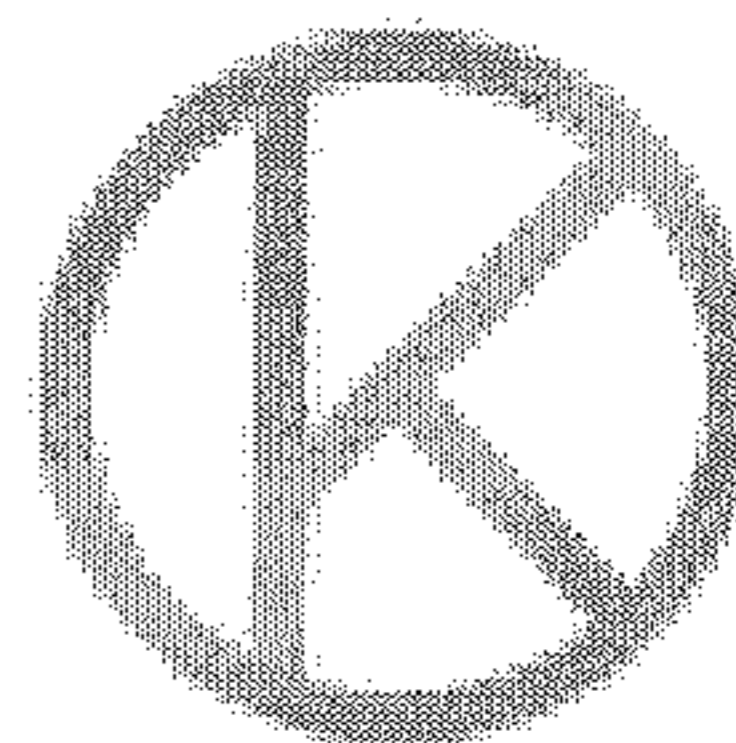


TALLINNA KAUBAMAJA AS

Consolidated Annual Report 2005



Translation of the Estonian original

The companies of the Tallinna Kaubamaja group are mostly engaged in the retail and wholesale trade. At the end of 2005, the Tallinna Kaubamaja group employed over 1 900 employees.

<i>Legal address:</i>	<i>Gonsiori 2 10143 Tallinn Republic of Estonia</i>
<i>Commercial Registry No.</i>	<i>10223439</i>
<i>Telephone:</i>	<i>+372 6673 200</i>
<i>Fax:</i>	<i>+372 6673 205</i>
<i>E-mail:</i>	<i>kaubamaja@kaubamaja.ee</i>
<i>Beginning of financial year:</i>	<i>01.01.2005</i>
<i>End of financial year:</i>	<i>31.12.2005</i>
<i>Auditor:</i>	<i>AS PricewaterhouseCoopers</i>
<i>Bank:</i>	<i>AS Hansapank AS SEB Eesti Ühispank</i>
<i>Law office:</i>	<i>Teder & Partnerid AS</i>
<i>Lawyer:</i>	<i>Helda Truusa</i>
<i>Subsidiaries and associated companies:</i>	
<i>A-Selver AS</i>	<i>Share capital: EEK 22.0 million Ownerships: 100%</i>
<i>AS Tartu Kaubamaja</i>	<i>Share capital: EEK 8.3 million Ownerships: 100%</i>
<i>Tartu Kaubamaja Kinnisvara OÜ</i>	<i>Share capital: EEK 40 thousand Ownerships: 100%</i>
<i>Tallinna Kaubamaja Kinnisvara AS</i>	<i>Share capital: EEK 0.4 million Ownerships: 100%</i>
<i>Rävala Parkla AS</i>	<i>Share capital: EEK 10.0 million Ownerships: 50%</i>

All subsidiaries and associated companies are registered in the Republic of Estonia.

The Annual Report consists of the Management Report, the Financial Statements, the Auditor's Report and the Proposal for the Distribution of Profit.

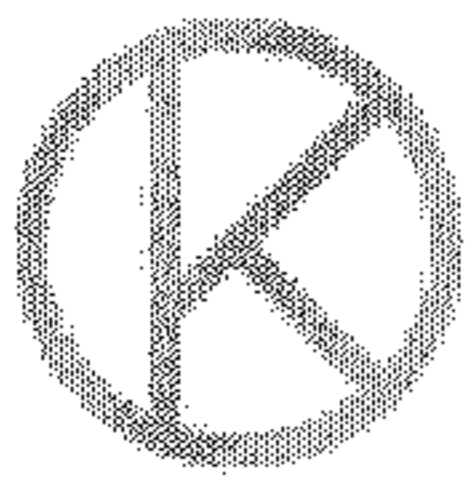
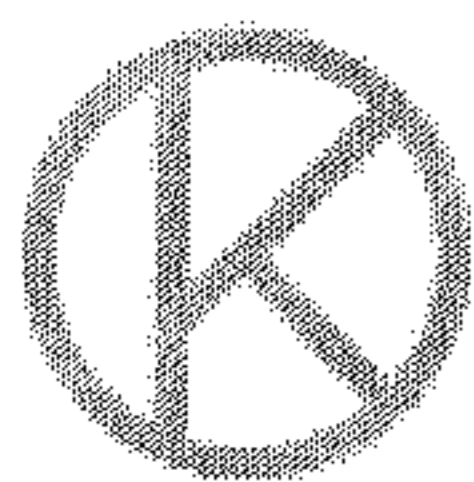


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MANAGEMENT REPORT

The main activity of the companies in the Tallinna Kaubamaja Group is retail and wholesale trade.

As at 31 December 2005, the Group consisted of the following companies:

	Participation 31.12.2005	Participation 31.12.2004
A-Selver AS	100%	100%
AS Tartu Kaubamaja	100%	100%
Tartu Kaubamaja Kinnisvara OÜ	100%	100%
Tallinna Kaubamaja Kinnisvara OÜ	100%	100%
Rävala Parkla AS	50%	50%

All subsidiaries and associates of the Group have been registered in the Republic of Estonia.

Economic development and its impact

In 2005, the Estonian economy as a whole grew by 10.8%. According to the preliminary data of the Estonian Statistical Office, retail sales (excluding motor vehicles and fuel) increased by 14.3% in 2005 as compared to 2004, whereas the respective figure was 18.6% for non-specialty stores (mostly groceries). According to the preliminary data of the Estonian Statistical Office, the share of non-specialty stores was approximately 43% of total retail sales. The growth of the retail market has been propelled by higher purchasing power of consumers, low interest rates, decrease of unemployment which in turn create a more favorable environment and good development conditions for retail chains.

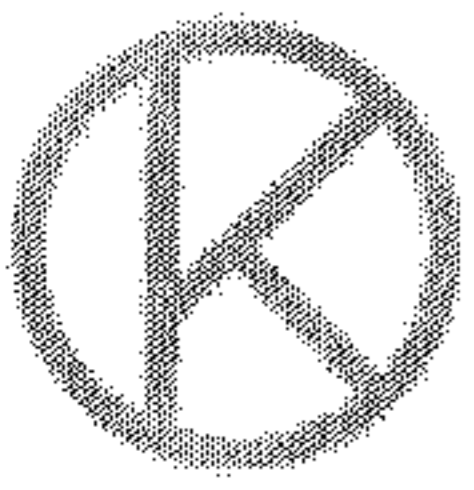
In 2005, the retail market was characterized by the concentration and expansion of retail chains into different regions of Estonia. At the beginning of 2005, ICA Baltic and Kesko Food set up a joint entity Rimi Baltic AB for operating in the grocery market of the Baltic countries, as a result of which the brand Citymarket was replaced by the brand Rimi Hüpermarket. In addition to Rimi's hypermarkets and supermarkets, the other entities belonging to the Group are the value store chain of Säästumarket, a small wholesale warehouse SuperNetto and a logistics centre. In April, Selver acquired the long-term operating rights to the retail chain of Tirsi. In 2005, competition among value store chains intensified and T-Market of the Lithuanian trade group Vilniaus Prekyba aggressively grabbed the market share. Vilniaus Prekyba increased its market share by almost four times as compared to the previous year and became the fifth largest retail chain in terms of net sales in the Estonian market.

In 2005, the activities of the companies in the Tallinna Kaubamaja Group were characterized by expansion in the region of South Estonia. Six of nine supermarkets of Selver were opened in the region of South Estonia, four in Tartu, one in Võru and one in Valga. Expansion in the sector of department stores has taken place as well. Tartu Kaubamaja has expanded to new spaces. As a result, the sales space has increased by more than threefold

The most significant change in the legislative environment affecting the operations of the Tallinna Kaubamaja Group was the Package Excise Act entered into force at 07.01.2005 and amended at 10.07.05. The Act established additional economic instruments in terms of the obligation to accept back packages and deposits.

Key events of the companies in the Tallinna Kaubamaja Group in 2005

- At the beginning of 2005, A-Selver AS announced its intention to double its existing sales space by the end of 2007;
- due to the death of a member of the Supervisory Board Indrek Vanaselja, the Supervisory Board of Tallinna Kaubamaja AS continued from 8 January 2005 with five members;
- At 10 February 2005, A-Selver AS announced its intention to acquire the operating rights to supermarkets in Tartu belonging to Tirsi Grupp OÜ. The transaction took place in April, on the basis of which A-Selver AS obtained the operating rights to supermarkets and the related assets and liabilities.
- At 3 March 2005, Vilja Selver was opened in Võru;
- At 26 May 2005, Anne Selver was opened in Tartu;
- At 2 June 2005, Ringtee Selver was opened in Tartu;



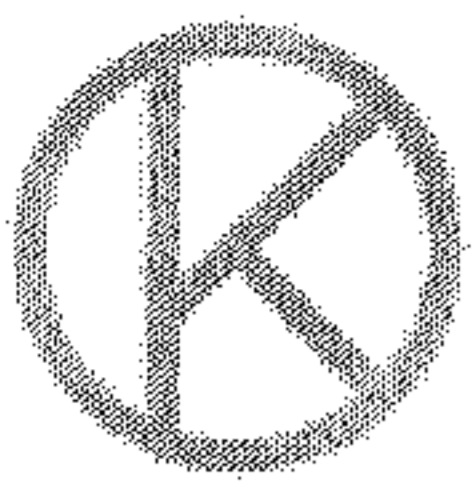
- In June, Tartu Kaubamaja Kinnisvara OÜ announced that it had found tenants for its total sales space located in the soon-to-be-opened Tartu Kaubamaja. The new Tartu Kaubamaja was opened at 12 October 2005;
- At 18 September 2005, Suurejõe Selver was opened in Pärnu;
- At 15 September 2005, Valga Selver was opened in Valga;
- At 29 September 2005, Sõle Selver was opened in Tallinn;
- At 13 October 2005, Mustakivi Selver was opened in Tallinn;
- In November, Tallinna Kaubamaja AS announced its intention to close the fashion store at Rocca al Mare shopping centre in order to develop sales spaces in the centers of Tallinn and Tartu;
- At 8 December 2005, Sõbra Selver was opened in Tartu;
- At 15 December 2005, Veeriku Selver was opened in Tartu;
- A-Selver AS announced its intention to open Selver in Jõhvi in spring of 2006 and another one in Pärnu in spring of 2007.

Results of operations

The net sales of the Tallinna Kaubamaja Group increased by 42 per cent in 2005 as compared to 2004, to almost 2.9 billion kroons which is 856 million kroons more than the year before.

Net profit was approximately 7 million kroons smaller than in 2004. However, in 2004, 41 million kroons of the 99 million net profit was extraordinary profit from the sale of registered immovables. Thus, in 2005, without considering extraordinary profit in 2004, net profit growth achieved from ordinary activities was 58% as compared to 2004.

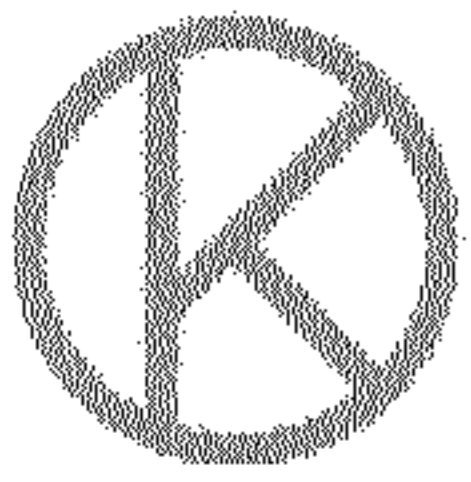
FINANCIAL DATA 2001-2005					
Group's consolidated financial statements	2005	2004	2003	2002	2001
INCOME STATEMENT (EEK million)					
Net sales	2 878	2 022	1 761	1 532	1 450
Operating profit	97	105	75	55	48
Net profit	92	99	66	45	36
BALANCE SHEET (EEK million)					
Inventories	290	224	176	171	173
Total current assets	363	340	264	219	258
Total non-current assets	1 337	694	545	557	441
Total assets	1 700	1 035	809	776	699
Current liabilities	499	286	254	257	267
Non-current liabilities	211	102	119	144	33
Total liabilities	710	388	373	400	300
Equity	989	647	435	376	399
Equity ratio (%)	58%	63%	54%	48%	57%
RATES OF GROWTH (%)					
Net sales growth	42%	15%	15%	6%	22%
Operating profit growth	-7%	41%	35%	16%	-35%
Net profit growth	-7%	49%	47%	26%	-41%
Asset growth	64%	28%	4%	11%	2%
Equity growth	53%	49%	16%	-6%	3%



PROFITABILITY RATIOS (%)					
Return on equity (ROE)	11%	18%	16%	12%	9%
Return of assets (ROA)	7%	11%	8%	6%	5%
Net profit margin	3%	5%	4%	3%	2%
LIQUIDITY RATIOS					
Quick ratio	0,73	1,19	1,04	0,85	0,97
Debt ratio	0,42	0,37	0,46	0,52	0,43
Net sales per sales space (EEK thousand)	56,4	51,4	53,8	55,5	54,8
Net sales per employee (EEK million)	1,5	1,4	1,4	1,3	1,1
Sales space per employee (m2)	26,8	27,2	25,4	22,7	19,6
Inventory turnover	9,62	8,36	10,01	8,96	8,37
Shares					
Number of shares (1000 pieces)	6 788	6 788	6 788	6 788	6 788
Earnings per share (EEK/share)	145,8	95,3	64,1	55,4	58,8
Closing price of share (EEK/share)	348,1	116,9	73,1	53,8	59,8
Net profit per share (EEK/share)	13,5	14,5	9,7	6,6	5,3
P/E ratio	25,7	8,0	7,5	8,1	11,3
Investments (EEK million)	1 903	1 445	1 289	1 215	1 346
Average number of employees	51 008	39 327	32 715	27 629	26 449
Average sales space (m2)	30%	20%	18%	4%	32%
Growth of sales space (%)	6 788	6 788	6 788	6 788	6 788
Share of equity	= Equity / Balance sheet total * 100%				
Return on equity (ROE)	= Net profit / Average equity * 100%				
Return on assets (ROA)	= Net profit / Average volume of assets* 100%				
Net sales per sales space	= Net sales / Average sales space				
Net sales per employee	= Net sales / Average number of employees				
Sales space per employee	= Average sales space / Average number of employees				
Inventory turnover (ratio)	= Net sales / inventories				
Net profit margin	= Net profit / Net sales * 100%				
P/E ratio	= Closing price of share / earnings per share				
Quick ratio	= Current assets / Current liabilities				
Debt coefficient	= Total liabilities / Balance sheet total				

