaubamaja Kinnisvara
Share capital	8 294	22 000	400
Share premium	2 042	0	205 969
Statutory legal reserve	829	601	732
Revaluation reserve of fixed assets	0	0	11 927
Retained earnings	12 950	8 204	55 225
Profit (loss) for the financial year	7 637	-9 830	24 206
Total owners' equity	**31 752**	**20 975**	**298 459**
Share of Tallinna Kaubamaja in owners' equity	**31 752**	**20 975**	**298 459**

Owners' equity of subsidiaries as at 31 December 2001:

	AS Tartu Kaubamaja	AS A-Selver	AS Tallinna Kaubamaja Kinnisvara
Share capital	8 294	22 000	400
Share premium	2 042	0	205 969
Statutory legal reserve	830	601	732
Revaluation reserve of fixed assets	0	0	12 120
Retained earnings	20 850	9 470	33 619
Profit (loss) for the financial year	4 768	-1 266	21 413
Total owners' equity	**36 784**	**30 805**	**274 253**
Share of Tallinna Kaubamaja in owners' equity	**36 784**	**30 805**	**274 253**

Note 8 Shares of associated companies

Associated companies	Location	Activity	Share
AS Rävala Parkla	Kuke 6	Parking service	50%

	AS Rävala Parkla
Number of shares at the beginning of year	**501**
Number of shares at the end of year	**501**
Share % at the end / (beginning) of year	**50 / (50)**
Acquisition cost at the beginning of year	**6 500**
Book value at the beginning of year	**2 844**
Income from equity method in the reporting year	1 099
Book value at the end of year	**3 943**
Acquisition cost at the end of year	**6 500**

Shares of associated company are not quoted on stock exchange.

Owners' equity of associated company as at 31 December 2002:

	AS Rävala Parkla
Share capital	10 000
Share premium	3 000
Statutory legal reserve	10
Retained earnings	-7 321
Profit for the financial year	2 197
Total owners' equity	**7 886**
Share of Tallinna Kaubamaja in owners' equity	**3 943**

Owners' equity of associated company as at 31 December 2001:

	AS Rävala Parkla
Share capital	10 000
Share premium	3 000
Retained earnings	-7 515
Profit for the financial year	204
Total owners' equity	**5 689**
Share of Tallinna Kaubamaja in owners' equity	**2 844**

Note 9 Other long-term receivables

Group/parent

31 December 2002

	Receivable	Incl. long-term part	Interest rate	Repayment due date
Associated company AS Rävala Parkla	12 028	12 028	7%	2010.a.
Total long-term receivables	**12 028**	**12 028**		

31 December 2001

	Receivable	Incl. long-term part	Interest rate	Repayment due date
Associated company AS Rävala Parkla	12 028	12 028	8%	2010.a.
Total long-term receivables	**12 028**	**12 028**		

Note 10 Fixed assets

Group

	Land and buildings	Plant and equipment	Fixtures and fittings	Prepayments for fixed assets	Unfinished buildings	Total
Acquisition cost 31 December 2001	360 568	70 469	141 515	2 459	4 062	579 073
Accumulated depreciation 31 December 2001	-15 238	-40 815	-95 071	0	0	-151 124
Residual value 31 December 2001	**345 330**	**29 654**	**46 444**	**2 459**	**4 062**	**427 949**
Additions	128 194	28 280	24 317	1 588	452	185 315
incl. from finance lease	42 760	0	0	0	0	42 760
incl. from prepayments, unfinished buildings	3 438	0	0	-1 860	-1 578	0
Sales and disposals at residual value	-5 896	-365	-2 420	-600	0	-8 681
Depreciation calculated	-14 959	-14 455	-25 905	0	0	-55 319
Residual value 31 December 2002	**452 669**	**43 114**	**42 437**	**1 588**	**2 936**	**542 744**
Acquisition cost 31 December 2002	478 759	96 400	160 724	1 588	2 936	740 406
Accumulated depreciation 31 December 2002	-26 089	-53 286	-118 287	0	0	-197 662
Residual value 31 December 2002 as eliminated revaluation of fixed assets	296 179	43 114	42 437	1 588	2 936	386 254
Residual value 31 December 2001 as eliminated revaluation of fixed assets	184 366	29 654	46 444	2 459	4 062	266 985

