AS TALLINNA KAUBAMAJA
Annual report for the year 2003

The main activities of AS Tallinna Kaubamaja and its group companies are retail and wholesale of consumer goods. As at the end of 2003 Tallinna Kaubamaja group employs over 1200 employees.

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Beginning of the financial year:	*01.01.2003*
End of the financial year:	*31.12.2003*
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 financial statements of Tallinna Kaubamaja Group includes 100% subsidiaries AS A-Selver, AS Tartu Kaubamaja, Tallinna Kaubamaja Kinnisvara AS and the associated company Rävala Parkla AS (50%).

The consolidated net sales for the year 2003 were 1.76 billion kroons; 112.5 million euros (including the parent company 579.4 million kroons; 37 million euros). The increase in net sales was 15% during the year and the increase in sales area was 15 %. The market share of Tallinna Kaubamaja Group in the retail market was 6.5%, and by the end of 2003 an increase of 4% was made from year 2002 with 6.2% share.

The audited net profit of Tallinna Kaubamaja Group for 2003 was 66.1 million kroons; 4.2 million euros with an increase of 21 million kroons; 1.3 million euros or 47% over the net profit for 2002. The net profit margin was 3.8% and the respective indicator of the previous year was 2.9%. Net profit per share was 9.7 kroons; 0.6 euros in 2003 and 6.6 kroons; 0.4 euros in 2002.

The total assets of Tallinna Kaubamaja Group were 808.8 million kroons; 51.7 million euros as at 31 December 2003, showing an increase of 32.3 million kroons; 2.1 million euros.

During the year 2003, the investments in tangible fixed assets were 38 million kroons; 2.4 million euros. Major investments include the expansion of Merimetsa and Torupilli Selvers in the amount of 9.5 million kroons; 0.6 million euros, the new cashier system in Tallinna Kaubamaja in the amount of 4.7 million kroons; 0.3 million euros and the furniture and fittings for Rocca al Mare Fashion Store in the amount of 6.3 million kroons, 0.4 million euros.

The liabilities of the Group have been decreased by 27 million kroons; 1.7 million euros. The short-term liabilities decreased by 25.5 million kroons; 1.6 million euros and long-term liabilities by 24.6 million kroons; 1.6 million euros. As a positive effect to the cash flows the commercial credit increased by 15.4 million kroons; 1 million euros.

The owners' equity for the group was 435.3 million kroons; 27.8 million euros as at 31 December 2003, i.e. 53.8% of assets.

The average number of employees was 1289 in 2003, showing an increase by 74 people or 6%.

The efficiency of the Group improved considerably in 2003: the net sales per employee increased by 8% and the sales area per employees increased by 8.6% over the previous year. The stock turnover improved by 14% in 2003.

The payroll expense of the Group in 2003 including the social tax was 148 million kroons; 9.5 million euros. The salary of Raul Puusepp, Chairman of the Management Board, was 488.8 thousand kroons; 31.2 thousand euros. The salaries of the Members of the Supervisory Board amounted to 989.5 thousand kroons; 63.2 thousand euros.

The number of loyal customers holding the Partner card have increased by 25% during 2003, reaching 116 000 private persons by the end of the year.

Outlook of the retail market in 2004

Similarly to 2003, there would be a considerable increase in retail space in 2004. The time-weighted increase in retail space in Tallinn in 2003 was 20% (a year before the indicator was 13%).
During the same period the increase in the retail sales (excluding motor cars and gasoline) was 9.6% according to preliminary statistics (16% a year before). As a result, the increase in supply (of retail sales area) was 10% bigger than the increase in demand (i.e growth in retail sales).

The time-weighted increase of sales area in 2004 will be ca 16%. In the spring of 2004 two major shopping centres will be opened: Viru Centre and Ülemiste Centre.

According to the estimates of Tallinna Kaubamaja, the growth in retail sales in 2004 will be between 8,5 – 9% in comparison to year 2003. Thus, the growth in supply similarly to the previous year exceeds the demand. This tendency may in certain areas, especially in Tallinn, reduce somewhat the rental rates for retail space.

The growth of hypermarkets will somewhat slow and at the same time the number of supermarkets and local stores will increase because the customer is expecting more personal shopping environment. Retail sellers are becoming more interested in county towns due to their development potential.

If food and convenience retail has experienced sales volumes concentration in larger chains for years, then in 2004 the same tendency will intensify in fashion trade; the opening of Viru and Ülemiste centre will raise the average standard of fashion trade.

The pressure on the margin will continue. There will be an increasing need to invest or to reinvest in sales area. The key factor will be service: the potential among retail chains to compete by the argument of price is coming to an end, the new criterion for differentiation will be the quality of service.

Under the conditions of a limited market and falling margins, management of the supply chain as well as coordination and cooperation among those involved will gain more importance. Because of this, as well as due to the increasing popularity of local products among consumers, cooperation with Estonian manufactures will increase. Current successful projects between Estonian retailers and Estonian manufacturers and processors will be extended.

Tallinn and Tartu Kaubamaja

In 2003, Kaubamaja abandoned its mission statement and vision, and came up with a new purpose idea:

‘’Our objective is to add color and joy into people’s lives. For that we are creating inspiring city centers, meeting points, where we offer pleasant experiences, goods and services that excite people’s senses and where they become more beautiful, happier and wiser.” Based on the new purpose idea, the modernization of Kaubamaja is under way: several large projects will be carried out, the portfolio of brands will become wider and the visual merchandising as well as ways of selling will change.

To give a clear signal of the changes through modern advertising patterns, the logo and visual identity of Kaubamaja were replaced in August of 2003. The work was provided by advertising agency Tank.

An important developmental milestone for Kaubamaja in 2003 was the opening of a fashion store on the second floor of the Rocca al Mare Shopping Center. The fashion store of Tallinna Kaubamaja offers medium-priced fashion and personal items to the whole family that have gained popularity among our loyal customers. The concept of the fashion store was created in order to maintain and to grow the market share of the Group in Estonian retail business. Up to three more similar stores are planned to be opened in upcoming years. Kaubamaja’s fashion stores are located in shopping centers with large numbers of visitors, which are attractive due to good parking lots, simple access from large roads and high concentration of goods and services at these centers.