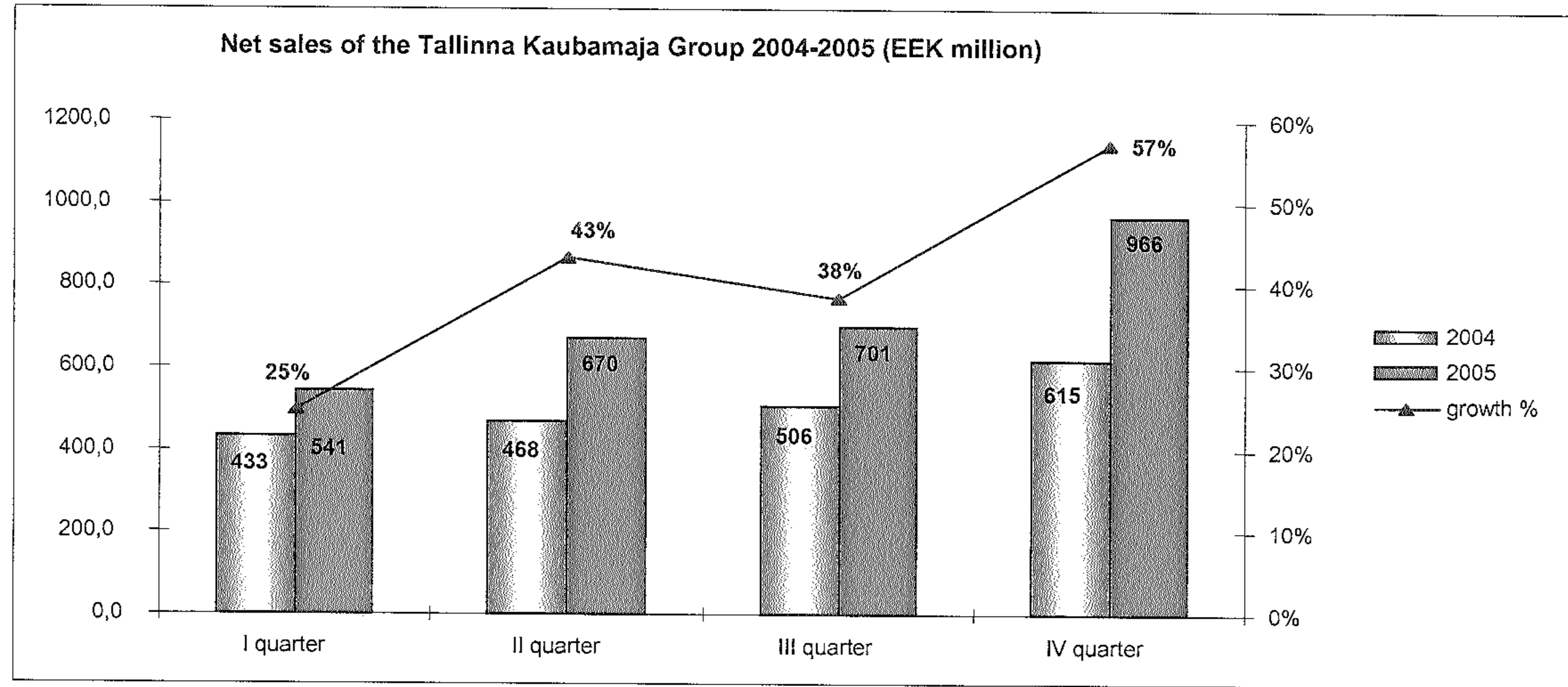
As at 31 December 2005, the balance sheet total of the Tallinna Kaubamaja Group was 1 699.6 million kroons, increasing by 665 million kroons or 63% in a year. Asset growth was 64% and equity growth 53%.

The number of loyal customers with Partner cards increased to 189 000 people by the end of 2005, growing by 35% as compared to the year before.



Seasonality of business activities

The results of operations of the Tallinna Kaubamaja Group differ from season to season. 42-45% of annual net sales are generated in the first half of the year and the rest in the second half of the year. The fourth quarter is the most effective among the Group companies, 30% and more of annual net sales are generated in the last quarter.

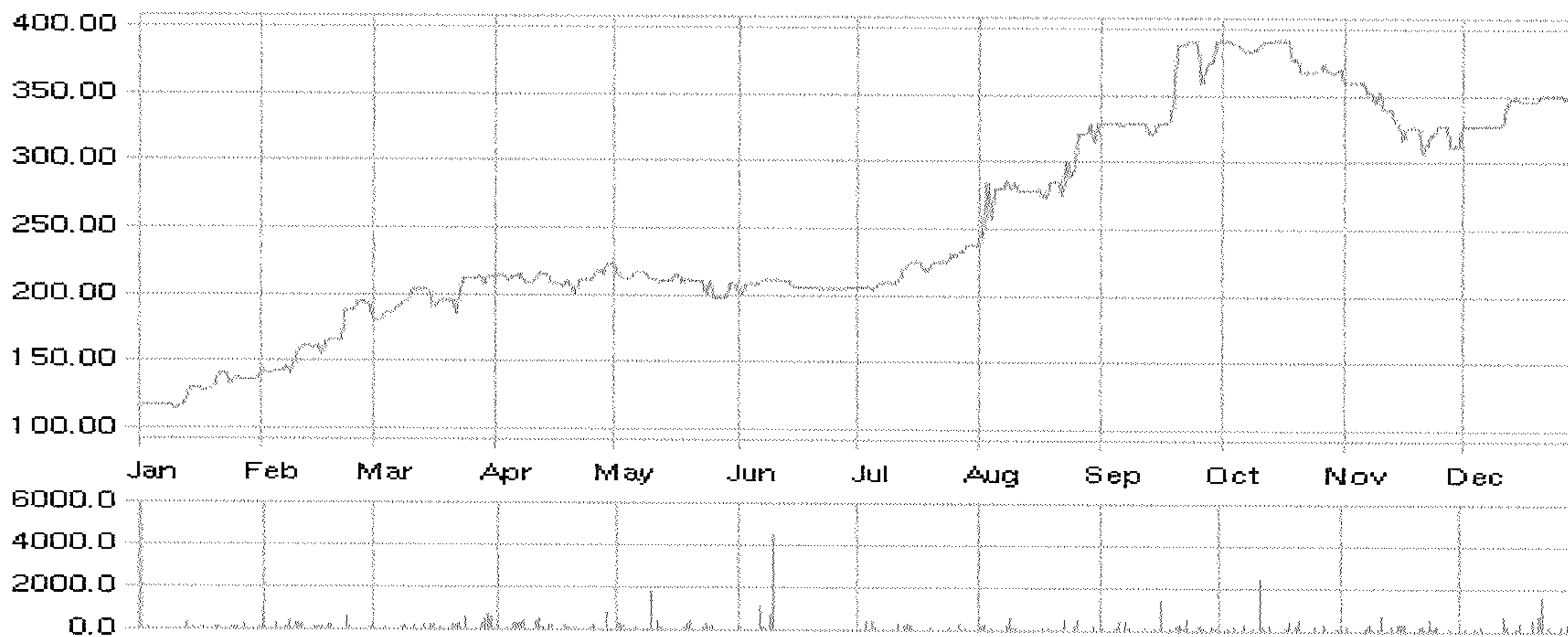


Securities market

The shares of Tallinna Kaubamaja AS have been listed in the main list of Tallinn Stock Exchange since 19 August 1997. A total of 6788.2 thousand shares have been issued with the nominal value of 10 kroons each.

In 2005, the share price increased significantly, growing by 198%. The closing price per share in 2004 was 116.9 kroons and 348.1 kroons in 2005.

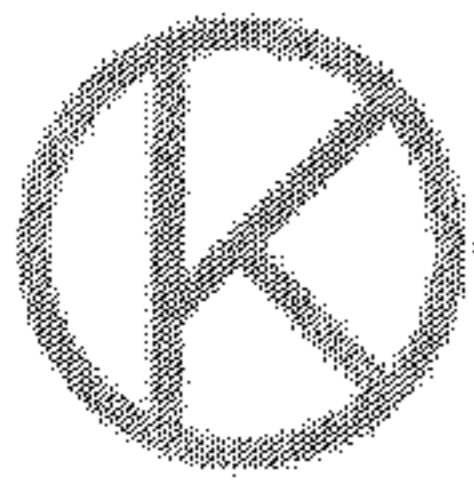
Share price in Estonian kroons and trading statistics in Tallinn Stock Exchange in 2005.



Tallinna Kaubamaja AS and Tartu Kaubamaja AS

The keywords for the department stores in 2005 were increase of efficiency of Tallinna Kaubamaja, which has expanded in Viru Centre in 2004, and opening the new Tartu Kaubamaja. As a result, the sales space of Tartu Kaubamaja increased by more than threefold and new brands such as Tom Tailor, S.Oliver, Blend of America, Trek & Travel, Tintoretto, Gelco, Your Face were introduced in the market of South Estonia.

To increase efficiency and achieve cost savings, intra-group reorganizations took place: Tallinna Kaubamaja AS started to operate the department store opened in Tartu in October. At 25 August 2005, Tallinna Kaubamaja AS



entered into a long-term lease agreement with Tartu Kaubamaja Kinnisvara OÜ for operating the department store.

Tallinna Kaubamaja AS acquired the inventories and assets of its wholly-owned subsidiary Tartu Kaubamaja AS between 23 September and 20 December 2005. Before the transaction the assets and inventories were revalued to the market price.

With regard to customer service, the Company continued with its activities already started in 2005. Keywords in customer service are proactive servicing, cheerfulness, helpfulness and reliability. The number of employees increased in conjunction with the opening of the new Tartu Kaubamaja.

With regard to the loyal customer programme, the activities are continuously targeted at keeping existing customers and better meeting their needs. Continuous increase in the number of loyal customers is related mainly to opening of new Selver stores. Activities and offers directed at smaller target groups have also increased. The loyal customer magazine Hooaeg (*Season*) with its circulation of 75 000 copies has increased in popularity. Hooaeg has become an advertising channel to be reckoned with in the Estonian advertising market.

In order to handle and store the goods more efficiently, business partners LP-Logistika and Smarten have been engaged in the project. The cooperation project has been successfully launched and in 2005, the goods of Tartu Kaubamaja were handled and stored with the help of these business partners.

With the intention of laying the main emphasis on the development of sales spaces in the centers of Tallinn and Tartu, the fashion store of Kaubamaja was closed at the end of the year at Rocca al Mare shopping centre.

A-Selver AS

In 2005, the Company's main emphasis was on increasing its market share. The main target was an aggressive expansion in the region of South Estonia. In April, the long-term rental agreement has concluded, which included obtaining the right to operate three supermarkets of OÜ Tirsi Grupp, operating in the retail market in Tartu, and the related assets and rights of the Company. The Company continued to operate under the brand of Tirsi until the summer of 2005, when a transfer to the concept and brand of Selver took place.

A total of 13 540 m² of sales space was added.

In 2005, a concept for purchasing grocery products from abroad was developed on the basis of which direct supplies from foreign suppliers specifically purchased for the chain of Selver will take place. The objective of the concept was to differentiate itself from its competitors, offer a wider range of goods and the assortment of Private Label products to its customers. The product development of goods under the brand of Selver Köök will continue actively.

Tallinna Kaubamaja Kinnisvara AS

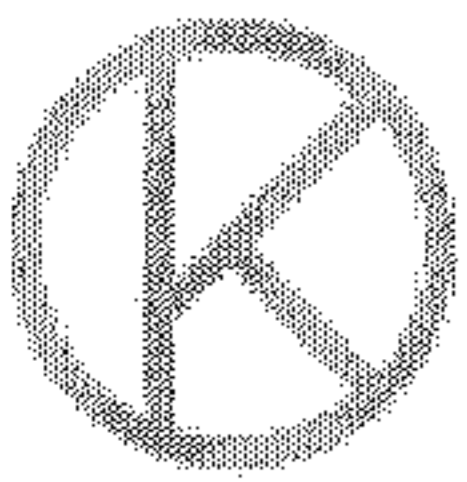
In 2005, Tallinna Kaubamaja Kinnisvara AS made investments in the total amount of 92.5 million kroons. Immovable properties were acquired in Keila, Pärnu and the front of the building located at Gonsiori 2 in Tallinn and the building of Punane Selver were renovated. Also, the construction work of the building of Sõle Selver was launched.

In 2005, the construction of the new department store continued in Tartu. The subsidiary Tartu Kaubamaja Kinnisvara OÜ was engaged in the development of the project, the opening of the new building and the leasing of office space.

Tartu Kaubamaja Kinnisvara OÜ

In 2005, the main activity of Tartu Kaubamaja Kinnisvara OÜ was the opening, administration, maintenance and leasing of sales spaces of the shopping centre of Tartu Kaubamaja located at Riia mnt. 1, Tartu.

Tartu Kaubamaja was opened to customers at 12.10.2005. The building has 32 123 m² of useful space of which 15 281 m² is sales space. One half of the space is under 2 parking stores with the area of 7326 m² and 227 parking lots. There are 62 tenants in the building; the anchor tenant is Tallinna Kaubamaja AS. The most well-known and largest tenants operating on the leased spaces also include Vero Moda, Terranova, House, Sportland, Mediapoint, Apollo Raamatud, Home 4 You, Monton, PTA, Suurtüki Kingaäri, Chicco, The Body Shop, etc. Approximately 14 000 people visit Tartu Kaubamaja daily.



Staff

In 2005, the average number of employees at the Tallinna Kaubamaja Group was 1 903 people, increasing by 32% in a year (average number of employees at the end of IV quarter was 2 316 people, increasing by 53% as compared to IV quarter of previous year). In 2004, the average number of employees was 1 445 (average number of employees at the end of IV quarter was 1 509 people). Total staff costs (wages and salaries with social security costs) were 253.2 million kroons, increasing by 42% as compared to the year before.

The remuneration and bonuses with social security costs of the members of the Management and Supervisory Boards of Tallinna Kaubamaja AS totaled 6 260 thousand kroons in 2005.

Investments

Assets acquired during the year were revalued in the non-current asset group "Land and buildings" of Tallinna Kaubamaja. An opinion of an independent real estate expert was used as the basis. An estimate of the fair value of non-current assets was given using the discounted cash flow method or the method of comparative market transactions. The discount rates applied were in the range of 10-10.2%, and the estimated revenue growth rate of 0.7-1.5%.

In 2005, Tartu Kaubamaja and Sõle Selver were opened, existing department stores were renovated, computer equipment, department store fittings and equipment were acquired:

Opening of Tartu Kaubamaja and Sõle Selver	270.7 million kroons;
Renovation of department stores	18.1 million kroons;
Computer equipment and fittings and acquisition of equipment related to the expansion of Tallinna Kaubamaja	38.9 million kroons;
Computer equipment and fittings and acquisition of equipment related to the expansion of A-Selver AS	94.1 million kroons.

Plans for future

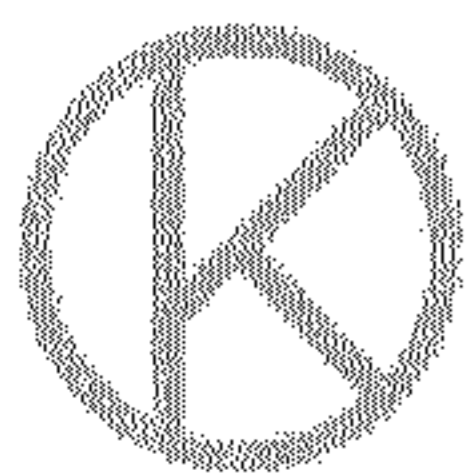
The year 2006 will be a year of stable development and growth in retail trade. Due to changes in the market in previous years, almost 80% of the market is divided between major retail chains. In 2006, a newcomer in the market is Vilniaus Prekyba with its Maxima retail chain which is similar to the concept of Selver with its concept and choice of products.

The keywords for Selver in 2006 are continuing growth of market share and differentiation from competitors. In May 2006, a new store will be opened in Narva mnt 4a, Jõhvi. The planned size of the sales space is 1 379 m² and the volume of investments is planned at 9.8 million kroons.

The objective of the Selver chain is to open approximately ten new stores over the next two years (2006 – 2007).

