TALLINNA KAUBAMAJA AS
2004 Annual Report

The companies of the Tallinna Kaubamaja group are mostly engaged in the retail and wholesale trade. At the end of 2004, the Tallinna Kaubamaja group employed over 1400 employees.

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Beginning of financial year:	*01.01.2004*
End of financial year:	*31.12.2004*
Auditor:	*AS PricewaterhouseCoopers*
Bank:	*AS Hansapank* *AS Eesti Ühispank*
Law office:	*Teder & Partnerid AS*
Lawyer:	*Helda Truusa*
Subsidiaries and associates:	
A-Selver AS	*Share capital: EEK 22.0 million* *Ownership:100%*
AS Tartu Kaubamaja	*Share capital: EEK 8.3 million* *Ownership: 100%*
Tallinna Kaubamaja Suomi OY	*Share capital: FIM 0.9 million* *Ownership:100%*
Tallinna Kaubamaja Kinnisvara AS	*Share capital: EEK 0.4 million* *Ownership:100%*
Rävala Parkla AS	*Share capital: EEK 10.0 million* *Ownership: 50.0%*

All subsidiaries and associates are registered in the Republic of Estonia, except for Tallinna Kaubamaja Suomi OY, which is registered in the Republic of Finland

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

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MANAGEMENT REPORT

Group

Tallinna Kaubamaja consolidation group consists of the parent company Tallinna Kaubamaja AS and its subsidiary companies A-Selver AS, AS Tartu Kaubamaja, Tallinna Kaubamaja Kinnisvara AS and Tartu Kaubamaja Kinnisvara OÜ, a 100% subsidiary of Tallinna Kaubamaja Kinnisvara AS. Parent company Tallinna Kaubamaja AS holds 100% ownership in all of its subsidiary companies.

Group's dividend policy is set annually on the shareholders' general meeting.

In 2004, the consolidated net sales of Tallinna Kaubamaja AS were 129.2 million euros (incl. parent: 40.4 million euros). In 2004, the growth of net sales was 15% and the average growth of sales space was 20%. In 2004, the group's market share in the retail trade market was 6.4%.

In 2004, the group's net profit without the sales profit of non-current assets was 3.7 million euros, which is 12% less than the net profit of 4.2 million euros a year ago. A major factor impacting the decline of the net profit was the significant expansion of Tallinna Kaubamaja in April 2004 as result of which the sales space increased by 1.5 times.

The net profit margin without the sales profit of non-current assets was 2.9%. In previous year it was 3.8%.

The group's consolidated net profit for the year was 6.3 million euros, which also included profit from the sale of two buildings in the amount of 2.6 million euros.

In 2004, earnings per share were 0.9 euros compared to 0.6 euros last year.

As of 31.12.2004, the total assets of Tallinna Kaubamaja group were 66.1 million euros, increasing by 14.4 million euros or 28% in a year.

In 2004, the group's capital expenditures totalled 11.5 million euros. The largest investments were the construction of the building of Tartu Kaubamaja in the amount of 3.7 million euros, the furnishings, equipment and computer technology of Tallinna Kaubamaja in the amount of 3.5 million euros, the reconstruction and renovation of the building of Tallinna Kaubamaja in the amount of 2 million euros as well as the furnishings, equipment and computer technology of the Selver stores in the amount of 1.3 million euros.

In 2004, the Tallinna Kaubamaja group sold supermarket buildings of Torupilli and Merimetsa Selver together with land. The sales price of the registered immovables was 8.1 million euros, with the carrying amount of 5.5 million euros. Profit earned from this transaction amounted to 2.6 million euros.

Liabilities increased by 0.9 million euros in a year.

As of 31.12.2004, the group's shareholders equity stood at 41.3 million euros, which was 62.5% of the balance sheet total. The shareholders equity increased by 13.5 million euros or 48.5% in a year. In addition to the 2004 net profit of 6.3 million euros, equity and non-current assets increased due to the revaluation of land and buildings in the amount of 7.2 million euros, including the revaluation of the building at Gonsiori 2, Tallinn in the amount of 6.5 million euros.

In 2004, the average number of employees was 1445 people, increasing by 155 people or 12% in a year. Hence the growth of the number of employees lagged the growth of average sales space, which was 20%. In 2004 staff costs including social security taxes totaled 11.4 million euros. In 2004, the remuneration and additional benefits paid to the Chairman of the Management Board totalled 88.5 thousand euros. The remuneration and social security taxes of the members of the Supervisory Board totalled 119.6 thousand euros.

In 2004, the group's efficiency increased. Net sales per employee increased by 2.4% in a year and the number of square meters per employee increased by 7%.

The number of customers holding the Partner card increased by 21% up to 140 000 people in 2004.

Retail market's outlook for 2005.
In 2004, the time-weighted growth of the retail premises is estimated to have been 16% as compared to 2003. In April 2004, two large shopping centres were opened in Tallinn: Viru Keskus and Ülemiste Keskus. The expanded Tallinna Kaubamaja became the largest lessee of the Viru Keskus.

According to the preliminary data, the growth of retail sales (retail sales without the sales of automobiles and fuel) was 15% in 2004 as compared to 9.6% in 2003. Hence the supply of the retail premises and the demand (i.e. retail sales) stayed in equilibrium.

In 2005, the time-weighted growth of the retail premises is estimated to be 5% in the retail trade sector. As the retail space and apparently the base level have significantly increased over the last couple of years, the new stores do not have a major effect on the growth of the retail space.

Tallinna Kaubamaja forecasts retail sales growth approximately 10% in 2005 as compared to 2004. It is expected that the growth of demand (retail sales) will exceed the growth of supply (retail space) after several years. Retailers should have a good year in 2005.

At the same time, there is strong pressure on wages which requires an increased efficiency in retail trading.

Due to the sharp decline in the prices of plane tickets, the Estonians travel more and some of the retail sales occur outside Estonia. At the same time due to simplification of travelling opportunities and the opening up of new travel routes more tourists visit Estonia and thus the proportion of tourists in Estonian retail trade sales will continue to increase. In Tallinna Kaubamaja, the proportion of tourists making purchases is estimated to be between 12 and 14%.

In the Estonian retail market, close neighbours are playing a more active role. Lithuania's Apranga with its Zara trademark and Vilniaus Prekyba with its T-Market concept have already entered into the market. The Latvian Drogas chain is waiting to come. Other potential newcomers are the clothes manufacturers from Poland, the Czech Republic, Hungary and other countries who have similar retail concepts and strong trademarks as our Baltika with its Monton brand.

There are already the stores of Bauhaus, Ob and Intersport near Estonia, and some of them will undoubtedly enter the Estonian market in the near future.

In the supermarket segment, there will be one brand less due to the merger of the concepts of Rimi and Citymarket. Therefore the largest existing chains should have even more specific image and be distinguishable from each other.

Tallinna and Tartu Kaubamaja
The most important event for Tallinna Kaubamaja in 2004 was its expansion into the Viru Keskus on April 15, as a result of which the retail premises increased by 1.5 times, to 14 500 m2.

Since the expansion, Kaubamaja's portfolio of brands has significantly improved and the display of goods has changed. According to the new concept, well-known brands or the association of goods under a common theme (such as bedroom, ball games) create a certain mood. The goal of Kaubamaja is to be something more than the agent between the producer and the consumer – we would like to inspire our customers by offering them positive emotions.

According to the management of Kaubamaja, the expansion project can be considered successful. Customers have received the renewed Kaubamaja well, and together with the Viru Keskus it has become a centre of fashion business in Tallinn.

Kaubamaja's customers have become more brand-conscious compared to previous years. Such international well-known clothes brands as French Connection, Gerry Weber, Betty Barclay, Pierre Cardin, Bugatti and Tommy Hilfiger, footwear and handbag brands Fabi, Francesco Biasia and Lloyd, exclusive cosmetics of Lancome, Christian Dior, Shiseido and Chanel and home furnishings brands Villeroy&Boch, Iittala and Bodum have had large sales success. Kaubamaja plans to further increase the proportion of well-known brands.

An important milestone for Kaubamaja will be the opening of new department store in Tartu in September 2005. The retail space of Tartu Kaubamaja will expand three times, to approximately 7000 m2. The expansion of Tallinna Kaubamaja has set a good example from which the best ideas can be successfully implemented in Tartu as well. Additional 9.8 million euros will be invested in 2005.