A very important part of the company’s activities was devoted to the project “Kaubamaja 2004”, according to which Tallinna Kaubamaja will expand its sales area in the Viru Keskus (Viru Shopping Centre) which will open on 15April 2004. The sales area of the Viru Keskus totals 23 000 m2, of which Kaubamaja will lease about 7200 m2. There will be over 70 stores in the centre. Together with the leased space in the Viru Keskus, Kaubamaja’s sales area will be about 14 5000 m2 (i.e. a 53% increase over the previous year).

Kaubamaja will significantly expand the proportion of brands in total sales of clothes: if until now the percentage of brand names has been around 40-50 (the rest were the sales of individual items, not brand collections), in the new Tallinna Kaubamaja this will be close to 70%. The following new brands will be added: Calvin Klein, Mexx, Tom Tailor, GAS, Marc Aurel and More & More for women, and S. Oliver, Mexx, Jeep, Stones, Calvin Klein and French Connection for men.

Kaubamaja is becoming more recreational as well as family oriented. Personal fashion advisors will be employed, and additional services will be offered in the sales environment. There will be four eating places and children’s playground in Kaubamaja.

The implementation of the project “Kaubamaja2004” will provide a good base for designing a new department store in Tartu. The planning of the selection of goods has started. The new Tartu Kaubamaja will be the third important developmental stage for Kaubamaja after the fashion store and the project “Kaubamaja 2004”. The planned sales area in Tartu Kaubamaja is about 7000 m2 (a three time increase over current space).

The main theme for Kaubamaja’s service in 2003 was service management and renewal of service in light of the new purpose idea. Differentiation in service and its high quality need to become the source of Kaubamaja’s successful competition. The new ideas in service are pro-activity, positive attitude, helpfulness and trust. In order to achieve success in service, Kaubamaja engaged a new partner, the consulting and development firm Self II.

To improve service as well as to expand the team of Tallinna Kaubamaja, new ways of selecting and hiring employees were adopted and selection processes were improved. In hiring new service employees, a greater emphasis is placed on their character traits and attitudes.

In the program of loyal customers, the policy to keep current loyal customers by fulfilling their expectations better instead of focusing on attracting new customers was taken. The number of offers directed at smaller client groups was increased.

To better keep track of stock, the system for the provision of inventories was implemented and it was linked to the system of motivation. This has brought about an expected positive impact: in a year, the year-old inventories have been reduced by 22%.

To more effectively use the retail space located in the town center, a strategic partner LP-Logistika was hired to handle the store goods. If the cooperation is successful, the plan is to increase the volume of goods handled and stored by LP-Logistika.

A-Selver

After following a period of rapid expansion in 2002, when the number of Selver's super and hyper markets doubled to 10 stores by the end of the year, the year of 2003 was marked by stable development. No new stores were opened, but the Torupilli and Merimetsa Selvers expanded the sales area that increased the sales area of the Selver chain by 1550 m2.

The key aspects for Selver in 2003 were repositioning in the market and increasing the target customer base through winning over price sensitive purchasers. The above-mentioned events were of the main factors for Selver to gain recognition and success in county centers located out of Tallinn.

In 2003, ten million purchases were made in the Selver chain, which was 53% more than in 2002.

The production facility of Selver named Selveri Köök (Selver Couisine) gained popularity in 2003. The assortment was expanded, special preordering system was introduced and the products sold under the name of Selveri Köök were actively marketed, resulting in a 32% increase in the sales of Selveri Köök over the prior year.

The advantage of A-Selver over the competing retail chains lies in the combination of following factors:
good prices

- wide assortment
- friendly and fast service
- Estonian made goods and raw material
- the assortment of Selveri Köök

In 2004, the Selver chain continues to expand in other towns of Estonia. In June, Saare Selver will open in Tallinna mnt. 67 in Kuressaare. With the opening of Saare Selver, 1221 m2 sales area will be added. At the beginning of February 2004, the expansion of Tondi Selver, which started in 2003, was completed totaling to additional 1548 m2 of sales area, resulting in a wider assortment of foodstuffs and household goods . In place of two production areas currently used, the company will open central kitchen in April 2004 in the premises of Kadaka Selver. The purpose of the change is to make production process more efficient and to increase the selection of products offered by Selver Köök by 25%.

Short-term goal is to open Selvers in Tartu and Narva.

Tallinna Kaubamaja Kinnisvara

The fixed assets belonging to Tallinna Kaubamaja Kinnisvara have been rented out under operating lease terms to the companies of Tallinna Kaubamaja Group (Tallinna Kaubamaja and A-Selver).

In 2003, the development in Tartu Riia 1, Vanemuise 2 and Küüni 14 (Hansakvartal) was continued with a purpose to construct new Tartu Kaubamaja. During the year, additional archeological excavations were performed, existing constructions were demolished and design work for new building started. Other investments of the company were mainly directed toward preparation of renovation work for the Gonsiori 2 building in Tallinn and expansion of Pirita Selver.

In 2004, the design work for Tartu Kaubamaja will continue and the construction of the building will start. The company is planning to find tenants who will support and supplement the product selection of Tartu Kaubamaja. In addition, the company is planning to expand Pirita Selver, to find new projects to meet the needs of Selver chain, and to renovate the Tallinna Kaubamaja's B section.

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 2003 and the consolidated financial statements of Tallinna Kaubamaja Group for the year 2003 as 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 Financial Reporting Standards;

2. the financial statements present a true and fair view of the financial situation, the profit (loss) and the cash flows of the company;