The objective of Tallinna and Tartu Kaubamaja in 2006 is to develop existing sales environments and make the business operations more effective.

With regard to real estate, the development of registered immovables acquired in previous periods will continue in 2006. Also, cooperation with Selver will continue in respect of finding appropriate locations for new real estate development projects and the preparation of existing projects for construction.



CONSOLIDATED FINANCIAL STATEMENTS

Management Board's confirmation to the consolidated financial statements

The Management Board confirms the correctness and completeness of Tallinna Kaubamaja AS's consolidated financial statements as presented on pages 9-37.

The Management Board confirms that:

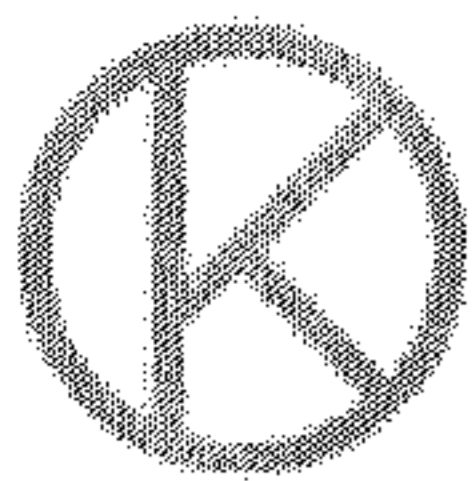
1. the accounting principles used in preparing the financial statements are in compliance with International Financial Reporting Standards;
2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the parent and the group;
3. Tallinna Kaubamaja AS and its subsidiaries are going concern.

Raul Puusepp

Chairman of the Management Board

Tallinn, 31 March 2006

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Initsiaalid/initials <u>A.S.</u>
Kuupäev/date <u>04.04.06.</u>
PricewaterhouseCoopers, Tallinn



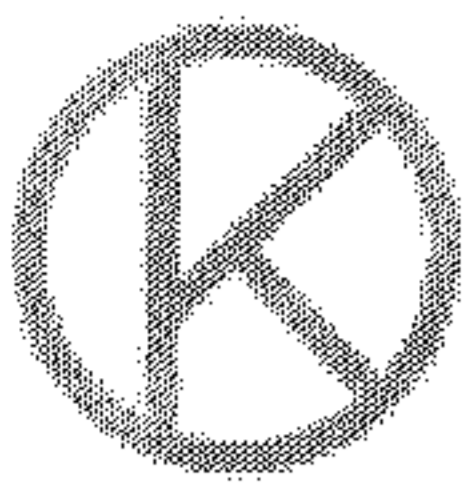
CONSOLIDATED BALANCE SHEET

	Note	31 December 2005		31 December 2004	
		EEK	EUR*	EEK	EUR*
ASSETS					
Current assets					
Cash and bank	2	18 290	1 169	77 967	4 983
Trade receivables	3	28 565	1 826	14 222	909
Other receivables	4	18 072	1 155	6 148	393
Accrued interest income		0	0	80	5
Prepaid expenses	5	7 520	481	17 439	1 114
Inventories	6	290 390	18 559	224 366	14 340
Total current assets		362 837	23 190	340 222	21 744
Non-current assets					
Prepaid expenses	5	47 331	3 025	0	0
Shares in associates	8	9 032	577	6 769	433
Other long-term receivables	9	9 828	628	12 328	788
Property, plant and equipment	10	1 270 549	81 203	675 242	43 156
Total non-current assets		1 336 740	85 433	694 339	44 377
TOTAL ASSETS		1 699 577	108 623	1 034 561	66 121
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Borrowings	11	83 571	5 341	31 457	2 010
Customer prepayments for goods and service		7 592	485	5 529	353
Trade payables		338 012	21 603	191 343	12 229
Other short-term payables	13	70 262	4 491	57 175	3 654
Total current liabilities		499 437	31 920	285 504	18 247
Non-current liabilities					
Borrowings	11	210 651	13 463	102 416	6 546
Total non-current liabilities		210 651	13 463	102 416	6 546
TOTAL LIABILITIES		710 088	45 383	387 920	24 793
SHAREHOLDERS' EQUITY					
Share capital	14	67 882	4 338	67 882	4 338
Statutory legal reserve		7 269	465	7 269	465
Revaluation reserve		504 307	32 231	260 506	16 649
Retained earnings		318 255	20 340	212 251	13 565
Net profit for financial year		91 776	5 866	98 733	6 311
TOTAL SHAREHOLDERS' EQUITY		989 489	63 240	646 641	41 328
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1 699 577	108 623	1 034 561	66 121

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)

The notes on pages 14 to 37 are an integral part of these consolidated financial statements

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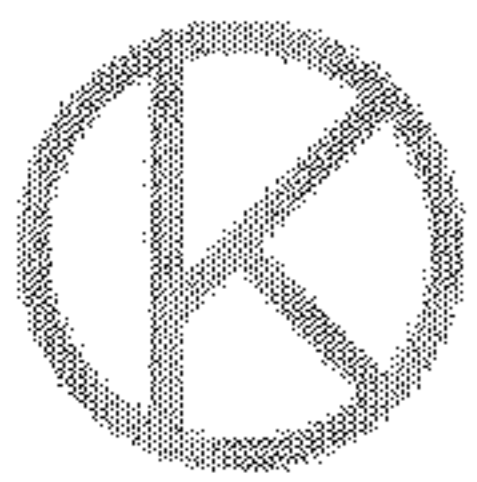
CONSOLIDATED INCOME STATEMENT

	Note	2005		2004	
		EEK	EUR*	EEK	EUR*
Revenue					
Sales	15	2 877 784	183 924	2 021 830	129 218
Other income	16	58 391	3 732	89 041	5 691
Cost of goods sold		-2 165 612	-138 408	-1 524 271	-97 419
Operating expenses	17	-339 285	-21 685	-240 683	-15 382
Personnel expenses	18	-253 207	-16 183	-177 800	-11 364
Depreciation	10	-70 087	-4 479	-58 898	-3 764
Amortization of goodwill		0	0	938	60
Miscellaneous expenses		-10 485	-670	-5 107	-326
Operating profit		97 499	6 231	105 050	6 714
Finance cost	19	-8 731	-588	-8 861	-566
Financial income		745	78	1 202	77
Share of profit of associates	8	2 263	145	1 342	86
Total financial income and expenses		-5 723	-365	-6 317	-403
NET PROFIT FOR FINANCIAL YEAR		91 776	5 866	98 733	6 311
Basic earnings per share (EEK/EUR)	20	13,52	0,86	14,54	0,93
Diluted earnings per share (EEK/EUR)	20	13,52	0,86	14,54	0,93

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)

The notes on pages 14 to 37 are an integral part of these consolidated financial statements

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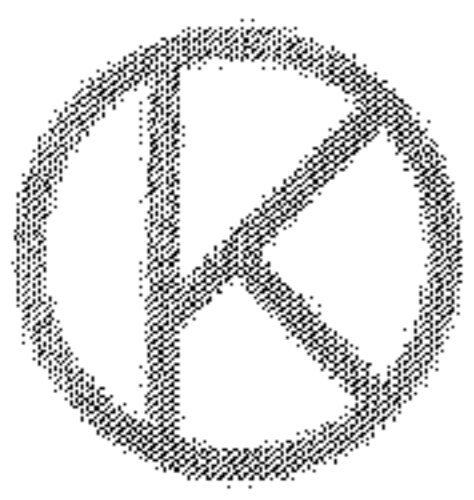
CONSOLIDATED CASH FLOW STATEMENT

	Note	2005		2004	
		EEK	EUR*	EEK	EUR*
CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit		91 776	5 866	98 733	6 311
Adjustments for:					
Interest expense	19	8 731	558	8 861	566
Interest income	19	-963	-62	-1 475	-94
Depreciation	10	70 087	4 479	57 960	3 704
Profit (loss) from disposals of non-current assets		211	14	-40 469	-2 586
Share of profit of associates	8	-2 263	-145	-1 342	-86
Change in inventories		-66 024	-4 220	-48 395	-3 093
Change in receivables and prepayments related to operating activities		-61 679	-3 942	-23 095	-1 476
Change in liabilities and prepayments related to operating activities		161 696	10 334	50 327	3 215
NET CASH GENERATED FROM OPERATING ACTIVITIES		201 572	12 882	101 105	6 461
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property, plant and equipment	10	-417 283	-26 669	-179 908	-11 498
Proceeds from sales of property, plant and equipment		2 750	176	127 047	8 120
Loans granted to associates	24	0	0	-300	-19
Loan repayments received from associates	24	500	32	0	0
Interest received		1 043	67	1 427	91
NET CASH USED IN INVESTING ACTIVITIES		-412 990	-26 394	-51 734	-3 306
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from loans		140 001	8 948	14 717	941
Proceeds from issuance of bonds		33 862	2 164	0	0
Redemption of bonds		-15 000	-959	0	0
Repayments of loans received		-13 016	-832	-47 067	-3 008
Change in overdraft balance		17 264	1 104	0	0
Finance lease payments		-3 709	-237	-3 459	-221
Interest paid		-7 661	-490	-8 906	-569
NET CASH USED IN FINANCING ACTIVITIES		151 741	9 698	-44 715	-2 857
NET CASH FLOWS		-59 677	-3 814	4 656	298
Cash and cash equivalents at the beginning of the year	2	77 967	4 983	73 311	4 685
Cash and cash equivalents at the end of the year	2	18 290	1 169	77 967	4 983
Change in cash and cash equivalents		-59 677	-3 814	4 656	298

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)

The notes on pages 14 to 37 are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Revaluation reserve	Statutory legal reserve	Retained earnings	Total
Balance as of 31.12.2003	67 882	152 016	7 269	208 164	435 331
Revaluation, land and buildings	0	112 577	0	0	112 577
Depreciation transfer, land and buildings	0	-4 087	0	4 087	0
Net profit for financial year	0	0	0	98 733	98 733
Balance as of 31.12.2004	67 882	260 506	7 269	310 984	646 641
Revaluation, land and buildings	0	251 072	0	0	251 072
Depreciation transfer, land and buildings	0	-7 271	0	7 271	0
Net profit for financial year	0	0	0	91 776	91 776
Balance as of 31.12.2005	67 882	504 307	7 269	410 031	989 489

*In thousands of EUR**

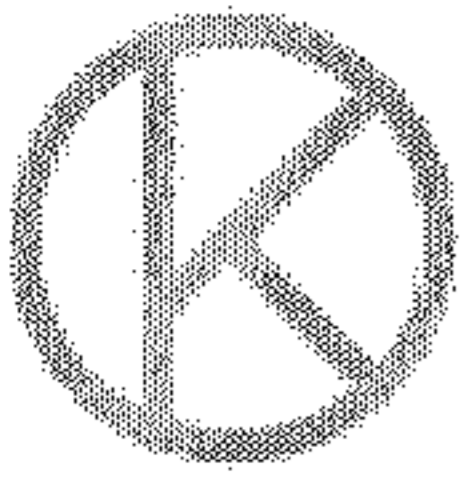
	Share capital	Revaluation reserve	Statutory legal reserve	Retained earnings	Total
Balance as of 31.12.2003	4 338	9 716	465	13 304	27 823
Revaluation, land and buildings	0	7 194	0	0	7 194
Depreciation transfer, land and buildings	0	-261	0	261	0
Net profit for financial year	0	0	0	6 311	6 311
Balance as of 31.12.2004	4 338	16 649	465	19 876	41 328
Revaluation, land and buildings	0	16 046	0	0	16 046
Depreciation transfer, land and buildings	0	-464	0	464	0
Net profit for financial year	0	0	0	5 866	5 866
Balance as of 31.12.2005	4 338	32 231	465	26 206	63 240

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)

Additional information about share capital is presented in Note 14.

The notes on pages 14 to 37 are an integral part of these consolidated financial statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of significant accounting policies

General information

Tallinna Kaubamaja AS ('the Company') and its subsidiaries (together 'the Group') are active in retail distribution of goods through its chain of retail stores in Estonia. Tallinna Kaubamaja AS in its current form has been registered on 18 October 1994 and the shares of Tallinna Kaubamaja AS are listed on Tallinn Stock Exchange.

The consolidated financial statements were authorized for issue by the Management Board on 31 March 2006.

Basis of preparation

The consolidated financial statements of AS Tallinna Kaubamaja have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following recommendations from the Accounting Regulatory Committee, the Commission adopted the Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, minus certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005. Since the Company is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both IFRS as adopted by the European Union and IFRS issued by the IASB.

The consolidated financial statements have been prepared under the historical cost convention, except for the modification in respect of revaluation of land and buildings as explained in the respective accounting policy.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates. The effect of changes in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are as follows:

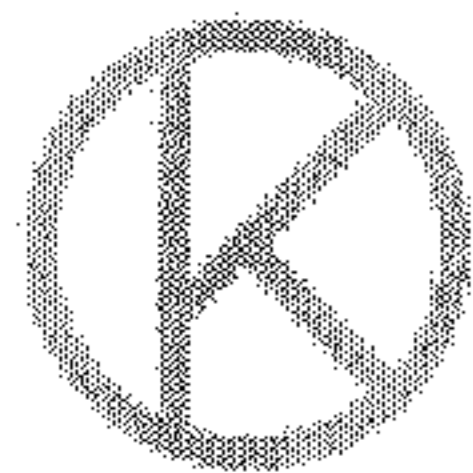
- *Estimates of useful lives of property, plant and equipment:* the Group has several newly built stores, where the useful life of items of property, plant and equipment is estimated based on the technical projects' data. However, economic useful life may differ from the originally estimated one.
- *The need for recurring revaluation of land and buildings:* land and buildings were revalued at the end of 2004 and the Group's management estimates that fair values of similar assets have not changed significantly during 2005.
- *Classification of leases at the inception of the lease:* the Group has entered into lease agreements for some locations, where classification between finance and operating lease depends on the estimation of fair value of the asset leased by the Group. The fair values have been estimated in such cases by the external valuer.

Changes in accounting policies in 2005

New IFRS standards and several changes in existing standards were implemented since 1 January 2005. The adoption of these changes became obligatory for the Group from the financial year started on 1 January 2005.

In 2005 the Group adopted all new and revised standards that are effective from or before 1 January 2005. The amended standards, which are applied from 1 January 2005, are the following:

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IAS 1 (revised 2003) Presentation of Financial Statements
IAS 2 (revised 2003) Inventories
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events After Balance Sheet Date
IAS 16 (revised 2003) Property, Plant and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003) Related Party Disclosures
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 28 (revised 2003) Investments in Associates
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003) Earnings per Share
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
IAS 40 (revised 2004) Investment Property

The issued new standards and interpretations, which get into force for the period starting from 1 January 2005 and are applied respectively, are the following:

IFRS 2, Share-based Payments
IFRS 3, Business Combinations (for the period starting from 31 March 2004)
IFRS 4, Insurance Contracts
IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments

Applying these amendments and interpretations to standards, which are applicable to the Group, did not cause significant changes to the accounting principles used previously and did not have influence to the Group results.

According to the requirements the presentation of information is changed and the additional information is disclosed in the notes. There were no significant reclassifications or adjustments into comparatives.

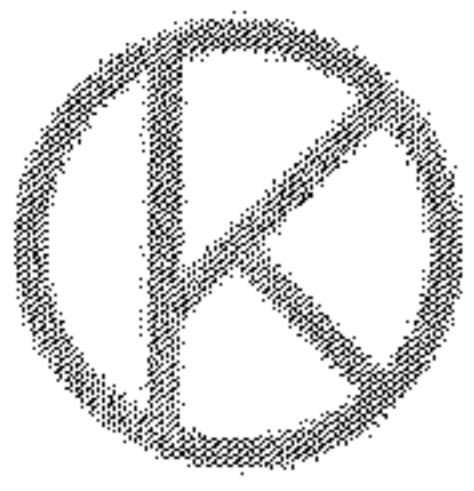
Supplementary disclosures on the parent entity of the group

To comply with the requirements of the Estonian Accounting Law the separate principal reports of parent company should be disclosed together with the consolidated financial statements. The respective disclosure is presented in Note 30. The principal reports of parent company are prepared using the same accounting policies as in the preparation of consolidated financial statements. The change of accounting policy applicable to parent company separate principal reports is described below.