Parent

	Plant and equipment	Fixtures and fittings	Prepayments for fixed assets	Total
Acquisition cost 31 December 2001	16 547	80 414	30	96 991
Accumulated depreciation 31 December 2001	-12 673	-62 436	0	-75 109
Residual value 31 December 2001	**3 873**	**17 978**	**30**	**21 882**
Additions	1 303	2 763	90	4 125
incl. from prepayments	30	0	-30	0
Sales and disposals at residual value	-67	-325	0	-392
Depreciation calculated	-1 748	-10 873	0	-12 622
Residual value 31 December 2002	**3 361**	**9 542**	**90**	**12 993**
Acquisition cost 31 December 2002	16 227	81 189	90	97 506
Accumulated depreciation 31 December 2002	-12 866	-71 647	0	-84 513

During the financial year two new supermarkets Merimetsa Selver and Torupilli Selver were built with the total cost of 67 879 thousand kroons. In Pärnu, Viljandi and Rakvere and Tallinn new Selver stores were opened for which the fixtures and fittings in the amount of 21 538 thousand kroons and the equipment worth of 26 734 thousand kroons were bought.

In connection with the opening of Järve Kaubanduskeskus (Järve Shopping Mall), major repairs of Järve Selver were made in the amount of 1 700 thousand kroons. Real Estate in Narva, Saaremaa and Tallinn with the total value of 8 832 thousand kroons was purchased. The parking lot of Pirita Selver was enlarged, with the expense of 3 715 thousand kroons. Improvement upgrades to Gonsiori real estate was made amounting to 2 700 thousand kroons, and the additional equipment and fittings for the salesrooms were bought for 4 066 thousand kroons. The real estate of Veerenni and part of the real estate nearby Paldiski Road was sold for 7 400 thousand kroons, making a profit on the sale of 826 thousand kroons.
To secure the liabilities, assets worth in net value of 269 107 thousand kroons is pledged as of 31.12.2002 (for more information refer to Note 22)
The acquisition cost of the fixed assets that are fully amortized, but still in use, was 93 877 thousand kroons as of 31.12.2002 (on 31.12.2001 50 846 thousand kroons)
Fixed assets acquired as financial lease are disclosed in Note 13.

In 2000 the fixed asset group “Land and buildings” revaluation were performed. The revaluation was carried out by independent real estate experts. The revaluation surplus was recorded in the revaluation reserve and the revaluation decrease (exceeding the earlier valuation surplus) in the expenses.

Note 11 Intangible assets

Goodwill in the amount of 698 th. kroons incurred in the purchase of shares of Tartu Kaubamaja AS in 1998.

	Goodwill
Acquisition cost 31 December 2001	698
Accumulated amortisation 31 December 2001	(536)
Residual value 31 December 2001	**162**
Amortisation calculated in 2002	(140)
Acquisition cost 31 December 2002	698
Accumulated amortisation 31 December 2002	(676)
Residual value 31 December 2002	**22**

Negative goodwill in the amount of 2 228 th. kroons incurred in the additional purchase of shares of Tartu Kaubamaja AS in 2001.

	Negative goodwill
Acquisition cost 31 December 2001	-2 228
Accumulated amortisation 31 December 2001	352
Residual value 31 December 2001	**-1 876**
Recognised in income 2002	469
Acquisition cost 31 December 2002	-2 228
Accumulated amortisation 31 December 2002	821
Residual value 31 December 2002	**-1 407**

Total goodwill as at 31 December 2001	**-1 713**
Total goodwill as at 31 December 2002	**-1 384**

