



TALLINNA KAUBAMAJA AS

Consolidated Annual Report 2007



The companies of the Tallinna Kaubamaja group are mostly engaged in the retail and wholesale trade. At the end of 2007, the Tallinna Kaubamaja group employed over 2,833 employees.

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<i>Beginning of financial year:</i>	
<i>End of financial year:</i>	
<i>Auditor:</i>	
<i>Bank:</i>	
<i>Law office:</i>	
<i>Lawyer:</i>	
<i>Subsidiaries and associated companies:</i>	
<i>A-Selver AS</i>	<i>Share capital: 22.0 MEEK Ownership: 100%</i>
<i>Selver Latvia SIA</i>	<i>Share capital: 200 TLVL Omandiõigusl: 100%</i>
<i>AS Tartu Kaubamaja</i>	<i>Share capital: 8.3 MEEK Ownership: 100%</i>
<i>Tartu Kaubamaja Kinnisvara OÜ</i>	<i>Share capital: 40 TEEK Ownership: 100%</i>
<i>OptiGrupp Invest OÜ</i>	<i>Share capital: 40 TEEK Ownership: 100%</i>
<i>TKM Beauty OÜ</i>	<i>Share capital: 40 TEEK Ownership: 100%</i>
<i>TKM Beauty Eesti OÜ</i>	<i>Share capital: 40 TEEK Ownership: 100%</i>
<i>KIA Auto AS</i>	<i>Share capital: 1.8 MEEK Ownership: 100%</i>
<i>Ülemiste Autokeskuse OÜ</i>	<i>Share capital: 400 TEEK Ownership: 100%</i>
<i>KIA Automobile SIA</i>	<i>Share capital: 2.0 LVL Ownership: 100%</i>
<i>KIA Auto UAB</i>	<i>Share capital: 400 LTL Ownership: 100%</i>
<i>Tallinna Kaubamaja Kinnisvara AS</i>	<i>Share capital: 0.4 MEEK Ownership: 100%</i>
<i>SIA TKM Latvija</i>	<i>Ownership: 100%</i>
<i>Rävala Parkla AS</i>	<i>Share capital: 2.0 TLVL Share capital: 10.0 MEEK Ownership: 50.0%</i>

Subsidiaries and associated companies A-Selver AS, AS Tartu Kaubamaja, Tartu Kaubamaja Kinnisvara OÜ, Tallinna Kaubamaja Kinnisvara AS, OptiGrupp OÜ, TKM Beauty OÜ, TKM Beauty Eesti OÜ and Rävala Parkla AS are registered in the Republic of Estonia. Selver Latvija SIA, SIA TKM Latvija, KIA Automobile SIA are registered in the Republic of Latvia, and KIA Auto UAB in the Republic of Lithuania.

The Consolidated Annual Report consists of the management report, consolidated financial statements, auditor's report and the profit allocation proposal.



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MANAGEMENT REPORT

The main activities of the Tallinna Kaubamaja Group companies are retail and wholesale trade.

For the Tallinna Kaubamaja AS Group, 2007 was a successful year, a year of significant development. The group increased its turnover and market share, and enhanced efficiency and profit. The group started operations in a new field of activity in 2007 – the motor vehicle sales and service sector. In 2008, the Kaubamaja Group will continue its active expansion strategy in prospective fields of business, creating additional synergy together with Kaubamaja's current businesses.

Significant events in 2007 and up to the publication of the Annual Report of Tallinna Kaubamaja:

- Acquisition of a 100% stake in OptiGroup Invest OÜ, as well as Kia Auto AS, its subsidiary Kia Auto UAB and Ülemiste Autokeskuse OÜ and KIA Automobile SIA.
- Uldis Priekulis was appointed as the managing director of Selver Latvia SIA. Lease contracts were concluded for the opening of stores in the Latvian cities Aizkraukle, Daugavpils and Jekabpils.
- Tallinna Kaubamaja AS's 100% subsidiary A-Selver AS concluded lease agreements on the opening of four stores in the Estonian cities Tallinn, Narva, Põlva and Maardu.
- The central Selver Köök was opened in September, with the separate production units in Tallinn and Tartu previously closed down. The establishment of a central kitchen was conditioned by the need to significantly enhance production capacities with the aim of supporting Selver's development plans and to enhance efficiency of the entire production process.
- Tallinna Kaubamaja Kinnisvara AS acquired real estate in Kuldiga, Ventspils, Ogre and Riga in order to establish Selver stores. A real estate was also purchased in Riga for the construction of a production building for the central kitchen.
- On 7 March 2007, Tallinna Kaubamaja AS announced the establishment of a new pan-Baltic I.L.U. beauty product store chain. In October, 100% subsidiaries TKM Beauty OÜ and TKM Beauty Eesti OÜ were established for the purpose of development of the I.L.U. chain.
- In April 2007, Tallinna Kaubamaja AS's 100% subsidiary OptiGroup Invest OÜ resolved to restructure the company. As a result, Ülemiste Autokeskus OÜ, which used to be a 100% subsidiary of OptiGroup Invest OÜ, became a 100% subsidiary of Kia Auto AS.
- In October 2007, a security service started out under Tartu Kaubamaja AS, rendering security services for the group companies.
- On 7 January 2008, A-Selver AS, 100% subsidiary of Tallinna Kaubamaja AS, concluded a lease contract with the real estate developer Valerston Grupp OÜ for the operation of the supermarket in Narva. The store will be opened in the fourth quarter of 2008.
- On 6 February 2008, a contract of purchase and sale was concluded with Venus Kinnisvara AS on the acquisition of 100% stake in Suurtüki NK AS and SIA Suurtuki. The contract will enter into force after its approval by the competition boards of Estonia and Latvia. The contract of acquisition of 100% stake in Suurtüki NK AS and SIA Suurtuki entered into force on 1st of April 2008



As at 31 December 2007, the Group consisted of the following companies:

	Home country	Participation as of 31.12.07	Participation as of 31.12.06
A-Selver AS	Estonia	100%	100%
AS Tartu Kaubamaja	Estonia	100%	100%
OÜ Tartu Kaubamaja Kinnisvara	Estonia	100%	100%
Tallinna Kaubamaja Kinnisvara AS	Estonia	100%	100%
SIA TKM Latvija	Latvia	100%	100%
Selver Latvia SIA	Latvia	100%	100%
OptiGroup Invest OÜ	Estonia	100%	
KIA Auto AS	Estonia	100%	
OÜ Ülemiste Autokeskuse	Estonia	100%	
KIA Auto UAB	Lithuania	100%	
KIA Automobile SIA	Latvia	100%	
OÜ TKM Beauty	Estonia	100%	
OÜ TKM Beauty Eesti	Estonia	100%	
Rävala Parkla AS	Estonia	50%	50%

Economic development

According to the preliminary data of the Estonian Statistical Office, the Estonian economic growth was 7.1%, compared to last year. Economic growth was mainly supported by domestic demand. The economic growth gradually slowed down in 2007, due to the decrease in domestic demand and export and import of goods and services.

Prices increased by 6.6% in 2007, compared to 2006, with the price increase being significantly quicker in the second half of the year than in the first half of the year. The consumer price increase was mainly affected by increase in housing expenses (+14.6%) and food product prices (+8%); the latter was, in turn, strongly affected by the raw material price increase at the global market.

According to the preliminary data of the Estonian Statistical Office, the retail turnover of Estonian companies (w/o motor vehicle and fuel sales) amounted to 54.8 billion kroons in 2007, having grown by 20% compared to the same period 2006. While in previous periods, the growth indicators have remained stable throughout the year, growth in retail turnover was mainly evident in the first half-year of 2007 (24.2%), and remained modest in the second half-year (16.3%). The deceleration in the rate of growth of retail trade was mainly affected by the extremely high comparison base of 2006, as well as transmission of the cooling of the real estate market to the sales indicators of household equipment, household appliances and construction material retail sectors. The retail sales in non-specialised stores (predominantly food products) grew by 16.6% from 2006 to 2007, with the sector showing relatively stable figures throughout the year. According to the preliminary information of the Estonian Statistical Office, non-specialised food stores generated 48% of the total retail turnover. The corresponding figure for 2006 was 50%. Retail sales in non-specialised stores (predominantly industrial goods) grew by 13.8% compared to the same period last year. The retail sales of textile products, clothing, footwear and leather products continued to show a quicker than market average growth of 37.9% and the retail sales of household equipment, household appliances, hardware and construction materials a growth of 21.3%. The sales of second-hand goods and extra-store retail sales were less than last year.

The strong growth on the retail trade market is supported by an increase in income, high employment rate and increased borrowings. In 2007, retail trade showed a stable growth in Tallinn and a strong growth in other locations within the republic. In the second half-year, the alcohol sales restriction established in Tallinn in August 2007 had a negative effect on the retail turnover from food products (an estimated average for the alcohol segment: -10%).



Financial results

The consolidated audited revenue of the Tallinna Kaubamaja Group amounted to 5,892 million kroons in 2007. The Group's revenue for 2006 amounted to 4,239 million kroons. Turnover thus increased by 39%. The net profit grew by 50% to 411 million kroons. This constitutes a 136-million-kroon increase from 2006 when the group posted a net profit of 275 million kroons.

The turnover and profit figures for 2006 do not include the results for the vehicle sales segment.

FINANCIAL INDICATORS 2003-2007

Consolidated financial statement

	2007	2006	2005	2004	2003
Revenue	5 892	4 239	2 878	2 022	1 761
<i>Sales increase</i>	39%	47%	42%	15%	15%
Gross profit	1 478	1 102	712	498	430
Operating profit	436	288	97	105	75
EBITDA	538	383	168	164	127
Net profit	411	275	92	99	66
<i>Increase in net profit</i>	50%	199%	-7%	50%	47%
Gross profit margin	25%	26%	25%	25%	24%
Net profit margin	7%	6%	3%	5%	4%
Return on equity (ROE)	26%	25%	11%	18%	16%
Return on assets (ROA)	14%	13%	7%	11%	8%
Current ratio	1.0	1.0	0.7	1.2	1.0
Debt ratio	0.4	0.5	0.4	0.4	0.5
Revenue per employee (in millions of EEK)	2.1	1.8	1.5	1.4	1.4
Inventory turnover ratio	11.3	13.5	9.6	8.4	10.0
SHARE					
Average number of shares (1,000 units)	40 729	40 729	6 788	6 788	6 788
Equity per share (EEK/share)	46.5	30.5	145.8	95.3	64.1
Closing price (EEK/share)	122.0	143.6	348.1	116.9	73.1
Earnings per share (EPS)	10.1	6.7	13.6	14.6	9.7
Price to earnings ratio (P/E)	12.1	21.3	25.7	8.0	7.5
Average number of employees	2 833	2 411	1 903	1 445	1 289

EBITDA	= profit before financial income/expenses and depreciation
Share of equity	= equity/balance sheet volume * 100%
Return on equity (ROE)	= net profit/average equity * 100%
Return on assets (ROA)	= net profit/average assets * 100%
Revenue per employee	= revenue/average number of employees
Inventory turnover (ratio)	= revenue/inventories
Net profit margin	= net profit/revenue * 100%
Gross profit margin	= (revenue – cost of sales)/revenue
Current ratio	= current assets/current liabilities
Debt ratio	= total liabilities/balance sheet total
Price to earnings ratio (P/E)	= price at the end of the period/net EPS

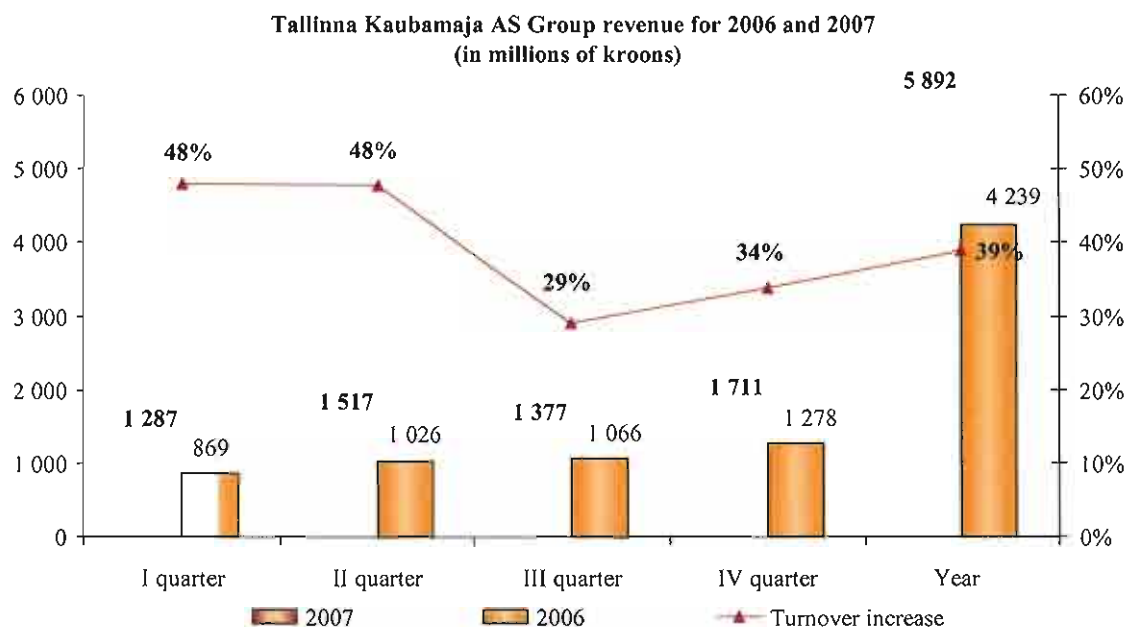


As of 31 December 2007, the consolidated balance sheet volume of the Tallinna Kaubamaja Group amounted to 3,329 million kroons, having increased by 792 million kroons from the end of 2006. Owner's equity as of 31 December 2007 amounted to 1,894 million kroons, having increased by 650 million kroons. Assets and equity increased by 31% and 52% in 2007, respectively.