Changes in the accounting policies applicable to the parent company

The financial information of the parent company is disclosed in the note (Note 30). According to the revised IAS 27 Consolidated and Separate Financial Statements the accounting principle for the measurement of investment in subsidiaries and associates is changed. The subsidiaries and associates are reported in the separate report at cost; previously the equity method was used. The effect of the amendment to the accounting policy was accounted for retrospectively as at 1 January 2004 as an adjustment to the balance of investments in subsidiaries and associates as well as to the retained earnings in the amount of 300 889 thousand kroons, likewise, gains/losses from subsidiaries and associates were adjusted in the 2004 income statement in the amount of 99 497 thousand kroons.

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Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Estonian kroons, which is the functional and presentation currency of AS Tallinna Kaubamaja.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Estonian Central Bank's exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

Translation of the principal financial statements presented as supplementary information

The principal financial statements translated into euro are presented as supplementary information for convenience of the users. Because Estonian kroon is pegged with euro with the fixed exchange rate (1EUR=15,6466 kroons), no translation differences occurs.

Consolidation

Subsidiaries

Subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of the voting power of an enterprise or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the parent company are combined on a line-by-line basis. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Associates

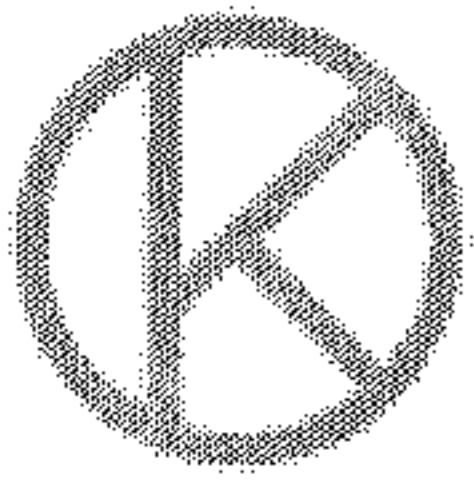
Associate is an enterprise in which the Group has significant influence, but which it does not control. Generally significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of the investee.

In the consolidated financial statements investments in associates are accounted for using the equity method of accounting, whereby the initial investment is adjusted by the profit/loss obtained from the company and the received dividends. According to the equity method, the unrealized profits and losses created by transactions between the Group and the associated company are proportionally eliminated from the investor's shareholding in the share capital.

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

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the investment is reported at nil value and further losses are recognized as off-balance-sheet item, unless the Group has incurred

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obligations or made payments on behalf of the associates – in which case the Group recognizes the liability and its share of losses in an associate in the balance sheet.

Where necessary, accounting policies of associates have been changed to ensure consistency with the policies adopted by the Group.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Because the Group operates on a single geographical area and in a business area with similar risks and returns, there is no segment to report on separately. The Group has expanded during 2005 and its property investment activities and rental income will likely become a separate segment in 2006. If the criteria for a separate segment will be met, the Group starts segment reporting in its 2006 financial statements

Cash and cash equivalents

For the purposes of the balance sheet and the cash flow statement, cash and cash equivalents comprise cash on hand as well as bank account balances (except for overdraft) and term deposits with original maturities of three months or less. Overdraft is included in short-term borrowings.

Financial assets

The Group's financial assets fall only in the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are carried at amortized cost using the effective interest method, less allowance for impairment. Impairment testing of trade receivables is described under "Trade receivables". Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "Trade and other receivables" in the balance sheet.

Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Inventories

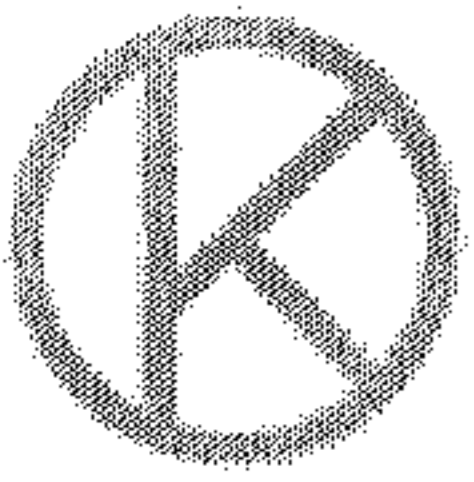
Inventories are initially recognized at cost, consisting of purchase price, customs duty and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and rebates. Cost is determined using the first-in, first-out (FIFO) method. Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, plant and equipment

Assets with expected useful life of more than one year are capitalized as fixed assets, if it is probable that future economic benefits associated with the asset will flow to the enterprise.

Land and buildings are carried at revalued amount, being its fair value at the date of the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated losses. Revaluations are based on periodic, but at least triennial, valuations by external independent valuers. Any accumulated depreciation at the

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date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from "Revaluation reserve" to "Retained earnings".

All other property, plant and equipment are recorded at cost, comprising of purchase price and any costs directly attributable to the acquisition of the items. Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

- Buildings and facilities 12-50 years
- Machinery and equipment 5 years
- IT – equipment and software 3 years
- Vehicles and other fixtures 5 years
- Improvements of rented premises 4-10 years

Land is not depreciated

Depreciation of an asset is started when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date the asset is derecognized.

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the income statement. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss in the income statement item "Other operating income"/ "Other operating expenses".

Impairment of non-financial assets

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

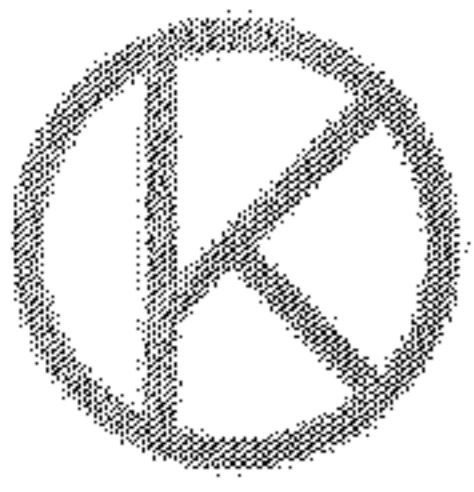
Leases

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Group as a lessee

Finance leases are capitalized at the inception of lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is

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charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated 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 a straight-line basis over the period of the lease.

Group as a lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognized on a straight-line basis over the lease term.

Financial liabilities

After initial recognition, all financial liabilities (trade payables, other short and long-term payables, borrowings, bonds) are measured at amortized cost (net of transaction costs incurred) using the effective interest rate method.

Amortized cost of the short-term liabilities normally equals to their nominal value, therefore the short-term liabilities are stated in the balance sheet in their redemption value. Long-term liabilities are recognized initially at fair value of the proceeds received (net of transaction costs incurred) and subsequently measured at amortized cost; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method.

Financial liabilities are classified as current when it is due to be settled within twelve months after the balance sheet date; or the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are not capitalized but expensed in the period they occurred.

Employee benefits

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Provisions and contingent liabilities

Provisions for liabilities and charges are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

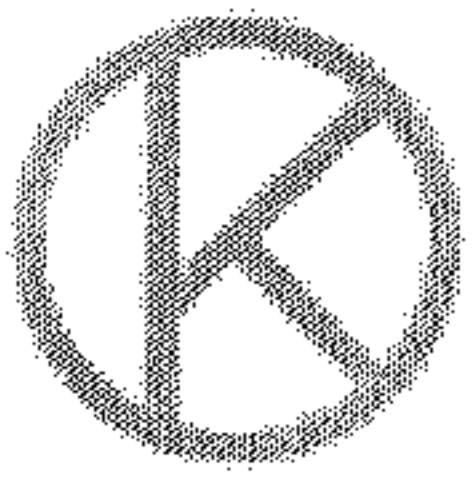
Provisions are recognized based on the management's (or independent expert's) estimates regarding the amount and timing of the expected outflows. A provision is recognized in the balance sheet in the amount which according to the management is necessary as of the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party. If a provision is settled later than 12 months after the balance sheet date, it is recognized at the discounted value (at the present value of payments relating to the provision), unless the effect of discounting is immaterial. The expenses of provisions are charged to accounting period expenses.

Promises, guarantees and other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

Corporate income tax

According to the Income Tax Act of the Republic of Estonia the net profit earned by enterprises is not taxed. Thus, there are no temporary differences between the tax bases and carrying values of assets and liabilities and

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no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax 23/77 of net dividend paid (until 31 December 2005 the tax rate was 24/76 and until 31 December 2004 the tax rate was 26/74). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group.

Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of goods - retail

Revenue from the sale of goods is recognized at the time of selling the goods to the customer at the retail store, generally for cash or by card payment. The sales price also includes fees for credit card transactions recognized as "Cost of goods sold".

Sales of services

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

Dividend income

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

Statutory reserve

Statutory legal reserve is formed to comply with the requirements of the Estonian Commercial Code. During each financial year, at least one-twentieth of the net profit shall be entered in the statutory legal reserve, until the reserve reaches to one-tenth of the share capital. The statutory legal reserve can be used to offset losses from the prior periods or to increase share capital. No distributions can be made from the statutory legal reserve.

Earnings per share

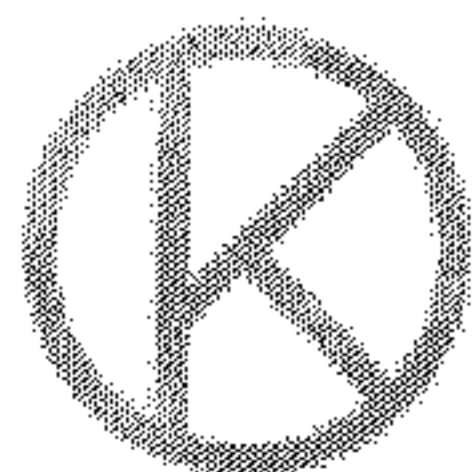
Basic earnings per share are determined by dividing the net profit for the financial year by the period's weighted average number of shares issued. Diluted earnings per share are determined by dividing the net profit for the financial year by the weighted average number of shares taking also into consideration the number of dilutive potential shares. As the Group has not issued any potential ordinary shares, the diluted earnings per share equals to the basic earnings per share.

Standards, interpretations and amendments to published standards that is not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

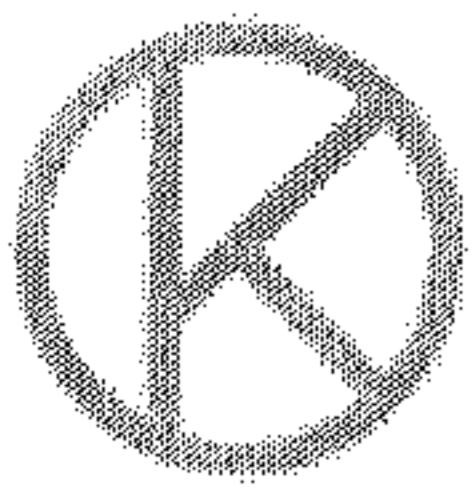
- **IAS 19 (Amendment), Employee Benefits** (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. These amendments are not relevant to the Group's operations.

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- **IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions** (effective from 1 January 2006). These amendments are not relevant to the Group's operations.
- **IAS 39 (Amendment), The Fair Value Option** (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. These amendments are not relevant to the Group's operations.
- **IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts** (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.
- **IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources** (effective from 1 January 2006). These amendments are not relevant to the Group's operations.
- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The management is going to consider the impact of these amendments.
- **IFRIC 4, Determining whether an Arrangement contains a Lease** (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The management is going to consider the impact of IFRIC 4.
- **IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.
- **IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment** (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.
- **IFRIC 7, Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies** (effective: Annual periods beginning on or after 1 March 2006). IFRIC 7 is not relevant to the Group's operations. At the date of the issuance of these financial statements this interpretation has not been yet adopted by the EU.
- **IFRIC 8, Scope of IFRS 2** (effective: Annual periods beginning on or after 1 May 2006). IFRIC 8 is not relevant to the Group's operations. At the date of the issuance of these financial statements this interpretation has not been yet adopted by the EU.

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Note 2 Cash and cash equivalents

	31 December 2005	31 December 2004
Cash in hand	2 773	1 891
Cash at bank	2 080	68 174
Cash in transit	13 437	7 902
Total cash and cash equivalents	18 290	77 967

Note 3 Trade receivables

	31 December 2005	31 December 2004
Credit card receivables	18 014	5 357
Other trade receivables	10 551	8 865
Total trade receivables	28 565	14 222

Note 4 Other receivables

	31 December 2005	31 December 2004
Bonuses receivable from suppliers	14 116	5 502
Receivables from related parties (Note 24)	2 429	312
Other short-term receivables	1 527	334
Total other receivables	18 072	6 148

Note 5 Prepaid expenses

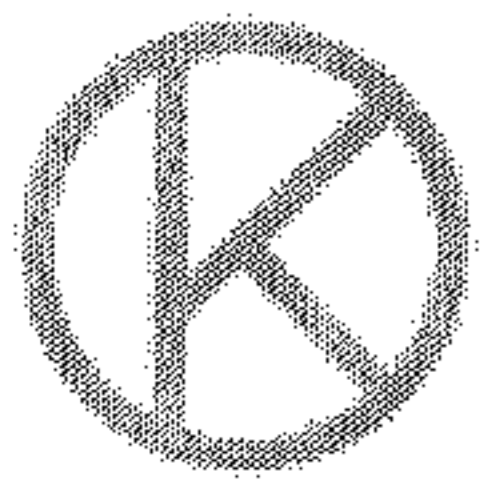
	31 December 2005	31 December 2004
Value added tax	173	16 316
Corporate income tax payable on fringe benefits	2	0
Social security tax	2	0
Total prepaid taxes	177	16 316
Prepaid rental expenses	6 148	0
Other prepaid expenses	1 195	1 123
Total short-term prepaid expenses	7 520	17 439
Prepaid rent	47 331	0
Total long-term prepaid expenses	47 331	0

The Group has concluded rent agreements in the same arrangement with acquiring operating rights for stores in Tartu. The fee paid for operating rights is recorded as the rent prepayment, because it is considered to be a payment made for acquiring leasehold.

Note 6 Inventories

	31 December 2005	31 December 2004
Good held for resale	284 913	221 677
Raw materials	5 477	2 689
Total inventories	290 390	224 366

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The write-down and write-off of inventories and the inventory shortages are recorded in the income statement under "Cost of goods sold" as follows:

	2005	2004
Write-down and write-off of inventories	27 561	15 179
Inventory shortages	15 991	13 244
Total	43 552	28 423

As of 31.12.2005, the group's inventories, recorded at net realizable value, amounted to 5 162 thousand kroons (2004: 6 279 thousand kroons).

Information on pledged assets is provided in Note 21.

Note 7 Subsidiaries

The Tallinna Kaubamaja group incorporates:

Company	Location	Field of activity	Ownership	Cost
A-Selver AS	Tallinn Pärnu mnt.238	Retail trade	100%	22 000
AS Tartu Kaubamaja	Tartu Riia 2	Retail trade	100%	15 849
Tallinna Kaubamaja Kinnisvara OÜ	Tallinn Gonsiori 2	Real estate administration	100%	46 285
Cost of subsidiaries as of 31 December 2005				84 134
Subsidiary of Tallinna Kinnisvara AS:				
Tartu Kaubamaja Kinnisvara OÜ	Tartu Riia 1	Real estate administration	100%	

Under the resolution of the Supervisory Board of Tallinna Kaubamaja AS, the subsidiary Tallinna Kaubamaja Suomi OY was dissolved in the financial year.