Note 12 Debt liabilities

Current debt liabilities	**31 December 2002**		**31 December 2001**	
	Group	**Parent**	**Group**	**Parent**
Short-term bonds	30 068	30 068	70 141	70 141
Loans	42 857	25 000	60 912	17 895
Overdraft	41	41	0	0
Finance lease (see Note 13)	3 226	0	0	0
Total short-term debt liabilities	**76 192**	**55 109**	**131 053**	**88 036**

Long-term debt liabilities	**31 December 2002**		**31 December 2001**	
	Group	**Parent**	**Group**	**Parent**
Loans	71 158	0	33 032	0
Long-term bonds	35 000	35 000	0	0
Finance lease (see Note 13)	37 505	0	0	0
Total long-term debt liabilities	**143 663**	**35 000**	**33 032**	**0**

Overdraft limit of AS Tallinna Kaubamaja account at Hansapank was on 31st of December 2002 10 000 thousand kroons. As of 31st of December 2002, the utilized balance was 41 thousand kroons.

Short-term bonds

31 December 2002

	Loan balance	**Due date**	**Interest Rate**
Tallinna Kaubamaja Issue of bond	30 068	19.12.2003	4,88%
Total	**30 068**		

31 December 2001

	Loan balance	Due date	Interest Rate
Tallinna Kaubamaja			
Issue of bond	30 141	05.12.2002	4,6%
Issue of bond	40 000	15.11.2002	6,70%
Total	**70 141**		

Interest on issues of bonds in amount of 3 729 thousand kroons were paid in 2002 (2001: 4 238 thousand kroons).

Long-term bonds

31 December 2002

	Loan balance	Due date	Interest Rate
Tallinna Kaubamaja			
Issue of bond	35 000	20.12.2004	4,85%
Total	**35 000**		

Loans

31 December 2002	Loan balance	Incl. 1-5 years	Up to 1 year	Due date	Next re-fixing of interest rate	Interest rate
Tallinna KM						
Hansapank (EUR)	25 000	0	25 000	15.03.2003	-	5,95%
A-Selver						
Hansapank (EUR)	11 014	0	11 014	31.12.2003	29.06.2003	2,6%+Euribor
TKM Kinnisvara						
Hansapank (EUR)	78 000	71 158	6 843	31.03.2010	20.03.2003	2,5%+Euribor
Total	**114 014**	**71 158**	**42 857**			

31 December 2001	Loan balance	Incl. 1-5 years	Up to 1 year	Due date	Next re-fixing of interest rate	Interest rate
Tallinna KM						
Hansapank (EUR)	17 895	0	17 895	15.12.2001	01.05.2002	2,75%+Euribor
A-Selver						
Hansapank (EUR)	26 014	10 014	16 000	31.12.2003	27.06.2002	2,75%+Euribor
TKM Kinnisvara						2,75%+Euribor
Hansapank (EUR)	33 035	6 018	27 017	15.01.2003	01.05.2002	2,75%+Euribor
Hansapank (EUR)	17 000	17 000	0	31.12.2003	16.05.2002	2,75%+Euribor
Total	**93 944**	**33 032**	**60 912**			

Loan collaterals see Note 22 and liability movements in Note 21.

Note 13 Finance lease and operating lease

Finance lease

Company as the lessee

As of 31.12.2002 the group rents under the financial lease assets from Viiburi Kinnisvara AS with the cost of 42 760 thousand kroons. As of 31.12.2001 the group held no assets rented under the terms of financial lease, since the assets rented in the earlier periods were redeemed.

Finance lease liability:

31 December 2002	Loan balance	Up to 1 year	Incl. 1-5 year	Due date	Interest rate
A-Selver AS	40 732	3 226	37 506	08.02.2012	7%
Total	**40 732**	**3 226**	**37 506**		
Minimum amount of lease payments	40 732				

	2002	2001
Payments of reporting period	2 029	3 981
Interest expense of reporting period	1 810	245

The group leases the following assets under the financial lease:

31 December 2002	**Buildings**	**KOKKU**
Acquisition cost	42 760	42 760
Accumulated deprecation	2 851	2 851
Depreciation calculated in 2002	2 851	2 851

Operating lease

The minimum amount of rental payments within a continuous period at 31 December 2002:

	Group	**Parent**
Up to 1 year	26 875	36 236
Incl. 1-5 years	156 071	154 485
Incl. 6-10 years	129 057	129 057

The minimum amount of rental payments within a continuous period at 31 December 2001:

	Group	**Parent**
Up to 1 year	8 957	0
Incl. 1-5 years	46 353	71 492

The rent payments of sublessors within the continuous period is insignificant.