As of the end of 2007, the group had 250,000 regular customers. Regular customer numbers grew by 10%.

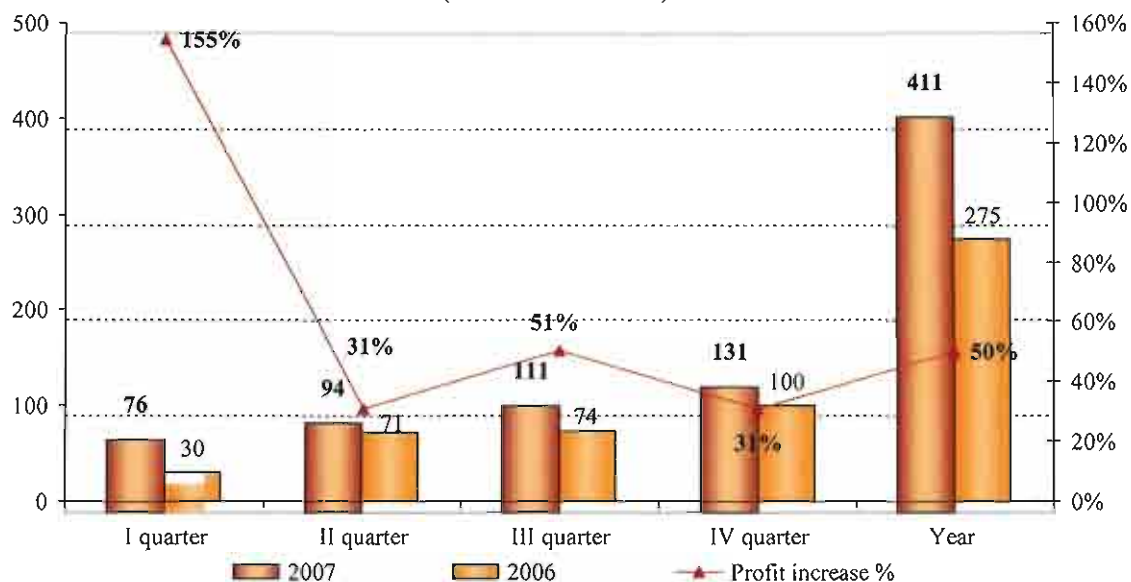
Seasonal nature of the business

The economic results of the Tallinna Kaubamaja AS group companies differ by seasons. Approximately 48% of the revenue was earned in the 1st half-year and the remainder in the 2nd half-year. At the same time, approximately 41% of the net profit was posted in the 1st half-year. The 4th quarter was the most efficient in the group companies. 29% of the revenue and 32% of the net profit was generated in the last quarter.

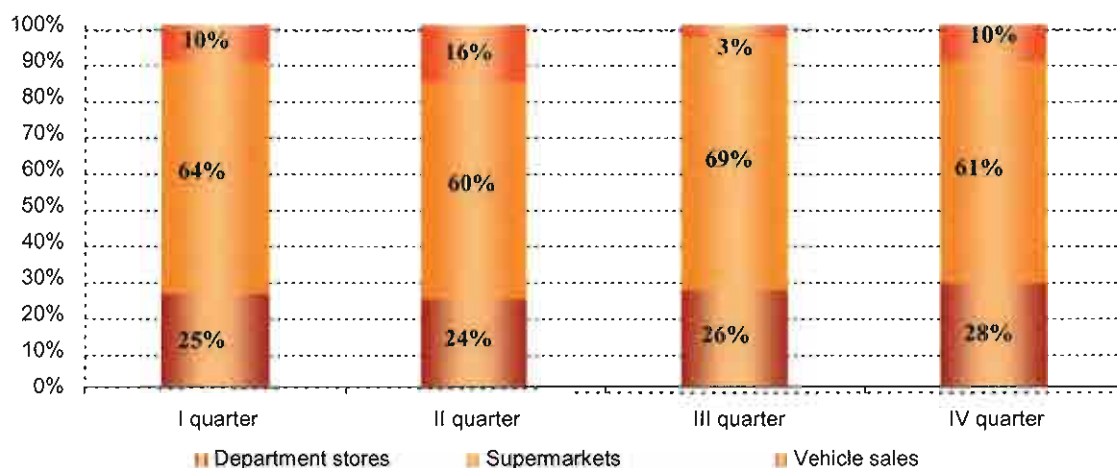




Tallinna Kaubamaja AS Group net profit for 2006 and 2007
(in millions of kroons)



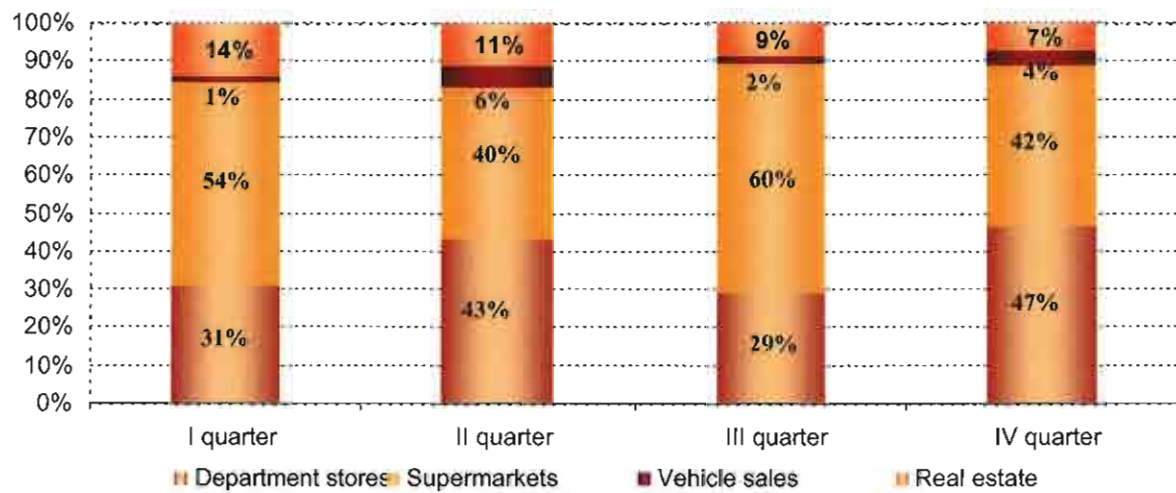
Tallinna Kaubamaja AS Group revenue distribution for 2007



The share of revenue from the real estate segment is around 1% in all quarters, and has not been separately brought out on the figures.



Tallinna Kaubamaja AS Group net profit distribution





Equity market

The shares of Tallinna Kaubamaja AS have been listed in the main list of the Tallinn Stock Exchange since 19 August 1997. 2006. As of the end of 2006, a total of 40,729.2 thousand shares had been issued, with a nominal value of 10 kroons per share.

Share price in Estonian kroons and the Tallinn Stock Exchange trading statistics for 2007



Tallinna Kaubamaja AS traded with a stable number of 40,729.2 thousand shares during the year. Regardless of the strong economic results, the share price dropped by nearly 15% in the 12 months of 2007 (from 143.64 kroons to 122.04 kroons). This was due to expectations of a deceleration of the economic growth. In 2007, nearly 8 million shares of Tallinna Kaubamaja AS changed hands, with tradability increasing by two times during the year. Under the resolution of the General Meeting of the Shareholders, dividends were paid in the amount of 1.00 kroons per share in 2007.

As of 31.12.2007, shares were divided between major (over 5% participation) shareholders as follows:

Shareholder	Participation %
AS NG INVESTEERINGUD	67.00%
ING LUXEMBOURG S.A.	6.59%
SKANDINAVISKA ENSKILDA BANKEN AB CLIENTS	5.59%



Department stores

Revenue from the department store segment amounted to 1,546 million kroons in 2007, increasing by 19%, compared to last year. The net profit from department stores amounted to 157 million kroons, increasing by two times from 2006 (105 million kroons).

The average revenue per square meter from the department store segment amounted to 5.6 thousand kroons per month in 2007, having increased by 19% from last year (2006: 4.7 thousand kroons per month). A total of 0.2 thousand square meters of commercial space was added in the department stores during the year, with the total sales area amounting to 23.1 thousand square meters. A total of 8.6 million purchases were made in the department stores in 2007. This constitutes a 6% increase from 2006.

The share of regular customers rose to 71%, having increased by 4% from last year. The number of Partner credit cards exceeded the 10,000 card limit.

Supermarkets

Revenue from supermarkets grew by 28% during the year, amounting to 3,722 million kroons in 2007. Average commercial space showed a 6% increase, and commercial space productivity a 22% increase. The net profit for 2007 amounted to 200 million kroons - a 77% increase from 2006 (114 million kroons). Excellent sales results were the biggest contributors to this increase.

The market share of Selver stores as regards retail turnover (w/o motor vehicle and fuel sales) was 6.8% in 2007, compared to the 6.4% in 2006. In the food and convenience goods market - i.e. retail turnover from non-specialised stores (predominantly food products), Selver's market share increased by 1.3% to 14.7% in 2007.

In 2007, Selver's activities mostly revolved around the launch of the Latvian subsidiary Selver Latvia SIA, and preparation of the future expansion projects in Estonia and Latvia.

Real estate

The revenue from the real estate segment amounted to 40 million kroons in 2007. Revenue decreased by 18%, compared to 2006. The net profit from the segment amounted to 41 million kroons, showing a 21-million-kroon (i.e. 34%) decrease from last year. The profit for 2006 includes extraordinary revenue, with the profit for 2007 being affected by the development projects launched in Latvia.

In 2007, Tallinna Kaubamaja Kinnisvara AS concluded contracts for the purchase of new real estates in Tallinn, Harjumaa and Hiiumaa. In December, a new commercial building was completed and opened in Põltsamaa, accommodating a new Selver store. New store buildings are currently under construction in Kohtla-Järve, Hiiumaa and Pärnu. Construction is also under way for expansion of the Pirita Selver in Tallinn. New development projects are being designed in various locations in Estonia.

Tallinna Kaubamaja Kinnisvara AS has two 100% subsidiaries — Tartu Kaubamaja Kinnisvara OÜ and SIA TKM Latvija. The purpose of the subsidiary SIA TKM is to develop the acquired real estate projects and acquiring real estate suitable for developing new projects. The main field of activity of Tartu Kaubamaja Kinnisvara OÜ is the management and maintenance of the Tartu Kaubamaja (Riia 1, Tartu) commercial building, and lease of commercial space in the building.

At the end of 2006, SIA TKM Latvija acquired several real estates in different Latvian cities, suitable for developing commercial buildings. In 2007, contracts were concluded for the acquisition of new real estates in Riga, Liepaja, Kuldiga, Ogre and Ventspils. The total area of the real estates acquired by the company amount to nearly 109.5 thousand square meters. Design work and preparation for construction is under way in the acquired real estates. The company is planning to construct store buildings and shopping centers on the acquired real estates.



Vehicle sales

In 2007, a 100% stake was acquired in OptiGroup Invest OÜ together with its subsidiary Kia Auto AS, and Kia Auto AS's subsidiaries Kia Auto UAB and Ülemiste Autokeskuse OÜ.

The main activity of KIA Auto AS is import of KIA Motors Corporation vehicles and original spare parts. The purpose of KIA Motors Corporation is to rise among the top 5 car producers in the world by 2010. In the last few years, KIA Motors Corporation has significantly enhanced its selection as well as quality, and is currently offering ten different models. The high-quality pan-Baltic sales and service network of KIA Auto AS is made up of nineteen dealers.

The revenue without transactions between segments amounted to 584 million kroons, with vehicle sales contributing 87%, sales of second-hand cars 2%, spare parts 9%, repair services 1% and other sales 1%. The net profit from the segment amounted to 14 million kroons in 2007.

In 2007, KIA Auto AS sold 2,207 new cars, compared to the 1,254 new cars in 2006. The company's new passenger car and SUV market share was 2.6% in Estonia, 2.5% in Latvia and 1.8% in Lithuania in 2007.

Beauty shops

In February 2007, Tallinna Kaubamaja AS announced its long-term strategic decision to establish a pan-Baltic beauty shop chain. The new beauty shops will be remarkably bigger than ordinary beauty shops: with an area of 350-600 m². The concept is also different than usual. The main sales articles will include exclusive and decorative cosmetics, men's and women's perfumes, spa products and hair-care products. Special focus will lie on men's beauty products. The stores will additionally offer various other services – nail studio, hairdresser and cosmetician. The planned investments amount to 16 thousand kroons (1,025 euros) per square meter of store space.