Note 8 Investments in associates

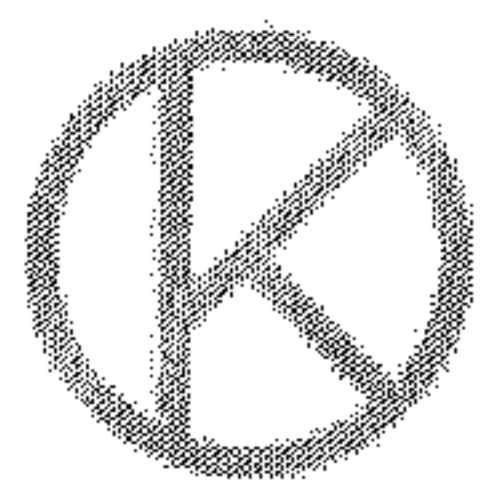
Tallinna Kaubamaja AS has an ownership in Rävala Parkla AS, which is rendering parking house services in Tallinn.

	2005	2004
Number of shares at the end / (at beginning) of year	501 / (501)	501 / (501)
Ownership % at the end / (at beginning) of year	50 / (50)	50 / (50)
Beginning of the year		
Acquisition cost	6 500	6 500
Participation in associate's equity	6 769	5 427
Profit from the equity method	2 263	1 342
End of the year		
Acquisition cost	6 500	6 500
Participation in associate's equity	9 032	6 769

Financial information of the associate:

	31 December 2005	31 December 2004
Assets	65 764	65 774
Liabilities	47 702	52 237
Revenues	7 594	6 819
Profit	4 525	2 684

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Note 9 Loans granted

	31 December 2005	31 December 2004
Loans granted to associates (Note 24)	11 828	12 328
Repayable:		
<i>no later than 12 months</i>	2 000	0
<i>between 1 and 5 years</i>	9 828	12 328
Interest rate	4%	4-7%
Maturity	2010	2010

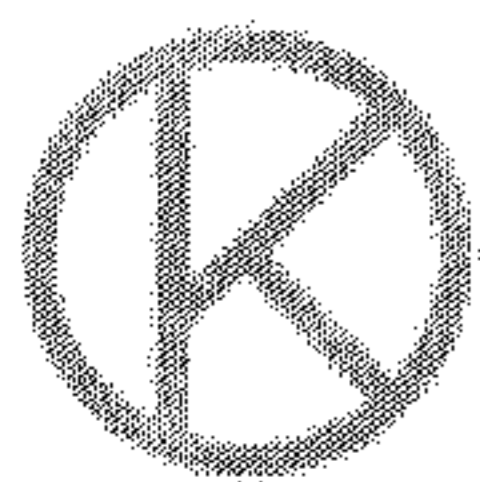
The fair value of the loan granted to the associate is not materially different of its carrying value.

Note 10 Property, plant and equipment

	Land & buildings	Vehicles & machinery	Other equipment	Pre-payments to suppliers	Construction in progress	Total
31.12.2003						
Cost or valuation	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 amount	443 614	34 351	34 695	5 716	9 858	528 234
Changes occurred in 2004						
Additions	37 191	30 048	44 845	242	67 582	179 908
Transfers	11 784	1 355	2 435	-5 716	-9 858	0
Disposals	-85 399	-913	-267	0	0	-86 579
Revaluation surplus	112 577	0	0	0	0	112 577
Impairment charge	-1 039	0	0	0	0	-1 039
Depreciation charge	-19 048	-18 629	-20 182	0	0	-57 859
31.12.2004						
Cost or valuation	518 068	117 591	172 926	242	67 582	876 409
Accumulated depreciation	-18 388	-71 379	-111 400	0	0	-201 167
Net book amount	499 680	46 212	61 526	242	67 582	675 242
Changes occurred in 2005						
Additions	221 164	69 226	63 495	83	63 315	417 283
Transfers	67 615	26	186	-242	-67 585	0
Disposals	0	-2 621	-340	0	0	-2 961
Revaluation surplus	251 072	0	0	0	0	251 072
Depreciation charge	-21 894	-24 586	-23 607	0	0	-70 087
31.12.2005						
Cost or valuation	1 047 126	174 782	224 764	83	63 312	1 510 067
Accumulated depreciation	-29 489	-86 525	-123 504	0	0	-239 518
Net book amount	1 017 637	88 257	101 260	83	63 312	1 270 549

In 2005, land and buildings for which the development ended during the year were revalued. The basis for revaluation was an assessment of an independent real estate expert. The discounted cash flow method as well as the market-based evidence were used for the determination of the fair value of the land and buildings. Following assumptions have been used: discount rates of 10-10.2% and the growth rates of 0.7-1.5%. The previous revaluation was carried out on the "Land and buildings" group at the end of 2004. According to the management estimates, there has not been significant changes in the fair values of land and buildings as no major changes

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occurred at the commercial space market in the year. Therefore, all items in the group of land and buildings have not been revalued in 2005.

The carrying value of revalued non-current assets would have been the following, if they had been accounted for at cost, less accumulated depreciation and impairment losses:

as of 31.12.2005: 239 174 thousand kroons
as of 31.12.2004: 291 598 thousand kroons

During the financial year, computer technology, furnishings and equipment of the department stores were acquired for 132 933 thousand kroons, incl. larger acquisitions relating to the expansion of Tallinna Kaubamaja AS in the amount of 38 874 thousand kroons, and expansion of A-Selver AS in the amount of 94 059 thousand kroons. The existing department stores were renovated for 18 087 thousand kroons. In 2005, the company opened department stores "Tartu Kaubamaja" and "Sõle Selver", with investments totalling 270 692 thousand kroons.

As of 31 December 2005, property, plant and equipment with the net book amount of 910 600 thousand kroons had been pledged as collateral for the liabilities (Note 21).

The book value of assets leased under finance lease amounted to 26 725 thousand kroons as of 31 December 2005 (31 358 thousand kroons as of 31 December 2004). Non-current assets acquired under finance lease only include buildings. See Note 13 for information on the liabilities related to the non-current assets acquired under finance lease.

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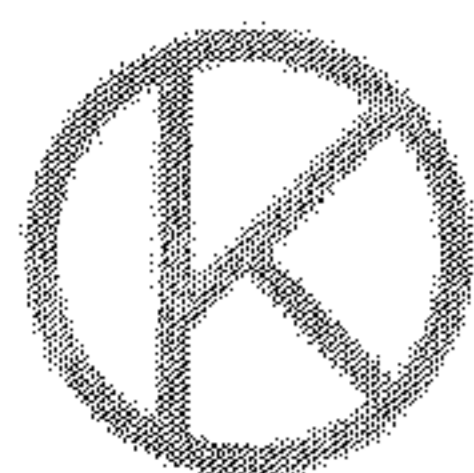
Note 11 Borrowings

2005	Payable				Maturity	Interest rate
	Balance at 31.12.2005	not later than 12 months	between 1 and 5 years	over 5 years		
SEB Eesti Ühispank	71 952	13 297	57 393	1 262	28.01.2011	6 month EURIBOR +0,4%
SEB Eesti Ühispank	140 001	14 364	94 333	31 304	19.03.2012	6 month EURIBOR +0,4%
Long-term bank loans	211 953	27 661	151 726	32 566		
Bonds issued	34 668	34 668	0	0	7.04.2006	3,28%
Overdraft (Note 24)	17 264	17 264	0	0		
Finance lease liabilities (Note 12)	30 337	3 978	18 827	7 532	7.04.2012	7%
Total borrowings	294 222	83 571	170 553	40 098		

2004	Payable				Maturity	Interest rate
	Balance at 31.12.2004	not later than 12 months	between 1 and 5 years	over 5 years		
Long-term bank loans	84 968	12 889	55 749	16 330	28.01.2011	6 month EURIBOR +0,4%
Bonds issued	14 859	14 859	0	0	31.03.2005	3,80%
Finance lease liabilities (Note 12)	34 046	3 709	17 598	12 739	8.02.2012	7%
Total borrowings	133 873	31 457	73 347	29 069		

Bank loans are denoted in euros, bonds issued, overdraft and finance lease liabilities are denoted in Estonian kroons. Loan collaterals are disclosed in Note 21.

Bank loans have floating interest rates related to EURIBOR. The borrowings in amount of 211 953 thousand kroons (2004: 84 968 thousand kroons) are repriced after every 6 months, which is the Group's exposure on



interest rate changes when borrowings reprise. Bonds issued and finance lease agreements are based on fixed interest rates, and therefore 65 005 thousand kroons (2004: 48 905 thousand kroons) are exposed to interest rate change when borrowings mature.

The fair values of the borrowings are not materially different from their carrying amounts.

Note 12 Leases

The group as a lessee

Finance lease

The group leases buildings under a finance lease terms:

	31 December 2005	31 December 2004
Cost – capitalized finance leases	43 951	43 951
Accumulated depreciation	-15 930	-11 535
Net book amount	28 021	31 416

	31 December 2005	31 December 2004
Minimum lease payments		
No later than 1 year	5 976	5 975
Later than 1 year and no later than 5 years	23 747	23 789
Later than 5 years	7 911	13 845
Total	37 634	43 609
Future interest expense	-7 297	-9 563
Present value of future minimum lease payments (Note 11)	30 337	34 046

	31 December 2005	31 December 2004
Present value of future minimum lease payments		
No later than 1 year	3 978	3 709
Later than 1 year and no later than 5 years	18 827	17 598
Later than 5 years	7 532	12 739
Total (Note 11)	30 337	34 046

Subleases of buildings rented under a finance lease:

The future minimum sublease payments expected to be received under the non-cancellable subleases:

	31 December 2005	31 December 2004
incl. up to 1 year	1 161	1 537
incl. 1-5 years	497	2 400
Total	1 658	3 937

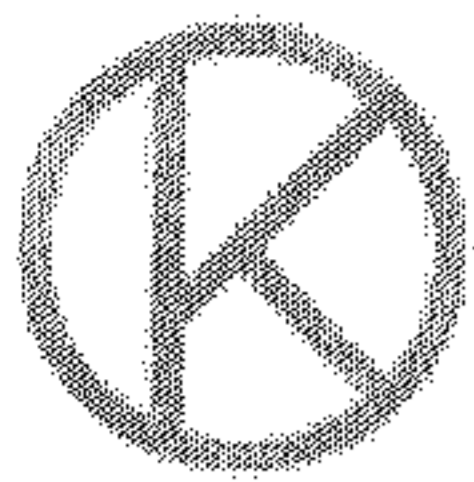
Operating lease

The future minimum lease payments to be made under the non-cancellable operating lease terms are as follows:

	31 December 2005	31 December 2004
Up to 1 year	140 552	128 713
1-5 years	368 177	224 867
Over 5 years	154 903	185 250
Total	663 632	538 830

Operating lease expenses include the rental expenses for leasing the retail outlet spaces. The future minimum lease payments under non-cancellable operating leases is calculated based on the non-cancellable periods of the leases.

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Subleases of buildings rented under operating lease:

The future minimum sublease payments to be received under the non-cancellable subleases are as follows:

	31 December 2005	31 December 2004
Up to 1 year	46 373	14 122
1-5 years	145 555	34 458
Over 5 years	127 556	3 016
Total	319 484	51 596

The group as a lessor

Operating lease

Operating lease income includes rental income for spaces.

Buildings leased by the Group to third parties under operating leases with the following carrying amounts:

	2005	2004
Cost / revalued amount	1 030 048	466 782
Accumulated depreciation as 1 January	-54 732	-44 124
Depreciation charge for the period	-13 947	-10 608
Net book amount	961 369	412 050

The future minimum lease payments receivable under the non-cancellable operating leases (excluding sublease payments to be received as disclosed above) are as follows:

	31 December 2005	31 December 2004
Up to 1 year	11 441	9 435
1-5 years	25 485	27 138
Over 5 years	1 228	1 488
Total	38 154	38 061

The Group's rent agreements are not binding for long term. Most of rent agreements are concluded for periods from 7 to 10 years and rent conditions are re-negotiated usually before the rent term approaches. The rent agreements can be terminated on mutual agreement or with two to six months notice. Termless rent agreements are expected to be valid for 5 years.

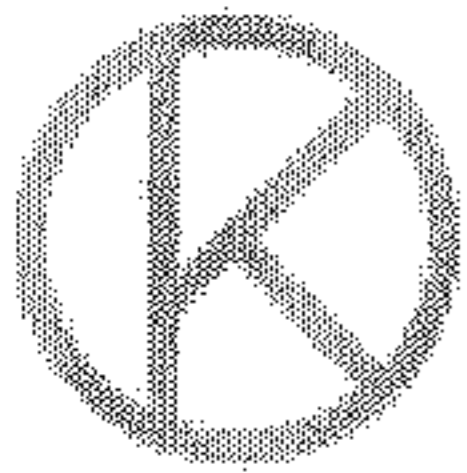
Lease payments recognized in the income statement for the period are disclosed in note 17.

Rental income from leases and sub-leases recognized in the income statement is disclosed in note 16.

Note 13 Other short-term payables

	31 December 2005	31 December 2004
Value added tax	13 271	23 301
Personal income tax	5 617	4 015
Social security tax	11 512	7 352
Corporate income tax payable on fringe benefits	540	376
Unemployment insurance premium	398	306
Mandatory pension funds	443	259
Total indirect tax payables	31 781	35 609
Payables to employees	37 138	19 510
Interest payable	152	29
Other accrued expenses	70	814
Prepayments received from lessees	1 121	1 213
Total other short-term payables	70 262	57 175

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Note 14 Share capital

As of 31 December 2004 as well as of 31 December 2005, the share capital of 67 882 thousand kroons consisted of 6 788 200 ordinary shares with the nominal value of 10 kroons per share. Under the articles of association, the maximum number of shares allowed is 27 152 800 shares.

Dividends were neither announced nor paid to the shareholders in 2004 and in 2005.

For restrictions on the allocation of retained earnings, please refer to Note 29.

Note 15 Sales

	2005	2004
Retail	2 846 007	2 006 972
Wholesale	11 656	9 185
Services and catering	20 121	5 673
Total sales	2 877 784	2 021 830

100% of the sales of the parent company and the group occurred in Estonia.

Note 16 Other income

	2005	2004
Rental income	32 803	30 255
Profit from the sale of tangible assets	359	40 699
Other income	25 108	18 033
Foreign exchange gains	121	54
Total other income	58 391	89 041

Rental income includes income from subleases in amount of 29 131 thousand kroons (2004: 26 120 thousand kroons).

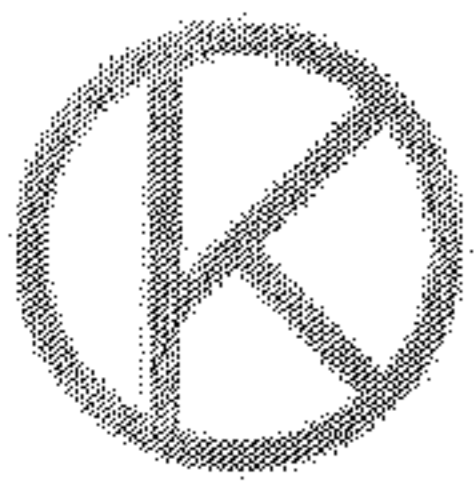
Note 17 Operating expenses

	2005	2004
Rental expenses	117 594	81 963
Utilities	34 014	23 189
Advertising costs	43 940	38 434
Bank fees	17 514	12 343
Security costs	19 939	13 466
Heat and electricity costs	32 250	23 313
Costs of materials	39 545	20 394
Computer and communications expenses	13 112	11 449
Business trip expenses	3 257	3 341
Training expenses	3 591	2 931
Insurance costs	924	744
Other expenses	13 605	9 116
Total operating expenses	339 285	240 683

Note 18 Personnel expenses

	2005	2004
Wages and salaries	189 416	132 942
Social security tax	63 791	44 858
Total personnel expenses	253 207	177 800

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	2005	2004
Average monthly wages and salaries per employee (kroons)	8 295	7 667
Average number of employees during the financial year	1 903	1 445

Staff costs also include accruals for holiday pay earned as well as unpaid bonuses related to year 2005.