In the area of customer service, the recurrent theme for Kaubamaja in 2004 was the introduction of the new service concept, for which all service-related systems were rearranged. The most important keywords were proactiveness, cheerfulness, helpfulness and reliability. Differentiation in service is the source of Kaubamaja's competitive advantage. For ensuring the reinforcement of customer service, all customer service employees were tested based on new requirements. In conjunction with the expansion, 100 new customer service representatives were hired and their selection has turned out to be successful and their settling–in has been smooth. Tartu Kaubamaja will hire about 65 new employees in the customer service area in the summer of 2005.

With regard to the customers, a course has been taken to keep existing customers and better meet their expectations. Promotions and offers directed to smaller target groups have become more frequent. Our regular customer magazine Hooaeg (*Season*) with the circulation of 75 000 copies has become very popular. Hooaeg has become a well-regarded advertising channel in the Estonian advertising market. Together with NBN a new weekly TV programme was launched to discuss beauty and fashion topics.

Business partners LP-Logistika and Smarten have been engaged in handling and storage of goods of Tallinna Kaubamaja. The cooperation project has been successfully launched and in 2005, also the goods of new Tartu Kaubamaja will be handled and stored using the above-mentioned business partners.

<u>A-Selver</u>
In 2004, the number of stores in the Selver chain increased to 11: Saare Selver was opened in Kuressaare in June. Sales space was expanded at two existing supermarkets at Tondi and Järve Selver. Altogether, 2948 m² of additional sales space was opened.

In the spring of 2004, the production units of two separately located Selveri Köök (*Selver's Kitchen*) were united and a large kitchen with the new management structure was set up at Kadaka Selver. The rearrangement enabled to increase production capacity, make the whole production process more effective and expand the production assortment.

In 2004, the company's main emphasis was on increasing productivity and the valuation and retention of its loyal customers. The number of special promotions were enlarged and an additional 10% birthday discount was taken into use.

The products under the Selver Köök brand, the development of products under the Selver's own brand as well as sales support activities for the setting of a favourable price image continued to be actively marketed.

The keywords for Selver in 2005 are the growth in market share, differentiation from competitors and a high-quality service.

Selver started to implement its 2005 development plans in Southern Estonia. Vilja Selver located at Vilja tn. 6, Võru with the sales space of 1065 m² was opened in March. Valga Selver located at Raja tn. 5, Valga will open in the summer. The sales space is estimated to be around 1260 m². The renovation of Punane Selver will start in April with the goal of creating a new modern purchasing environment. The renewed store will open to visitors in June. About 0.5 million euros will be invested in these projects in 2005.

In accordance with the declaration of intentions entered into in February 2005, Selver plans to acquire the operating rights for three Tirsi stores in Tartu and open new the stores at Turu 37a, Kalda tee 43 and Ringtee 76/78 in Tartu, at Suur-Jõe 57 in Pärnu as and Mustakivi tee 3a in Tallinn. Currently a permit from the Estonian Competition Board is required for the completion of this transaction and the opening of the stores.

The goal for the year 2007 is to double the existing sales space.

<u>Tallinna and Tartu Kaubamaja Kinnisvara</u>
A significant event for Tallinna Kaubamaja Kinnisvara in 2004 was the renovation of the B-building of Tallinna Kaubamaja. The sales hall on the second floor of the B-building and the rooms in the basement area were rebuilt, new elevators and an escalator were installed. The first floor of the B-building with the new leased space as a gallery was completely renovated.

In 2004, the construction of the new Tartu department store building continued. In December 2004, a subsidiary Tartu Kaubamaja Kinnisvara OÜ was set up which acquired land and other investments already made by the parent for the development of Tartu department store. The subsidiary will be engaged in the development of the project, administration of the new building and the leasing out of the retail premises. The new Tartu Kaubamaja will open in the autumn of 2005.

Two buildings located at Paldiski mnt 56 and Vesivärava 37 were sold in 2004, where the stores of the Selver chain had been operating as lessees. A new plot of land was acquired in the district of North Tallinn where construction will start in 2005.

In 2005 the building of Punane Selver is planned to be completed and the development work for Tartu Kaubamaja to be finalized. The construction of new supermarket at North Tallinn will start and at the first opportunity also the expansion of Pirita Selver. Cooperation with the Selver chain will continue for the determination of appropriate locations for real estate development.

FINANCIAL STATEMENTS
Management Board's confirmation to the financial statements

The Management Board confirms the correctness and completeness of Tallinna Kaubamaja AS's consolidated and the parent's separate financial statements as presented on pages 6 – 29.

The Management Board confirms that:

1. the accounting policies used in preparing the financial statements are in compliance with International Financial Reporting Standards;

2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the parent and the group;

3. Tallinna Kaubamaja AS and its subsidiaries are as a going concern.

Raul Puusepp
Chairman of the Management Board

Tallinn, 6 April 2005

BALANCE SHEET

In thousand EUR/EEK

		31.12.2004		31.12.2004		31.12.2003		31.12.2003	
		Group		Parent		Group		Parent	
ASSETS	Note	EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
Current assets									
Cash and bank	2	77 967	4 983	50 879	3 252	73 311	4 685	40 954	2 617
Trade receivables	3	14 222	909	2 391	153	8 419	538	1 769	113
Other receivables	4	6 148	393	2 938	188	4 159	266	4 919	314
Accrued income	5	80	5	79	5	33	2	32	2
Prepaid expenses	6	17 439	1 115	691	44	2 136	137	1 034	66
Inventories	7	224 366	14 340	103 194	6 595	175 971	11 247	67 614	4 321
Total current assets		340 222	21 744	160 174	10 237	264 029	16 875	116 322	7 434
Non-current assets									
Long-term financial investments									
Shares in subsidiaries	8	0	0	598 174	38 230	0	0	387 443	24 762
Shares in associates	9	6 769	433	6 769	433	5 427	347	5 427	347
Other long-term receivables	10	12 328	788	12 328	788	12 028	769	12 028	769
Property, plant and equipment	11	675 242	43 156	62 112	3 970	528 234	33 760	19 409	1 240
Intangible assets	12	0	0	0	0	-938	-60	0	0
Total non-current assets		694 339	44 376	679 384	43 421	544 751	34 816	424 307	27 118
TOTAL ASSETS		1 034 561	66 121	839 558	53 658	808 779	51 690	540 629	34 553
LIABILITIES AND SHAREHOLDERS' EQUITY									
Borrowings	13	31 457	2 010	114 981	7 349	50 653	3 237	35 000	2 237
Customer prepayments for goods and services		5 529	353	3 780	242	4 820	308	3 019	193
Supplier payables		191 343	12 229	56 608	3 618	163 562	10 453	49 613	3 171
Other short-term payables	15	57 175	3 654	17 548	1 122	35 384	2 261	17 666	1 129
Total current liabilities		285 504	18 246	192 917	12 331	254 419	16 259	105 298	6 730
Non-current liabilities	13	102 416	6 546	0	0	119 029	7 607	0	0
TOTAL LIABILITIES		387 921	24 793	192 917	12 330	373 449	23 868	105 298	6 730
Shareholders' equity									
Share capital	16	67 882	4 338	67 882	4 338	67 882	4 338	67 882	4 338
Statutory reserve capital		7 269	465	7 269	465	7 269	465	7 269	465
Revaluation reserve		260 506	16 649	260 506	16 649	152 016	9 716	152 016	9 716
Retained earnings		212 251	13 565	212 251	13 565	142 088	9 081	142 088	9 081
Net profit for financial year		98 733	6 310	98 733	6 310	66 075	4 223	66 075	4 223
TOTAL SHAREHOLDERS' EQUITY		646 641	41 328	646 641	41 328	435 331	27 823	435 331	27 823
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1 034 561	66 121	839 558	53 658	808 779	51 690	540 629	34 553

The notes that are presented on pages 11-29 form an integral part of the financial statements.

