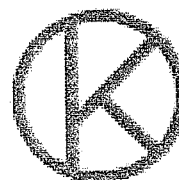


TALLINNA KAUBAMAJA AS

Consolidated Annual Report 2006



Translation of the Estonian original

The companies of the Tallinna Kaubamaja group are mostly engaged in the retail and wholesale trade. At the end of 2006, the Tallinna Kaubamaja group employed over 2 400 employees.

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Fax: kaubamaja@kaubamaja.ee
E-mail: 01.01.2006
Beginning of financial year: 31.12.2006
End of financial year:

Auditor: Ernst & Young Baltic AS
Bank: AS Hansapank
AS SEB Eesti Ühispank
Law office: Tamme & Otsmann OÜ
Lawyer: Helda Truusa

<i>Subsidiaries and associated companies:</i>	
<i>A-Selver AS</i>	<i>Share capital: EEK 22.0 million</i> <i>Ownerships: 100%</i>
<i>SIA Selver Latvia</i>	<i>Share capital: LVL 100 thousand</i> <i>Ownership: 100%</i>
<i>AS Tartu Kaubamaja</i>	<i>Share capital: EEK 8.3 million</i> <i>Ownerships: 100%</i>
<i>Tartu Kaubamaja Kinnisvara OÜ</i>	<i>Share capital: EEK 40 thousand</i> <i>Ownerships: 100%</i>
<i>Tallinna Kaubamaja Kinnisvara AS</i>	<i>Share capital: EEK 0.4 million</i> <i>Ownerships: 100%</i>
<i>Rävala Parkla AS</i>	<i>Share capital: EEK 10.0 million</i> <i>Ownerships: 50%</i>

Subsidiaries and associated companies A-Selver AS, AS Turtu Kaubamaja, Tartu Kaubamaja Kinnisvara OÜ, Tallinna Kaubamaja Kinnisvara AS and Rävala Parkla AS are registered in Estonia.
SIA Selver Latvia and SIA TKM Latvija are registered in Latvia.

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



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MANAGEMENT REPORT

The primary areas of activity of the companies of the Tallinna Kaubamaja Group include retail and wholesale trade.

As of 31 December 2006, the following companies belonged to the Group:

	Participation 31.12.06	Participation 31.12.05
A-Selver AS	100%	100%
AS Tartu Kaubamaja	100%	100%
Tartu Kaubamaja Kinnisvara OÜ	100%	100%
Tallinna Kaubamaja Kinnisvara OÜ	100%	100%
SIA TKM Latvija	100%	
Selver Latvia SIA	100%	
Rävala Parkla AS	50%	50%

Economic development

According to the preliminary data of the Statistical Office in 2006 the Estonian economy increased approximately 11.4% and prices grew 4.4% as compared to the same period last year. This was due to great domestic demand. As for areas of activity the economic growth was mainly affected by increases in the processing industry, wholesale and retail trade and growth in real estate, rental and commercial activities. The consumer price index was mostly affected by increases in housing expenses and a rise in prices of food products and motor fuel. The average rise in prices of food products amounted to 4.6%. According to the preliminary data of the Statistical Office the increase in retail turnover (without the sales of motor vehicles and fuel) totalled 23.3% as compared to 2005. Thereby in non-specialty stores (mostly food products), whose percentage amounted to 49% according to the preliminary data of the Statistical Office, the increase amounted to 14.5%. The retail sale in non-specialty stores (mostly non-food products) grew 25% as compared to the same period last year. The fastest increase of 2006 could be seen in retail sale of household effects and appliances, ironware and construction materials, where the respective value totalled 57%.

The key words of retail trade in 2006 were increase in the purchasing power and lower loan interest rates. Increase in income and decrease in unemployment as well as the low level of loan interest rates created a favourable environment for retail chains with regard to the present as well as the future.

The year 2006 could be characterised as a year of stable growth and development in the retail market. Retail chains focussed more on making existing stores more effective than on opening new stores. Rimi Food Eesti AS started taking the former Citymarkets under the Rimi concept and opened a central kitchen. The ETK (Central Society of Estonian Consumers Cooperatives) retail chain started reforming stores into a single chain, as a result of which the stores will be taken under three different concepts – supermarkets, convenience stores and hypermarkets.