Note 19 Interest expenses

	2005	2004
Interest on bank loans	-4 584	-3 425
Interest on finance leases	-2 266	-2 516
Interest on bonds	-947	-1 798
Interest on overdraft	-129	-1 080
Other interest expenses	-805	-42
Total interest expenses	-8 731	-8 861

Note 20 Earnings per share

Tallinna Kaubamaja AS has issued only ordinary shares. The basic earnings per share have been calculated by dividing net profit with the number of shares.

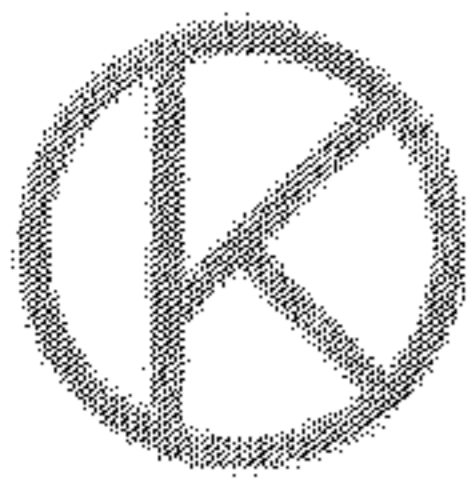
	2005	2004
Net profit (in thousands kroons)	91 776	98 733
Weighted average number of shares in a year	6 788 200	6 788 200
Earnings per share (in kroons)	13,52	14,54

Note 21 Loan collateral and pledged assets

The group companies have following collaterals for the loans received:

- A commercial pledge on the movable property of Tallinna Kaubamaja AS in the amount of 58 410 thousand kroons for the benefit of AS Hansapank.
- Tallinna Kaubamaja Kinnisvara AS has set a mortgage on the registered immovable located at Gonsiori 2 / Kaubamaja 1, Tallinn (land register part no. 1324 at the Tallinn Land Registry Division) in the amount of 139 500 thousand kroons, with the annual interest rate of 20% and additional claims in the amount of 13 950 thousand kroons for the benefit of AS SEB Eesti Ühispank. As of 31 December 2005, the carrying amount of the pledged assets was 381 000 thousand kroons.
- Tallinna Kaubamaja Kinnisvara AS has set a mortgage on the registered immovable located at Punane 46, Tallinn (land register part no. 3122 at the Tallinn Land Registry Division) in the amount of 5 700 thousand kroons, with the annual interest rate of 20% and additional claims of 570 thousand kroons for the benefit of AS Hansapank. As of 31 December 2005, the carrying amount of the pledged assets is 19 600 thousand kroons.
- Tartu Kaubamaja Kinnisvara OÜ has set a mortgage on the registered immovable located at Kүүini 14, Tartu (land register part no. 319 at the Tartu Land Registry Division), on the registered immovable located at Vanemuise 2, Tartu (land register part no. 1719 at the Tartu Land Registry Division), on the registered immovable located at Riia 1, Tartu (land register part no. 9221 at the Tartu Land Registry Division) in the amount of 125 000 thousand kroons for the benefit of AS SEB Eesti Ühispank. As of 31 December 2005, the carrying amount of the pledged assets is 510,000 thousand kroons.
- A commercial pledge on the movable property of AS Tartu Kaubamaja in the amount of 10 000 thousand kroons for the benefit of AS Hansapank.

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The group has issued the following guarantees:

- Tallinna Kaubamaja AS has guaranteed 50% of the loan of Rävälä Parkla AS in the amount of 37 120 thousand kroons from AS SEB Eesti Ühispank.

Note 22 Off-balance-sheet assets and contingent liabilities

Taxes

The tax authorities may at any time inspect the books and records up to 6 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. Tax audits were not conducted in 2005. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Note 23 Post balance sheet events

On 31 August 2005, A-Selver AS and Marketon Baltic concluded a 10-year operating lease agreement on the Selver store to be opened in May 2006 in Jõhvi.

Note 24 Related party transactions

In preparing the consolidated financial statements of Tallinna Kaubamaja AS, the following entities have been considered as related parties:

- owners (parent company and parties having control or significant influence over parent company) (Note 28);
- associates
- other entities in the consolidation group (incl. fellow subsidiaries);
- management and supervisory boards;
- close relatives of the persons mentioned above and the companies over which they have control or significant influence.

In 2005, Tallinna Kaubamaja group purchased and sold goods and rendered services as follows:

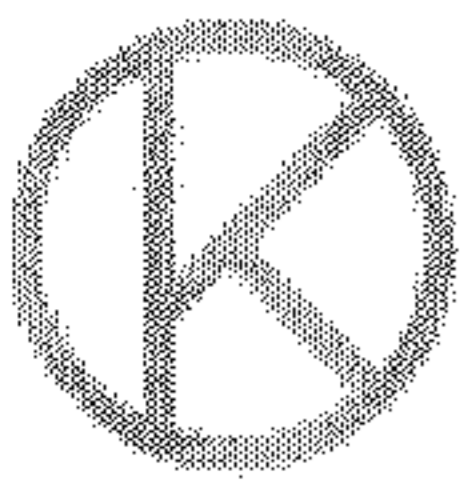
	2005		2004	
	Purchases	Sales	Purchases	Sales
Parent company	742	180	42	289
Associates	0	1 119	347	24
Other related parties	84 575	1 998	58 589	1 231
Total purchase/sale of goods and services	85 317	3 297	58 978	1 544

Purchases from other related parties constitutes mostly from goods purchased for resale. Purchases from parent company consist mostly from management services provided by parent company. Sales to related parties are mostly services rendered.

Loans to associates

	2005	2004
Balance at the beginning of the year (Note 9)	12 328	12 028
Loans granted	0	300
Loan repayments received	-500	0
Balance at the end of the year (Note 9)	11 828	12 328

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Balances with the related parties:

	31 December 2005	31 December 2004
Parent company	24	21
Other related parties	405	291
Short-term portion of loans granted to associates (Note 9)	2 000	0
Total short-term receivable (Note 4)	2 429	312
Loans granted to associates (Note 9)	9 828	12 328
Total receivables from related parties	12 257	12 640
Parent company	303	0
Other related parties	11 591	7 729
Group account payable (overdraft) (Note 11)	17 264	0
Total liabilities to related parties	29 158	7 729

The related party transactions of the group in 2005:

AS Tartu Kaubamaja, A-Selver AS and Tallinna Kaubamaja Kinnisvara AS, as well as Tartu Kaubamaja Kinnisvara OÜ have a joint group account with Tallinna Kaubamaja AS. This group as a subgroup has in turn joined the group account of NG Investeeringud AS (hereinafter main group), which also includes Balbiino AS, Liviko AS, Kitman AS, OÜ NG Kapital, Ganiger Invest OÜ and Roseni Majad OÜ. Since autumn 2001, the Tallinna Kaubamaja group has kept its free funds at the main group account, earning interest income on the deposits. In 2005, the Tallinna Kaubamaja group earned interest income in the amount of 121 thousand kroons (2004: 260 thousand kroons) on the deposits of its free funds. As of 31 December 2005, Tallinna Kaubamaja group had used 17,264 thousand kroons (2004: 0 kroons) of the funds available on the main group account and the interest paid on the use of the funds available on the main group account in 2005 amounted to 729 thousand kroons (2004: 0 kroons). The average annual interest rate earned on deposited funds on the NG Investeeringud OÜ group account was 3.6 % (3.6% in 2004) and the average interest rate on the funds used was 3%. According to the group account contract, the group members are jointly responsible for the unpaid balances to the bank.

Key management compensations

The Tallinna Kaubamaja group paid a total of 6 260 thousand kroons (2004: 5 244 thousand kroons) in remuneration to the members of the Management Board in the financial year.

Termination benefits

As of 31 December 2005, the amount of potential termination benefits arising from employment contracts in force does not exceed 2 million kroons.

Note 25 Financial risk management

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk.

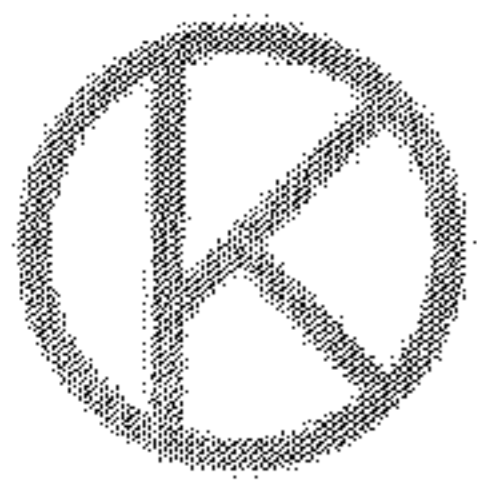
Foreign exchange risk

The Group has no significant concentrations of foreign exchange risk. The Group does not use any hedging of the foreign currency risk arising from future commercial transactions and recognized assets and liabilities. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. Group companies have minimized foreign currency net open balances. The main used currencies are the functional currencies of the Group companies or euros, which are fixed to functional currencies.

Credit risk

Due to the nature of retail business the Group has no significant concentrations of credit risk. The credit risk occurs only on the rents of premises which has been immaterial for the Group. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

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Interest rate risk

The interest rates related to the loans and borrowings of the Group are fixed or related to Euribor. The Group has not applied any hedge instrument.

Liquidity risk

The Group's current liabilities exceeded current assets as at 31 December 2005. This situation is temporary and it is due to expansion of the number of stores during last quarter of 2005. Management has prepared cash-flow forecasts before the expansion has been started and the liquidity position at the end of 2005 is in accordance with the original forecast. The Group has strong positive operating cash-flows and profitability that enable the working capital to become positive again by the end of 2006. In addition, the Group's overdraft facility with its parent company NG Investeeringud can be increased in case of the need for additional cash.

Note 26 Fair value

According to the management's opinion there are no significant differences between the carrying values and fair values of financial assets and liabilities and for revalued land and buildings. The expert opinions for revaluation of the buildings, which were taken into use in 2005, have demonstrated that the fair value for the commercial land and buildings has not changed significantly during the year.

Note 27 Interests of the members of the Supervisory Board

The following members of the Supervisory Board have shares in Tallinna Kaubamaja AS.

Andres Järving	Represents 796 902 shares of Tallinna Kaubamaja AS
Jüri Käo	Represents 792 365 shares of Tallinna Kaubamaja AS
Enn Kunila	Represents 779 693 shares of Tallinna Kaubamaja AS

Note 28 Shareholder holding over 5% of the shares of Tallinna Kaubamaja AS

Shareholder	31 December 2005 Participation	31 December 2004 Participation
NG Investeeringud AS (parent company)	66,80%	66,79%
ING Luxembourg A.A.	9,13%	9,68%
Skandinaviska Enskilda Banken Ab	6,52%	5,01%
Nordea Bank Finland PLC Clients Accounts Trading	0	10,41%

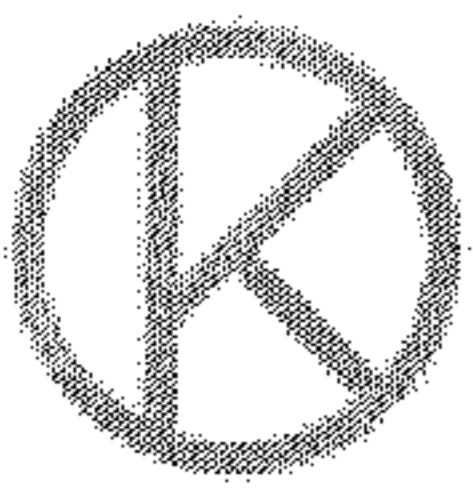
As of 31 December 2005 68.75% of the shares of NG Investeeringud OÜ is owned by NG Kapital OÜ, which is the ultimate controlling party.

Note 29 Restrictions on allocation of retained earnings

As of 31 December 2005, the retained earnings of Tallinna Kaubamaja AS were 410 031 thousand kroons (31 December 2004: 310 984 thousand kroons).

From 1 January 2006, an income tax of 23/77 (24/76 until 31 December 2005) is imposed on the sum of net dividends paid. Therefore, it would be possible to pay out dividends in the amount of 315 724 thousand kroons (31 December 2004: 236 348 thousand kroons), consequently the maximum potential income tax liability would amount to 94 307 thousand kroons (31 December 2004: 74 636 thousand kroons).

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Note 30 Financial information on the parent company

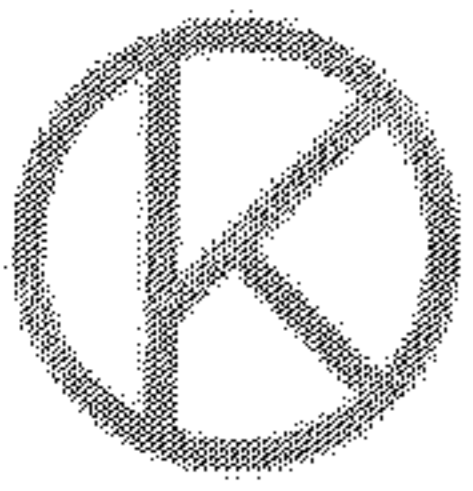
The financial information of parent company comprises of separate principal reports of parent company, disclosure of which is required by Estonian Accounting Law.