in thousand euros

INCOME STATEMENT

In thousand EUR/EEK

		2004		2004		2003		2003	
		Group		Parent		Group		Parent	
Operating income	Note	EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
Net sales	17	2 021 830	129 218	631 809	40 380	1 760 768	112 534	579 386	37 030
Other operating income	18	89 041	5 691	42 607	2 723	43 815	2 800	41 344	2 642
Cost of goods sold		-1 524 271	-97 419	-454 028	-29 018	-1 330 289	-85 021	-414 794	-26 510
Operating expenses	19	-240 683	-15 382	-135 007	-8 629	-193 087	-12 341	-107 261	-6 855
Staff costs	20	-177 800	-11 364	-67 786	-4 332	-148 049	-9 462	-57 598	-3 681
Depreciation and amortisation	11	-58 898	-3 764	-13 028	-833	-52 376	-3 347	-7 648	-489
Amortisation of goodwill	12	938	60	0	0	446	28	0	0
Miscellaneous expenses		-5 106	-326	-3 787	-242	-6 604	-422	-5 221	-334
Operating profit		105 050	6 714	781	50	74 624	4 769	28 208	1 803
Financial income and expenses									
Total financial income and expenses from subsidiaries	8	0	0	98 154	6 273	0	0	37 641	2 406
Total financial Income and expenses from associates	9	1 342	86	1 342	86	1 484	95	1 484	95
Interest income and expenses	21	-7 386	-472	-1 340	-86	-9 923	-634	-1 180	-75
Other financial income and expenses		-273	-17	-205	-13	-109	-7	-78	-5
Total financial income and expenses		-6 317	-404	97 952	6 260	-8 548	-546	37 867	2 420
NET PROFIT FOR FINANCIAL YEAR		98 733	6 310	98 733	6 310	66 075	4 223	66 075	4 223
Basic earnings per share (EEK/EUR)	22	14,54	0,93	14,54	0,93	9,73	0,62	9,73	0,62
Diluted earnings per share (EEK/EUR)		14,54	0,93	14,54	0,93	9,73	0,62	9,73	0,62

The notes that are presented on pages 11-29 form an integral part of the financial statements.

CASH FLOW STATEMENT

In thousand EUR/EEK

		2004		2004		2003		2003	
	Note	Group		Parent		Group		Parent	
		EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
CASH FLOWS FROM OPERATING ACTIVITIES									
Net profit		98 733	6 310	98 733	6 310	66 075	4 223	66 075	4 223
Adjustments:									
Interest expense		8 861	566	0		11 258	720	3 948	252
Interest income		-1 474	-94	-1 580	-101	-1 335	-85	-2 768	-177
Depreciation and amortisation	11,12	57 960	3 704	13 028	833	51 931	3 319	7 648	489
Profit (loss) from sales and write-off of non-current assets		-40 469	-2 586	2	0	-139	-9	-25	-2
Effect of equity method	8,9	-1 342	-86	-99 497	-6 359	-1 484	-95	-39 125	-2 501
Change in inventories		-48 395	-3 093	-35 580	-2 274	-12 529	-801	886	57
Change in receivables and prepayments related to operating activities		-23 095	-1 476	1 701	109	6 601	422	48 172	3 079
Change in liabilities and prepayments related to operating activities		50 328	3 217	7 683	491	23 216	1 484	6 949	444
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		101 105	6 462	-15 510	-991	143 595	9 177	91 761	5 865
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchase of property, plant and equipment (except for finance lease)	11	-179 907	-11 498	-55 992	-3 579	-38 155	-2 439	-14 149	-904
Interest received		1 427	91	1 533	98	1 400	89	2 833	181
Loans granted to associates		-300	-19	-300	-19	0	0	0	0
Proceeds from sales of property, plant and equipment		127 047	8 120	259	17	427	27	110	7
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		-51 733	-3 306	-54 500	-3 483	-36 328	-2 322	-11 205	-716
CASH FLOWS FROM FINANCING ACTIVITIES									
Change in balance of group's funds	13	0	0	100 122	6 399	0	0	0	0
Loans received		14 717	941	14 717	941	40 000	2 556	10 000	639
Repayments of loans received	13	-47 067	-3 008	-35 000	-2 237	-86 946	-5 557	-65 109	-4 161
Repayments of finance lease principal	14	-3 459	-221	0	0	-3 226	-206	0	0
Dividends paid		0	0	0	0	-6 788	-434	-6 788	-434
Interest paid		-8 906	-569	96	6	-11 253	-719	-3 972	-254
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		-44 716	-2 858	79 936	5 109	-68 214	-4 360	-65 869	-4 210
TOTAL CASH FLOWS		4 656	298	9 925	634	39 053	2 496	14 687	939
Cash and cash equivalents at beginning of year	2	73 311	4 685	40 954	2 617	34 258	2 189	26 267	1 679
Cash and cash equivalents at end of year	2	77 967	4 983	50 879	3 252	73 311	4 685	40 954	2 617
Change in cash and cash equivalents		4 656	298	9 925	634	39 053	2 496	14 687	939

The notes that are presented on pages 11-29 form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY

Group/Parent company

In thousand EUR

	Share capital	Revaluation reserve	Statutory reserve capital	Retained earnings	Total
Balance as of 31.12.2002	4 338	10 002	465	9 229	24 034
Dividends	0	0	0	-434	-434
Revaluation reserve of non-current assets	0	-286	0	286	0
Net profit for financial year	0	0	0	4 223	4 223
Balance as of 31.12.2003	4 338	9 716	465	13 304	27 823
Revaluation of non-current assets	0	7 195	0	0	7 195
Change in revaluation reserve of non-current assets	0	-261	0	261	0
Net profit for financial year	0	0	0	6 310	6 310
Balance as of 31.12.2004	4 338	16 649	465	19 875	41 328

Group/Parent company

In thousand EEK

	Share capital	Revaluation reserve	Statutory reserve capital	Retained earnings	Total
Balance as of 31.12.2002	67 882	156 490	7 269	144 403	376 044
Dividends	0	0	0	-6 788	-6 788
Change in revaluation reserve of non-current assets	0	-4 474	0	4474	0
Net profit for financial year	0	0	0	66 075	66 075
Balance as of 31.12.2003	67 882	152 016	7 269	208 164	435 330
Revaluation of non-current assets	0	112 577	0	0	112 577
Change in revaluation reserve of non-current assets	0	-4 087	0	4 087	0
Net profit for financial year	0	0	0	98 733	98 733
Balance as of 31.12.2004	67 882	260 506	7 269	310 984	646 641

For income tax paid in 2003, please refer to Note 16.
Detailed information about share capital is presented in note 16.

The notes that are presented on pages 11--29 form an integral part of the financial statements

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Notes to the financial statements

Note 1 Accounting policies and measurement basis adopted in the preparation of the financial statements

Tallinna Kaubamaja AS was registered in the Republic of Estonia on 18.10.1994. The shares of Tallinna Kaubamaja AS are listed on the Tallinn Stock Exchange.

Presentation of the current set of financial statements
The Group maintains its accounting records in Estonian kroons (EEK). The functional currency reflects the economic substance of the underlying events and circumstances of the Group. Amounts in these consolidated financial statements presented in Euros (EUR) are translated into Euros from the consolidated financial statements expressed in Estonian kroons ("the underlying consolidated financial statements"). The underlying consolidated financial statements have been prepared following the accounting policies described below. The consolidated financial statements have been presented in Euros, which is not the group's functional currency due to specific reporting requirements set by Tallinn Stock Exchange. Because Estonian kroon is pegged to Euro at fixed exchange rate 1 Euro = 15,6466 Estonian kroons since the introduction of Estonian kroon, no currency translation differences arise from the converting of financial statements. For the benefit of the readers, the primary statements of these financial statements also contain information in Estonian kroons.

Basis of preparation
The consolidated financial statements of the group and the financial statements of Tallinna Kaubamaja AS have been prepared in accordance with International Financial Reporting Standards (IFRS).

Information presented in the financial statements has been presented under the historical cost convention as modified by the revaluation of certain assets as set out below.

Consolidation
The parent with its subsidiaries forms the group. The Tallinna Kaubamaja group consists of the parent company Tallinna Kaubamaja AS and its subsidiaries A – Selver AS, AS Tartu Kaubamaja, Tallinna Kaubamaja Kinnisvara AS, Tartu Kaubamaja Kinnisvara OÜ as a 100% subsidiary of Tallinna Kaubamaja Kinnisvara AS and Tallinna Kaubamaja Suomi OY. Tallinna Kaubamaja AS has 100% voting power in all of its subsidiaries. The financial statements of the parent and its subsidiaries have been consolidated on a line-by-line basis. Intragroup balances and transactions and the resulting unrealised profits and losses have been eliminated. The minority interest in the companies that are controlled by the parent company have been presented separately in the consolidated financial statements.

The 2004 financial statements include the financial data of the parent company and all of its subsidiaries except Tallinna Kaubamaja Suomi OY. Tallinna Kaubamaja Suomi OY financial records have not been consolidated as the company had no operating activities during the financial year and the Supervisory Board of Tallinna Kaubamaja AS has adopted a resolution to liquidate the subsidiary. Its assets have been written down to zero value in the books of the parent company.