3. AS Tallinna Kaubamaja is a going concern.

Raul Puusepp
Member of the Management Board

Tallinn 27 February 2004

BALANCE SHEET

thousands EEK/EUR

		31.12.2003		31.12.2003		31.12.2002		31.12.2002	
		Group		Parent		Group		Parent	
ASSETS	Note	EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
Current assets									
Cash and bank	1	73 311	4 685	40 954	2 617	34 258	2 189	26 267	1 679
Trade receivables	2	8 419	538	1 769	113	10 250	655	2 336	149
Other receivables	3	4 159	266	4 919	314	3 454	221	52 710	3 369
Accrued income	4	33	2	32	2	98	6	98	6
Prepaid expenses	5	2 136	137	1 034	66	7 611	486	848	54
Inventories	6	175 971	11 247	67 614	4 321	163 442	10 446	68 500	4 378
Total current assets		264 029	16 875	116 322	7 434	219 112	14 004	150 759	9 635
Non-current assets									
Long-term financial assets									
Investment in subsidiaries	7	0	0	387 443	24 762	0	0	349 802	22 356
Investment in associated companies	8	5 427	347	5 427	347	3 943	252	3 943	252
Long-term receivables from associated companies	9	12 028	769	12 028	769	12 028	769	12 028	769
Total long-term financial assets		17 455	1 116	404 898	25 878	15 971	1 021	365 773	23 377
Tangible assets	10	528 234	33 760	19 409	1 240	542 744	34 688	12 994	830
Intangible assets	11	-938	-60	0	0	-1 384	-88	0	0
Total non-current assets		544 751	34 816	424 307	27 118	557 331	35 620	378 767	24 208
TOTAL ASSETS		808 779	51 690	540 629	34 553	776 443	49 624	529 527	33 843
LIABILITIES AND OWNERS' EQUITY									
Current liabilities									
Debt liabilities	12	50 653	3 237	35 000	2 237	76 192	4 870	55 109	3 522
Customer advances for goods and services		4 820	308	3 019	193	3 648	233	1 710	109
Suppliers payables		163 562	10 453	49 613	3 171	148 158	9 469	45 299	2 895
Other payables	14	35 384	2 261	17 666	1 129	28 739	1 837	16 364	1 046
Total current liabilities		254 419	16 260	105 298	6 730	256 737	16 408	118 483	7 572
Long-term debt liabilities	12	119 029	7 607	0	0	143 663	9 182	35 000	2 237
Total liabilities		373 449	23 868	105 298	6 730	400 400	25 590	153 483	9 809
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		152 016	9 716	152 016	9 716	156 490	10 002	156 490	10 002
Retained earnings		142 088	9 081	142 088	9 081	99 390	6 352	99 390	6 352
Net profit for the financial period		66 075	4 223	66 075	4 223	45 012	2 877	45 012	2 877
Total owners' equity		435 331	27 823	435 331	27 823	376 044	24 034	376 044	24 034
TOTAL LIABILITIES AND OWNERS' EQUITY		808 779	51 690	540 629	34 553	776 443	49 624	529 527	33 843

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

INCOME STATEMENT

thousands EEK/EUR

		2003				2002			
		Group		Parent		Group		Parent	
Operating income	Note	EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
Sales	16	1 760 768	112 534	579 386	37 030	1 532 325	97 933	584 597	37 363
Other operating income	17	43 815	2 800	41 344	2 642	41 689	2 664	44 557	2 848
Cost of goods sold		-1 330 289	-85 021	-414 794	-26 510	-1 147 961	-73 368	-421 321	-26 927
Other operating expenses	18	-193 087	-12 341	-107 261	-6 855	-177 111	-11 319	-109 039	-6 969
Personnel expenses	19	-148 049	-9 462	-57 598	-3 681	-130 413	-8 335	-57 705	-3 688
Depreciation	10	-52 376	-3 347	-7 648	-489	-55 319	-3 536	-12 622	-807
Amortisation of goodwill	11	446	28	0	0	329	21	0	0
Other expenses		-6 604	-422	-5 221	-334	-8 168	-522	-4 682	-299
Operating profit		74 624	4 769	28 208	1 803	55 371	3 539	23 784	1 520
Financial income and expenses									
Financial income and expenses on shares in subsidiaries	7	0	0	37 641	2 406	0	0	22 342	1 428
Financial income and expenses on shares in associates	8	1 484	95	1 484	95	1 099	70	1 099	70
Interest income and expenses	20	-9 923	-634	-1 180	-75	-11 288	-721	-2 090	-134
Other financial income and expenses		-109	-7	-78	-5	-169	-11	-122	-8
Total financial income and expenses		-8 548	-546	37 867	2 420	-10 358	-662	21 228	1 357
NET PROFIT		66 075	4 223	66 075	4 223	45 012	2 877	45 012	2 877
Basic earnings per share (EEK/EUR)	27	9,73	0,62	9,73	0,62	6,63	0,42	6,63	0,42
Diluted earnings per share (EEK/EUR)		9,73	0,62	9,73	0,62	6,63	0,45	6,63	0,42

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

CASH FLOW STATEMENT

thousands EEK/EUR

	Note	2003				2002			
		Group		Parent		Group		Parent	
	No.	EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
CASH FLOW FROM OPERATING ACTIVITIES									
Net profit		66 075	4 223	66 075	4 223	45 012	2 877	45 012	2 877
Interest expenses		11 258	720	3 948	252	13 397	856	6 269	401
Interest income		-1 335	-85	-2 768	-177	-2 109	-135	-4 178	-267
Depreciation	10	51 931	3 319	7 648	489	54 989	3 514	12 622	807
Profit/loss from sale and liquidation on non-current assets		-139	-9	-25	-2	-483	-31	-31	-2
Impact of equity method	8	-1 484	-95	-39 125	-2 501	-1 099	-70	-23 441	-1 498
Change in inventories		-12 529	-801	886	57	7 251	463	12 936	827
Change in receivables		6 601	422	48 172	3 079	-10 656	-681	-28 975	-1 852
Change in liabilities		23 216	1 484	6 949	444	45 142	2 885	7 732	494
NET CASH FLOW FROM OPERATING ACTIVITIES		143 595	9 177	91 761	5 865	151 444	9 679	27 946	1 786
CASH FLOW FROM INVESTING ACTIVITIES									
Dividends received		0	0	0	0	0	0	12 668	810
Fixed assets acquired and renovated (excl finance lease)	10	-38 155	-2 439	-14 149	-904	-136 033	-8 694	-4 125	-264
Interest received		1 400	89	2 833	181	2 095	134	4 164	266
Tangible fixed assets sold	10	427	27	110	7	9 164	586	422	27
NET CASH FLOW FROM INVESTING ACTIVITIES		-36 328	-2 322	-11 205	-716	-124 775	-7 975	13 129	839
CASH FLOW FROM FINANCING ACTIVITIES									
Loans received and bonds issued	21	40 000	2 556	10 000	639	155 091	9 912	100 109	6 398
Repayment of loans and redemption of bonds	21	-86 946	-5 557	-65 109	-4 161	-140 052	-8 951	-98 035	-6 266
Financial lease payments	13	-3 226	-206	0	0	-2 029	-130	0	0
Dividends paid	15	-6 788	-434	-6 788	-434	-67 882	-4 338	-67 882	-4 338
Interest paid		-11 253	-719	-3 972	-254	-13 738	-878	-6 270	-401
NET CASH FLOW FROM FINANCING ACTIVITIES		-68 214	-4 360	-65 869	-4 210	-68 610	-4 385	-72 078	-4 607
TOTAL CASH FLOW		39 053	2 496	14 687	939	-41 941	-2 681	-31 003	-1 981
Cash and cash equivalents at the beginning of the period	1	34 258	2 189	26 267	1 679	76 199	4 870	57 270	3 660
Cash and cash equivalents at the end of the period	1	73 311	4 685	40 954	2 617	34 258	2 189	26 267	1 679
Change in cash and cash equivalents		39 053	2 496	14 687	939	-41 941	-2 681	-31 003	-1 981