Staff

Tallinna Kaubamaja group employed an average of 2,833 people in 2007. This constitutes an 18% increase from last year. Total personnel expenses (wages and salaries, and social tax) amounted to 528.6 million kroons, increasing by 38% from last year, with the members of the Management Board and Supervisory Board of the group receiving a total of 20.5 million kroons of remuneration and bonuses in 2007 (incl. social tax). The group has a total of 16 management board members and 50 supervisory board members. The management board and supervisory board members are the same for some companies.

A-Selver AS manager Ain Taube will leave the position in 09.05.2008. New members of the Management Board will be Iivi Saar and Andres Heinver. The legal rights and obligations of Ain Taube as a manager will also end in the subsidiary of A-Selver AS, Selver Latvia SIA. New member of the board in Selver Latvia SIA will be Iivi Saar.

Investments

The company purchased real estate and conducted renovation in the total amount of 350 million kroons in 2007. 236 million kroons worth of real estate was acquired in Latvia, and 40 million kroons worth of real estate in Estonia. The Selver Kõök was completed at a cost of 69 million kroons, with renovation and repairs carried out in the amount of 4 million kroons. The group has acquired sales hall fixtures, cooling equipment and IT equipment in the total value of 78 million kroons, of which the Selver Kõök equipment and fixtures make up 22 million kroons.

Future prospects

In the next few years, the economic growth is expected to decelerate, resulting in a decrease in consumption and a deceleration in the growth of retail trade. In the food product and convenience goods sector, the expansion of bigger chains is expected to continue (especially in other areas), resulting in a redistribution of market positions.

In 2008, department stores aim at developing existing sales environments and enhancing efficiency of the economic activities.



The priority of the Selver chain for 2008 is to search for additional development opportunities, increase its market share and successfully enter the Latvian retail trade market. The company has set the objective of opening at least nine new stores in Estonia in 2008. In 2008, the company will open stores in Narva, Põlva, Kohtla-Järve, Hiiumaa and in Mustamäe tee in Tallinn, as well as in Paide, Pärnu and Keila. The commercial space of five currently operating stores will be expanded. The commercial space will be expanded in Pirita and Järve Selvers in Tallinn, Krooni Selver in Rakvere, and Anne and Ringtee Selvers in Tartu. A total of approximately 24,000 m² of space will be added in 2008.

On the Latvian market, Selver has set the objective of creating the management structure for Selver Latvia SIA, recruiting qualified labour, successfully opening the stores in the fourth quarter of 2008, and actively searching for new store locations. Agreements have already been concluded on the opening of 14 stores. Stores in the following Latvian cities will be opened in the last quarter of 2008: Daugavpils, Kuldīga, Ogre, Rēzekne and Salaspils. The central kitchen is scheduled to be opened at the end of 2009.

Selver has set the objective of reaching the top 3 or 4 retail chain stores at the Latvian market.

In 2008, real estate companies will continue their development operations in the real estates acquired in Estonia and Latvia. The search for new development projects will continue.

KIA Auto AS plans to make investments in the new KIA representative sales hall in Tallinn, as well as in modernising the customer service. A new KIA representative building will be established in Vilnius. In 2008, the new generation of KIA Picanto and the newest addition to the Cee'd product family - the 3-door sporty pro_cee'd - will be added to the product selection. The company is planning to partake at the biggest car show in 2008 - the Tallinn Auto show 2008.

The objective of the beauty shop chain is to open 15 beauty shops in the next three or four years. The first concept-based I.L.U. store will be opened in the autumn of 2008 in Pärnu. Other big Estonian cities will follow. In Latvia and Lithuania, these shops will be opened in 2009-2010.

By acquiring the footwear store chain, the Kaubamaja group continues its active expansion strategy in prospective fields of business, creating additional synergy together with Kaubamaja's current businesses.

The Tallinna Kaubamaja group will continue searching for new development opportunities in 2008.



CORPORATE GOVERNANCE REPORT OF TALLINN STOCK EXCHANGE

Tallinna Kaubamaja Group observes most of the obligatory rules of corporate governance. At the same time there are some rules which the Company does not observe and this is mainly due to the peculiarities characteristic to the area of activity of the Company. The list of rules which the Company does not observe and the reasons for that have been presented below.

Differently from that specified in clause 2.2.1. of corporate governance the management board of Tallinna Kaubamaja AS consists of one member. It is a historical tradition, but at the same time the management of the parent company consists of four members and decisions are adopted by the management not by the management board. The areas of liability, tasks and authorisations have been defined between members of the management in detail; the same also applies for all the subsidiaries. The Group is of the opinion that such a division protects the interests of the shareholders the best and ensures the sustainability of the Company.

The Tallinna Kaubamaja Group does not disclose the remunerations of each member of the management board, management and supervisory board separately (clauses 2.2.7 and 3.2.5 of corporate governance). The Group is of the opinion that it is important to disclose to investors the total remunerations of all the persons liable for the management activities of the Company and welfare of the shareholders (i.e. the total remunerations of the management and supervisory board of the parent company) and treats disclosing remuneration separately with regard to each member to constitute disclosure of private information, i.e. a business secret, and does not wish to disclose the same to its competitors.

The Tallinna Kaubamaja Group has not published the schedule of meetings with journalists and investors on its website (clause 5.6 of corporate governance) and has thus not created any opportunities for shareholders for participating in the aforementioned events. However, the information to be disclosed in the events has been available for all the investors and journalists at the same time.



CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Chairman of the Management Board confirms the correctness and completeness of Tallinna Kaubamaja AS's consolidated financial statements 2007 as presented on pages 14-50.

The Chairman of the Management Board confirms that:

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

Raul Puusepp
Chairman of the Management Board

Tallinn, 11 April 2008



CONSOLIDATED BALANCE SHEET

In thousands of kroons, as at December 31

	Note	31 December 2007		31 December 2006	
		EEK	EUR*	EEK	EUR*
ASSETS					
Current assets					
Cash and bank accounts	2	282 635	18 064	371 368	23 736
Accounts receivable	3	50 966	3 257	50 646	3 237
Other short-term receivables	4	50 755	3 244	39 929	2 552
Prepayments	5	20 133	1 287	29 736	1 900
Inventories	6	519 630	33 209	313 009	20 005
Total current assets		924 119	59 061	804 688	51 430
Non-current assets					
Prepaid expenses	5	37 291	2 383	41 732	2 667
Investments in associates	8	14 201	908	11 425	730
Other long-term receivables	9	2 828	181	7 828	500
Property, plant and equipment	10	2 300 878	147 053	1 670 816	106 785
Intangible assets	7	49 388	3 156	0	0
Total non-current assets		2 404 586	153 681	1 731 801	110 681
TOTAL ASSETS		3 328 705	212 742	2 536 489	162 111
LIABILITIES AND OWNER'S EQUITY					
Current liabilities					
Interest bearing borrowings	11	120 626	7 709	239 040	15 277
Prepayments received for goods and services		11 673	745	12 992	830
Accounts payable		611 454	39 080	426 360	27 250
Other short-term liabilities	13	166 756	10 657	128 785	8 230
Total current liabilities		910 509	58 191	807 177	51 587
Non-current liabilities					
Interest bearing borrowings	11,13	522 214	33 375	485 542	31 032
Long-term provisions		2 075	132	0	0
Total long-term liabilities		524 289	33 507	485 542	31 032
TOTAL LIABILITIES		1 434 798	91 698	1 292 719	82 619
Owner's equity					
Share capital	14	407 292	26 031	407 292	26 031
Mandatory reserve		40 729	2 603	7 269	465
Revaluation reserve	10	759 721	48 555	492 014	31 445
Retained earnings		686 155	43 854	337 215	21 552
Conversion differences		10	1	-20	-1
TOTAL OWNER'S EQUITY		1 893 907	121 044	1 243 770	79 492
TOTAL LIABILITIES AND OWNER'S EQUITY		3 328 705	212 742	2 536 489	162 111

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

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CONSOLIDATED INCOME STATEMENT

In thousands of kroons, per annum

	Note	12 months 2007		12 months 2006	
		EEK	EUR*	EEK	EUR*
Revenue	15	5 892 423	376 594	4 239 130	270 930
Other income	16	117 781	7 527	83 836	5 358
Materials and consumables used	6	-4 414 842	-282 160	-3 136 682	-200 470
Other operating expenses	17	-516 846	-33 032	-409 336	-26 160
Personnel expenses	18	-528 638	-33 786	-383 574	-24 515
Depreciation, amortisation and impairments	9	-102 416	-6 546	-94 678	-6 051
Other expenses		-11 536	-736	-10 622	-679
Operating profit		435 926	27 861	288 074	18 413
Financial expenses	19	-27 446	-1 754	-12 771	-816
Financial income	19	11 072	708	3 048	195
Financial income from shares of associated companies	8	2 772	177	2 397	153
Total net financial items		-13 602	-869	-7 325	-468
Profit before income tax		422 324	26 992	280 749	17 945
Income tax		-11 488	-735	-6 083	-390
NET PROFIT FOR THE FINANCIAL YEAR		410 836	26 257	274 666	17 555
Basic earnings per share (EEK/EUR)	20	10.09	0.64	6.74	0.43
Diluted earnings per share (EEK/EUR)	20	10.09	0.64	6.74	0.43

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

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CONSOLIDATED CASH FLOW STATEMENT

In thousands of kroons, per annum

	Note	12 months 2007		12 months 2006	
		EEK	EUR*	EEK	EUR*
CASH FLOW FROM OPERATING ACTIVITIES					
Net profit		410 836	26 257	274 666	17 555
Adjustments:					
Income tax on dividends		11 488	734	0	0
Interest expense	19	27 446	1 754	12 771	816
Interest income		-11 072	-708	-3 190	-204
Depreciation, amortisation and impairments	10	102 416	6 546	94 678	6 051
Profit (loss) from disposals and write-off of non-current assets		459	29	698	45
Effect of the equity method	8	-2 772	-177	-2 397	-153
Change in inventories		-100 233	-6 404	-22 620	-1 446
Change in receivables and prepayments related to operating activities		19 543	1 249	-54 198	-3 464
Change in liabilities and prepayments related to operating activities		183 242	11 712	151 251	9 667
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		641 353	40 990	451 659	28 867
TOTAL CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment (except for finance lease)	10	-424 255	-27 115	-495 992	-31 700
Proceeds from disposals of property, plant and equipment		217	14	329	21
Acquisition of a subsidiary, net of cash acquired	7	-72 804	-4 653	0	0
Loan repayments received from associates	8	2 000	128	2 000	128
Interest received		10 678	682	2 923	186
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		-484 164	-30 944	-490 740	-31 365
CASH FLOW FROM FINANCING ACTIVITIES					
Loans received		684 764	43 765	462 457	29 556
Repayments of loans received		-797 303	-50 957	-25 257	-1 614
Bonds issued		0	0	48 900	3 125
Redemption of bonds		-50 000	-3 196	-35 000	-2 237
Dividends paid		-40 729	-2 603	-20 365	-1 302
Income tax on dividends		-11 488	-734	-6 083	-389
Change in overdraft balance		-682	-44	-17 264	-1 102
Repayment of finance lease principal		-4 229	-270	-3 978	-254
Interest paid		-26 265	-1 679	-11 251	-719
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		-245 932	-15 718	392 159	25 064
TOTAL CASH FLOW		-88 743	-5 672	353 078	22 566
Cash and cash equivalents at the beginning of the period	2	371 368	23 735	18 290	1 169
Cash and cash equivalents at the end of the period	2	282 635	18 064	371 368	23 735
Change in cash and cash equivalents		-88 733	-5 671	353 078	22 566

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of kroons, per annum

	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Conversion differences	Total
Balance as of 31.12.2005	67 882	7 269	504 307	410 031	0	989 489
Depreciation transfer for land and buildings	0	0	-12 293	12 293	0	0
<i>Total income and expense for the year recognized directly in equity</i>	<i>0</i>	<i>0</i>	<i>-12 293</i>	<i>12 293</i>	<i>0</i>	<i>0</i>
Profit for the period	0	0	0	274 666	-20	274 646
<i>Total income and expenses for the year</i>	<i>0</i>	<i>0</i>	<i>-12 293</i>	<i>286 959</i>	<i>-20</i>	<i>274 646</i>
Bonus issue	339 410	0	0	-339 410	0	0
Dividends paid	0	0	0	-20 365	0	-20 365
Balance as of 31.12.2006	407 292	7 269	492 014	337 215	-20	1 243 770
Revaluation of land and buildings	0	0	280 000	0	0	280 000
Depreciation transfer for land and buildings	0	0	-12 293	12 293	0	0
Change in conversion differences	0	0	0	0	30	30
<i>Total income and expense for the year recognized directly in equity</i>	<i>0</i>	<i>0</i>	<i>267 707</i>	<i>12 293</i>	<i>30</i>	<i>280 030</i>
Profit for the period	0	0	0	410 836	0	410 836
<i>Total income and expenses for the year</i>	<i>0</i>	<i>0</i>	<i>267 707</i>	<i>423 129</i>	<i>30</i>	<i>690 866</i>
Change in the mandatory reserve	0	33 460	0	-33 460	0	0
Dividends paid	0	0	0	-40 729	0	-40 729
Balance as of 31.12.2007	407 292	40 729	759 721	686 155	10	1 893 907