The operating lease payments and subleasing revenues of the income statement:

	2002		**2001**	
	Group	**Parent**	**Group**	**Parent**
Revenue from subleasing	27 733	24 785	15 343	22 566
Operating lease expenses	48 485	58 827	44 546	58 456

Note 14 Other short-term payables

	31 December 2002		**31 December 2001**	
	Group	**Parent**	**Group**	**Parent**
VAT	6 962	5 420	10 012	3 727
Personal income tax	3 012	1 334	3 477	1 624
Social tax	4 863	2 075	4 937	2 287
Fringe benefit tax	293	48	75	46
Unemployment insurance	206	86	0	0
Funded pensions	108	33	0	0
Payables to employees	10 425	4 735	5 077	2 215
Interest payable	70	70	410	242
Other accrues expenses	2 800	2 000	43	0
Payables to subsidiaries	0	563	0	2 235
Total	**28 739**	**16 364**	**24 031**	**12 376**

Note 15 Share capital

The share capital as at 31 December 2001 and 31 December 2002 of 67 882 th. kroons was divided into 6 788 200 common shares with a nominal value of 10 kroons. According to the Articles of Association the maximum number of common shares allowed is 271 528 000 th. kroons.

In 2002 the dividends in amount of 67 882 th. kroons has been announced and paid (in 2001 in amount of 10 182 th. kroons).

Note 16 Net sales

	2002		**2001**	
	Group	**Parent**	**Group**	**Parent**
Retail sale	1 516 075	575 877	1 429 986	561 934
Wholesale	11 929	7 104	12 500	10 798
Sales of service and catering	4 321	1 616	7 487	4 338
Total	**1 532 325**	**584 597**	**1 449 973**	**577 070**

The intra-group transactions have been eliminated from the Group's consolidated net sales.

Note 17 Other revenue

	2002		2001	
	Group	**Parent**	**Group**	**Parent**
Group management service	0	14 995	0	22 324
Income from lease	27 733	24 785	15 343	22 566
Income from sale of fixed assets	1 556	31	840	479
Other revenue	12 321	4 705	8 394	5 309
Income from currency exchange	79	41	200	89
Total	**41 689**	**44 557**	**24 777**	**50 767**

Note 18 Other operating expenses

	2002		2001	
	Group	**Parent**	**Group**	**Parent**
Lease expenses	48 485	58 827	44 546	58 456
Maintenance expenses	16 862	7 119	15 304	7 436
Advertising expenses	31 187	9 501	23 741	14 367
Bank fees	10 417	4 312	10 313	4 723
Security expenses	9 819	4 271	10 255	4 293
Heat and electricity	16 413	4 954	13 088	4 174
Materials	17 378	4 246	13 800	4 494
Computers and communications	9 324	4 919	8 428	5 169
Travelling expenses	2 016	1 378	2 926	2 346
Training expenses	2 466	1 616	2 370	1 620
Insurance expenses	500	207	417	165
Other operating expenses	12 244	7 689	9 544	7 245
Total	**177 111**	**109 039**	**154 732**	**114 488**

Outside the Group operating lease payments in total of 48 484 th. kroons (2001: 44 546 th. kroons) have been paid this year, of which 22 836 th. kroons (2001.a. 22 379 th. kroons) by the parent company.