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

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Kuupäev/date 27.02.04
PricewaterhouseCoopers, Tallinn

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group/Parent *thousands EEK*

	Share capital	Revaluation reserve	Statutory legal reserve	Retained earnings	Profit for the financial year	Total
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		-67 882
Realisation of 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
Retained earnings 2002	0	0	0	45 012	-45 012	0
Dividends	0	0	0	-6 788		-6 788
Realisation of revaluation reserve of fixed assets	0	-4 474	0	4 474	0	0
Profit for the financial year	0	0	0	0	66 075	66 075
31.12.2003	67 882	152 016	7 269	142 089	66 075	435 331

thousands EUR

	Share capital	Revaluation reserve	Statutory legal reserve	Retained earnings	Profit for the financial year	Total
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
Realisation of 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
Retained earnings 2002	0	0	0	2 877	-2 877	0
Dividends	0	0	0	-434	0	-434
Realisation of revaluation reserve of fixed assets	0	-286	0	286	0	0
Profit for the financial year	0	0	0	0	4 223	4 223
31.12.2003	4 338	9 716	465	9 081	4 223	27 823

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

Accounting methods and principles used in preparing the financial statements

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.

This Group's consolidated financial statements and the annual report of Tallinna Kaubamaja have been translated from the Estonian original.

Accounting principles
The Group's consolidated financial statements and the annual report of Tallinna Kaubamaja have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared in Estonian kroons which is the measurement currency of the group, rounded to the closest thousand. Primary statements of this set of financial statements include comparative data also in euros which have been converted from Estonian kroons for the convenience of the users. Because Estonian kroon is bound to euro with fixed exchange rate 1 euro = 15.64664 Estonian kroons, no currency translation differences arise from the converting of financial statements.

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 companies which are 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 when the parent company gains profit from the activities of the 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 the 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 by using the equity method in the report of Tallinna Kaubamaja. Income statements and cash flows of foreign subsidiaries are translated into Estonian kroons at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December.

Associated companies
Associated companies are the investment objects, where the Group has direct or indirect authority but without control over determining the financial and operating principles. The presumption of material share is considered to be 20-50% share in the company, which is the investment object. The share of Tallinna Kaubamaja and the Group from the profits and loss of the associated company is recorded in the financial statements from the start of the 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 these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.
The receipt of the receivables that have been previously written down is accounted for as a decrease in doubtful receivable expense.

Inventories
Inventories are recorded at acquisition cost consisting of the purchase price, transportation costs and other direct costs related to the 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 as 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 the acquisition cost minus accumulated depreciation and write-downs. The acquisition cost of fixed assets purchased includes the purchase price, the transport and installation costs, and other expenses related to bringing the acquired assets into use.

Investment cost which improves the condition of the asset beyond its originally assessed standard of performance and which are expected to generate additional economic benefits during the following and subsequent periods, are capitalised as tangible assets in the balance sheet. Maintenance and repair costs, which are made to maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of the asset, are expensed when incurred.

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) is recorded in the expense. In the course of revaluation, the earlier accumulated depreciation is eliminated and the devalued amount is considered as the "new acquisition cost".
Where the carrying amount of an asset is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.

Depreciation is calculated based on the straight-line method. The depreciation rates are determined individually for each fixed asset item depending on its useful life.

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

• Buildings and facilities	12,5-33,3 yeas
• Plant and equipment	5 years
• Computer hardware and software	2,85 years
• Transport and equipment	5 years

Land is not depreciated.

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. Interest costs on borrowings are expensed in period, which they incurred.

<u>Intangible assets</u>
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. Positive goodwill is depreciated to the expenses during the 5 years period.
Development 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.

<u>Finance and operating leases</u>
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.

<u>Provisions and contingent liabilities</u>
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.

<u>Corporate income tax</u>
According to the Income Tax Act of the Republic of Estonia the annual profit earned by enterprises is no longer taxed. Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities. Instead of taxing the net profit, the

distribution of retained earnings is subject to a dividend tax (26/74 of net dividend paid). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

<u>Foreign currency transactions</u>
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 2003 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.

<u>Borrowings</u>
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.

<u>Financial instruments</u>
Financial assets and liabilities (trade receivables, other receivables, long term receivables, supplier payables, other payables and debt liabilities) are recorded in balance sheet at acquisition cost in the transaction date. Profits and losses from financial instruments are recorded as period's profits/expenses in the income statement. Financial assets and liabilities are recorded at amortised acquisition cost using the effective interest rate.

<u>Recognising revenue</u>
Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer and the collection is probable. Revenue from rendering of services is recognized after services are rendered.

Interest income and dividend income is recognized when collection is probable and when the income can be reliably measured. Interest income is reported by using asset's effective interest rate except when collection of interest is estimated to be doubtful. In those cases, interest income is recognized on cash basis. Income from licence fees is recognized in accrual basis based on the terms specified in the licensing agreements. Dividends are recognised when the right to receive payment is established.

<u>Segment reporting</u>
A geographical segment is considered as a main segment of the Group. 100% of net sales take place in the Republic of Estonia, thus no segment reporting has been provided in the Notes to 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 as side activities, the results of which are presented as other revenue and expenses or financial income and expenses. Retail sales makes over 95% of the total sales, and the total revenue from sales is earned in Estonia.