In thousands of EUR*

	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Conversion differences	Total
Balance as of 31.12.2005	4 338	465	32 231	26 206	0	63 240
Depreciation transfer for land and buildings	0	0	-786	786	0	0
<i>Total income and expense for the year recognized directly in equity</i>	<i>0</i>	<i>0</i>	<i>-786</i>	<i>786</i>	<i>0</i>	<i>0</i>
Profit for the period	0	0	0	17 554	-1	17 554
<i>Total income and expenses for the year</i>	<i>0</i>	<i>0</i>	<i>-786</i>	<i>18 340</i>	<i>-1</i>	<i>17 554</i>
Bonus issue	21 693	0	0	-21 693	0	0
Dividends paid	0	0	0	-1 302	0	-1 302
Balance as of 31.12.2006	26 031	465	31 445	21 551	-1	79 492
Revaluation of land and buildings	0	0	17 896	0	0	17 896
Depreciation transfer for land and buildings	0	0	-786	786	0	0
Change in conversion differences	0	0	0	0	2	2
<i>Total income and expense for the year recognized directly in equity</i>	<i>0</i>	<i>0</i>	<i>17 110</i>	<i>786</i>	<i>2</i>	<i>17 898</i>
Profit for the period	0	0	0	26 257	0	26 257
<i>Total income and expenses for the year</i>	<i>0</i>	<i>0</i>	<i>17 110</i>	<i>27 043</i>	<i>2</i>	<i>44 155</i>
Change in the mandatory reserve	0	2 138	0	-2 138	0	0
Dividends paid	0	0	0	-2 603	0	-2 603
Balance as of 31.12.2007	26 031	2 603	48 555	43 854	1	121 044

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)
Additional information on the share capital has been presented in Note 14.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Accounting principles used in the preparation of the financial statements

General information

Tallinna Kaubamaja AS ('the Company') and its subsidiaries (together 'the Group') companies involved in retail trade and service provision. Tallinna Kaubamaja AS is a company registered in the Republic of Estonia on 18 October 1994. The shares of Tallinna Kaubamaja AS have been listed on the Tallinn Stock Exchange.

These consolidated financial statements were authorized for issue by the Management Board on 10 April 2007.

Basis of preparation

The consolidated financial statements 2007 of AS Tallinna Kaubamaja have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

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

The functional and presentation currency of AS Tallinna Kaubamaja is the Estonian kroon (kroon, EEK). In compliance with the rules of Tallinn Stock Exchange, the financial statements are also presented in euro (EUR). The Estonian kroon is pegged to the euro at the rate of 15.6466 kroons to 1 euro. Therefore, the presentation of the financial statements in euros does not give rise to any exchange differences. All financial information has been rounded to the nearest thousand, except where otherwise indicated.

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.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain judgments and accounting estimates, affecting the amounts presented in the financial statements. It also requires the management to exercise its judgment and estimates in the process of applying the Company's accounting policies and basis of estimations. Although these estimates are based on management's best knowledge, actual results ultimately may differ from those estimates. Changes in the management's estimations are recorded in the income statement of the period when the changes occurred.

The areas involving a higher degree of judgment 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 shopping centers, 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.
- *Estimation of revalued value of land and buildings:* The Group shows in financial statements land and building using revaluation method. The management of the Group assesses regularly, based on expert opinions that the recoverable amount of the revalued assets does not differ materially from its carrying amount. The discounted cash flow method is used for the determination of the fair value of the land and buildings. The Management of the Group assessed that the carrying value of the revalued assets had fallen below its recoverable amount. As at 31.12.2007, the value of revalued assets was increased by 280,000 thousand kroons. Previous revaluation of assets was performed as at 31.12.2005 (2005: 251,072 thousand kroons)

The carrying amount of the revalued assets as at 31.12.2007 was 1,195,944 thousand kroons (2006: 939 296 thousand kroons).

- *Acquisition of subsidiary:* Purchase method was used in acquisition of a subsidiary KIA Auto AS.. The purchase method has been implemented from the moment when all net assets and management of the company went to acquirer (purchase agreement 30 March 2007). Acquisition cost of the shares of KIA Auto AS was 79,400 thousand kroons. Acquisition cost of the investment consists of purchase price (money paid or other consigned

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assets) and other direct expenses related to acquisition (expenses of shares registration, state duties, juridical and auditing expenses etc.). Fair value of the acquired net assets amounted to 30,012 thousand kroons as at 31.12.2007. The difference between acquisition cost and acquired net assets in amount 49,388 is the goodwill of acquired subsidiary,

- *Impairment test of goodwill:* The Group determines whether goodwill arisen from business combinations is impaired at least on an annual basis. For evaluation, the fair value of cash-generating business units for which the goodwill is allocated and value in use has been used by the Group. For finding out the value in use, the Group has forecasted the expected cash flows of the cash generating business units and chosen an appropriate discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31.12.2007 was 49,388 thousand kroons. No decrease of the value of goodwill in financial year 2007.
- *Carrying value of receivables:* The Group's receivables includes mostly marketing, bonus and rent receivables. As at 31.12.2007 the receivables with 30 days over due were in amount 83 thousand kroons (2006: 1,006 thousand kroons), receivables with 31-90 days over due were in amount 258 thousand kroons (2006: 866 thousand kroons) and receivables 90 days over due were in amount 106 thousand kroons (2006: 336 thousand kroons). 84% (2006: 84%) of the over due receivables are from the suppliers and sublessees (who have made guarantee prepayments) with whom the netting of the balances is possible. Overdue receivables have not been impaired. The payment schedules and payment dates has been agreed for retained receivables.
- *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 an external appraiser.



Changes in accounting policies and presentation

The accounting policies and presentation practice adopted are consistent with those of the previous financial year. In addition, the following new and revised standards and interpretations have been adopted which did not have any effect on the Group's results for 2007:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements - Capital Disclosures
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies;
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment.

New IFRS standards and interpretations

According to management's assessment, the new and revised standards and interpretations issued but not yet effective as at the balance sheet date have no material impact on the significant accounting policies applied by the Group. The Group will adopt the new requirements when they become mandatory. The new and revised standards and interpretations applicable to the Group become effective for annual periods beginning on or after 1 January 2009 (IFRS 8, IAS 1, IAS 23), 1 March 2007 (IFRIC 11 - IFRS 2), 1 January 2008 (IFRIC 12, IFRIC 14 - IAS 19) and 1 July 2008 (IFRIC 13):

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009).
- Revised IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). This standard is yet to be approved by the European Union.
- Revised IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). This standard is yet to be approved by the European Union.
- Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009). This standard is yet to be approved by the European Union.
- Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). This standard is yet to be approved by the European Union.
- Revised IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009). The revisions are yet to be approved by the European Union.
- Revised IAS 32 Financial Instruments: Disclosures and Presentation, and IAS 1 Presentation of Financial Statements - Puttable Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009). These revisions are yet to be approved by the European Union.
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007).
- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008). This interpretation is yet to be approved by the European Union.
- IFRIC 13 Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008). This interpretation is yet to be approved by the European Union.
- IFRIC 14 "IAS 19—The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008). This interpretation is yet to be approved by the European Union.

The Group is still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements.

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Information on the financial statements of the parent company

Pursuant to the Accounting Act of the Republic of Estonia, information on the consolidating entity's unconsolidated financial statements must be disclosed in the notes to the financial statements. The parent company's financial statements, as disclosed in Note 31, have been prepared by using the same accounting principles and basis of estimations used in preparing the consolidated financial statements.

In the parent company's unconsolidated financial statements (Note 31) investments in subsidiaries and associated companies are carried at cost. It means that investments are initially recognised at cost, being the fair value of the consideration given. After initial recognition the cost is adjusted by any losses arising from impairment in value.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of foreign subsidiaries are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Estonian kroons, which is the presentation currency of AS Tallinna Kaubamaja.

Foreign currency transactions

Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Foreign exchange gains and losses are recorded under revenue and expenses in the income statement of the reporting period. Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

When the functional currency of subsidiaries differs from the Parent's functional currency (e.g. functional currency of Latvian subsidiaries is Latvian lats), the following principles on exchange rates are used for translation of financial statements of subsidiaries into the presentation currency of the Parent:

- The assets and liabilities of all foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date;
- Income, expenses and changes in equity of subsidiaries are translated at the weighted average exchange rates for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity (in the balance sheet line "conversion differences"). On disposal of a foreign entity, the amounts recorded under "conversion differences" in owner's equity are recognised as profit or loss for the year.

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 (1 EUR=15.6466 kroons), no translation differences occur.

Basis of consolidation

Subsidiaries

Subsidiaries are companies controlled by the parent company. Control is presumed to exist, if the parent company directly or indirectly holds over 50% of the voting shares of the subsidiary, or is otherwise able to control the operating or financial policies of the subsidiary. Subsidiaries are consolidated from the acquisition date (date on which control is transferred to the Group) and cease to be consolidated from the disposal date (date on which control is transferred out of the Group)

Purchase of subsidiaries is recorded based on the purchase method. The cost of an acquisition is measured at the fair value of the assets given up (i.e. assets transferred for the purpose of acquisition, liabilities incurred and equity instruments issued by the owner) 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 net identifiable assets, liabilities and contingent liabilities acquired is recorded as

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goodwill. If the cost of acquisition is less than the fair value of the net assets, liabilities and contingent liabilities 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. Any receivables, liabilities, revenue, expenses and unrealised profit and loss arising from transactions between the parent company and its subsidiaries have been eliminated in the consolidated financial statements. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Associated companies

Associated company is an entity where the group has significant influence, but which is not controlled by the group. As a rule, significant influence is presumed to exist if the group holds 20%-50% of the votes represented by the parent company's shares.

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.

Unrealised profits are eliminated in accordance with the company's share. Unrealised losses are eliminated as well, unless the loss is generated by decrease in the value of assets.

If the company's stake in the loss of the associated company recorded based on the equity method equals to or exceeds the net book value of the associated company, the net book value of the investment will be written down, and further losses accounted for off-balance sheet. If the company has guaranteed or obliged to satisfy the obligations of the investment object, both the respective obligation and the loss from the equity method will be recognised 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 distinguishable part of the company's economic activity engaged in providing products/services or a group of associated products/services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable part of the company's economic activity 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.

Primary segment for the group is business segment. The Group has expanded during 2007, with the real estate management and lease activity as well as vehicle trade and sales activity having become distinguishable business segments.

The Group's secondary segment is the geographical segment. The group sells vehicles in Estonia, Latvia and Lithuania.

The Tallinna Kaubamaja Group has four reportable segments: department stores, supermarkets, real estate and vehicle trade. Retail sales are the main activity for department stores, supermarkets and vehicle trade. Supermarkets are focused on the sales of food products and basic commodities, department stores are focused on beauty products and fashion items, vehicle trade is focused on sales of vehicles and spare parts and the real estate segment is engaged in real estate management, maintenance and lease of commercial space.

Cash and cash equivalents

Cash and cash equivalents recorded in the balance sheet and cash flow statement include cash in hand, current account balances (except for overdraft) and deposits with a maturity of up to 3 months. Overdraft is measured in the balance sheet under 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

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on each balance sheet date and re-categorizes items if required. Financial assets whose reclassification is not permitted by IFRS are not reclassified.

Financial assets are initially recognised at cost, being the fair value of the consideration given. The initial acquisition cost includes all transaction costs directly related to the financial asset.

Following initial recognition, the loans and receivables are measured at amortised cost (less any impairment losses), by charging interest in future periods, using the effective interest rate method. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those having a maturity exceeding 12 months, which are classified as non-current assets. Loans and receivables are classified as accounts receivable and other receivables in the balance sheet.

A provision for impairment of the receivable 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, bankruptcy or failure to fulfill the obligations to the Group are considered indicators that the 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.

The derecognition of financial assets will take place when the company no longer controls the rights arising from the financial assets, or when the cash flows attributable to the asset, and a majority of the risks and benefits related to the financial asset are transferred to a third party.

Purchases and disposals of financial assets are recognised on the day when the company acquires ownership of the purchased financial asset item or loses ownership of the disposed financial asset item.

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. The acquisition cost of inventories is calculated based on the FIFO method. Inventories are measured in the balance sheet at the lower of acquisition cost/cost price and net realisable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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 revaluation less any subsequent accumulated depreciation and subsequent accumulated losses. Revaluations are based on periodic, but at least triennial, valuations by external independent appraisers. Any accumulated depreciation at the date of revaluation is eliminated, with the acquisition cost of the asset item replaced with its fair value at the date of revaluation.

Increases in the carrying amount arising on revaluation of land and buildings are credited to "Revaluation reserve" 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".

Other PPE are initially recorded at cost, consisting of the purchase price and expenditures directly related to the acquisition. Other PPE are carried in the balance sheet at cost, less accumulated depreciation and any accumulated impairment losses.