BALANCE SHEET

	31 December 2005		31 December 2004	
	EEK	EUR	EEK	EUR
ASSETS				
Current assets				
Cash and bank	4 956	317	50 879	3 252
Trade receivables	6 226	398	2 392	153
Other receivables	25 228	1 612	2 939	188
Accrued income	0	0	79	5
Prepaid expenses	1 119	72	691	44
Inventories	144 577	9 240	103 194	6 595
Total current assets	182 106	11 639	160 174	10 237
Non-current assets				
Shares in subsidiaries	84 134	5 377	84 134	5 377
Shares in associates	6 500	415	6 500	415
Other long-term receivables	9 828	628	12 328	788
Property, plant and equipment	83 175	5 316	62 112	3 970
Total non-current assets	183 637	11 736	165 074	10 550
TOTAL ASSETS	365 743	23 375	325 248	20 787
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Borrowings	34 668	2 216	114 981	7 349
Customer prepayments for goods and services	7 044	450	3 780	242
Supplier payables	86 411	5 523	56 608	3 618
Other short-term payables	64 254	4 106	17 548	1 121
Total current liabilities	192 377	12 295	192 917	12 330
TOTAL LIABILITIES	192 377	12 295	192 917	12 330
Shareholders' equity				
Share capital	67 882	4 338	67 882	4 338
Statutory legal reserve	7 269	465	7 269	465
Retained earnings	57 180	3 654	57 944	3 703
Net profit for financial year	41 035	2 623	-764	-49
TOTAL SHAREHOLDERS' EQUITY	173 366	11 080	132 331	8 457
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	365 743	23 375	325 248	20 787

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)

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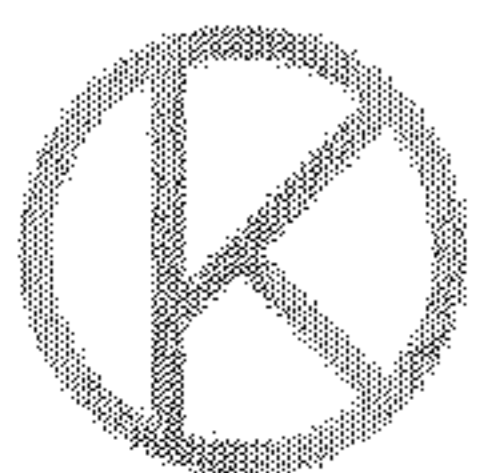


INCOME STATEMENT

	2005		2004	
	EEK	EUR	EEK	EUR
Revenue				
Sales	885 214	56 576	631 809	40 380
Other income	51 240	3 275	42 607	2 723
Cost of goods sold	-620 014	-39 626	-454 028	-29 018
Operating expenses	-155 398	-9 932	-135 006	-8 628
Personnel expenses	-94 480	-6 038	-67 786	-4 332
Depreciation and amortization	-17 692	-1 131	-13 028	-833
Miscellaneous expenses	-5 410	-346	-3 787	-242
Operating profit	43 460	2 778	781	50
Financial income and expenses				
Interest income and expenses	-2 324	-149	-1 340	-86
Other financial income and expenses	-101	-6	-205	-13
Total financial income and expenses	-2 425	-155	-1 545	-99
NET PROFIT FOR FINANCIAL YEAR	41 035	2 623	-764	-49
Basic earnings per share (EEK/EUR)	6,05	0,39	-0,11	-0,01
Diluted earnings per share (EEK/EUR)	6,05	0,39	-0,11	-0,01

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)

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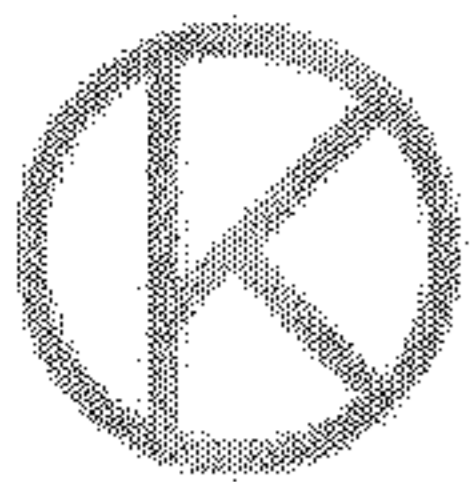


CASH FLOW STATEMENT

	2005		2004	
	EEK	EUR	EEK	EUR
CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit	41 035	2 623	-764	-49
Adjustments for:				
Interest expense	3 577	229	0	0
Interest income	-1 253	-80	-1 580	-101
Depreciation and amortization	17 692	1 131	13 028	833
Profit (loss) from disposals of non-current assets	-2	0	2	0
Change in inventories	-41 383	-2 645	-35 580	-2 274
Change in receivables and prepayments related to operating activities	-24 551	-1 569	1 701	109
Change in liabilities and prepayments related to operating activities	-19 533	-1 249	7 683	491
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	-24 418	-1 560	-15 510	-991
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	-38 813	-2 481	-55 992	-3 579
Proceeds from sales of property, plant and equipment	60	4	259	17
Interest received	0	0	-300	-19
Loans granted to associates	500	32	0	0
Loan repayments received from associated companies	1 332	85	1 533	98
NET CASH USED IN INVESTING ACTIVITIES	-36 921	-2 360	-54 500	-3 483
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in the balance of group account	0	0	100 122	6 399
Proceeds from loans	0	0	14 717	941
Proceeds from issuance of bonds	33 862	2 164	0	0
Repayments of loans received	-15 000	-959	-35 000	-2 237
Interest paid	-3 446	-220	96	6
NET CASH USED IN FINANCING ACTIVITIES	15 416	985	79 935	5 109
NET CASH FLOWS	-45 923	-2 935	9 925	635
Cash and cash equivalents at the beginning of the year	50 879	3 252	40 954	2 617
Cash and cash equivalents at the end of the year	4 956	317	50 879	3 252
Change in cash and cash equivalents	-45 923	-2 935	9 925	635

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)

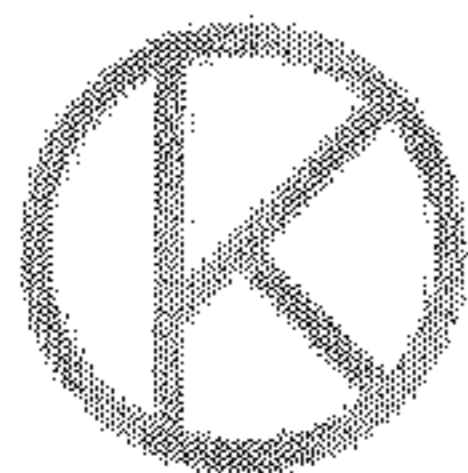
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STATEMENT OF CHANGES IN EQUITY

	Share capital	Revaluation reserve	Statutory legal reserve	Retained earnings	Total
Balance at 31 December 2003					
As reported in 2003 Annual Report	67 882	152 016	7 269	208 164	435 331
Effect of changes in accounting policies	0	-152 016	0	-150 220	-302 236
Adjusted balance at 1 January 2004	67 882	0	7 269	57 944	133 095
Net profit for 2004 (adjusted)	0	0	0	-764	-764
Balance at 31 December 2004					
As reported in 2004 Annual Report	67 882	260 506	7 269	310 984	646 641
Effect of changes in accounting policies	0	-260 506	0	-253 804	-514 310
Adjusted balance at 31 December 2004	67 882	0	7 269	57 180	132 331
Book value of holdings under control or significant influence					-90 634
Value of holdings under control or significant influence, calculated by equity method					604 944
Adjusted unconsolidated equity at 31 December 2004					646 641
Net profit for 2005	0	0	0	41 035	41 035
Balance at 31 December 2005	67 882	0	7 269	98 215	173 366
Book value of holdings under control or significant influence					-90 634
Value of holdings under control or significant influence, calculated by equity method					906 757
Adjusted unconsolidated equity at 31 December 2005					989 489

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In thousands of EUR

	Share capital	Revaluation reserve	Statutory legal reserve	Retained earnings	Total
Balance at 31 December 2003					
As reported in 2003 Annual Report	4 338	9 716	465	13 304	27 823
Effect of changes in accounting policies	0	-9 716	0	-9 601	-19 317
Adjusted balance at 1 January 2004	4 338	0	465	3 703	8 506
Net profit for 2004 (adjusted)	0	0	0	-49	-49
Balance at 31 December 2004					
As reported in 2004 Annual Report	4 338	16 649	465	19 875	41 327
Effect of changes in accounting policies	0	-16 649	0	-16 221	-32 870
Adjusted balance at 31 December 2004	4 338	0	465	3 654	8 457
Book value of holdings under control or significant influence					-5 792
Value of holdings under control or significant influence, calculated by equity method					38 663
Adjusted unconsolidated equity at 31 December 2004					41 328
Net profit for 2005	0	0	0	2 623	2 623
Balance at 31 December 2005	4 338	0	465	6 277	11 080
Book value of holdings under control or significant influence					-5 792
Value of holdings under control or significant influence, calculated by equity method					57 952
Adjusted unconsolidated equity at 31 December 2005					63 240

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)

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AUDITOR'S REPORT

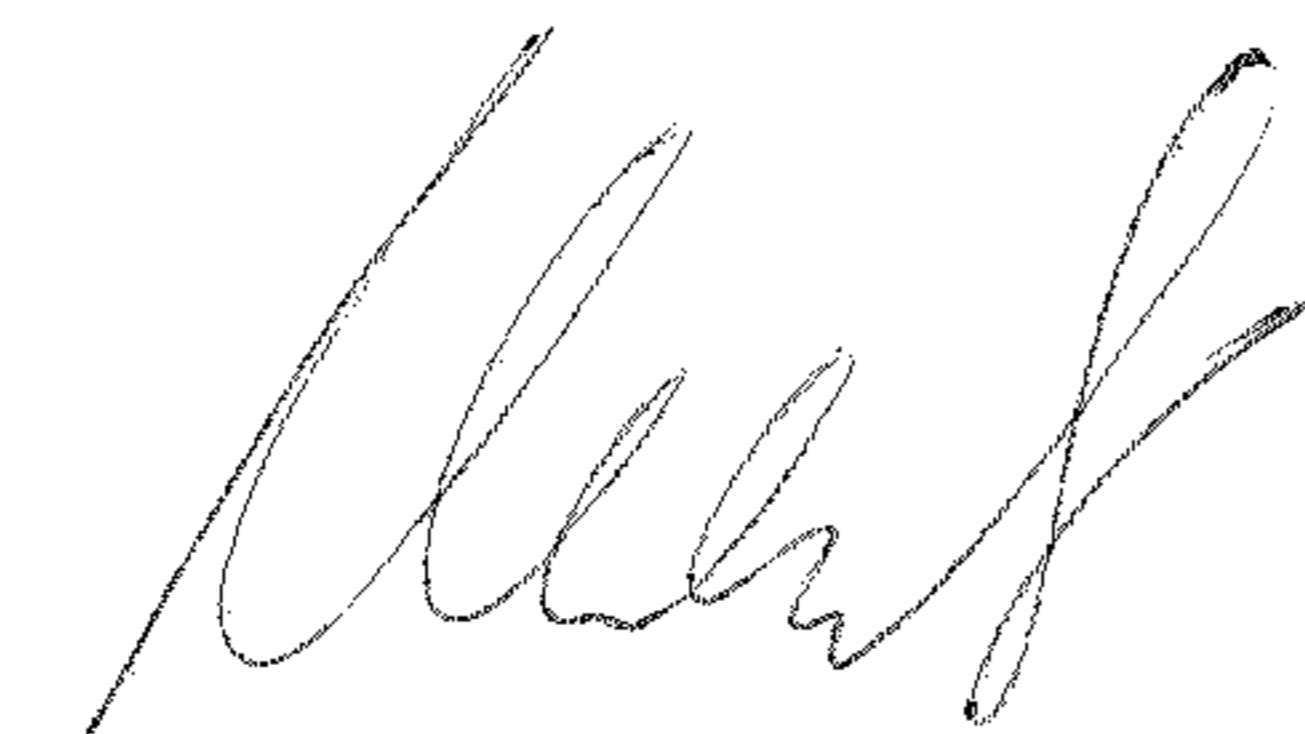
(Translation of the Estonian original)

To the shareholders of AS Tallinna Kaubamaja

We have audited the accompanying consolidated balance sheet of AS Tallinna Kaubamaja and its subsidiaries (the Group) as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements as set out on pages 9 to 37 are the responsibility of the Management Board of AS Tallinna Kaubamaja. 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 accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

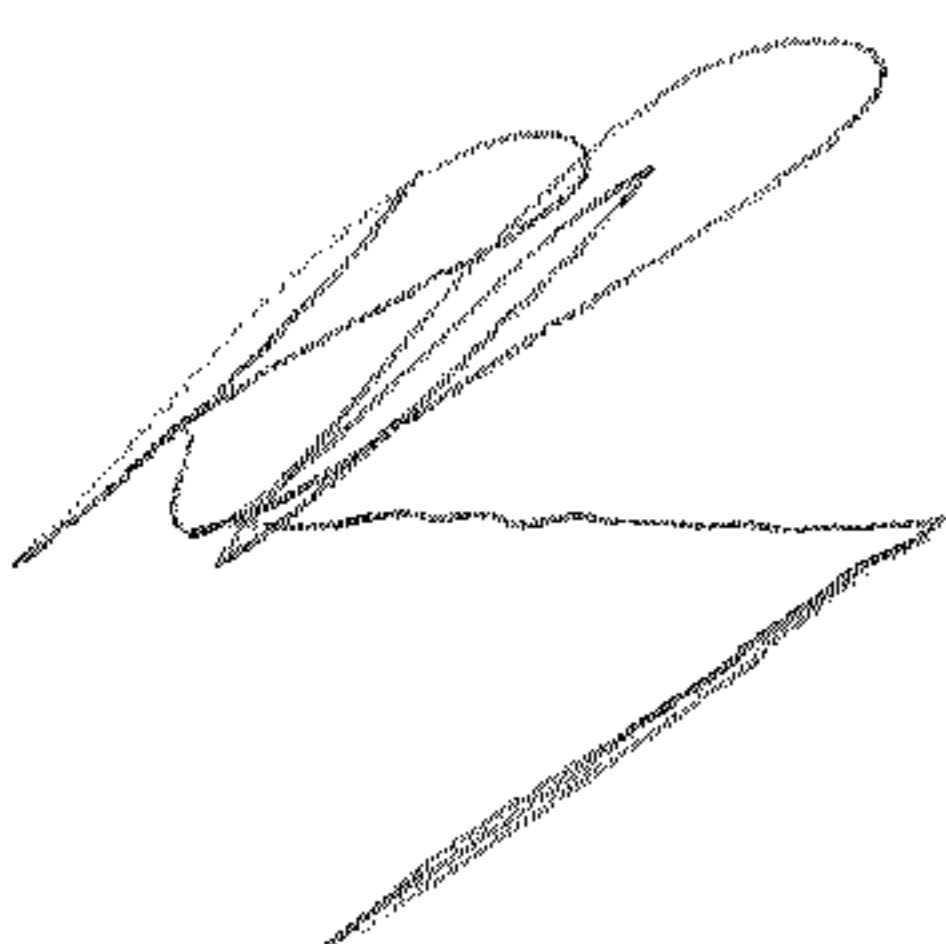


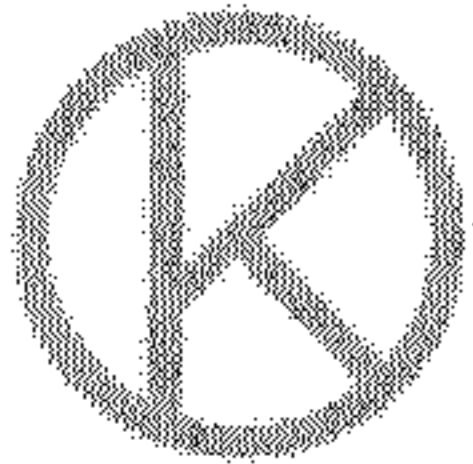
Urmas Kaarlep
AS PricewaterhouseCoopers



Margus Lutsoja
Authorised Auditor

5 April 2006





PROFIT ALLOCATION PROPOSAL

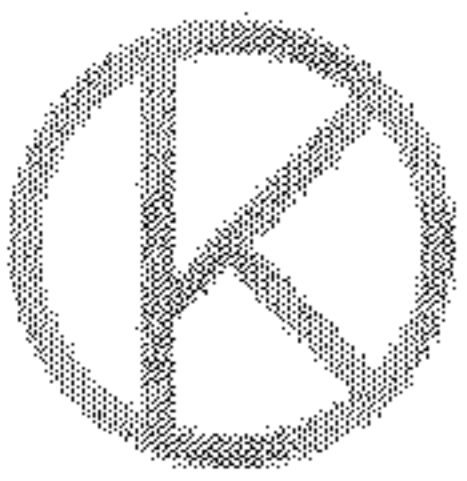
Retained earnings of the Tallinna Kaubamaja AS group:

Retained earnings as of 31 December 2004	310 987 thousand kroons
Change in revaluation reserve	7 268 thousand kroons
Net profit for 2005	91 776 thousand kroons
Retained earnings as of 31 December 2005	410 031 thousand kroons

The Chairman of the Management Board of Tallinna Kaubamaja AS proposes the following profit allocation to the General Meeting of Shareholders:

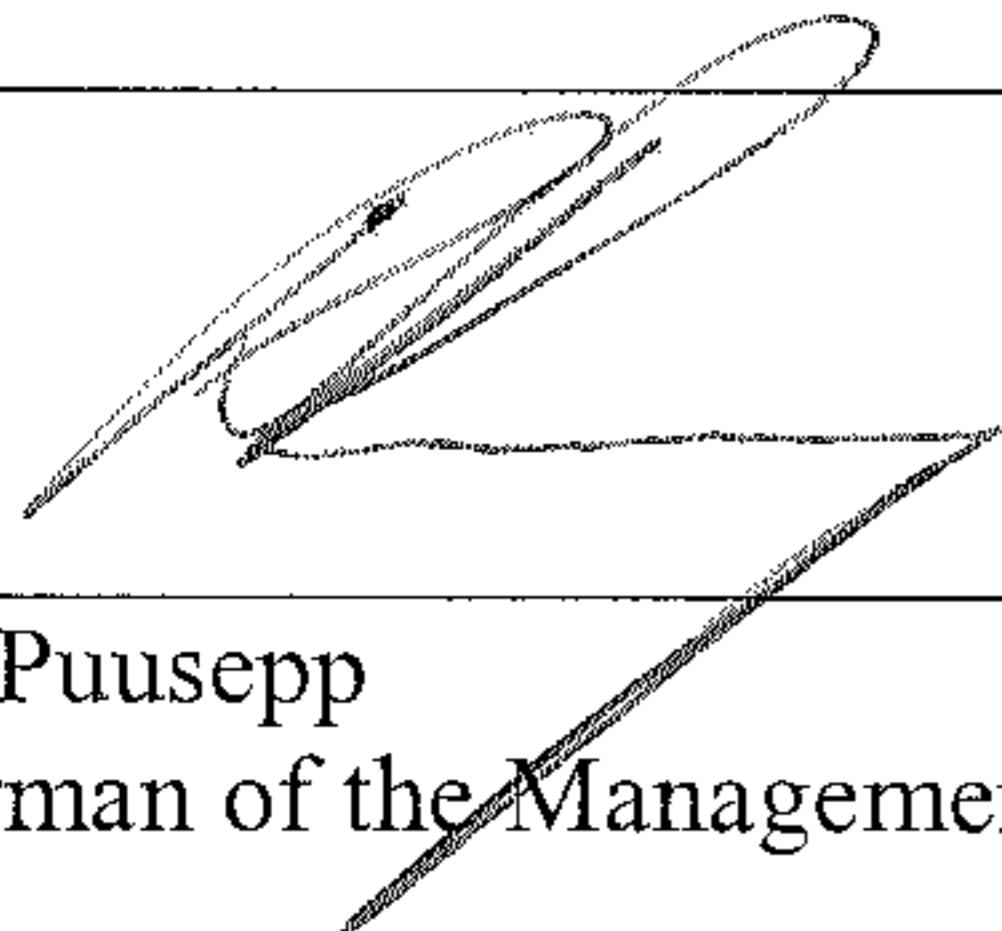
1.Payment of dividends (3.00 kroons per share)	20 365 thousand kroons
2.Retained earnings	389 666 thousand kroons

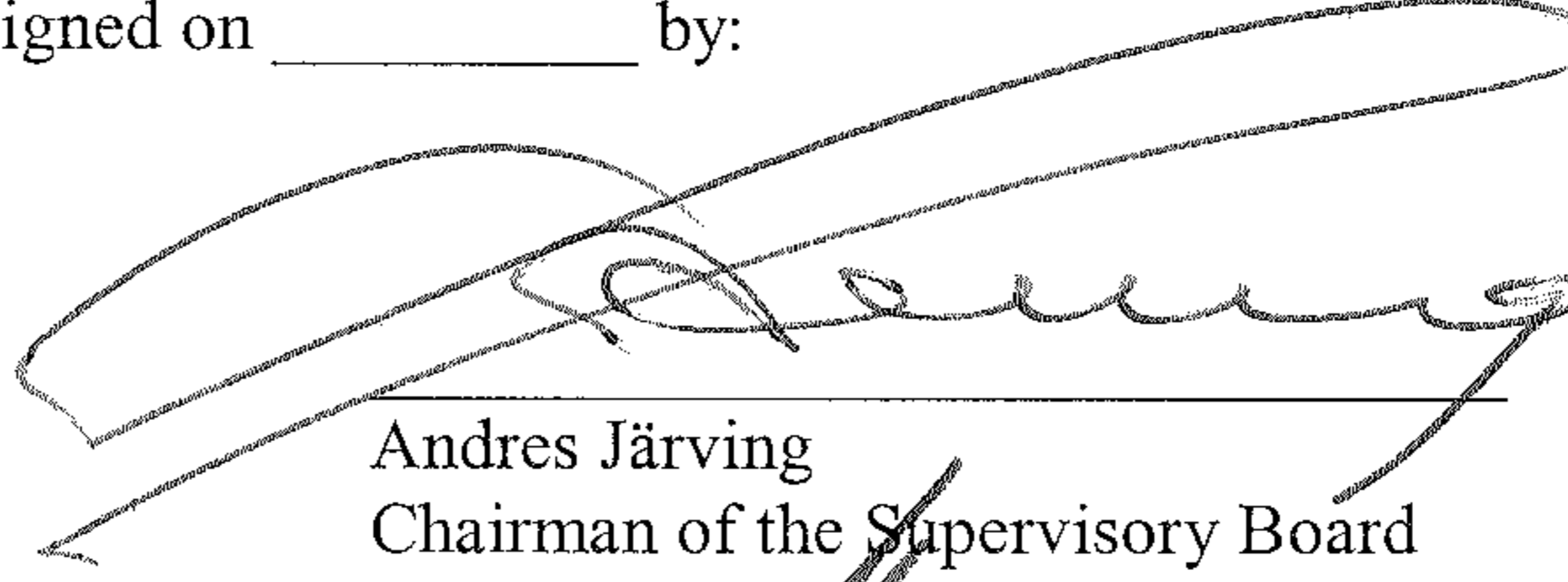
Raul Puusepp
Chairman of the Management Board

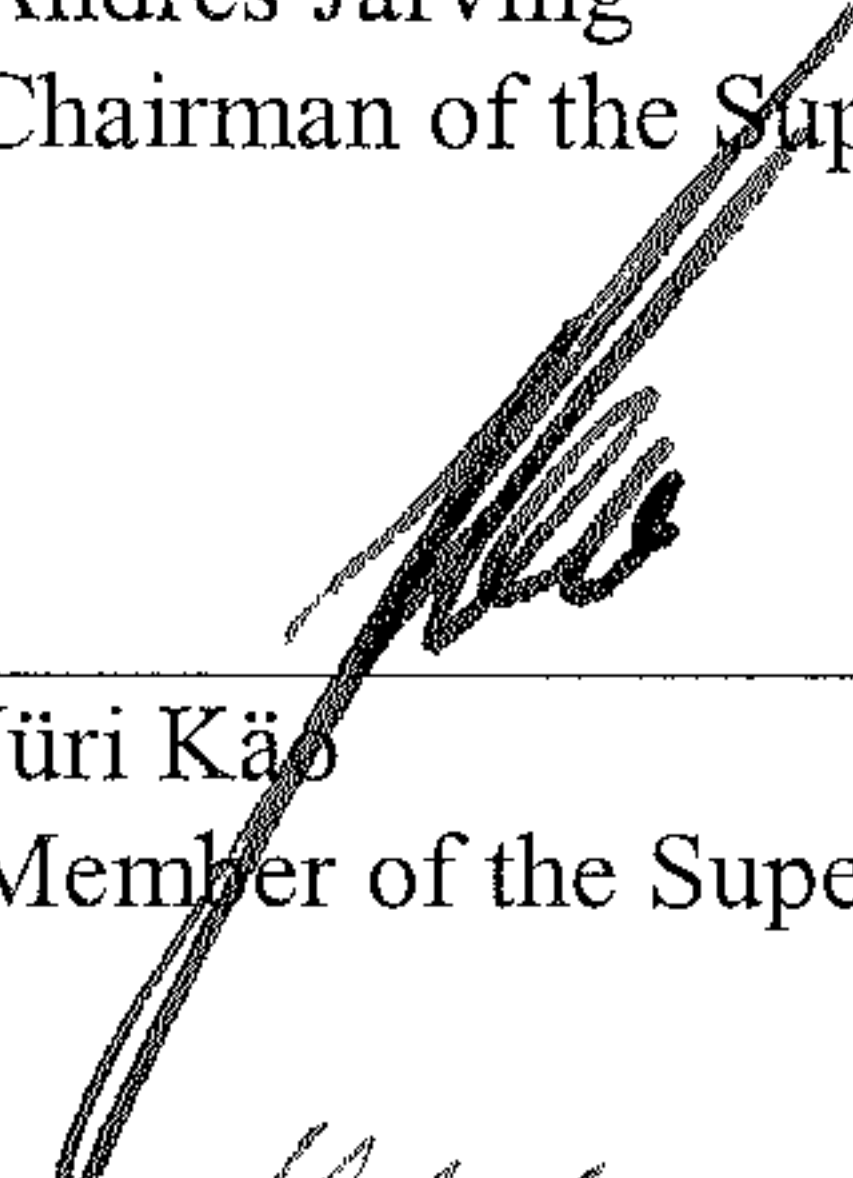


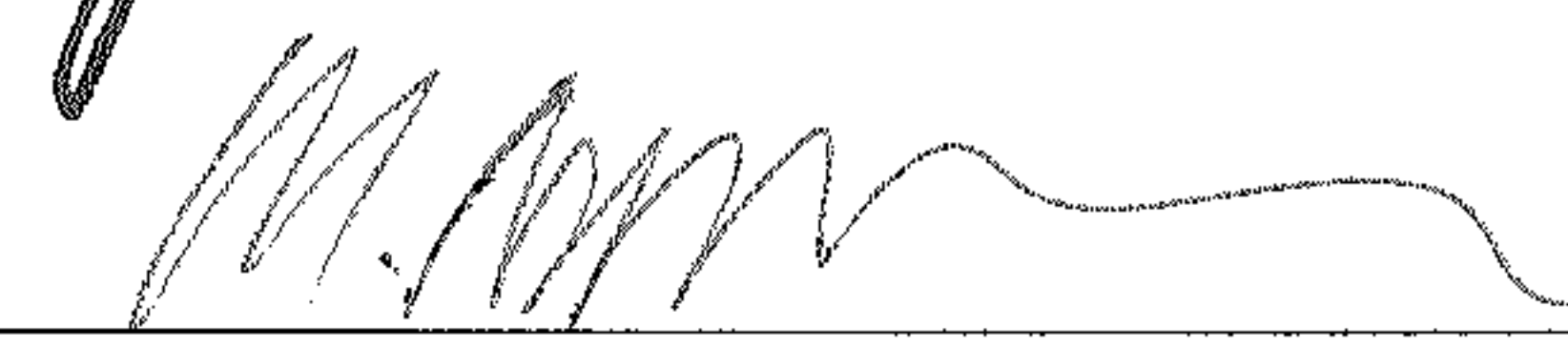
SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2005

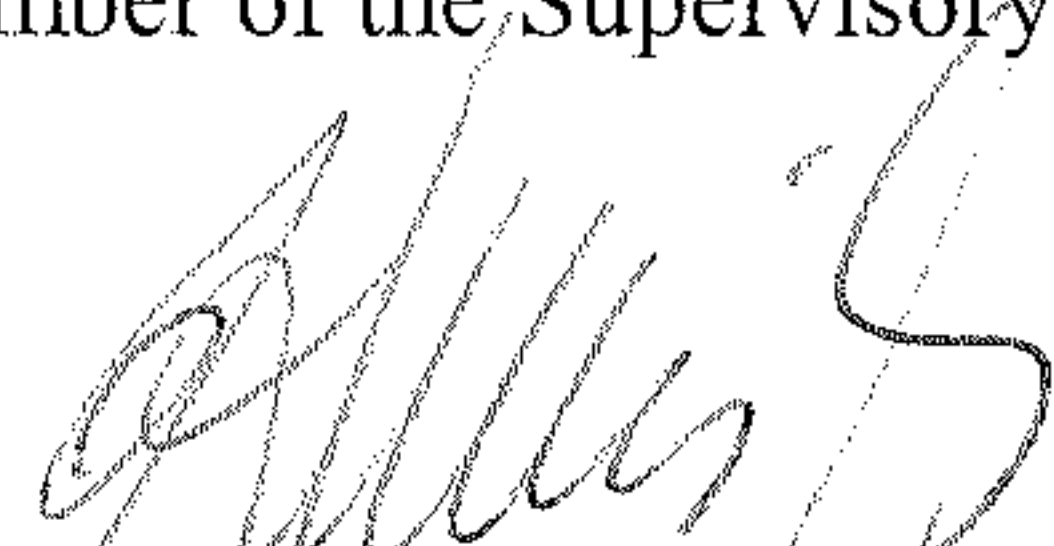
The Annual Report 2005 of Tallinna Kaubamaja AS, approved by the General Meeting of Shareholders on _____ 2006, was signed on _____ by:

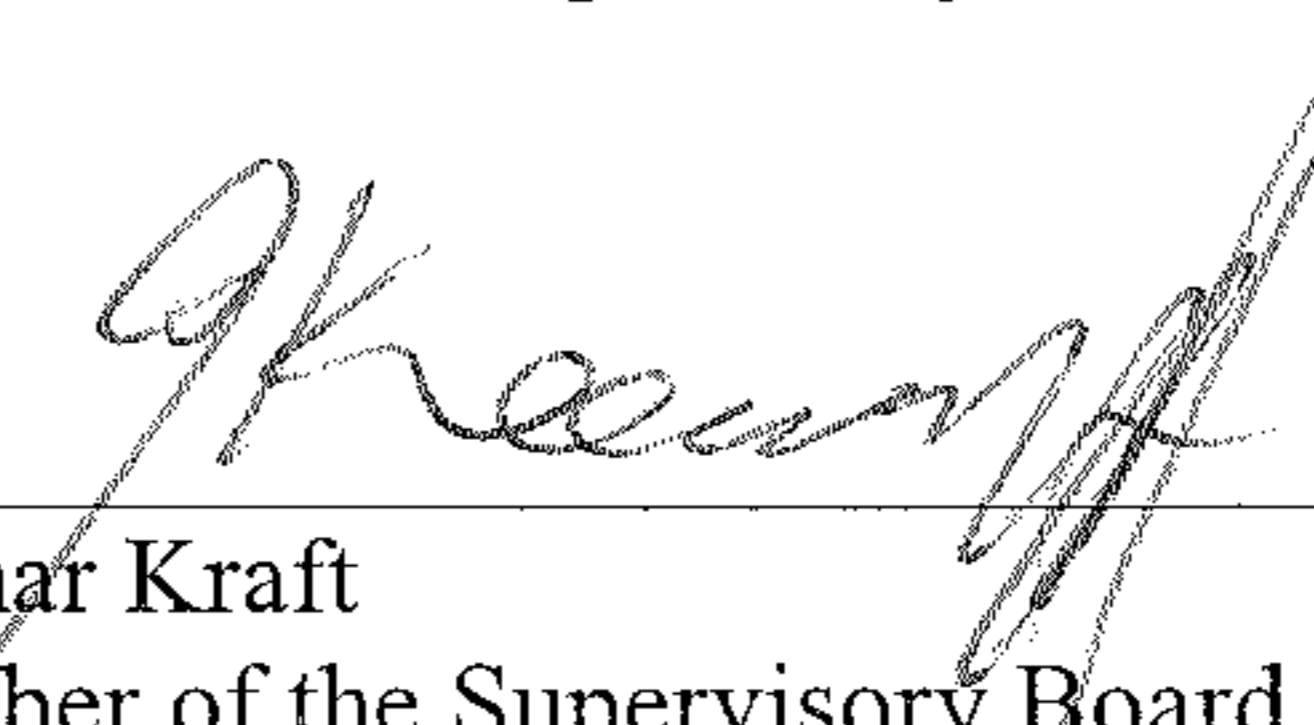

27.04.2006
Raul Puusepp
Chairman of the Management Board


27.04.2006
Andres Järving
Chairman of the Supervisory Board


27.04.2006
Jüri Käo
Member of the Supervisory Board


27.04.2006
Meelis Milder
Member of the Supervisory Board


27.04.2006
Enn Kunila
Member of the Supervisory Board


27.04.2006
Gunnar Kraft
Member of the Supervisory Board