Where necessary, accounting policies of subsidiaries have been adjusted to those adopted by the Group. Income statements and cash flows of foreign entities are translated into Estonian kroons at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities are taken to the shareholders' equity.

Subsidiaries
Subsidiaries are entities controlled by the parent. Control exists when the parent has the power to govern directly or indirectly the financial and operating policies of its subsidiaries or benefit from the activities of the investee. Control is presumed to exist when the parent owns directly or indirectly more than 50% of the voting power. Subsidiaries are consolidated from the date on which control is transferred to the group and are no longer consolidated from the date that control ceases.
In the financial statements of Tallinna Kaubamaja AS, the subsidiaries have been presented under the equity method.

Subsidiaries (continues)
Under this method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of the profits or losses of the investee after the date of acquisition and also to recognise the amortisation of goodwill arising from acquisition Unrealised gains on transactions between the Group and its subsidiaries are eliminated to the extent of the Group's interest in the subsidiaries. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in subsidiaries includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the investment is reported at nil value and further losses are recognised as off-balance-sheet item, unless the Group has incurred obligations or made payments on behalf of the associates – in which case the Group recognises the liability and its share of losses in an associate in the balance sheet

Associates
Associates are investees over which the group exerts direct or indirect influence, but does not control their financial and operating policies. Significant influence is presumed to exist when the group holds between 20-50% of the voting power of the investee. The share of Tallinna Kaubamaja AS and the group in the profits and losses of the associates is presented in the financial statements from the moment significant influence arises until it ceases. The associates have been presented under the equity method in the financial statements of Tallinna Kaubamaja AS and the group. (See also accounting policies for Subsidiaries).

Financial instruments
Financial assets and financial liabilities (trade receivables, other receivables, supplier payables, miscellaneous liabilities, loans received, bonds) are recorded in the balance sheet on the transaction date and are initially recognised at cost. Profits and losses on financial instruments are recognised as income and expenses of the period.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances (except overdraft), term deposits with original maturities of 3 months of less and highly liquid securities. Liquid securities are recorded at the fair value, i.e. at the market price. The cash flow statement has been prepared under the indirect method, starting with net profit.

Trade receivables
Trade receivables are carried at the original invoice amount less impairments. Allowance for impairment is established when it is probable that the amounts will not be collected according to the terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, which is the expected future cash flows discounted at the market rate of interest for similar borrowers.

Other receivables
Other receivables (accrued income, loans granted and other short and long-term receivables), except for receivables acquired for the purpose of resale, are carried at amortised cost. Short-term receivables are normally measured at the original invoice amount less a provision made for impairment of these receivables, therefore short-term receivables are carried in the balance sheet at their collectible amounts. Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently measured at amortised cost using the effective interest rate method.

Borrowings
Borrowings are initially recognised at the proceeds received, net of transaction costs. They are subsequently measured under the amortised cost method using the effective interest rate. The difference between the proceeds received and the redemption value is recorded in the income statement by allocating it over the loan term.

Inventories
Inventories are initially recognised at cost, consisting of the purchase price, transportation costs and other costs directly related to the acquisition. Inventories are accounted for by using the FIFO method.
Inventories are measured at the balance sheet at the lower of acquisition cost or net realisable value.
Unused supplies not held for resale are accounted for as raw materials.
Prepayments include amounts paid to the suppliers for supplies of goods, that have not been delivered by the balance sheet date.

Property, plant and equipment

Property, plant and equipment are assets with the useful life of over one year.
An item of property, plant and equipment is recognized at cost less any accumulated depreciation and any impairments. In addition to the purchase price, the cost of non-current assets also includes expenditures on transportation, installation and other expenditures related to the acquisition of the asset.

The reconstruction expenditures that increase the future economic benefits over the originally assessed standard of performance are added to the carrying amount of the asset. All other subsequent expenditures made to restore the future economic benefits that an enterprise can expect from the originally assessed standard of performance of the property, plant and equipment item, are recognised as an expense in the income statement in the period in which they are incurred.

Since year 2000, land and buildings are accounted for under the revaluation method. The assessment is performed by independent real estate experts. The amount of the surplus is recorded in the revaluation reserve and the amount of the deficit (exceeding the previous surplus) is recorded as an expense in the income statements. The earlier accumulated depreciation is eliminated in the process of revaluation and the revalued amount is considered the "new cost". Each year the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from revaluation reserve to the retained earnings.

Where an asset's carrying amount is greater than its estimated recoverable amount (higher of the asset's net selling price and its value in use), it is written down immediately to its recoverable amount.
The straight line method is used for calculating depreciation. The depreciation rates are set separately for each item of property, plant and equipment depending on their useful lives.

Depreciation is determined by using the following estimated useful lives:

• Buildings and facilities	12-33 years
• Machinery and equipment	5 years
• Hardware and software of computer technology	3 years
• Means of transportation and fixtures	5 years
• Improvement costs on leased spaces	4-10 years

Land is not depreciated.

Buildings and facilities include capitalised construction work on leased spaces that is depreciated over the shorter of the useful life or the lease term.
Borrowing costs (for example, interest) are recorded as an expense in the period in which they arise.

Investment property

The property (land or a building) held for long-term rental yields or for capital appreciation, rather than for the production or supply of goods or services or for administrative purposes, is recorded as an investment property. An item of investment property is recognised initially in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs). After initial recognition the investment property is carried at cost less any depreciation and impairment losses similarly to other fixed assets.

Intangible assets

Goodwill is recognized as an intangible asset. Goodwill is the amount by which the cost of the acquirer exceeds the fair value of the net assets acquired. Goodwill arising in the acquisition of subsidiaries or associates is presented as part of investment in shares of subsidiaries or associates in the parent's financial statements and is amortised using the straight-line method.

Positive goodwill is expensed over a five-year period. The amortisation of goodwill is accounted for under financial expenses. Up to 31.12.04 negative goodwill is taken to income over the remaining estimated useful life of the acquired non-current asset. Negative goodwill as of 01.01.05 is transferred in total to the retained earnings.

Foundation expenses are not capitalised. Research and development costs are generally expensed when incurred. The development costs that are identifiable and that probably participate in the generation of future income are capitalized. .

Finance and operating leases

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

The company as a lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated similarly to acquired non-current assets over the shorter of the useful life of the asset or the lease term. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

The company as a lessor

Assets leased out under operating leases are recorded similarly to property, plant and equipment in the balance sheet. Rental income is recognised on a straight-line basis over the lease term.

Provisions and contingent liabilities

Provisions recognised in the balance sheet are commitments of the company that have arisen in the financial year or in previous periods that have a legal or contractual obligation, that require the transfer of an asset and the cost can be estimated reliably. However the final cost or the payment term have not been fixed. Provisions are recognised based on the management's best estimate and experience. Where necessary independent experts advice has been used.

Promises, guarantees and other commitments that in certain circumstances may become obligation, are disclosed in the notes to the financial statements as contingent liabilities.

Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax rate of 24/76 (until 31 December 2004, the income tax rate was 26/74) of the net dividend paid from which the income tax paid before 1 January 2000 can be deducted using the respective coefficient. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Accounting for foreign currency transactions

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Estonian kroons using the exchange rates of the Bank of Estonia prevailing on the balance sheet date. Profits and losses from foreign currency transactions are recognised as income or expenses of that period.

Revenue recognition

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise. Revenue from the provision of services is recorded upon the provision of the service.

Revenue arising from interest, royalties and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the effective interest rate, except if the receipt of the interest is uncertain. In such cases the interest income is accounted for on a cash basis. Revenue arising from royalties is recognised on an accrual basis in accordance with the terms of the agreement. Dividends are recognised when the right to receive payment is established.

Segment reporting

Total net sales of the group has occurred in the Republic of Estonia. The group's main activities are retail trade, wholesale trade and catering. All other activities are considered ancillary activities, whose results have been included either under other operating income and expenses or financial income and expenses. Retail trade makes up over 95% of the net sales. Based on the aforementioned, the parent company and the group have only one geographical and one operational segment and therefore no additional segment reporting is presented.

Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year by the period's weighted average number of shares issued. Since the company has no potential shares to be issued, then the diluted earnings per share equal the basic earnings per share.

Post balance sheet events

Subsequent events that have an effect on the valuation of assets and liabilities and that became evident between the balance sheet date and the date of approval of the financial statements but relate to previous periods are accounted for in the financial statements.

Post balance sheet events that have a significant effect on the results of the next financial year only, have been disclosed in the notes to the financial statements.