Expenses incurred on the PPE item are recorded under non-current assets, if future economic benefits are expected to arise from the asset item, and the acquisition cost of the asset item can be reliably measured. Other costs on maintenance and repairs are expensed when incurred.



Depreciation is calculated based on the straight-line method. Depreciation rates are determined for each PPE item individually, depending on its useful life. Useful lives of non-current asset groups:

- Buildings and facilities 12-50 years
- Machinery and equipment 5 years
- IT equipment and software 3 years
- Vehicles and fixtures 5 years
- Capitalised improvement of the lease space 4-10 years

Land is not depreciated.

Depreciation is calculated from the moment the asset can be used for the purposes established by the management, until the final value of the assets exceeds its carrying amount, or until the assets' classification into available-for-sale assets, or removal from use.

At each balance sheet 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. PPE will be written down to their recoverable amount, if the recoverable amount is lower than the net book value. An impairment loss recognized for an asset in prior years will be reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in the income statement under income and expenses.

Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the assets is measured against the carrying amount. Impairment losses are recorded in the amount of the difference between the carrying amount and the recoverable amount. The recoverable amount of assets is the higher of fair value of assets, less sales expenses, and value-in-use. Impairment tests are performed either for an individual asset or the smallest identifiable group of assets that generates cash inflows (a cash generating unit). Tests on assets which have been written down will be repeated on each balance sheet date for possible reversal of the impairment.

Goodwill

Goodwill acquired in a business combination is initially measured at cost. Goodwill is the positive difference of the acquisition cost of the acquired holding and the Group's interest in the fair value of the net assets of the subsidiary or joint venture as at the date of acquisition. Net assets of the subsidiary or joint venture as at the acquisition date is the net value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. In order to determine the impairment, any goodwill acquired is allocated to each cash-generating units expected to benefit from the combination's synergies, or groups of such units. An independent cash-generating unit (set of units) is the smallest identifiable group of assets, which is not larger than a primary segment based on the Group's segment reporting.

Goodwill is reviewed for impairment annually, as at the end of the financial year or more frequently if events or changes in assessments indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment loss is recognised in profit and loss, under "General and administrative expenses".



Finance lease and operating lease

Lease transactions, where all material risks and rewards from ownership of an asset are transferred to the lessee, are treated as finance lease. All other lease transactions are treated as operating lease.

Company as the lessee

Assets acquired under finance lease are recognised in the balance sheet as assets and liabilities at their fair value or the net present value of the minimum lease payments, whichever is smaller. Lease payments are divided into financial expenses (interest expenses) and reduction of the net book value of the liability. Financial expenses are divided over the lease period so that the interest rate of the net book value of the liability would be the same at any given moment. Assets leased under finance lease terms are depreciated similarly to non-current assets, whereas the depreciation period is the estimated useful life of the asset item, or the lease period (if transfer of the asset is not sufficiently certain), whichever is shorter.

Operating lease payments are recorded during the rental period as expenses based on the straight-line method.

Company as the lessor

Assets leased out under operating lease are recorded in the balance sheet pursuant to standard procedure, similarly to non-current assets. Leased-out assets are depreciated based on the depreciation principles applied by the company for assets of similar type. Operating lease payments are recorded during the rental period as income based on the straight-line method.

Financial liabilities

All financial liabilities (accounts payable, other short-term and long-term payables, loans received, bonds issued) are initially accounted for at fair value plus transactions costs that are directly attributable to the acquisition. Following initial recognition, financial liabilities are measured at amortised cost by using the effective interest rate method.

As a rule, the amortised cost of short-term financial liabilities equals to their nominal value. Therefore, short-term financial liabilities are recorded in the balance sheet at the payable amount. In order to calculate the amortised cost of a long-term liability, the liability is initially recorded at the fair value of the amount payable (less transaction costs), by charging interest on the payable in future periods based on the effective interest rate method.

Financial liabilities will be recognised as short-term liabilities, if the liability is due within less than 12 months after the balance sheet date, or if the Group has no unconditional right to delay payment for more than 12 months after the balance sheet date.

Borrowing costs (e.g. interest expenses), which are directly attributable to the construction of the assets, are capitalized during the period of time for the asset to get ready for its intended use. Other borrowing costs are recognised as an expense when incurred.

Provisions and contingent liabilities

Provisions are recognised in the balance sheet when the company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; but the final amount of the obligation or the deadline for payment is not clearly fixed.

Provisions are recorded in the balance sheet based on the management's estimations on the amount required to settle the obligation, as well as the time of realisation of the provision. Provisions are recognised in the balance sheet in the amount which (according to the Management Board) is required as at the balance sheet for settling the obligation related to the provision, or its transfer to third parties. If the provision is likely to be realised later than within 12 months after the balance sheet date, the provision will be recorded at discounted value (in the net present value of the disbursements related to the provision), unless the effect of the discounting is immaterial. The expenses of provisions are charged to accounting period expenses.

Promises, guarantees and other commitments, which are improbable to realise, or the amount of which cannot be reliably determined, but which in certain cases may become liabilities, are disclosed as contingent liabilities in the notes to the financial statements.

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Corporate income tax

Income tax assets and liabilities and income tax expense and income comprise current and deferred items. Current tax is recognised as a short-term asset or liability and deferred tax is recognised as a long-term asset or liability.

Estonian companies of the Group

Pursuant to the applicable laws, Estonian companies are not subjected to pay income tax on the profit. Therefore, all temporary differences between the tax bases and carrying values of assets and liabilities cease to exist. Rather than being subjected to income tax on the profit, Estonian companies are subjected to income tax on the dividends paid from retained earnings. The established tax rate is 21/79 of the net dividend paid (22/78 until 31 December 2007 and 23/77 until 31 December 2006). Corporate income tax on the payment of dividends is recorded under income tax expense in the income statement at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid.

Because of the specific nature of the taxation system, deferred income tax liabilities and assets do not arise for Estonian companies. The income tax liability which would arise on the distribution of retained earnings as dividends is not recognised in the balance sheet. Instead, the maximum income tax liability which would arise if all of the unrestricted equity were distributed as dividends is disclosed in the notes to the consolidated financial statements (note 30).

Latvian and Lithuanian companies of the Group

In Latvia and Lithuania the profit earned by companies is subject to income tax. The tax rate is 15% in Latvia and Lithuania. Taxable income is identified by adjusting profit before tax for the temporary and permanent differences permitted by the local tax laws.

In the case of foreign subsidiaries, deferred income tax assets and deferred income tax liabilities are recognised for all temporary differences between the carrying amounts and tax bases of assets and liabilities. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Revenue recognition

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

Revenue from the sales of goods is recognised when all material risks and rewards related to the ownership of the asset have been transferred to the buyer, the amount of revenue and expenses related to the transaction can be reliably measured, and the receipt of the revenue is probable.

Revenue from 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.

Revenue from sales of services

Revenue from sales of services is recognized on the moment of the provision of the service, or, if the service is rendered for a longer period of time, based on the stage-of-completion as of the balance sheet date.

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, calculated based on the discounted cash flow method by using the initial effective interest rate. If the value of the borrowing has dropped, the interest income from the borrowing will be recorded by using the effective interest rate.

Dividend income

Dividend income is recognized upon announcement of the dividends.



Mandatory reserve

The company has set up a mandatory reserve in accordance with the Commercial Code of the Republic of Estonia. At least 5% of the net profit must be transferred to the reserve capital each financial year, until the reserve capital amounts to at least 10% of the share capital. Reserve capital can be used for covering the loss or for increasing the share capital of the company. The mandatory reserve cannot be paid out as dividends.

Earnings per share

Basic earnings per share are determined by dividing the profit for the financial year by the period's weighted average number of shares issued. Diluted earnings per share are determined by dividing the 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 no financial instruments which may dilute EPS in the future, the diluted earnings per share equals to the basic earnings per share.

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Note 2. Cash and bank accounts

In thousands of kroons, as of December 31

	31 December 2007	31 December 2006
Cash in hand	4 966	3 610
Cash at bank	262 021	352 533
Cash in transit	15 648	15 225
Total cash and bank accounts	282 635	371 368

Note 3 Accounts receivable

In thousands of kroons, as of December 31

	31 December 2007	31 December 2006
Card payments	16 281	35 601
Accounts receivable	34 685	15 045
Total accounts receivable	50 966	50 646

Note 4 Other short-term receivables

In thousands of kroons, as of December 31

	31 December 2007	31 December 2006
Bonuses receivable from suppliers	39 672	24 647
Short-term receivables from associates (Note 9 and 24)	5 000	2 000
Other short-term receivables	6 083	13 282
Total other short-term receivables	50 755	39 929

Note 5 Prepaid expenses

In thousands of kroons, as of December 31

	31 December 2007	31 December 2006
Value added tax	10 610	22 468
Total prepaid taxes	10 610	22 468
Prepaid rental expenses	5 603	5 603
Other prepaid expenses	3 920	1 665
Total short-term prepaid expenses	20 133	29 736
Prepaid rental expenses	37 291	41 732
Total long-term prepaid expenses	37 291	41 732

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 prepaid rent, because it is considered to be a payment made under a lease contract for acquiring leasehold.

Note 6 Inventories

In thousands of kroons, as of December 31

	31 December 2007	31 December 2006
Goods purchased for resale	509 065	307 234
Raw materials	7 620	5 775
Prepayments for goods	2 945	0
Total inventories	519 630	313 009

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

	2007	2006
Materials and consumables used	4 343 351	3 085 834
Write-down and write-off of inventories	47 371	30 459
Inventory shortages	24 120	20 389
Total	4 414 842	3 136 682

Aging of inventory and seasonal nature of fashion items is used as basis for write down of inventories. Carrying value of inventory is adjusted through allowance. As of 31 December 2007, the allowance used for adjusting inventories amounted to 6,595 thousand kroons (31.12.2006: 2,808 thousand kroons).

As of 31.12.2007, the group's inventories, recorded at net realizable value, amounted to 5.259 thousand kroons (31.12.2006: 5,075 thousand kroons).

Information on the pledged assets has been disclosed in Note 21.

Note 7 Shares in subsidiaries

In thousands of kroons

The Tallinna Kaubamaja Group incorporates:

Name of company	Location	Field of activity	Share	Acquisition cost	Year of acquisition
A-Selver AS	Tallinn Pärnu mnt.238	Retail trade	100%	22 000	1996
AS Tartu Kaubamaja	Tartu Riia 2	Retail trade	100%	15 849	1996
Tallinna Kaubamaja Kinnisvara AS	Tallinn Gonsiori 2	Real estate management	100%	46 285	1999
OptiGrupp Invest OÜ	Tallinn Gonsiori 2	Trade and financing	100%	40	2007
<i>OptiGrupp Invest OÜ's subsidiary:</i>					
KIA Auto AS	Tallinn Ülemiste tee 1	Retail trade	100%	79 400	2007
<i>KIA Auto AS's subsidiaries:</i>					
Ülemiste Autokeskus OÜ	Tallinn Ülemiste tee 1	Retail trade	100%		2007
KIA Automobile SIA	Riga Pulkeveza Brieza 31	Retail trade	100%	45	2007
KIA Auto UA	Vilnius jasinskoe 14	Retail trade	100%		2007
<i>AS Tartu Kaubamaja's subsidiary:</i>					
TKM Beauty OÜ	Tallinn Gonsiori 2	Retail trade	100%		2007
<i>TKM beauty OÜ's subsidiary:</i>					
TKM Beauty Eesti OÜ	Tallinn Gonsiori 2	Retail trade	100%		2007
<i>Tallinna Kaubamaja Kinnisvara AS's subsidiaries:</i>					
Tartu Kaubamaja Kinnisvara OÜ	Tartu Riia 1	Real estate management	100%		2004
SIA TKM Latvia	Riga Ieriku iela 3	Real estate management	100%		2006
<i>A-Selver AS's subsidiary:</i>					
SIA Selver Latvija	Riga Ieriku iela 3	Retail trade	100%		2006
Acquisition cost of subsidiaries as of 31.12.2007				163 619	

Business combinations in 2007:

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Acquisitions in 2007

Name of company	Location	Field of activity	Date of acquisition	Share %
Ülemiste Autokeskuse OÜ	Estonia	Retail trade	31.03.2007	100%
KIA Auto UAB	Lithuania	Retail trade	31.03.2007	100%
KIA Auto AS	Estonia	Retail trade	31.03.2007	100%

On the date of acquisition (31 March 2007), the acquisition cost allocated on the assets and liabilities of KIA Auto AS was as follows:

	Assets and liabilities of KIA Auto AS prior to acquisition	Adjustment to fair value	Assets and liabilities of KIA Auto AS after acquisition
Cash	1 306	0	1 306
Other current assets	125 933	0	125 933
Property, plant and equipment (Note 10)	21 320	7 580	28 900
Goodwill	0	49 388	49 388
Liabilities	-126 127	0	-126 127
Acquisition cost	22 432	56 968	79 400

On 16 April 2007, Tallinna Kaubamaja AS established a subsidiary OptiGrupp Invest OÜ with a share capital of 40 thousand kroons.

On 30. May 2007, KIA Auto AS established a subsidiary SIA Automobile in Latvia with a share capital of 45 thousand kroons.