In summer 2006 the German discount chain Lidl, which had already planned its entry into the Baltic market for a long time, announced that it had abandoned the idea of entering the Baltic retail market and realised the registered immovable acquired for the objective of developing stores. This creates for the retail chains operating in the market today continuously favourable conditions for development and increasing their market share.

In accordance with the forecasts during the following years consumption and the entire retail trade as a whole will increase with the help of the economic growth, although at a somewhat slower pace. The food and convenience goods sector will continuously be united under big chains, which will become distinct, expand aggressively and tighten their positions in the more and more intense competition.

For Tallinna Kaubamaja Group the year 2006 was a very important year. The turnover and market share as well as the efficiency and profit saw an increase. In 2006 several important strategic decisions aimed at the future were made. The key words of the decisions include expansion to Latvia and Lithuania and entry into a new trade area – sales and service sector of motor vehicles. The Company also increased its share capital to a significant extent by bonus issue. Dividends were disbursed to shareholders.

More important events for Tallinna Kaubamaja Group in 2006:

- a decision for expanding the Selver chain to Latvia was made, by the end of 2009 it has been planned to establish 15 stores and a central kitchen;
- two subsidiaries were established for operating in the Latvian market: Selver Latvia SIA, which will operate supermarkets and hypermarkets and the central kitchen, while the objective of SIA TKM Latvija will be developing and managing immovable properties;
- immovable properties were purchased from Lidl Eesti UÜ and Lidl Latvija SIA (32 in total, in 16 sites, 139,981 m²), whose objective of acquisition is realisation of the development projects, including establishment of sales areas;
- the Selver chain notified of new stores in Tallinn, Tartu and Jõgeva;
- a decision on establishing a central kitchen of Selver in Tallinn was made, and the site will be completed by August 2007;
- the share capital was increased by bonus issue from EEK 67,882,000 to EEK 407,292,000 by issuing 5 new shares per existing share;
- issue of commercial papers was arranged, commercial papers for EEK 50 million were issued with a term of 6 months and a redemption date of 4 June 2007;
- it was decided to acquire a 100% participating interest in Kia Auto AS and Kia Auto UAB, a subsidiary of Kia Auto AS, and in Ülemiste Autokeskuse OÜ. On 15 January 2007 the meeting of the new supervisory board of Kia Auto AS adopted a resolution on investing in establishment of sales and service centres corresponding to the modern requirements in the capitals of all the three Baltic countries;
- on 7 March 2007 Tallinna Kaubamaja AS notified of establishing a new chain of stores selling beauty products and comprising all the Baltic countries.



Economic results

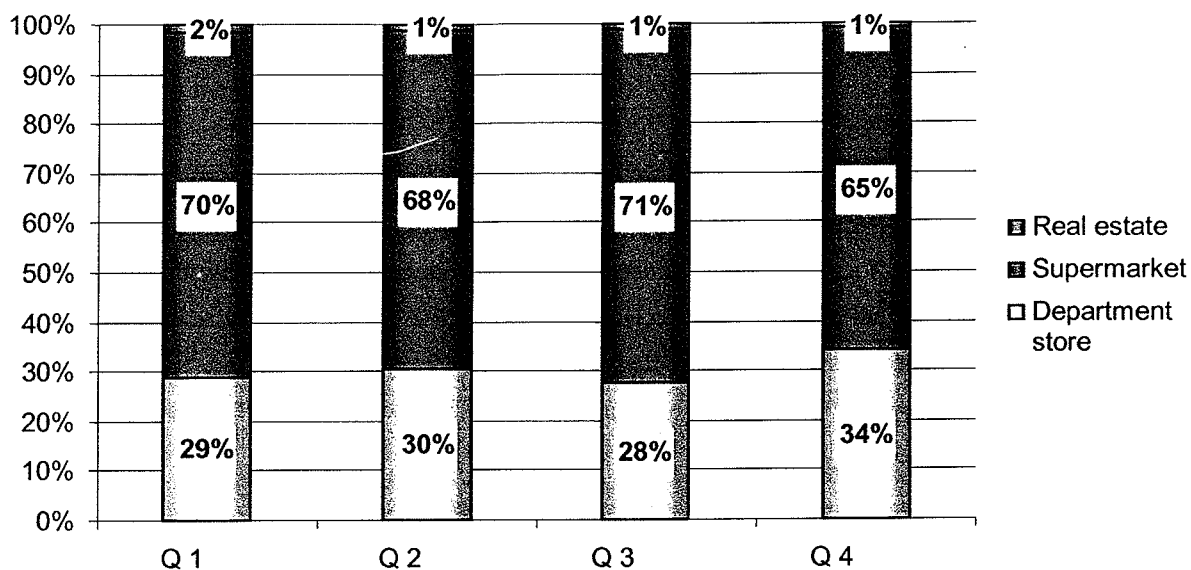
As compared to the year 2005, in 2006 the turnover of the Tallinna Kaubamaja Group increased 47% to EEK 4,239 million, i.e. EEK 1,361 million more than a year before.