Note 19 Personnel expenses

	2002		2001	
	Group	**Parent**	**Group**	**Parent**
Salary expenses	97 557	43 160	97 388	46 151
Social tax	32 856	14 545	32 356	15 318
Total	**130 413**	**57 705**	**129 744**	**61 469**

	2002		2001	
	Group	**Parent**	**Group**	**Parent**
Average monthly salary expenses per employee (kroons)	6 691	8 230	6 029	7 135
Average number of employees in the reporting year	1 215	437	1346	539

In presenting the personnel expenses provided in the income statement the company's liability to employees has been considered regarding earned vacation pay and premiums fixed for 2002, but yet unpaid.

Note 20 Interest expenses

	2002		2001	
	Group	**Parent**	**Group**	**Parent**
Bank loans	7 562	2 243	7 982	1 619
Finance lease	1 810	0	245	27
Bonds	3 834	3 834	5 306	5 306
Other interests	191	192	229	202
Total	**13 397**	**6 269**	**13 762**	**7 154**

Note 21 Liabilities movements

	2002		2001	
	Group	**Parent**	**Group**	**Parent**
Opening balance	**164 084**	**88 036**	**173 101**	**66 031**
Loans received				
Bank loans	90 023	35 040	8 000	8 000
Issue on bonds	65 068	65 068	112 501	112 501
Total loans received	**155 091**	**100 108**	**120 501**	**120 501**
Loans paid				
Bank loans	69 912	27 895	52 442	21 420
Bonds matured	70 140	70 140	77 075	77 075
Total loams paid	**140 052**	**98 035**	**129 517**	**98 495**
Final balance	**179 123**	**90 109**	**164 084**	**88 036**

Note 22 Loan collateral and pledged assets

The following assets have been pledged by AS Tallinna Kaubamaja as collateral for the investment loans received by group companies:

- Commercial pledge set on the assets of Tallinna Kaubamaja AS in amount of 58 410 th. kroons for the benefit off Hansapank.
- Mortgage set on the real estate at Gonsiori2/Kaubamaja 1 in Tallinn (Register part No. 1324 of Tallinn real estate department) for the benefit of Hansapank with the mortgage amount of 89 500 th. kroons with the annual interest rate 20% with the additional receivables in amount of 8950 th. kroons. The book value of mortgaged assets as of 31.12.2002 is 254 413 thousand kroons.
- Mortgage set on the real estate at Punane 46 in Tallinn (Register part No. 3122 of Tallinna real estate department) for the benefit of Hansapank with the mortgage amount of 5700 th. kroons with the annual interest rate 20% with the additional receivables in amount of 570 th. kroons. The book value of mortgaged assets as of 31.12.2002 is 7 704 thousand kroons.
- Tallinna Kaubamaja has bailed the investment loan of Järve Selver in amount of 33 014 th. kroons from Hansapank, bailment agreement No. 00-059425 KÄ.
- Tallinna Kaubamaja has guaranteed 50% of the loan granted by Nordea Bank Finland Plc Estonian Division to Rävala Parkla in amount of 37 120 thousand kroons.

Note 23 Off balance sheet assets and liabilities

As of 31st of December 2002 the aggregate sum of the potential resignation benefits arising from the effective employment contracts does not exceed one million kroons.

As of 02.10.2002, the 10-year rental agreement between Tallinna Kaubamaja AS and Viru Center AS and Viru Väljaku Arenduse OÜ for the floor space of 6 574 m² in the building to be constructed in Viru Väljak 4 and 6 was formed. The monthly rent for one square meter is 15.658 euros.

The information about the loans backed by the company are disclosed in Note 22.

Note 24 Transactions with related parties

In 2002 AS Tallinna Kaubamaja has purchased and sold its goods and rendered services as following:

	Purchases	Sales
AS A-Selver	7 379	28 845
AS Tartu Kaubamaja	1 862	11 783
AS Tallinna Kaubamaja Kinnisvara	34 431	2 783
AS Liviko	8 545	338
AS Balbiino	10 766	510
AS Kitman	1 565	0
AS NG Investeeringud	0	856
Total	**64 548**	**45 115**

In 2001 AS Tallinna Kaubamaja has purchased and sold its goods and rendered services as following:

	Purchases	Sales
AS A-Selver	16 095	50 969
AS Tartu Kaubamaja	1 932	13 348
AS Tallinna Kaubamaja Kinnisvara	34 513	1 734
AS Liviko	9 474	61
AS Balbiino	5 351	197
AS Kitman	909	0
AS NG Investeeringud	0	570
Total	**68 274**	**66 879**

Balances with related parties:

	31 December 2002	31 December 2001
Current receivables		
AS Tartu Kaubamaja	346	512
A-Selver AS	37 173	2 902
AS Tallinna Kaubamaja Kinnisvara	29 006	18 846
AS Liviko	96	0
AS Balbiino	355	0
AS NG Investeeringud	31	91
Total current receivables	**67 007**	**22 351**
Non-current receivable Rävala Parkla	**12 028**	**12 028**
Current liabilities		
AS Tartu Kaubamaja	222	472
A-Selver AS	341	842
Tallinna Kaubamaja Suomi OY	0	921
AS Liviko	1 872	1 086
AS Balbiino	717	562
AS Kitman	524	0
Total current liabilities	**3 676**	**3 883**

Group transaction with related parties in 2002:

During the financial year, the former Chairman of the Management Board of A-Selver, Urmo Vallner, had 50% ownership in AS Valgusreklaam. The size of the contracts was 1 641 thousand kroons. Former member of the Management Board of A-Selver AS, Ants Vasar, owned 33% of AS Mercal. The size of the contracts was 27 thousand kroons.

Tartu Kaubamaja AS, AS A-Selver and Tallinna Kaubamaja Kinnisvara AS have become the members of a joint bank account of Tallinna Kaubamaja AS. This group of companies have subsequently as a subgroup joined the joint bank account of AS NG Investeeringud (hereafter the main group), which also includes the following companies as members: AS Balbino, AS Liviko, Liviko Kaubanduse AS, AS Kitman, AS NG Kapital, AS Ühendatud Kapital and Rocca al Mare Kaubanduskeskuse AS. Starting from the autumn of 2001 Tallinna Kaubamaja Group's available cash resources have been placed at the custody of the main group at a maximum level of 10 million kroons, earning yearly interest of 6,95%. During the year 2002 Tallinna Kaubamaja Group's interest income from the placement of available cash resources was 856 thousand kroons (in 2001 412 kroons) and interest expenses were 0 thousand kroons (in 2001 82 thousand kroons). As of 31 December 2002 and 31 December 2001 Tallinna Kaubamaja Group had no receivables or payables to the main group at the balance sheet. According to the agreement of joint bank account the members of the group have a joint liability over the unpaid balances to the bank.

The management of Tallinna Kaubamaja estimate the prices used in related party transactions do not materially differ from the market prices.

Note 25 Interest of Members of Management Board and Supervisory Board

Andres Järving	Represent 795 671 shares of Tallinna Kaubamaja AS (AS NG Investeeringud owns 4 527 356 shares)
Jüri Käo	Represent 791 142 shares of Tallinna Kaubamaja AS (AS NG Investeeringud owns 4 527 356 shares)
Indrek Vanaselja	Represent 780 052 shares Tallinna Kaubamaja AS (AS NG Investeeringud owns 4 527 356 shares)
Enn Kunila	Represent 778 490 Tallinna Kaubamaja AS (AS NG Investeeringud owns 4 527 356 shares)

Note 26 Shareholders owning more than 5% of the shares of Tallinna Kaubamaja AS as at 31. December 2002

Shareholder	Number of shares	Percentage
AS NG Investeeringud	4 527 356	66,69
Nordea Bank Finland PLC Clients Accounts Trading	799 941	11,78

Note 27 Earnings per share

Only common shares have been issued in AS Tallinna Kaubamaja. Earnings per share have been calculated as follows (net profit/number of shares):

	2002	2001
Net profit	45 012	35 755
Average weighted number of shares of the year	6 788 200	6 788 200
Net earnings per share (in kroons)	6,63	5,27