On 31 March 2007, a vehicle trading company KIA Auto AS was purchased together with its Estonian-based subsidiary Ülemiste Autokeskuse OÜ and Lithuanian-based subsidiary KIA Auto UAB, with a 100% stake acquired in these companies.

The transaction generated goodwill of 49,388 thousand kroons, associated with the future cash flows of KIA Auto AS.

Goodwill impairment test has been performed at the balance sheet date. Five year cash-flow projections were used for determining the recoverable amount. The discount rate applied is 16%. According to the impairment test, the present value of the cash flow covers the goodwill and net assets of the subsidiary. Assumptions used in the analysis are based on the Group's prior experience.

The acquisition price of a stake in vehicle trade was according to agreement 79,400 thousand kroons. At the moment of the acquisition a monetary payment was made in the amount of 74,110 thousand kroons. According to agreement the existing liability is in the amount of 3,847 thousand kroons which is shown in balance sheet as a long-term liability. At the moment of the acquisition, KIA Auto AS had cash on bank accounts in amount 1,307 thousand kroons. The amount of non-monetary deal at the moment of the acquisition was 136 thousand kroons and it consisted of deal preparation expenses.

With the acquisition of a stake in vehicle trade, the Kaubamaja Group continued its active expansion strategy in a prospective field of business, creating additional synergy together with its existing businesses. The results from the vehicle trade can be seen in the results for 2007. Revenue from vehicle trade amounted to 584,139 thousand kroons, with the company posting an operating profit of 17,617 thousand kroons. Additional information has been provided in Note 25.

If the acquisition of the subsidiary had taken place on 01 January 2007, then the revenue of the subsidiary would have been 709 527 thousand kroons and profit 14 164 thousand kroons.

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Note 8 Shares of associated companies

In thousands of kroons, as of December 31

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

	2007	2006
Number of shares at the end / (beginning) of year	501 / (501)	501 / (501)
Ownership % at the end (beginning) of the year	50 / (50)	50 / (50)
At the beginning of the year		
Acquisition cost	6 500	6 500
Participation in the equity of the investment object	11 425	9 028
Profit from equity method	2 772	2 397
At the end of the year		
Acquisition cost	6 500	6 500
Participation in the equity of the investment object	14 197	11 425

Financial information on the associated company Rävala Parkla AS:

	31 December 2007	31 December 2006
Assets	63 629	64 322
Liabilities	35 235	41 472
Revenue	8 590	7 717
Profit	5 545	4 794

Note 9 Other long-term receivables

In thousands of kroons, as of December 31

	31 December 2007	31 December 2006
Receivables from associated companies (Note 24)	7 828	9 828
Repayable:		
<i>within up to 12 month</i>	5 000	2 000
<i>in 1-5 years</i>	2 828	7 828
Interest rate	6%	4%
Term of payment	2010	2010

The fair value of the receivable does not significantly differ from its net book value.

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Note 10 Property, plant and equipment

In thousands of kroons

	Land and buildings	Machinery and equipment	Other equipment, fixtures and fittings	Prepayments for property, plant and equipment	Construction in-progress	Total
31.12.2005						
Acquisition 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 value	1 017 637	88 257	101 259	83	63 312	1 270 549
Changes in 2006						
Purchases and additions	12 409	12 441	18 690	9 579	442 873	495 992
Sales and write-off	-496	-195	-357	0	0	-1 048
Depreciation	-33 891	-29 535	-31 251	0	0	-94 678
31.12.2006						
Acquisition cost or valuation	1 058 609	184 776	230 657	9 662	506 186	1 989 890
Accumulated depreciation	-62 950	-113 809	-142 315	0	0	-319 074
Net book value	995 659	70 967	88 342	9 662	506 186	1 670 816
Changes in 2007						
Additions from business combinations	26 650	1 356	893	0	0	28 900
Purchases and additions	110 604	49 141	27 489	12 145	224 874	424 254
Sales and write-off	0	-556	-120	0	0	-676
Depreciation	-36 598	-32 193	-33 626	0	0	-102 416
Revaluations	280 000	0	0	0	0	280 000
Reclassification	240 468	2 271	574	-9 662	-233 650	0
31.12.2007						
Acquisition cost or valuation	1 656 657	232 359	256 811	12 145	497 410	2 655 383
Accumulated depreciation	-39 874	-141 374	-173 257	0	0	-354 505
Net book value	1 616 783	90 985	83 555	12 145	497 410	2 300 878

In 2005 and 2007, land and buildings 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 was used for the determination of the fair value of the land and buildings. Following assumptions have been used: discount rates of 8.5-10.5% and the growth rates of 0.7-1.5%. In 2007, assets were revalued by 280,000 thousand kroons, change in accumulated depreciation of revalued assets amounted to 66,626 thousand kroons. 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:

31.12.2007	459,658 thousand kroons
31.12.2006	205,151 thousand kroons

The company acquired real estate and conducted renovation in the total amount of 349,963 kroons in the reporting period. The company acquired 236,303 thousand kroons worth of real estate in Latvia, and 40,374 thousand kroons worth of real estate in Estonia. The company completed the Selveri Kõök at a cost of 68,883 thousand kroons, and conducted renovation and repairs on existing sales items in the total amount of 4,403 thousand kroons. During the financial year, computer technology, furnishings and cooling equipment were acquired for 78,333 thousand kroons, including the machinery and equipment of Selveri Kõök in the amount of 21,774 thousand kroons.

In 2007, borrowing costs in the total amount of 11,672 related to the substantial capital expenditures in SIA TKM were capitalised.

As of 31 December 2007, property, plant and equipment with the net book amount of 731,256 kroons had been pledged as collateral for the liabilities (see Note 21).

As of 31 December 2007, the acquisition cost of property, plant and equipment in use with nil net book value amounted to 158,478 thousand kroons (31.12.2006: 123,951 thousand kroons).

Information on non-current assets leased under finance lease has been disclosed in Note 12.

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Note 11 Borrowings

In thousands of kroons, as of December 31

2007	Balance as of 31.12.2007	Repayable			Term of payment	Interest rate
		within 12 months	within 1-5 years	in over 5 years		
SEB Eesti Ühispank	115 278	14 672	47 470	53 136	28.09.2014	6-month EURIBOR +0.6%
SEB Eesti Ühispank	152 831	15 200	137 631		19.04.2012	6-month EURIBOR +0.4%
Nordea Bank	265 992	0	265 992		07.12.2011	6-month EURIBOR +0.36%
AS Hansa Liising Eesti	79 168	79 168			14.03.2008	12-month EURIBOR +0.65%
Hansa Lizings	790	790			15.04.2008	5.60%
Hansa Lizings	458	75	383		01.10.2009	5.60%
Nordea Finance SIA	410	410			15.04.2008	5.60%
UAB Hansa Lizingas	1 472	1 472			28.06.2008	5.30%
UAB Hansa Lizinga/ factoring AB bankas	3 041	3 041			05.07.2008	5.75%
Hansabankas/overdraft	1 270	1 270			15.05.2008	VILIBOR+0.97 %
Long-term bank loans	620 710	116 098	451 476	53 136		
Finance lease liabilities (Note 12)	22 130	4 528	17 602		07.04.2012	7%
Total borrowings	642 840	120 626	469 078	53 136		

2006	Balance as of 31.12.2006	Repayable			Term of payment	Interest rate
		within 12 months	within 1-5 years	in over 5 years		
SEB Eesti Ühispank	58 739	13 463	45 276	0	28.01.2011	6-month EURIBOR +0.4%
SEB Eesti Ühispank	167 957	15 805	70 223	81 929	19.04.2012	6-month EURIBOR +0.4%
Nordea Bank	265 992	0	265 992	0	07.12.2011	6-month EURIBOR +0.36%
Long-term bank loans	492 688	29 268	381 491			
Bonds	49 069	49 069	0	0	04.06.2007	4.45%
SEB Eesti Ühispank	156 466	156 466	0	0	10.11.2007	6-month EURIBOR +0.65%
Finance lease liabilities (Note 12)	26 359	4 237	22 122	0	07.04.2012	7%
Total borrowings	724 582	239 040	403 613	81 929		

Bank loans are denoted in euros. Bonds issued and finance lease liabilities are denoted in Estonian kroons. Information on the pledged assets has been disclosed in Note 21.

Bank loans have floating interest rates. The borrowings in the amount of 534,101 thousand kroons (2006: 492,688 thousand kroons) are repriced after every 6 months based on change in EURIBOR, which is the Group's exposure on

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interest rate changes when borrowings reprise. Finance lease agreements are based on fixed interest rates, and therefore 22,130 kroons (2005: 75,428 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 Finance lease and operating lease

In thousands of kroons

Group as the lessee

Finance lease

The group leases buildings under finance lease terms:

	31 December 2007	31 December 2006
Acquisition cost	43 951	43 951
Accumulated depreciation	-24 720	-20 325
Net book value	19 231	23 626

Minimum finance lease payments:	31 December 2007	31 December 2006
up to 1 year	5 933	5 947
1-5 years	19 788	25 712
Total	25 721	31 659
Future interest expense	-3 591	-5 300
Net present value of lease payments (Note 11)	22 130	26 359

Net present value of lease payments	31 December 2007	31 December 2006
up to 1 year	4 528	4 237
1-5 years	17 602	22 122
Total (Note 11)	22 130	26 359

The Group leases on capital lease conditions premises in Pärnu, Papiniidu 42 with the operating area 3500 m². The term of validity of the agreement is 10 years. The agreement will end in 2012. The agreement can be determined before agreed time by notifying in one month. The Group has the right of the renewal of agreement at the end of the term of validity of the agreement,

Subleases of buildings leased under finance lease.

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

	31 December 2007	31 December 2006
up to 1 year	1 310	1 058
1-5 years	1 426	40
Total	2 736	1 098

Operating lease

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

	31 December 2007	31 December 2006
up to 1 year	195 972	146 738
1-5 years	763 589	533 536
over 5 years	1 089 751	330 454
Total	2 049 312	1 010 728

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

No purchase options have been stipulated in the lease contracts. The lease contracts stipulate that rental payments are reviewed once a year based on market situation or the rental payments are increased by a percentage fixed in the contract.

Subleases of buildings leased under operating lease:

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

	31 December 2007	31 December 2006
up to 1 year	17 680	15 489
1-5 years	21 886	19 211
over 5 years	0	750
Total	39 566	35 450

Group as the 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:

	2007	2006
Acquisition cost/revalued amount	202 851	201 044
Accumulated depreciation as of January 1	-11 520	-11 115
Depreciation charge	-4 985	- 4 950
Net book value	186 346	184 979

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 2007	31 December 2006
up to 1 year	43 646	41 770
1-5 years	222 168	139 156
over 5 years	105 733	106 028
Total	371 547	286 954

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

Operating 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.

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Note 13 Other short-term and long-term payables

In thousands of kroons, as of December 31

	31 December 2007	31 December 2006
Value added tax	31 669	27 273
Personal income tax	11 041	8 135
Social tax	22 696	16 374
Income tax on fringe benefits	757	617
Unemployment insurance	560	411
Funded pension	935	664
Total taxes payable	67 658	53 474
Employee-related liabilities	87 498	70 140
Interest payable	1 140	1 171
Other accrued expenses	5 315	100
Prepayments received from lessees	5 145	3 900
Total other short-term payables	166 756	128 785

Long-term provisions

	31 December 2007	31 December 2006
Guarantee provision	2 075	0
Total long-term provisions	2 075	0

Note 14 Share capital

As of 31 December 2007 the share capital of 407,292 thousand kroons (2006: 407,292 thousand kroons) consisted of 40,729,200 ordinary shares with the nominal value of 10 kroons per share. All shares are fully paid. According to the Articles of Association, the maximum allowed number of shares is 162,916,800.

Dividends were paid to shareholders in 2007 in the amount of 1 kroon per share – i.e. a total of 40,729 thousand kroons, with 11,488 thousand kroons paid in income tax on dividends. In 2006, dividends were paid to shareholders in the amount of 3 kroons per share – i.e. a total of 20,365 thousand kroons, with 6,083 thousand kroons paid in income tax on dividends.

For restrictions on the allocation of retained earnings, please refer to Note 30.

Note 15 Revenue

In thousands of kroons, per annum

	2007	2006
Retail	5 778 018	4 185 076
Wholesale	13 763	2 440
Service and catering	100 642	51 614
Total revenue	5 892 423	4 239 130

The parent company's revenue was fully generated in Estonia. In connection with the vehicle trade incorporated under the Kaubamaja Group in the financial year, the group also generated revenue in Latvia and Lithuania. Additional information on revenue has been provided in Note 25.

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Note 16 Other income

In thousands of kroons, per annum

	2007	2006
Rental income*	40 285	37 040
Income from joint advertising	50 132	26 490
Fines for delay for exceeding construction deadlines	0	11 000
Foreign exchange gains	63	50
Profit from disposals of non-current assets	45	21
Income from parking services	1 391	0
Package treatment expenses	3 029	0
Expedition income	9 980	0
Other income**	12 856	9 235
Total other income	117 781	83 836

*Rental income includes income from subleases in the amount of 40,285 thousand kroons (2006: 37,040 thousand kroons).

**Other income consists of income from the sale of lottery and theatre tickets, invoice handling charges, claims and other income related to business activity.