Statutory reserve capital

The Commercial Code of the Republic of Estonia requires the public limited companies to set up statutory reserve capital amounting to a minimum of 1/10 of the share capital. One-twentieth of the companies' net profit shall be transferred to the statutory reserve until the required level is achieved. In accordance with the Commercial Code, the reserve capital can be used to offset losses when it is not possible to cover it from unrestricted equity (from retained earnings and the reserve capital as required by the articles of association) and also to increase share capital. Payments to the shareholders should not be made from reserve capital.

Revaluation reserve of land and buildings

The revaluation reserve of land and buildings is part of restricted equity and it cannot be distributed to the shareholders. The revaluation reserve is reduced annually by the depreciation determined on the revalued amount This reduction of the revaluation reserve is added to retained earnings.

Related parties

Related parties are those who have control over the other party or significant influence over the business decisions of the other party. Related parties are:

1) entities who directly or indirectly through one or several intermediaries control or are controlled or are under common control of the reporting entity (parent company and its owners as well as other companies belonging to the same consolidation group).
2) entities who directly or indirectly have significant interest in the form of voting power, the persons or entities over whom these specified persons have significant influence.
3) persons, who directly or indirectly own significant voting power in the reporting entity and their close relatives or persons close to them.
4) the executives of the company who have the authority and responsibility for the planning, management and supervision of the reporting entity, thus including the members of the management board of the company as well as officers and their close relatives or persons close to them.
5) entities which are owned by the members of the management board and majority shareholders and entities which share executives with the reporting entity.

in thousand euros

Note 2 Cash and bank

	31 December 2004		31 December 2003	
	Group	Parent Company	Group	Parent Company
Cash on hand	121	11	112	8
Bank accounts	4 357	3 115	1 911	303
Cash in transit	505	126	489	133
Money market shares	0	0	2 173	2 173
Total cash and bank	**4 983**	**3 252**	**4 685**	**2 617**

Note 3 Trade receivables

	31 December 2004		31 December 2003	
	Group	Parent Company	Group	Parent Company
Trade receivables	909	153	576	113
Allowance for doubtful accounts	0	0	-38	0
Total customer receivables	**909**	**153**	**538**	**113**

Note 4 Other receivables

	31 December 2004		31 December 2003	
	Group	Parent Company	Group	Parent Company
Receivables from subsidiaries (1)	0	150	0	90
Group account receivable (1)	0	0	0	200
Bonuses receivable from suppliers	352	0	238	0
Other current receivables	41	38	28	24
Total other receivables	**393**	**188**	**266**	**314**

(1) Please refer to Note 26 Related party transactions

Note 5 Accrued income

Interest in the amount of 5 thousand euros is recorded under accrued income (2003: 2 thousand euros).

Note 6 Prepaid expenses

	31 December 2004		31 December 2003	
	Group	Parent Company	Group	Parent Company
Other prepaid expenses	49	37	34	24
Prepaid membership fees	6	5	26	26
Prepaid insurance	2	2	51	17
Prepaid value added tax	1 043	0	15	0
Maintenance of software licenses	15	0	11	0
Total prepaid expenses	**1 115**	**44**	**137**	**66**

in thousand euros

Note 7 Inventories

	31 December 2004		31 December 2003	
	Group	**Parent Company**	**Group**	**Parent Company**
Goods held for resale	14 168	6 524	10 668	4 174
Raw materials	172	71	169	48
Prepayments to suppliers	0	0	410	99
Total inventories	**14 340**	**6 595**	**11 247**	**4 321**

As of 31.12.2004, the balance of inventories is divided among group companies as follows:

	Tallinna Kaubamaja AS	AS Tartu Kaubamaja	A-Selver AS	Total
Goods held for resale	6 524	1 557	6 087	**14 168**
Raw materials	71	10	91	**172**
Total inventories	**6 595**	**1 567**	**6 178**	**14 340**

As of 31.12.2003, the balance of inventories is divided between group companies as follows:

	Tallinna Kaubamaja AS	AS Tartu Kaubamaja	A-Selver AS	Total
Goods held for resale	4 174	1 430	5 064	**10 668**
Raw materials	48	12	109	**169**
Prepayments to suppliers	99	8	303	**410**
Total inventories	**4 321**	**1 450**	**5 476**	**11 247**

The write-down and write-off of inventories and the inventory shortages recorded under the Cost of goods sold as follows:

2004	Tallinna Kaubamaja AS	AS Tartu Kaubamaja	A-Selver AS	Total
Write-down and write-off of inventories	144	17	809	**970**
Inventory shortages	239	34	574	**847**
Total	**383**	**51**	**1 383**	**1 817**

2003	Tallinna Kaubamaja AS	AS Tartu Kaubamaja	A-Selver AS	Total
Write-down and write-off of inventories	332	139	493	**964**
Inventory shortages	138	30	457	**625**
Total	**470**	**169**	**950**	**1 589**

As of 31.12.2004, the group's inventories with the net realisable value of 401 thousand euros(2003:228 thousand euros) and the parent's inventories with the net realisable value of 295 thousand euros(2003:148 thousand euros).

Information on pledged assets is provided in Note 23.

in thousand euros

Note 8 Shares in subsidiaries

The group of Tallinna Kaubamaja includes the following entities:

Entity	Location	Activity	Participation
A-Selver AS	Pärnu mnt.238, Tallinn	Retail trade	100%
AS Tartu Kaubamaja	Riia tn.2, Tartu	Retail trade	100%
Tallinna Kaubamaja Suomi OY	Kaisaniemenkatu 3, Helsinki	Retail trade	100%
Tallinna Kaubamaja Kinnisvara AS	Gonsiori tn.2, Tallinn	Real estate management	100%
Tartu Kaubamaja Kinnisvara OÜ	Riia 1, Tartu	Real estate management	100%

	AS Tartu Kaubamaja	A-Selver AS	Tallinna Kaubamaja Kinnisvara AS	Tallinna Kaubamaja Suomi OY
Number of shares on 31.12.2003	**829 412**	**22 000**	**40 000**	**900**
Shares have neither been purchased nor sold during the financial year				
Number of shares on 31.12.2004	**829 412**	**22 000**	**40 000**	**900**
Ownership % on 31.12.2004 / (31.12.2003)	**100 / (100)**	**100/ (100)**	**100 / (100)**	**100 / (100)**

On 03.12.2004, Tartu Kaubamaja Kinnisvara OÜ was set up. Its shares belong 100% to Tallinna Kaubamaja Kinnisvara AS. A monetary payment of 40 thousand euroswas made for the investment. Tartu Kaubamaja Kinnisvara OÜ is located in Riia tn. 1, Tartu and its main activity is real estate management.

	AS Tartu Kaubamaja	A-Selver AS	Tallinna Kaubamaja Kinnisvara AS	Tallinna Kaubamaja Suomi OY	Total
Cost at beginning of year	**1 013**	**1 406**	**2 958**	**155**	**5 532**
Market price on 31 December 2004	Not listed on the stock exchange				
Carrying amount on 31 December 2003	**2 482**	**1 211**	**21 069**	**0**	**24 762**
Profit under equity method for financial year	508	1 291	4 414	0	6 213
Amortisation of negative goodwill	60	0	0	0	60
Revaluation reserve of non-current assets	0	0	7 195	0	7 195
Carrying amount on 31 December 2004	**3 050**	**2 502**	**32 678**	**0**	**38 230**
Cost at end of year	**1 013**	**1 406**	**2 958**	**155**	**5 532**

The 100% subsidiary Tallinna Kaubamaja Suomi OY, located in Finland, had no operating activities during the financial year. The Supervisory Board of Tallinna Kaubamaja AS has adopted a resolution to liquidate Tallinna Kaubamaja Suomi OY.

For goodwill, please refer to Note 12.