Note 28 Credit, interest and currency risk management

Due to the nature of group activities Tallinna Kaubamaja is not open to material credit risks.
All of the revenues of Tallinna Kaubamaja group are made on the sales in Estonia. The expenses of the group are mainly in kroons and in euros; therefore, the group is not exposed to currency exchange risks.
Long-term loans of the group are tied to EURIBOR; hence, the change in market interest rates affects also the interest payments.
In managing the interest rate and exchange rate risks, the potential losses from the changes in exchange rates or interest rates are compared to the cost of hedging against it with the financial instruments.
The group has not used any financial instruments in hedging for the exchange rate or interest rate risks neither in 2001 nor in 2002, since based on the judgement of the management, the hedging costs have exceeded the potential losses.

Note 29 Restrictions in allocation of net profit

As at 31 December 2002 the balance of statutory provisions not made was the following :

	Required amount of capital reserve	Provisions made	Provision not made
Tallinna Kaubamaja AS	6 788	7 269	0
AS Tartu Kaubamaja	830	830	0
A-Selver AS	2 200	601	1 599
Tallinna Kaubamaja Kinnisvara AS	40	732	0
AS Rävala Parkla	1 000	10	990

As of 31.12.2002 the unrestricted owners' equity was 144 402 thousand kroons (31.12.2001: 162 798 thousand kroons). In case all of the shareholders belonged to the category of income taxed investors, the maximum dividends payable are 106 858 thousand kroons (31.12.2001: 136 586 thousand kroons), and the maximum potential income tax liability would be 37 544 thousand kroons (31.12.2001: 26 212 thousand kroons).

Note 30 Fair value

As at 31 December 2002 the book value of the company's assets and liabilities do not materially differ from their market value.

Note 31 Subsequent events

In January 2003, AS Tallinna Kaubamaja Kinnisvara formed a brokerage contract with ERI Valduste AS to find the lessees to the office building located on Pärnu Road 238.

On 29th of January 2003, AS Tallinna Kaubamaja Kinnisvara signed a new long-term loan agreement with Eesti Ühispank in the amount of 108 million kroons (6,9 million euros) with the maturity of 8 years. The new loan was used to refinance existing long-term loans of 78 million kroons (5 million euros). The interest rate is 1,6 %+ 6 months EURIBOR. The 1st order mortgage on the real estate at Gonsiori Street 2 Tallinn in the amount of 139,5 million kroons was set to guarantee the loan.

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AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of Tallinna Kaubamaja AS

We have audited the financial statements of Tallinna Kaubamaja AS (the Parent Company) and the consolidated financial statements of the Parent Company and its subsidiary companies (the Group) for the year ended 31 December 2002 as set out on pages 6 to 26. These financial statements are the responsibility of the Group management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Parent Company and the Group as at 31 December 2002 and of the results of their operations and their cash flows for the year then ended in accordance with International Accounting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

Kersti Liibert
Authorised auditor

28 February 2003

PROFIT ALLOCATION REPORT

The retained earnings of AS Tallinna Kaubamaja:

Retained earnings ass at 31 December 2001	99 390 thousand kroons
Net profit 2002	45 012 thousand kroons
Total retained earnings	144 402 thousand kroons

The management board of AS Tallinna Kaubamaja proposes the following profit allocation to the general shareholders meeting:

1. Payment of dividends (1 kroons per share)	6 788 thousand kroons
2. Retained earnings	137 614 thousand kroons

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Member of the management board

Signatures of the Management Board and Supervisory Board to the 2002 Annual Report

Annual Report 2002 of AS Tallinna Kaubamaja, approved by the General Meeting of Shareholders on __ April 2003, signed on________________________________

Raul Puusepp
Member of the Management Board

Andres Järving
Chairman of the Supervisory Board

Jüri Käo
Member of the Supervisory Board

Meelis Milder
Member of the Supervisory Board

Enn Kunila
Member of the Supervisory Board

Indrek Vanaselja
Member of the Supervisory Board

Jaan Kallas
Member of the Supervisory Board