Note 17 Other operating expenses

In thousands of kroons, per annum

	2007	2006
Rental expenses	144 948	132 137
Utilities	62 930	46 376
Advertising expenses	84 576	52 185
Bank charges	38 367	27 299
Security expenses	24 928	23 306
Heat and electricity	53 040	48 180
Materials	54 492	40 724
IT and communication expenses	19 491	15 573
Business trips	4 908	3 114
Training expenses	5 368	4 111
Insurance	1 603	1 068
Other operating expenses	22 195	15 263
Total other operating expenses	516 846	409 336

Note 18 Personnel expenses

In thousands of kroons, per annum

	2007	2006
Wages and salaries	396 334	287 372
Social tax	132 304	96 202
Total personnel expenses	528 638	383 574

	2007	2006
Average monthly wages and salaries per employee (kroons)	11 658	9 929
Average number of employees in the financial year	2 833	2 412

Personnel expenses also include accruals for holiday pay earned as well as unpaid bonuses related to year 2007.

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Note 19 Net financial items

In thousands of kroons, per annum

Financial income

	2007	2006
SEB Eesti Ühispank interest	4 881	2 628
Hansabank interest	3 441	0
Other interest	2 750	420
Total financial income	11 072	3 048

Financial expenses

	2007	2006
Bank loan interest	-22 054	-10 272
Finance lease interest	-1 711	-1 998
Bond interest	-931	-501
Other financial expenses*	-2 750	0
Total financial expenses	-27 446	-12 771

* Other financial expenses comprise of contract fees for conclusion and alteration of loan, lease and factoring agreements.

Note 20 Earnings per share

In order to calculate basic EPS, the net profit distributable to the Parent's shareholders is divided with the weighed average number of common shares in the period. Since the company has no contingently issuable common shares, diluted EPS equals to basic EPS.

	2007	2006
Net profit (in thousands of kroons)	410 836	274 666
Weighted average number of shares per year	40 729 200	40 729 200
Net earnings per share (in kroons)	10,09	6,74

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 Nordea Bank Finland Plc.
- 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 2007, the carrying amount of the pledged assets was 242,691 thousand kroons.
- Tartu Kaubamaja Kinnisvara OÜ has set a mortgage on the registered immovable located at Riia 1, Tartu (land register part no. 922103 at the Tartu Land Registry Division), in the amount of 225,000 thousand kroons for the benefit of Nordea Bank Finland Plc. As of 31 December 2007, the carrying amount of the pledged assets was 488,565 thousand kroons.

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Note 22 Off-balance-sheet assets and liabilities

Taxes

The tax authority has the right to audit the company's accounting for up to 6 years after submission of the tax declaration and, upon discovering mistakes, order payment of additional taxes, interest and fines. No tax audits were conducted in 2006 and 2007. According to the company's management, there are no circumstances as a result of which the tax authority could order payment of significant additional taxes.

Note 23 Events after the balance sheet date

In February 2008, AS Tartu Kaubamaja concluded a contract of purchase and sale with Venus Kinnisvara AS on the purchase of a 100% stake in Suurtüki NK AS and a 100% stake in SIA Suurtüki. The closing of the acquisition took place on 1st of April 2008. According to the sale and purchase agreement the final purchase price will be established after concluding the Post-Closing Adjustment procedures, which is expected to take place at the latest in June 2008.

By acquiring the footwear store chain, Kaubamaja Group continues its active expansion strategy in the prospective fields of business.

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Note 24 Related party transactions

In thousands of kroons

For the purposes of the consolidated financial statements of AS Tallinna Kaubamaja, the following are considered related parties:

- owners (parent company and parties who control or have significant influence over the parent company) (Note 29);
- associated companies;
- other companies of the consolidation group (incl. other subsidiaries of the Group's parent company); other companies of the consolidation group besides parent company and subsidiaries are: Liviko AS, Balbiino AS, Kitman AS. The sales and purchases of the products and services have been provided between the consolidation group companies. These are usual deals without interests and guarantees.
Management board and higher management;
- family members of the persons listed above, and the companies under their control or significant influence.

The financial statements include the financial statements of the following subsidiaries of Tallinna Kaubamaja AS:

Company	Home country	Ownership	
		2007	2006
A-Selver AS	Estonia	100%	100%
AS Tartu Kaubamaja	Estonia	100%	100%
Tallinna Kaubamaja Kinnisvara AS	Estonia	100%	100%
OptiGrupp Invest OÜ	Estonia	100%	0%
AS Tartu Kaubamaja's subsidiary:			
TKM Beauty OÜ	Estonia	100%	0%
TKM Beauty OÜ's subsidiary:			
TKM Beauty Eesti OÜ	Estonia	100%	0%
OptiGrupp Invest OÜ's subsidiary:			
KIA Auto AS	Estonia	100%	0%
KIA Auto AS's subsidiaries:			
Ülemiste Autokeskus OÜ	Estonia	100%	0%
KIA Auto UAB	Lithuania	100%	0%
KIA Automobile SIA	Latvia	100%	0%
Tallinna Kinnisvara AS's subsidiaries:			
Tartu Kaubamaja Kinnisvara OÜ	Estonia	100%	100%
SIA TKM Latvia	Latvia	100%	100%
A-Selver AS's subsidiary:			
SIA Selver Latvija	Latvia	100%	100%

Tallinna Kaubamaja Group has purchased and sold goods and rendered services as follows:

	2007		2006	
	Purchases	Sales	Purchases	Sales
Parent company	779	4 290	693	757
Associated companies	0	468	0	420
Other related parties	129 138	5 903	106 406	3 973
Total	129 917	10 661	107 099	5 150

Purchases from other related parties mostly consist of goods purchased for resale. Purchases from the parent company consist mostly from management fees. Sales to related parties mostly include services rendered.

The sales to and purchases from related parties are made at normal market prices.

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Loans granted to associates:

	2007	2006
Balance at the beginning of the year (Note 9)	9 828	11 828
Repayments of loans received	-2 000	-2 000
Balance at the end of the year (Note 9)	7 828	9 828

Balances with related parties:

	31 December 2007	31 December 2006
Parent company	665	269
Other related parties	1 304	871
Short-term receivables from associated companies (Note 9)	5 000	2 000
Total current receivables (Note 4)	6 969	3 140
Long-term receivables from associated companies (Note 9)	2 828	7 828
Total receivables from related parties	9 797	10 968
Other related parties	26 004	16 825
Total liabilities to related parties	26 004	16 825

Receivables and payables from/to related parties are not secured and earn no interest, as credit terms of these receivables and payables are normal credit terms.

Cash pool account

Tallinna Kaubamaja AS's cash pool account agreement incorporates AS Tartu Kaubamaja, A-Selver AS and Tallinna Kaubamaja Kinnisvara AS and Tartu Kaubamaja Kinnisvara OÜ, KIA Auto AS, OptiGrupp OÜ, TKM Beauty OÜ, TKM Beauty Eesti OÜ, SIA TKM Latvija. In turn, the group has joined the cash pool account agreement of NG Investeeringud OÜ (hereinafter the main group), which incorporates Balbiino AS, Liviko AS, Kitman AS, OÜ NG Kapital, Ganiger Invest OÜ, Roseni Kinnisvara OÜ and Motivo Grupp 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 2006, the Tallinna Kaubamaja Group earned interest income in the amount of 3,915 thousand kroons (2006: 636 thousand kroons) on the deposits of its free funds. As of 31 December 2007, Tallinna Kaubamaja Group had not used the free funds of the main group (2006: 0 kroons), with the interest paid on the use of the funds available on the main group account in 2007 amounting to 0 kroons (2006: 830 thousand kroons). The average annual interest rate earned on deposited funds on the NG Investeeringud OÜ group account was 3.7 % (2.6% in 2006) and the average interest rate on the funds used was 3%. Under the cash pool account agreement, the group members shall be solitarily responsible for the amounts payable to the bank.

Key management remuneration

The Tallinna Kaubamaja group paid a total of 20,484 thousand kroons (2006: 9,791 thousand kroons) in remuneration (wages and salaries, plus bonuses) to the members of the Management Board and higher management in the financial year. Short-term bonuses (incl. social tax) amounted to 16,973 thousand kroons (2006: 14,109 thousand kroons) and long-term bonuses (incl. social tax) to 18,072 thousand kroons (2006: 5,993 thousand kroons).



Note 25 Segment reporting

In thousands of kroons

Business segment

	Department		Transactions		
	stores	Supermarkets	Real estate	Vehicle trade	between segments
2007					Total
Sales to third parties	1 545 755	3 722 044	40 485	584 139	0
Sales between segments	3 296	9 725	58 842	162 583	-234 446
Total sales	1 549 051	3 731 769	99 327	746 722	-234 446
Unallocated other income					117 781
Unallocated expenses					-5 574 278
Total operating profit	155 297	204 631	58 381	17 617	0
Unallocated financial income/expenses					-13 602
Income tax					-11 488
Net profit	156 839	199 511	40 800	13 686	0
Segment assets	566 201	694 015	1 838 823	229 666	0
Segment liabilities	469 095	553 321	300 815	111 567	0
Additions of non-current assets in the period	13 934	138 011	555 019	2 475	0
Depreciation charge	27 690	47 389	26 303	1 035	0
Other non-monetary expenses of the segment (write-down, provisions)	5 551	1 045	0	2 075	0
					8 671
	Department		Transactions		
	stores	Supermarkets	Real estate	between segments	Total
2006					
Sales to third parties	1 293 256	2 896 090	49 784	0	4 239 130
Sales between segments	6	10 595	66 309	-76 911	0
Total sales	1 293 262	2 906 685	116 093	-76 911	4 239 130
Unallocated other income					83 836
Unallocated expenses					-4 034 892
Total operating profit	102 491	115 464	70 119	0	288 074
Unallocated financial income/expenses					-7 325
Income tax					-6 083
Net profit	105 225	113 874	61 650	0	274 666
Segment assets	554 826	556 412	1 425 251	0	2 536 489
Segment liabilities	492 461	395 078	405 180	0	1 292 719
Additions of non-current assets in the period	22 696	17 154	3 690	0	43 540
Depreciation charge	24 144	44 355	26 179	0	94 678
Other non-monetary expenses of the segment (write-down, provisions)	2 639	167	0	0	2 806

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Geographical segment

	Estonia	Lithuania	Latvia	Total
Extra-segment sales	5 824 169	54 260	13 995	5 892 423
Segment assets based on location	3 022 441	11 519	12 670	3 046 630
Additions of segment non-current assets in the period	709 384	53	2	709 439

Note 26 Financial risks

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

Currency risk

To mitigate the effect of its currency exposure, the Group has signed agreements mostly in Estonian kroons or Euros. The Group has no significant liabilities in foreign currencies which has not been related to Euros. All significant agreements of non-current borrowings has been related to Euros and according to that the Group handles them as free of currency risk. According to reasons mentioned above, the Group have valued the currency risk to be low for its business activities.

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 have 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. As of 31 December 2007, receivables of 104 549 thousand kroons (2006: 98 403 thousand kroons) reflect the maximum credit risk.

Liquidity risk

The working capital of the Group was positive 13 610 thousand kroon as of 31.12.2007 (2006: negative 2 490 thousand kroons). The negative floating capital in 2006 was because of the need to involve short-term borrowings for investments. Operating profit in 2007 was bigger than previous year 435 926 thousand kroons (2006: 288 074 thousand kroons) The Group's liquidity ratio was in 2007 4,45 and it shows that the Group has enough current assets to cover its current liabilities. Net profit for the year 2007 amounts to 410 836 thousand kroons and it shows growth in the profitability of the Group's business activities. According to the management of the Group there is no liquidity risk in the Group's business activities.

For support of liquidity management and development process, the Group of Tallinna Kaubamaja has a strong support from finance sector. Experiences have shown that there are no problems in receiving new financial resources with good interest rates from financial institutions. Also there is always a possibility to refinance or extend own loans

In a long time perspective, the Group liabilities are divided as follows:

	In 1 year	2--5 years	Over 5 years	Total
As at 31 December 2007	120 626	469 078	53 136	642 840
As at 31. December 2006	239 040	403 613	81 929	724 582

For maintenances or adjustments in capital structure, the Group can regulate the amount of dividends payable to shareholders, sell back own shares, issue new shares, sell own assets as a cover to liabilities.

At the end of financial year, the Group had free money on hand in the amount of 50,966 thousand kroons. Accommodation of the cash flow overbalance is strictly regulated in the Group. According to regulations the accommodation of the cash flow balance can be made by dividing the amount between the companies being in the

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Group. Important requirement is the existence of future cash flows. For liquidity management within the Group, the limits have been established.

Interest rate risk

Interest rate risk is the risk that a rise in market interest rates will increase interest expense to an extent that will have a significant impact on the Group's operating efficiency.

The Group cash and cash equivalents are deposited with fixed interest rates and according to that, the changes in interest rates in market, do not have effect on the Group result and operating cash flow.

The Group has fixed interest rates and interest related to EURIBOR. The Group long-term borrowings are mainly related to EURIBOR and the Group is dependent on the changes in international finance markets.