Note 9 Shares in associates

Entity	Location	Activity	Participation
Rävala Parkla AS	Tallinn, Kuke 6	Parking service	50%

Rävala Parkla AS	**2004**	**2003**
Number of shares at beginning of year	**501**	**501**
Number of shares at end of year	**501**	**501**
Ownership % at beginning of year	**50 / (50)**	**50 / (50)**
Cost at beginning of year	**415**	**415**
Carrying amount at beginning of year	**347**	**252**
Profit under equity method in financial year	86	95
Carrying amount at end of year	**433**	**347**
Cost at end of year	**415**	**415**

In 2004, the net profit of Rävala Parkla AS was 172 thousand euros (2003: 190 thousand euros).
The shares of the associate are not listed on the stock exchange.

in thousand euros

Note 10 Other long-term receivables

Group/Parent Company

31 December 2004

	Receivable	incl. long-term share	Interest rate	Repayment date
Associate Rävala Parkla AS	788	788	4 -7%	1-5 years
Other long-term receivables	**788**	**788**		

31 December 2003

	Receivable	incl. long-term share	Interest rate	Repayment date
Associate Rävala Parkla AS	769	769	7%	1-5 years
Other long-term receivables	**769**	**769**		

Note 11 Property, plant and equipment

Group

	Land and buildings	Machinery and equipment	Other fixtures and fittings	Pre-payments	Constr. in progress	Total
Balance as of 31.12.2003						
Cost	31 147	6 510	10 572	365	630	49 224
Accumulated depreciation	-2 795	-4 315	-8 354	0	0	-15 464
Residual value	**28 352**	**2 195**	**2 218**	**365**	**630**	**33 760**
Purchases	3 130	2 007	3 022	-350	3 689	11 498
Sales and write-offs at residual value	-5 458	-58	-17	0	0	-5 533
incl. sales and write-offs at cost	-5 742	-715	-2 542	0	0	-8 999
Depreciation of non-current assets sold and written off	284	657	2 525	0	0	3 466
Revaluation of non-current assets	7 195	0	0	0	0	7 195
Write-down of non-current assets	-66	0	0	0	0	-66
Depreciation charge	-1 217	-1 191	-1 290	0	0	-3 698
Balance as of 31.12.2004						
Residual value	**31 936**	**2 953**	**3 932**	**16**	**4 319**	**43 156**
Cost	33 111	7 515	11 052	16	4 319	56 013
Accumulated depreciation	-1 175	-4 562	-7 120	0	0	-12 857
Residual value on 31.12.2004 by eliminating the effect of the revaluation reserve	15 286	2 953	3 932	16	4 319	26 506
Residual value on 31.12.2003 by eliminating the effect of the revaluation reserve	18 637	2 196	2 217	365	630	24 045

in thousand euros

Parent company

	Land and buildings	**Machinery and equipment**	**Other fixtures and fittings**	**Pre-payments**	**Constr. in progress**	**Total**
Balance as of 31.12.2003						
Cost	59	1 260	5 247	208	0	6 774
Accumulated depreciation	-4	-813	-4 717	0	0	-5 534
Residual value	**55**	**447**	**530**	**208**	**0**	**1 240**
Acquisitions	232	1 079	2 458	-208	18	3 579
Sales and write-offs in residual value	0	-3	-13	0	0	-16
incl. sales and write-offs at cost	0	-558	-2 262	0	0	-2 820
Depreciation of non-current assets sold and written off	0	555	2 249	0	0	2 804
Depreciation charge	-28	-256	-549	0	0	-833
Balance as of 31.12.2004						
Residual value	**259**	**1 268**	**2 426**	**0**	**18**	**3 970**
Cost	291	1 782	5 442	0	18	7 533
Accumulated depreciation	-32	-514	-3 017	0	0	-3 563

The revaluation of land and buildings of Tallinna Kaubamaja group was performed on 15.02.2005. The results of the revaluation have been recognized in the 2004 Annual Report.

The basis for revaluation was an assessment of an independent real estate expert. The discounted cash flow method as well as the market-based evidence were used for the determination of the fair value of the land and buildings. Following assumptions have been used: discount rates of 9-11% and the growth rates of 0-1%.

During the financial year, computer technology, furnishings and equipment of the department stores were acquired for 5 029 thousand euros, incl. larger acquisitions relating to the expansion of Tallinna Kaubamaja AS in the amount of 3 518 thousand euros, expansion of A-Selver AS Köök in the amount of 177 thousand euros and the opening of Saare Selver in the amount of 533 thousand euros. The existing departments stores were renovated for 2 734 thousand euros and land was purchased for 396 thousand euros. Two buildings were sold in the financial year. A profit of 2 595 thousand euros was earned from the sale.

As of 31.12.2004, non-current assets with the residual value of 24 433 thousand euros had been pledged as a collateral for the liabilities (Note 23).

As of 31.12.2004, the cost of fully depreciated non-current assets still in use amounted to 5 607 thousand euros (31.12.2003: 5 766 thousand euros).

As of 31.12.2004 the fair value of real estate investments of the associate Rävala Parkla AS amounted to 4 292 thousand euros.

For non-current assets acquired under the finance lease, please refer to Note 14.

Land and buildings include a plot of land acquired for the construction of a department store in Tartu. The management believes that carrying amount of the land and construction in progress does not significantly exceed its fair value.

in thousand euros

Note 12 Intangible assets

Negative goodwill in the amount of 2 228 thousand euros arose in conjunction with the acquisition of additional shares of AS Tartu Kaubamaja in 2001.

	Negative goodwill
Cost on 31.12.2003	-142
Accumulated depreciation on 31.12.2003	82
Residual value on 31.12.2003	**-60**
Amortisation charge	60
Cost on 31.12.2004	-60
Accumulated amortisation on 31.12.2004	60
Residual value on 31.12.2004	**0**

Total goodwill on 31.12.2003	**-60**
Total goodwill on 31.12.2004	**0**

Note 13 Borrowings

Short-term borrowings	**31 December 2004**		**31 December 2003**	
	Group	**Parent**	**Group**	**Parent**
Short-term bonds	950	950	2 237	2 237
Loans	823	0	779	0
Group account funds used	0	6 399	0	0
Finance lease liability (Note 14)	237	0	221	0
Total short-term borrowings	**2 010**	**7 349**	**3 237**	**2 237**

Long-term borrowings	**31 December 2004**		**31 December 2003**	
	Group	**Parent**	**Group**	**Parent**
Loans	4 607	0	5 431	0
Finance lease liability (Note 14)	1 939	0	2 176	0
Total long-term borrowings	**6 546**	**0**	**7 607**	**0**

Short-term bonds

31 December 2004

	Liabilities	**Maturity**	**Interest rate**
Tallinna Kaubamaja AS			
Issue of bonds	950	31.03.2005	3,8%
Total short-term bonds	**950**		

31 December 2003

	Liabilities	**Maturity**	**Interest rate**
Tallinna Kaubamaja AS			
Issue of bond	2 237	20.12.2004	4,58%
Total short-term bonds	**2 237**		

In 2004, interest in the amount of 155 thousand euros (2003: 258 thousand euros) was paid on the bonds issued.

in thousand euros

Loans

31 December 2004	Loan balance	Incl. up to 1 year	Incl. 1-5 years	Over 5 years	Maturity	Next interest rate fixing	Interest rate
Tallinna Kaubamaja Kinnisvara AS							
AS Ühispank (EEK)	5 430	823	3 563	1 044	28.01.2011	01.01.2005	Euribor+0,9%

31 December 2003	Loan balance	Incl. up to 1 year	Incl. 1-5 years	Over 5 years	Maturity	Next interest rate fixing	Interest rate
Tallinna Kaubamaja Kinnisvara AS							
AS Ühispank (EEK)	6 211	779	3 430	2 002	28.01.2011	01.01.2004	Euribor+1,6%

Loan collaterals are disclosed in Note 23

Note 14 Finance and operating leases

Finance lease

The group rents the following assets under finance lease terms:

	31.12.2004	31.12.2003
Buildings		
The total residual value of assets rented under finance lease terms	2 004	2 277

Finance lease liability:

31 December 2004	Balance of liability	Incl. up to 1 year	Incl. 1 – 5 year	Over 5 years	Maturity	Interest rate
A-Selver AS	2 176	237	1 125	814	08.02.2012	7%

31 December 2003	Balance of liability	Incl. up to 1 year	Incl. 1 – 5 year	Over 5 years	Maturity	Interest rate
A-Selver AS	2 397	221	1 052	1 124	08.02.2012	7%

As of 31.12.2004

		To be paid		
	Incl. up to 1 year	Incl. 1 – 5 year	Over 5 years	Total
Minimum rental payments	382	1 520	885	2 787
Interest expenses of upcoming periods	-145	-395	-71	-611
Present value of rental payments	237	1 125	814	2 176

As of 31.12.2003

		To be paid		
	Incl. up to 1 year	Incl. 1 – 5 year	Over 5 years	Total
Minimum rental payments	382	1 523	1 264	3 169
Interest expenses of upcoming periods	-161	-471	-140	-772
Present value of rental payments	221	1 052	1 124	2 397

Minimum lease payments to be received under the non-cancelable sublease agreements:

	Incl. up to 1 year	Incl. 1 – 5 year
As of 31.12.2004	98	153
As of 31.12.2003	99	154

in thousand euros

Operating lease

The group and parent company as a lessee.
As of 31 December 2004, minimum lease payments to be made under the non-cancelable operating lease terms are as follows:

	As of 31.12.2004		As of 31.12.2003	
	Group	Parent Company	Group	Parent Company
Up to 1 year	8 226	5 006	1 718	2 316
1-5 years	14 372	8 292	9 975	9 873
Over 5 years	11 840	7 119	8 248	8 248
Total	**34 438**	**20 417**	**19 941**	**20 438**

Lease payments to be received under the non-cancelable sub-lease terms are:

	As of 31.12.2004		As of 31.12.2003	
	Group	Parent Company	Group	Parent Company
Up to 1 year	903	181	703	73
1-5 years	2 202	380	1 897	135
Over 5 years	193	95	461	0
Total	**3 298**	**656**	**3 060**	**208**

Following operating lease payments made and sub-lease income are recognized in the income statement:

	2004		2003	
	Group	Parent Company	Group	Parent Company
Sublease income received	1 934	1 644	1 648	1 641
Operating lease payments made	5 238	4 793	3 559	3 835

The group and parent company as a lessor.
The group rents out about 15% of the space in the buildings they own. No buildings are owned by the parent company. The minimum lease payments under the non-cancelable operating lease terms to be received are the following:

	As of 31.12.2004		As of 31.12.2003	
	Group	Parent Company	Group	Parent Company
Up to 1 year	603	0	292	0
1-5 years	1 734	0	379	0
Over 5 years	95	0	0	0
Total	**2 433**	**0**	**671**	**0**

In the table below information has been presented for the whole group of those buildings from which 15% is rented out under operating lease terms.

	Group
Cost 31.12.2003	26 759
Accumulated depreciation 31.12.2003	-3 080
Carrying amount 31.12.2003	23 679
Depreciation for 2003	843

	Group
Cost 31.12.2004 (including revaluation)	26 335
Accumulated depreciation 31.12.2004	0
Carrying amount 31.12.2004	26 335
Depreciation for 2004	678

in thousand euros

Note 15 Other short-term payables

	31 December 2004		31 December 2003	
	Group	Parent	Group	Parent
Value added tax	1 489	426	584	313
Personal income tax	256	95	242	88
Social security tax	470	171	416	142
Fringe benefit income tax	24	9	10	3
Unemployment insurance tax	20	7	17	6
Contribution to mandatory funded pension	17	6	6	4
Payables to employees	1 247	375	929	430
Interest payable	2	0	5	3
Other accrued expenses	52	1	52	0
Payables to subsidiaries	0	32	0	140
Prepayments received from lessees	77	0	0	0
Total other short-term payables	**3 654**	**1 122**	**2 261**	**1 129**

Note 16 Share capital

As of 31.12.2003 as well as of 31.12.2004, the share capital of 4 338 thousand euros consisted of 6 788 200 ordinary shares with the nominal value of 0,64 euros (10 Estonian kroons) per share. According to the articles of association, the maximum allowed number of shares is 27 152 800 shares.

In 2004, dividends were neither announced nor paid to the shareholders. In 2003 dividends were paid out in amount of 434 thousand euros. No income tax liability arose as it was possible to deduct the income tax paid before 1 January 2000 adjusted by the respective coefficient.

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

Note 17 Net sales

	2004		2003	
	Group	Parent	Group	Parent
Retail	128 269	39 911	111 794	36 650
Wholesale	587	401	500	316
Services and catering	362	68	240	64
Total net sales	**129 218**	**40 380**	**112 534**	**37 030**

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

Note 18 Other operating income

	2004		2003	
	Group	Parent	Group	Parent
Group's management service fee	0	777	0	774
Rental income	1 934	1 644	1 648	1 408
Profit from the sale of tangible assets	2 601	0	12	2
Other operating income	1 153	299	1 137	456
Revenue from conversion of foreign currencies	3	3	3	2
Total other operating income	**5 691**	**2 723**	**2 800**	**2 642**

in thousand euros

Note 19 Miscellaneous expenses

	2004		2003	
	Group	**Parent**	**Group**	**Parent**
Rental expenses	5 238	4 793	3 559	3 835
Utilities	1 482	645	1 077	383
Advertising costs	2 456	959	2 473	815
Bank fees	789	291	669	248
Security costs	861	361	739	286
Heat and electricity costs	1 490	422	1 345	371
Costs of materials	1 303	319	976	244
Computer and communications expenses	732	245	733	286
Business trip expenses	214	165	125	100
Training expenses	187	103	218	111
Insurance costs	47	14	33	9
Other expenses	583	312	394	167
Total miscellaneous expenses	**15 382**	**8 629**	**12 341**	**6 855**

Note 20 Staff costs

	2004		2003	
	Group	**Parent**	**Group**	**Parent**
Wages and salaries	8 497	3 236	7 072	2 750
Social security tax	2 867	1 096	2 390	931
Total staff costs	**11 364**	**4 332**	**9 462**	**3 681**

	2004		2003	
	Group	**Parent**	**Group**	**Parent**
Average monthly wages and salaries per employee (euros)	490	549	457	553
Average number of employees during the financial year	1 445	491	1 290	414

Staff costs also include accruals for holiday pay earned as well as unpaid bonuses related to year 2004.

Note 21 Interest income and expenses

	2004		2003	
	Group	**Parent**	**Group**	**Parent**
Interest on bank loans	-219	0	-323	-31
Interest on finance leases	-160	0	-176	0
Interest on bonds	-115	-115	-215	-215
Other interest expenses	-3	-3	-6	-6
Interest on overdraft	-69	-69	0	0
Total interest expenses	**-566**	**-187**	**-720**	**-252**
Interest income	94	101	86	177
Total interest expenses and income	**-472**	**-86**	**-634**	**-75**

in thousand euros

Note 22 Earnings per share

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

	2004	2003
Net profit	6 310	4 223
Weighted average number of shares in a year	6 788 200	6 788 200
Earnings per share (in euros)	0,93	0,62

Note 23 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 3 733 thousand euros for the benefit of AS Hansapank.
- Tallinna Kaubamaja AS has guaranteed the payment of the monetary obligation of A-Selver AS in the amount of 2 055 thousand euros to Saare Kinnisvara OÜ. The maturity date is on 31.05.2014.
- 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 8 916 thousand euros, with the annual interest rate of 20% and additional claims in the amount of 892 thousand euros for the benefit of AS Ühispank. As of 31.12.2004, the carrying amount of the pledged assets was 23 583 thousand euros.
- Tallinna Kaubamaja Kinnisvara AS has set a mortgage on the registered immovable located at Punane tn. 46, Tallinn (land register part no. 3122 at the Tallinn Land Registry Division) in the amount of 364 thousand euros, with the annual interest rate of 20% and additional claims of 36 thousand euros for the benefit of AS Hansapank. As of 31.12.2004, the carrying amount of the pledged assets is 850 thousand euros.
- A commercial pledge on the movable property of AS Tartu Kaubamaja in the amount of 639 thousand euros for the benefit of AS Hansapank.

The group has issued the following guarantees:

- Tallinna Kaubamaja AS has guaranteed 50% of the loan of Rävala Parkla AS in the amount of 2 372 thousand euros from at Ühispank.

The parent company has set the following collaterals and issued the following guarantees:

- A commercial pledge in the amount of 3 733 thousand euros on the movable property of Tallinna Kaubamaja AS for the benefit of AS Hansapank.
- Tallinna Kaubamaja AS has guaranteed 50% of the loan of Rävala Parkla AS in the amount of 2 372 thousand euros from AS Ühispank.
- Tallinna Kaubamaja AS has guaranteed the payment of the monetary obligation of A-Selver AS in the amount of 2 055 thousand euros to Saare Kinnisvara OÜ. The maturity date is on 31.05.2014.

Note 24 Off-balance sheet assets and contingent liabilities

As of 31 December 2004, the amount of potential termination benefits arising from employment contracts in force does not exceed 128 thousand euros.

The parent company Tallinna Kaubamaja AS has issued a letter of comfort to A-Selver AS and confirmed its wiliness to invest into the company to ensure the continuance of A-Selver AS as a going concern.

in thousand euros

Note 25 Post balance sheet events

On 08.12.2004, A-Selver AS has entered into a 12-year operating lease agreement for the 1 480 m2 space, located at Vilja 6, Võru. The rent amounts to 2 159 thousand euros over the lease term.