<u>Earnings per share</u>
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.

<u>Subsequent events</u>
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.

<u>Statutory legal reserve</u>
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). According to Estonian Commercial Code the statutory legal reserve can only be used to cover the company's loss if it cannot be covered by available capital (from retained earnings and reserves stipulated in company's article of association) or to increase share capital. No payments to shareholders can be made from the statutory legal reserve.

<u>Revaluation reserve of fixed assets</u>
Revaluation reserve of fixed assets is the part of restricted equity and is not distributable between the shareholders. The revaluation surplus is reduced every year by the depreciation calculated on the difference occurring from the revaluation. This amount is added to the retained earnings from previous periods.

<u>Related parties</u>
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

Note 1 Cash and bank

	31 December 2003		31 December 2002	
	Group	**Parent**	**Group**	**Parent**
Cash in hand	1 751	134	1 378	125
Bank accounts	29 905	4 745	8 590	6 756
Cash in transit	7 655	2 075	7 290	2 386
The shares of the money market fund	34 000	34 000	17 000	17 000
Total cash and bank	**73 311**	**40 954**	**34 258**	**26 267**

Note 2 Trade receivables

	31 December 2003		31 December 2002	
	Group	**Parent**	**Group**	**Parent**
Trade receivables	9 007	1 769	10 250	2 336
Allowance for doubtful receivables	588	0	0	0
Total trade receivables	**8 419**	**1 769**	**10 250**	**2 336**

Note 3 Other receivables

	31 December 2003		31 December 2002	
	Group	**Parent**	**Group**	**Parent**
Receivables from subsidiaries (1)	0	1 415	0	1 543
Group accounts (1)	0	3 122	0	51 096
Supplier bonuses	3 725	0	2 826	0
Other short-term receivables	434	382	628	71
Total other receivables	**4 159**	**4 919**	**3 454**	**52 710**

(1) See Note 24 Transaction with related parties.

Note 4 Accrued income

The interest receivables in the amount of 33 thousand kroons (2002: 98 thousand kroons) are recorded as accrued income as at the balance sheet date.

Note5 Prepaid expenses

	31 December 2003		31 December 2002	
	Group	**Parent**	**Group**	**Parent**
Other prepaid expenses	524	374	387	233
Prepaid membership fees	400	400	351	351
Prepaid insurance fees	797	260	25	16
Prepaid VAT	238	0	6 733	248
Maintenance of software licences	177	0	115	0
Total	**2 136**	**1 034**	**7 611**	**848**

Lisa 6 Inventories

	31 December 2003		31 December 2002	
	Group	**Parent**	**Group**	**Parent**
Goods for resale	166 922	65 305	155 101	65 686
Raw materials	2 642	749	2 955	1 208
Prepayment to suppliers	6 407	1 560	5 386	1 606
Total inventories	**175 971**	**67 614**	**163 442**	**68 500**

The balance of inventories as at 31 December 2003 is divided between the group companies as follows:

	Tallinna Kaubamaja	Tartu Kaubamaja	A-Selver	Total
Goods for resale	65 305	22 378	79 239	**166 922**
Raw materials	749	193	1 700	**2 642**
Prepayment to suppliers	1 560	127	4 720	**6 407**
Total inventories	**67 614**	**22 698**	**85 659**	**175 971**

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

	Tallinna Kaubamaja	Tartu Kaubamaja	A-Selver	Total
Goods 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 following items are included in the income statement in cost of goods sold: write-down of inventories, write-off of inventories and shortage of stock count.

2003	Tallinna Kaubamaja	Tartu Kaubamaja	A-Selver	Total
Write-down and write-off of inventories	5 189	2 172	7 721	**15 082**
Shortage of stock count	2 160	469	7 149	**9 778**
Total	**7 349**	**2 641**	**14 870**	**24 860**

2002	Tallinna Kaubamaja	Tartu Kaubamaja	A-Selver	Total
Write-down and write-off of inventories	7 232	2 580	7 925	**17 827**
Shortage of stock count	2 442	602	5 668	**8 712**
Total	**9 764**	**3 182**	**13 593**	**26 539**

For 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 2002	**829 412**	**22 000**	**40 000**	**900**
No shares purchased and sold in the reporting year				
Number of shares 31 December 2003	**829 412**	**22 000**	**40 000**	**900**
Share % 31 December 2003 / (31 December 2002)	**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 2002			Not quoted on stock exchange		
Book value 31 December 2002	**30 368**	**20 975**	**298 459**	**0**	**349 802**
Income from equity method in the reporting year	8 015	0	31 202	0	39 217
Amortisation of goodwill	-23	0	0	0	-23
Amortisation of negative goodwill	469	0	0	0	469
Expense from equity method in the reporting year	0	-2 022	0	0	-2 022
Book value 31 December 2003	**38 829**	**18 953**	**329 661**	**0**	**387 443**
Acquisition cost at the end of year	**15 849**	**22 000**	**46 285**	**2 420**	**86 554**

In the reporting year there was no activity in Tallinna Kaubamaja Suomi OY.

For negative goodwill see note 11

Note 8 Shares of associated companies

Associated companies	Location	Activity	Share
AS Rävala Parkla	Tallinn, 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**
	3 943
Book value at the beginning of year	1 484
Income from equity method in the reporting year	**5 427**
Book value at the end of year	**6 500**

Shares of associated company are not quoted on the stock exchange.