Interest rate risk is managed, among other things, by monitoring movements in the money market interest rate curve, which reflects the market participants' expectations of market interest rates and allows estimating a trend for euro-denominated interest rates.

In response to a 1 percentage point rise in EURIBOR in 2007, the Group analysed the sensitivity of its profit before tax and cash flows to a 1 percentage point change in interest rates.

The sensitivity analysis of consolidated cash flows indicated that a 1 percentage rise or in interest rates would reduce the Group's cash flows for 2007 by 5,529 thousand kroons (2006: 2,474 thousand euros).

During the analysis different possibilities for minimizing risks are analyzed. Different possibilities include refinancing, renewal of existing positions and alternative financing. No financial instruments have been used to hedge interest rate risks in the previous or current year, because according to management's assessment hedging expenses would exceed the losses which might be incurred.

Interest rate risk table:

In thousands of kroons

2007	1 year	1-5 years	Over 5 years	Total
Fixed interest rates				
Interest bearing liabilities	10 316	17 985	0	28 301
Net debt	10 316	17 985	0	28 301

	1 year	1-5 years	Over 5 years	Total
Floating interest rates				
Interest bearing liabilities	110 310	451 093	53 136	614 539
Net debt	110 310	451 093	53 136	614 539

2006	1 year	1-5 years	Over 5 years	Total
Floating interest rates				
Interest bearing liabilities	239 040	403 613	81 929	724 582
Net debt	239 040	403 613	81 929	724 582

The distribution of interest bearing liabilities with fixed interest rates between periods 1 year and 1-5 years is based on repayment dates and the distribution of interest bearing liabilities with floating interest rates between periods 1 year and 1-5 years is based on the interest rate fixing date.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains profitability in business activity and interests of the shareholders.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20 % and 40%.

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The gearing ratio, 25 %, of current financial year shows that the share of interest bearing liabilities in capital is good and the Group can involve more foreign resources.

In thousands of kroons

	2007	2006
Interest bearing liabilities	642 840	724 582
Net debt	642 840	724 582
Capital	1 893 907	1 243 770
Total capital	1 893 907	1 243 770
Capital and net debt	2 536 747	1 968 352
Gearing ratio	25%	37%

Note 27 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 fair value of receivables and payables with a fixed interest rate is not considered different from their book value, since the fixed interest rate does not significantly differ from the prevalent interest rates on the market. For correct statement of the fair value, the calculation has been done by discounting the expected future cash-flows at prevailing interest rates.

Note 28 Interests of the members of the Supervisory Board

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

Andres Järving	Represents 4,795,730 shares of Tallinna Kaubamaja AS
Jüri Kõo	Represents 4,768,614 shares of Tallinna Kaubamaja AS
Enn Kunila	Represents 4,692,370 shares of Tallinna Kaubamaja AS

Note 29 List of shareholders holding over 5% of the shares of Tallinna Kaubamaja AS

Shareholder	31 December 2007 Participation	31 December 2006 Participation
NG Investeeringud AS (parent company)	67.00%	67.00%
ING Luxembourg A.A.	6.59%	8.94%
Skandinaviska Enskilda Banken Ab	5.59%	5.51%

As of 31 December 2007, 68.75% of the shares of NG Investeeringud OÜ are owned by NG Kapital OÜ, which is the ultimate controlling party.

Note 30 Restrictions on allocation of retained earnings

As of 31 December 2007, the retained earnings of Tallinna Kaubamaja AS amounted to 699,345 thousand kroons (31 December 2006: 337,215 thousand kroons). From 1 January 2008 onwards, dividend payment to owners will incur an obligation to pay 21/79 (22/78 until 31 December 2007) income tax on the net dividend to be paid. Thus, as of the balance sheet date, a total of 552,483 thousand kroons can be paid as dividends from the retained earnings (31 December 2006: 263,028 thousand kroons), with the respective income tax expenses amounting to 146,862 thousand kroons (31 December 2006: 74,188 thousand kroons).

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Note 31 Financial information on the parent company

The Parent's unconsolidated primary financial statements have been prepared and presented in accordance with the Estonian Accounting Act and they do not constitute the Parent's separate financial statements as defined in IAS 27 *Consolidated and Separate Financial Statements*.

BALANCE SHEET

In thousands of kroons, as of December 31

	31 December 2007		31 December 2006	
	EEK	EUR	EEK	EUR
ASSETS				
Current assets				
Cash and bank accounts	196 861	12 582	141 971	9 074
Accounts receivable	5 833	373	12 262	784
Other receivables	317 181	20 272	273 411	17 474
Accrued income	665	43	269	17
Prepaid expenses	925	59	1 129	72
Inventories	224 235	14 331	167 388	10 698
Total current assets	745 700	47 660	596 430	38 119
Non-current assets				
Shares in subsidiaries	84 174	5 380	84 134	5 377
Shares of associated companies	6 500	415	6 500	415
Other long-term receivables	7 828	500	7 828	500
Property, plant and equipment	67 275	4 300	81 416	5 203
Total non-current assets	165 777	10 595	179 878	11 496
TOTAL ASSETS	911 477	58 255	776 308	49 615
LIABILITIES AND OWNER'S EQUITY				
Current liabilities				
Borrowings	0	0	49 069	3 136
Prepayments received for goods and services	10 035	641	9 118	583
Accounts payable	132 489	8 468	117 076	7 483
Other short-term payables	62 948	4 023	58 243	3 722
Total current liabilities	205 472	13 132	233 506	14 924
Non-current liabilities				
Borrowings	265 992	17 000	265 992	17 000
Total non-current liabilities	265 992	17 000	265 992	17 000
TOTAL LIABILITIES	471 464	30 132	499 498	31 924
Owner's equity				
Share capital	407 292	26 031	407 292	26 031
Mandatory reserve	40 729	2 603	7 269	465
Retained earnings	-8 008	-511	-137 751	-8 804
TOTAL OWNER'S EQUITY	440 013	28 123	276 810	17 691
TOTAL LIABILITIES AND OWNER'S EQUITY	911 477	58 255	776 308	49 615

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

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INCOME STATEMENT

In thousands of kroons, per annum

	2007		2006	
	EEK	EUR*	EEK	EUR*
Revenue	1 545 842	98 797	1 281 747	81 919
Other income	52 404	3 349	50 604	3 234
Goods	-1 034 852	-66 139	-874 276	-55 876
Other operating expenses	-214 342	-13 699	-186 264	-11 904
Personnel expenses	-159 698	-10 207	-138 937	-8 880
Depreciation, amortisation and impairments	-27 690	-1 770	-24 144	-1 543
Other expenses	-4 749	-303	-5 608	-358
Operating profit	156 915	10 029	103 121	6 591
Interest income and expenses	6 406	409	441	28
Other financial income and expenses	40 611	2 596	20 247	1 294
NET PROFIT FOR THE FINANCIAL YEAR	203 932	13 034	123 809	7 913
Basic earnings per share (EEK/EUR)	4.01	0.26	3.04	0.19
Diluted earnings per share (EEK/EUR)	4.01	0.26	3.04	0.19

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

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CASH FLOW STATEMENT

In thousands of kroons, per annum

	2007		2006	
	EEK	EUR	EEK	EUR
CASH FLOW FROM OPERATING ACTIVITIES				
Net profit	203 932	13 034	123 809	7 913
Adjustments:				
Interest expense	19 308	1 234	2 791	178
Interest income	-25 714	-1 643	-3 232	-207
Dividend income	-40 729	-2 603	-20 365	-1 302
Depreciation, amortisation and impairments	27 690	1 770	24 144	1 543
Profit (loss) from disposals and write-off of non-current assets	83	5	521	33
Change in inventories	-56 848	-3 633	-22 811	-1 458
Change in receivables and prepayments related to operating activities	-39 135	-2 501	-254 228	-16 248
Change in liabilities and prepayments related to operating activities	20 370	1 301	26 000	1 662
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	108 957	6 964	-123 371	-7 885
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of PPE (except for finance lease)	-13 664	-873	-23 188	-1 482
Interest received	25 318	1 618	2 963	189
Investments in subsidiaries	-40	-3	0	0
Repayment of loans granted to associated companies	2 000	128	2 000	128
Profit from disposals of property, plant and equipment	32	2	282	18
Dividends received	40 729	2 603	20 365	1 302
TOTAL CASH FLOW FROM INVESTING ACTIVITIES	54 375	3 475	2 422	155
CASH FLOW FROM FINANCING ACTIVITIES				
Loans received	0	0	265 992	17 000
Proceeds from bond issue	0	0	48 900	3 125
Redemption of bonds	-50 000	-3 196	-35 000	-2 237
Interest paid	-17 713	-1 132	-1 563	-100
Dividends paid	-40 729	-2 603	-20 365	-1 301
TOTAL CASH FLOW FROM FINANCING ACTIVITIES	-108 442	-6 931	257 964	16 487
TOTAL CASH FLOW	54 890	3 508	137 015	8 757
Cash and cash equivalents at the beginning of the period	141 971	9 074	4 956	317
Cash and cash equivalents at the end of the period	196 861	12 582	141 971	9 074
Change in cash and cash equivalents	54 890	3 508	137 015	8 757

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

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STATEMENT OF CHANGES IN EQUITY

In thousands of kroons, per annum

	Share capital	Mandatory reserve	Retained earnings	Total
Balance as of 31.12.2005	67 882	7 269	98 215	173 366
Bonus issue	339 410	0	-339 410	0
Dividends paid	0	0	-20 365	-20 365
Profit for the period	0	0	123 809	123 809
Balance as of 31.12.2006	407 292	7 269	-137 751	276 810
Additions to mandatory reserve	0	33 460	-33 460	0
Dividends paid	0	0	-40 729	-40 729
Profit for the period	0	0	203 932	203 932
Balance as of 31.12.2007	407 292	40 729	-8 008	440 013

In thousands of euros

	Share capital	Mandatory reserve	Retained earnings	Total
Balance as of 31.12.2005	4 338	465	6 277	11 080
Bonus issue	21 692	0	-21 692	0
Dividends paid	0	0	-1 302	-1 302
Profit for the period	0	0	7 913	7 913
Balance as of 31.12.2006	26 031	465	-8 804	17 691
Additions to mandatory reserve	0	2 138	-2 138	0
Dividends paid	0	0	-2 603	-2 603
Profit for the period	0	0	13 034	13 034
Balance as of 31.12.2007	26 031	2 603	-511	28 123

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

Adjusted unconsolidated owners' equity of the parent company as at 31.12.2007 is as follows:

	2007.a.	2006.a.
Unconsolidated owner's equity of the parent company	440 013	276 810
Value of the subsidiaries, joint companies and associated companies in unconsolidated balance of the parent company	-90 674	-90 634
Value of the subsidiaries, joint companies and associated companies using equity method	1 544 568	1 057 594
Total	1 893 907	1 243 770

For identification purposes only

ERNST & YOUNG
14.04.2008

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Tallinna Kaubamaja

Report on the Financial Statements

We have audited the consolidated financial statements of AS Tallinna Kaubamaja and its subsidiaries (hereafter "the Group"), which comprise the balance sheet as of 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The audited financial statements, which we have identified on the accompanying pages, are enclosed with the current report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion


In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.



Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of Tallinn Kaubamaja AS as a parent company in Note 31 is presented because it is required by the Estonian Accounting Law and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information has been subject to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and in relation to the consolidated financial statements taken as whole.

Tallinn, 11 April 2008

A handwritten signature in blue ink, appearing to read 'Hanno Lindpere', written over a light blue circular stamp.

Hanno Lindpere
Ernst & Young Baltic AS

A handwritten signature in blue ink, appearing to be a stylized 'S' or 'Z' shape, located at the bottom left of the page.



PROFIT ALLOCATION PROPOSAL

Retained earnings of the Tallinna Kaubamaja AS Group:

Total retained earnings as of 31 December 2007	686,155 thousand kroons
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The Chairman of the Management Board of Tallinna Kaubamaja AS proposes to the General Meeting of the Shareholders to pay dividends from the retained earnings as of 31 December 2007 in the amount of 81,458 thousand kroons (2 kroons per share).

Raul Puusepp
Chairman of the Management Board

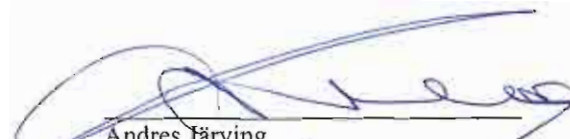
Tallinn, 11 April 2008





Signatures of the Management Board and Supervisory Board to the Annual Report 2007


The Annual Report 2007 of Tallinna Kaubamaja AS, approved by the General Meeting of the Shareholders on _____ 2008, was signed on 14.04. 2008 by:

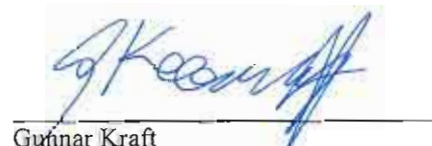


Raul Puusepp
Chairman of the Management Board

Andres Järving
Chairman of the Supervisory Board

Jüri Kiao
Member of the Supervisory Board

Meelis Milder
Member of the Supervisory Board

Enn Kunila
Member of the Supervisory Board

Gunnar Kraft
Member of the Supervisory Board