On 17.12.2004, A-Selver AS has entered into a 10-year lease agreement for the 1 800 m2 space for the store located at Raja 6, Valga. About 511 thousand euros will be invested into the project. The store is expected to open in the summer of 2005.

On 09.02.2005, A-Selver AS has signed the declaration of intent according to which negotiations will be held for the attainment of the operating right for supermarkets located in Tartu and new ones to be opened in Tallinn, Pärnu and Tartu.

The Tallinna Kaubamaja group is constructing a new department store in Tartu. In conjunction with the construction of the new building, the Tallinna Kaubamaja group has contractual obligations in the amount of 9,8 million euros. The new building will open in 2005.

Note 26 Related party transactions

In 2004, the group and Tallinna Kaubamaja AS have purchased and sold goods and rendered services (rent, accounting, logistics, information technology and management services) as follows:

	Group		Parent Company	
	Purchases	**Sales**	**Purchases**	**Sales**
Liviko AS (2)	1 419	51	194	0
Balbiino AS (2)	1 635	26	143	0
Kitman AS (2)	584	2	452	2
Roseni Majad OÜ(2)	1	0	0	0
Rocca al Mare Kaubanduskeskuse AS(2)	105	0	105	0
NG Investeeringud AS (3)	3	18	3	18
A-Selver AS (1)	-	-	400	2 142
AS Tartu Kaubamaja (1)	-	-	137	838
Tallinna Kaubamaja Kinnisvara AS (1)	-	-	1 966	327
Total	**3 747**	**97**	**3 400**	**3 327**

In 2003, the group and Tallinna Kaubamaja AS have purchased and sold goods and rendered services (rent, accounting, logistics, information technology and management services) and paid interest as follows:

	Group		Parent Company	
	Purchases	**Sales**	**Purchases**	**Sales**
Liviko AS (2)	923	0	114	1
Balbiino AS (2)	1 160	0	120	0
Kitman AS (2)	76	0	1	0
NG Investeeringud AS (3)	5	7	5	7
A-Selver AS (1)	-	-	389	1 627
AS Tartu Kaubamaja (1)	-	-	62	751
Tallinna Kaubamaja Kinnisvara AS (1)	-	-	2 213	183
Total	**2 164**	**7**	**2 904**	**2 569**

in thousand euros

Balances with the related parties:

	Group		Parent Company	
	31.12.2004	**31.12.2003**	**31.12.2004**	**31.12.2003**
Short term receivables				
Liviko AS (2)	12	5	0	0
Balbiino AS (2)	7	4	0	0
NG Investeeringud AS (3)	1	0	1	0
AS Tartu Kaubamaja (1)	-	-	61	25
A-Selver AS (1)	-	-	84	260
Tallinna Kaubamaja Kinnisvara AS (1)	-	-	5	5
Total current receivables	**20**	**9**	**151**	**290**
Long term receivable from AS Rävala Parkla	**788**	**769**	**788**	**769**
Short term payables				
Liviko AS (2)	305	184	35	21
Balbiino AS (2)	187	144	16	13
Kitman AS (2)	-	-	-	-
Rocca al Mare Kaubanduskeskuse AS (2)	2	0	2	0
AS Tartu Kaubamaja (1)	-	-	15	10
A-Selver AS (1)	-	-	17	129
Total short term payables	**494**	**328**	**85**	**173**

(1) Subsidiaries
(2) Related through common owner
(3) Parent

The related party transactions of the group in 2004:

AS Tartu Kaubamaja, A-Selver AS and Tallinna Kaubamaja Kinnisvara AS have a joint group account with Tallinna Kaubamaja AS. This group as a subgroup has in turn joined the group account of NG Investeeringud AS (hereinafter main group), which also includes Balbiino AS, Liviko AS, Kitman AS, OÜ NG Kapital, Ganiger Invest OÜ. Since autumn 2001, the Tallinna Kaubamaja group has kept its free funds at the main group account, earning interest income on the deposits. In 2004, the Tallinna Kaubamaja group earned interest income in the amount of 17 thousand euros (2003: 12 thousand kroons) on the deposits of its free funds. The average interest on main group account in 2004 was 3.6 % (6,96% in 2003) and on group's sub-account 3.68% (4,74% in 2003). As of 31.12.2004 and 31.12.2003 the Tallinna Kaubamaja group had no receivables and no liabilities against the main group. According to the group account contract, the group members are jointly responsible for the unpaid balances to the bank.

The company's management estimates that the prices used in related party transactions do not differ significantly from market prices.

Note 27 Interests of the members of the Supervisory Board

Andres Järving	Owns 796 902 shares of Tallinna Kaubamaja AS
Jüri Käo	Owns 792 365 shares of Tallinna KaubamajaAS
Heirs of Indrek Vanaselja	Owns 781 258 shares of Tallinna Kaubamaja AS
Enn Kunila	Owns 779 693 shares of Tallinna Kaubamaja AS

in thousand euros

Note 28 Shareholders who owned more than 5% of the shares of Tallinna Kaubamaja AS

Shareholder	31.12.2004 Participation	31.12.2003 Participation
NG Investeeringud AS	66.79%	66.79%
ING Luxembourg A.A.	9 .68%	0
Skandinaviska Enskilda Banken Ab	5.01%	0
Nordea Bank Finland PLC Clients Accounts Trading	10.41%	0

As of 31.12.2004 68.75% of the shares of NG Investeeringud AS is owned by NG Kapital OÜ.

Note 29 Management of credit, interest and foreign currency risks

Due to the nature of the group's activities, Tallinna Kaubamaja AS is not exposed to major credit risk.
The total net sales of the Tallinna Kaubamaja group have come from the sales in Estonia. The group's expenses are mostly in Estonian kroons and euros, as a result of which the group is not exposed to the risk arising from the fluctuations of foreign exchange rates.
The group's long-term loans are related to EURIBOR, therefore changes in market rates of interest impact the interest expenses paid on loans.
Potential losses arising from the changes in interest rates and foreign exchange rates are compared to the expenses that would arise on the hedging of those risks. In 2003 and 2004 the group has not used any financial instruments for the hedging of its interest and foreign currency risks because based on management's estimate the expenses related to the hedging of those risks had exceeded potential losses arising from the changes in interest rates and foreign exchange rates.

Note 30 Restrictions on allocation of retained earnings

As of 31.12.2004, the retained earnings of Tallinna Kaubamaja AS were 19 875 thousand euros (31.12.2003: 13 304 thousand euros). From 01.01.05 an income tax of 24/76 is imposed (up to 31.12.04 26/74) on the sum of net dividends paid. Therefore, it would be possible to pay out dividends in the amount of 15 105 thousand euros (31.12.2003: 9 845 thousand euros), consequently the maximum potential income tax liability would amount to 4 770 thousand euros (31.12.2003: 3 459 thousand euros).

Note 31 Fair value

As of 31.12.2004, the carrying amount of the company's financial assets and financial liabilities does not significantly differ from their fair values.

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AUDITOR'S REPORT

To the shareholders of Tallinna Kaubamaja AS

We have audited the financial statements of Tallinna Kaubamaja AS (the Parent Company) and the consolidated financial statements of the Parent Company and its subsidiary companies (the Group) for the year ended 31 December 2004 as set out on pages 6 to 29. The financial statements are translated into Euros from the original in Estonian kroons. These financial statements are the responsibility of the Parent Company's management board. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements give a true and fair view of the financial position of the Parent Company and the Group as at 31 December 2004 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

Pirje Raidma
Authorised auditor

8 April 2005

PROPOSAL OF THE DISTRIBUTION OF THE PROFIT

The retained earnings of Tallinna Kaubamaja AS are:

Retained earnings on 31.12.2003	13 304 thousand euros
Change in revaluation reserve	261 thousand euros
Net profit for 2004	6 310 thousand euros
Total retained earnings 31.12.2004	19 875 thousand euros

The Chairman of Tallinna Kaubamaja AS proposes to the General Meeting of Shareholders not to distribute the net profit for 2004 and transfer it to retained earnings.

____
Raul Puusepp
Chairman of the Management Board:

Signatures of the Management Board and the Supervisory Board to the 2004 Annual Report

The 2004 Annual Report of Tallinna Kaubamaja AS, approved by the General Meeting of Shareholders on …………………2005, signed on …………… 2005:

Raul Puusepp
Chairman of the Management Board

Andres Järving
Chairman of the Supervisory Board

Jüri Käo
Member of the Supervisory Board

Meelis Milder
Member of the Supervisory Board

Enn Kunila
Member of the Supervisory Board

Gunnar Kraft
Member of the Supervisory Board