Note 9 Other long-term receivables

Group/parent
31 December 2003

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

31 December 2002

	Receivable	Incl.long-term part	Interest rate	Repayment due date
Associated company AS Rävala Parkla	12 028	12 028	7%	2010
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
Balance as at 31 December 2002						
Acquisition cost	478 758	96 400	160 724	1 588	2936	740 406
Accumulated depreciation	-26 089	-53 286	-118 287	0	0	-197 662
Net book value	**452 669**	**43 114**	**42 437**	**1 588**	**2 936**	**542 744**
Acquisitions	8 585	8 662	9 858	4 128	6 922	38 155
Incl. from prepayments, unfinished buildings	310	340	455	-1 104	0	0
Sales and disposals	0	- 207	-82	0	0	-289
Depreciation calculated	-17 640	-17 218	-17 518	0	0	-52 376
Balance as at 31 December 2003						
Net book value	**443 614**	**34 351**	**34 695**	**5 716**	**9 858**	**528 234**
Acquisition cost	487 343	101 862	165 416	5 716	9 858	770 195
Accumulated depreciation	-43 729	-67 511	-130 721	0	0	-241 961
Net book value as at 31.12.2003 when revaluation of fixed assets is eliminated	291 598	34 351	34 695	5 716	9 858	376 218
Net book value as at 31.12.2002 when revaluation of fixed assets is eliminated	296 179	43 114	42 437	1 588	2 936	386 254

Parent

	Land and buildings	Plant and equipment	Fixtures and fittings	Prepayments for fixed assets	Total
Balance as at 31 December 2002					
Acquisition cost	0	16 227	81 189	90	97 507
Accumulated depreciation	0	-12 866	-71 647	0	-84 513
Net book value	**0**	**3 362**	**9 543**	**90**	**12 994**
Acquisitions	926	5 565	4 496	3 161	14 149
Sales and disposals	0	-66	-19	0	-86
Depreciation calculated	-60	-1 863	-5 726	0	-7 648
Balance as at 31 December 2003					
Net book value	**866**	**6 999**	**8 295**	**3 251**	**19 410**
Acquisition cost	926	19 718	82 106	3 251	106 000
Accumulated depreciation	-60	-12 719	-73 812	0	-86 591

During the financial year the buildings of Merimetsa Selver and Torupilli Selver were enlarged. The departments of industrial goods were expanded. The total investment was 9 500 thousand kroons. A new cash registering system was purchased for Tallinna Kaubamaja and a new store in Rocca-al-Mare Centrum was furnished. Total investment was 10 987 thousand kroons. Tallinna Kaubamaja Kinnisvara built a second floor to Torupilli Selver and started renovations in Tallinna Kaubamaja. Also the parking lot of Pirita Selver was enlarged. The total investment was 5 928 thousand kroons.

During the financial year the management evaluated the useful life of the fixed assets. As the result of the evaluation the following changes in depreciation rates were made:

* the useful life of fixtures and fittings was extended to 5 years (new depreciation rate 20%)
* the useful life of computer hardware to cash registering systems of sales houses was extended to 5 years (new depreciation rate 20%)

The impact of depreciation rates changes to the income statement was + 4 166 thousand kroons.

To secure the liabilities, assets worth in net value of 255 043 thousand kroons are pledged as at 31 December 2003 (for more information refer to Note 22)

The acquisition cost of the fixed assets that are fully amortized, but still in use, was 90 215 thousand kroons as at 31 December 2003 (on 31 December 2002, 93 877 thousand kroons)
Fixed assets acquired as financial lease are disclosed in Note 13.

In 2000 the fixed asset group "Land and buildings" revaluation was 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 2002	698
Accumulated amortisation 31 December 2002	(676)
Net book value 31 December 2002	**22**
Amortisation calculated in 2003	(22)
Acquisition cost 31 December 2003	698
Accumulated amortisation 31 December 2003	(698)
Net book value 31 December 2003	**0**

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 2002	-2 228
Accumulated amortisation 31 December 2002	821
Net book value 31 December 2002	**-1 407**
Amortisation calculated in 2003	469
Acquisition cost 31 December 2003	-2 228
Accumulated amortisation 31 December 2003	1 290
Net book value 31 December 2003	**-938**
Total goodwill as at 31 December 2002	**-1 384**
Total goodwill as at 31 December 2003	**-938**

Note 12 Debt liabilities

Short-term debt liabilities	**31 December 2003**		**31 December 2002**	
	Group	**Parent**	**Group**	**Parent**
Short-term bonds	35 000	35 000	30 068	30 068
Loans	12 194	0	42 857	25 000
Overdraft	0	0	41	41
Finance lease (see Note 13)	3 459	0	3 226	0
Total short-term debt liabilities	**50 653**	**35 000**	**76 192**	**55 109**

Long-term debt liabilities	**31 December 2003**		**31 December 2002**	
	Group	**Parent**	**Group**	**Parent**
Loans	84 983	0	71 158	0
Long-term bonds	0	0	35 000	35 000
Finance lease (see Note 13)	34 046	0	37 505	0
Total long-term debt liabilities	**119 029**	**0**	**143 663**	**35 000**

Short- term bonds

31 December 2003

	Liability	Due date	Interest rate
Tallinna Kaubamaja Issue of Bond	35 000	20.12.2004	4,58%
Total	**35 000**		

31 December 2002

	Liability	Due date	Interest rate
Tallinna Kaubamaja Issue of Bond	30 068	19.12.2003	4,88%
Total	**30 068**		

Interest on issues of bonds in the amount of 4 043 thousand kroons were paid in 2003 (2002: 3 729 thousand kroons)

Long- term bonds

31 December 2002

	Liability	Due date	Interest rate
Tallinna Kaubamaja Issue of Bond	35 000	20.12.2004	4,58%
Total	**35 000**		

Loans

31 December 2003	Loan balance	Up to 1 year	incl. 1-5 years	Over 5 years	Due date	Next re-fixing of interest rate	Interest rate
TKM Kinnisvara							
Ühispank (EEK)	97 177	12 194	53 668	31 315	28.01.2011	01.01.2004	1,6+Euribor

31 December 2002	Loan balance	Up to 1 year	incl. 1-5 years	Over 5 years	Due date	Next re-fixing of interest rate	Interest rate
Tallinna KM							
Hansapank (EUR)	25 000	25 000	0	0	15.03.2003	-	5,95%
A-Selver							
Hansapank (EUR)	11 014	11 014	0	0	31.12.2003	29.06.2003	2,6%+Euribor
TKM Kinnisvara							
Hansapank (EUR)	78 000	6 843	54 674	16 483	31.03.2010	20.03.2003	2,5%+Euribor
Total	**114 014**	**42 857**	**54 674**	**16 483**			

For loan collaterals see Note 22, and for liability movements see Note 21.

Note 13 Finance lease and operating lease

Finance lease

Company as the lessee

As at 31 December 2003 the group rents under the financial lease assets from Viiburi Kinnisvara AS with the cost of 35 633 thousand kroons (2002: 39 909 thousand kroons).

Finance lease liability:

31 December 2003	Loan balance	Up to 1 year	incl. 1-5 years	Over 5 years	Due date	Interest rate
A-Selver AS	37 505	3 459	16 452	17 594	08.02.2012	7%
Minimum amount of lease payments	37 505					

31 December 2002	Loan balance	Up to 1 year	incl. 1-5 years	Over 5 years	Due date	Interest rate
A-Selver AS	40 732	3 226	18 897	17 594	08.02.2012	7%
Minimum amount of lease payments	40 732					

	2003	2002
Current period payments	3 226	2 029
Current period interest expense	2 749	1 810

The group rents following assets under finance lease terms:

31 December 2003	Buildings	TOTAL
Acquisition cost	42 760	42 760
Accumulated depreciation	7 127	7 127
Depreciation calculated in 2003	4 276	4 276
Net book value	35 633	35 633

31 December 2002	Buildings	TOTAL
Acquisition cost	42 760	42 760
Accumulated depreciation	2 851	2 851
Depreciation calculated in 2002	2 851	2 851
Net book value	39 909	39 909

Operating lease

The minimum amount of rental payments within a continuous period at 31 December 2003:

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

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

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

The rent payments of sublessors within the continuous period is insignificant.
The operating lease payments and subleasing revenues of the income statement:

	2003		2002	
	Group	Parent	Group	Parent
Revenue from subleasing	27 453	25 678	27 733	24 785
Operating lease expenses	57 665	60 012	48 485	58 827

Note 14 Other short-term payables

	31 December 2003		31 December 2002	
	Group	Parent	Group	Parent
VAT	9 143	4 901	6 962	5 420
Personal income tax	3 793	1 381	3 012	1 334
Social tax	6 514	2 226	4 863	2 075
Fringe benefit tax	150	55	293	48
Unemployment insurance	262	93	206	86
Funded pensions	102	59	108	33
Payables to employees	14 535	6 722	10 425	4 735
Interest payable	75	45	70	70
Other accrues expenses	810	0	2 800	2 000
Payables to subsidiaries	0	2 184	0	563
Total	**35 384**	**17 666**	**28 739**	**16 364**

Note 15 Share capital

The share capital as at 31 December 2002 and 31 December 2003 in total 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 2003 the dividends in amount of 6 788 th. kroons have been announced and paid (in 2002 in amount of 67 882 th. kroons).

For restrictions in allocation of retained earnings see note 29.

Note 16 Sales

	2003		2002	
	Group	**Parent**	**Group**	**Parent**
Retail sale	1 749 195	573 444	1 516 075	575 877
Whole sale	7 824	4 936	11 929	7 104
Sales of services and catering	3 749	1 006	4 321	1 616
Total	**1 760 768**	**579 386**	**1 532 325**	**584 597**

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

Note 17 Other operating income

	2003		2002	
	Group	**Parent**	**Group**	**Parent**
Group management service	0	12 110	0	14 995
Income from lease	25 793	22 035	27 733	24 785
Income from sale of fixed assets	184	25	1 556	31
Other revenue	17 792	7 138	12 321	4 705
Income from currency exchange	46	36	79	41
Total	**43 815**	**41 344**	**41 689**	**44 557**

Note 18 Other operating expenses

	2003		2002	
	Group	**Parent**	**Group**	**Parent**
Operating lease charge	55 682	60 012	48 485	58 827
Maintenance expenses	16 835	5 990	16 862	7 119
Advertising expenses	38 696	12 758	31 187	9 501
Bank fees	10 468	3 874	10 417	4 312
Security expenses	11 560	4 469	9 819	4 271
Heat and electricity	21 046	5 807	16 413	4 954
Materials	15 275	3 825	17 378	4 246
Computers and communications	11 467	4 471	9 324	4 919
Travelling expenses	1 955	1 571	2 016	1 378
Training expenses	3 415	1 732	2 466	1 616
Insurance expenses	520	137	500	207
Other operating expenses	6 168	2 615	12 244	7 689
Total	**193 087**	**107 261**	**177 111**	**109 039**

Outside the Group, operating lease payments in the amount of 56 147 th. kroons (2002: 48 484 th. kroons) have been paid this year, of which 24 293 th. kroons (2002.a. 22 836 th. kroons) by the parent company.

Note 19 Personnel expenses

	2003		2002	
	Group	**Parent**	**Group**	**Parent**
Salary expenses	110 658	43 023	97 557	43 160
Social tax	37 391	14 575	32 856	14 545
Total	**148 049**	**57 598**	**130 413**	**57 705**

	2003		2002	
	Group	**Parent**	**Group**	**Parent**
Average monthly salary expenses per employee (kroons)	7 154	8 660	6 691	8 230
Average number of employees in the reporting year	1 289	414	1 215	437

In presenting the personnel expenses provided in the income statement, the company's liability to employees has been considered regarding the earned vacation pay and premiums fixed for 2003, but it is not yet paid.

Note 20 Interest income and expenses

	2003		2002	
	Group	**Parent**	**Group**	**Parent**
Bank loans	-5 046	-484	-7 562	-2 243
Finance lease	-2 749	0	-1 810	0
Bonds	-3 366	-3 366	-3 834	-3 834
Other interests	-97	-97	-192	-192
Other interest income	1 335	2 767	**2 110**	**4 179**
Total	**-9 923**	**-1 180**	**11 288**	**-2 090**

Note 21 Liabilities movements

	2003		2002	
	Group	**Parent**	**Group**	**Parent**
Opening balance	**179 123**	**90 109**	**164 084**	**88 036**
Loans received				
Bank loans	30 000	0	90 023	35 040
Issue on bonds	10 000	10 000	65 068	65 068
Total loans received	**40 000**	**10 000**	**155 091**	**100 108**
Loans paid				
Bank loans	46 878	25 041	69 912	27 895
Bonds matured	40 068	40 068	70 140	70 140
Total loans paid	**86 946**	**65 109**	**140 052**	**98 035**
Final balance	**132 177**	**35 000**	**179 123**	**90 109**

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 of 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 Ühipank with the mortgage amount of 139 500 th. kroons with the annual interest rate of 20% with the additional receivables in amount of 13 950 th. kroons. The book value of mortgaged assets as at 31 December 2003 is 247 471 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 5 700 th. kroons with the annual interest rate of 20% with the additional receivables in amount of 570 th. kroons. The book value of mortgaged assets as as31 December 2003 is 7 572 thousand kroons.

- Tallinna Kaubamaja has quaranteed the liabilities of AS A-Selver in amount of 32 147 th. kroons to Saare Kinnisvara OÜ. Term 31 May 2014.

- Tallinna Kaubamaja has guaranteed 50% of the loan granted by Nordea Bank Finland Plc., Estonian Division to Rävala Parkla in the amount of 37 120 thousand kroons.

Note 23 Off-balance sheet assets and liabilities

As at 31 December 2003 the aggregate sum of the potential resignation benefits arising from the effective employment contracts does not exceed one million kroons.

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

As at 2 October 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. As at 18 December 2003, the 10-year rental agreement between A-Selver AS and Saare Kinnisvara OÜ for the floor space of 2 150 m² in the building to be constructed in Kuressaare, Tallinn 8 was formed. The rental payment for the rental period is 32 147 th.kroons.

Note 24 Transactions with related parties

In 2003, AS Tallinna Kaubamaja has purchased and sold goods and rendered services (rent, accounting services, logistic services, IT services and management services) as follows:

	Purchases	**Sales**
AS A-Selver (1)	6 081	25 465
AS Tartu Kaubamaja (1)	981	11 754
AS Tallinna Kaubamaja Kinnisvara (1)	34 624	2 862
AS Liviko (2)	14 435	7
AS Balbiino (2)	18 151	0
AS Kitman (2)	1 193	0
AS NG Investeeringud (3)	83	105
Total	**75 548**	**40 193**

In 2002 AS Tallinna Kaubamaja has purchased and sold goods and rendered services (rent, accounting services, logistic services, IT services and management services) and paid interests as follows:

	Purchases	**Sales**
AS A-Selver (1)	7 379	28 845
AS Tartu Kaubamaja (1)	1 862	11 783
AS Tallinna Kaubamaja Kinnisvara (1)	34 431	2 783
AS Liviko (2)	8 545	338
AS Balbiino (2)	10 766	510
AS Kitman (2)	1 565	0
AS NG Investeeringud (3)	0	856
Total	**64 548**	**45 115**

Balances with related parties:

	31.12.2003	**31.12.2002**
Current receivables		
AS Tartu Kaubamaja (1)	391	346
A-Selver AS (1)	4 070	37 173
AS Tallinna Kaubamaja Kinnisvara (1)	76	22 827
AS Liviko (2)	0	96
AS Balbiino (2)	0	355
AS NG Investeeringud (3)	3	31
Total current receivables	**4 540**	**60 828**
Non- current receivable Rävala Parkla	**12 028**	**12 028**
Current liabilities		
AS Tartu Kaubamaja (1)	161	222
A-Selver AS (1)	2 022	341
AS Liviko (2)	330	1 872
AS Balbiino (2)	204	717
AS Kitman (2)	2	524
Total current liabilities	**2 719**	**3 676**

(1) Subsidiary
(2) Related through joint owner
(3) Parent company

Group transaction with related parties in 2003:

Tartu Kaubamaja AS, AS A-Selver and Tallinna Kaubamaja Kinnisvara AS are 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 2003 Tallinna Kaubamaja Group's interest income from the placement of available cash resources was 183 thousand kroons (in 2002 856 thousand kroons). As at 31 December 2003 and 31 December 2002, Tallinna Kaubamaja Group had no receivables or payables to the main group on 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 estimates the prices used in related party transactions do not materially differ from the market prices.

Note 25 Interest of Members of Supervisory Board

Andres Järving	Represents 796 902 shares of Tallinna Kaubamaja AS (AS NG Investeeringud owns 4 534 356 shares)
Jüri Käo	Represents 792 365 shares of Tallinna Kaubamaja AS (AS NG Investeeringud owns 4 534 356 shares)
Indrek Vanaselja	Represents 780 258 shares of Tallinna Kaubamaja AS (AS NG Investeeringud owns 4 534 356 shares)
Enn Kunila	Represents 779 693 shares of Tallinna Kaubamaja AS (AS NG Investeeringud owns 4 534 356 shares)

Note 26 Shareholders owning more than 5% of the shares of Tallinna Kaubamaja AS as at 31 December 2003

Shareholder	**Number of shares**	**Ownership %**
AS NG Investeeringud	4 534 356	66,80
Nordea Bank Finland PLC Clients Accounts Trading	706 514	10,41

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):

	2003	**2002**
Net profit	66 075	45 012
Average weighted number of shares of the year	6 788 200	6 788 200
Net earnings per share (in kroons)	9,73	6,63

Note 28 Credit, interest and currency risk management

Due to the nature of the Group's 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 2002 nor in 2003, since based on the judgement of the management, the hedging costs have exceeded the potential losses.

Note 29 Restrictions in allocation of retained earnings

As at 31 December 2003 the unrestricted owners' equity was 208 163 thousand kroons (31.12.2002: 144 402 thousand kroons). In case all of the shareholders belonged to the category of income taxed investors, the maximum dividends payable are 154 041 thousand kroons (31 December 2002: 106 858 thousand kroons).

Note 30 Fair value

The management of Tallinna Kaubamaja estimates the book value of the company's assets and liabilities do not materially differ from their market value.

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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 2003 as set out on pages 6 to 26. These financial statements are the responsibility of the Parent Company's management board. 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 2003 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

Kersti Liibert
Authorised auditor

27 February 2004

PROFIT ALLOCATION REPORT

The retained earnings of AS Tallinna Kaubamaja:

Retained earnings as at 31 December 2002	142 088 thousand kroons
Net profit 2003	66 075 thousand kroons
Total retained earnings	208 163 thousand kroons

The management board of AS Tallinna Kaubamaja proposes to the general shareholders meeting not to allocate the net profit and include it to retained earnings.

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Chairman of the management board

Signatures of the Management Board and Supervisory Board to the 2003 Annual Report

Annual Report 2003 of AS Tallinna Kaubamaja, approved by the General Meeting of Shareholders on __ April 2004, signed on________________________________

	Andres Järving
____________________________	____________________________
Member of the Management Board	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