The net profit grew to EEK 275 million, which is 183 million, i.e. almost three times, more than in 2005. The net profit for 2005 was EEK 92 million.

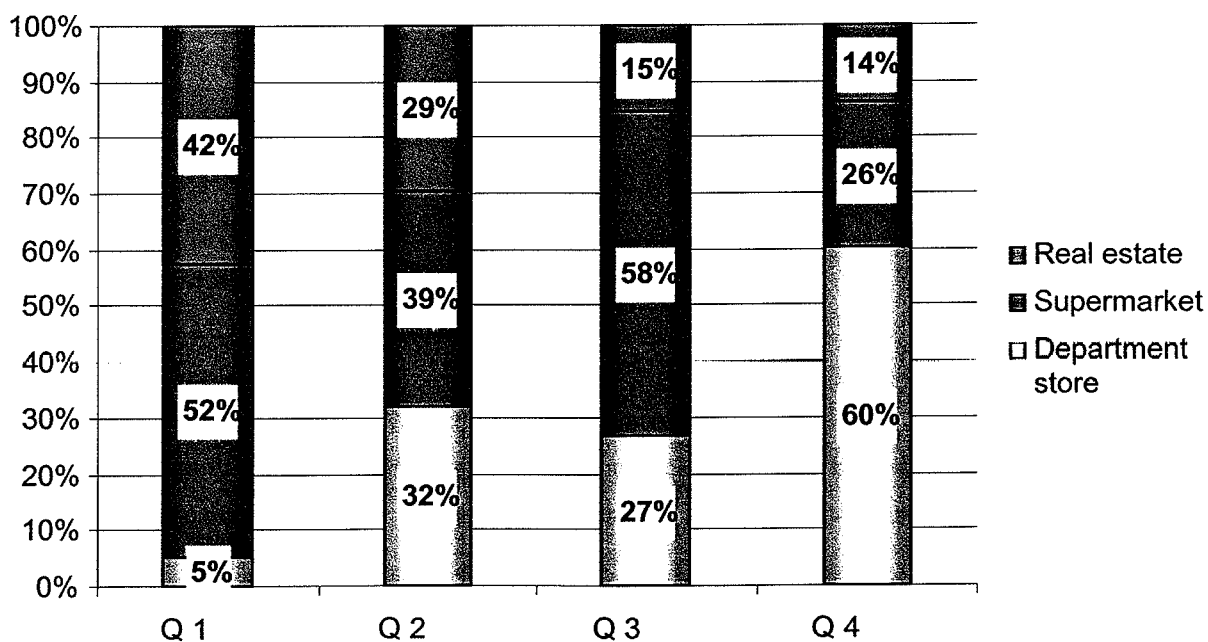
FINANCIAL RATIOS 2001-2006					
Consolidated Report of the Group	2006	2005	2004	2003	2002
INCOME STATEMENT (EEK million)					
Net turnover	4,239	2,878	2,022	1,761	1,532
Operating profit	288	97	105	75	55
Net profit	275	92	99	66	45
BALANCE SHEET (EEK million)					
Inventories	313	290	224	176	171
Total assets	2,536	1,700	1,035	809	776
Total liabilities	1,293	710	388	373	400
Owners' equity	1,244	989	647	435	376
Equity ratio (%)	49%	58%	63%	54%	48%
PROFITABILITY RATIOS (%)					
Return on equity (ROE)	25%	11%	18%	16%	12%
Return on assets (ROA)	13%	7%	11%	8%	6%
Net profit margin	6%	3%	5%	4%	3%
LIQUIDITY RATIOS					
Quick ratio	1.00	0.73	1.19	1.04	0.85
Debt ratio	0.51	0.42	0.37	0.46	0.52
Net turnover per sales area (EEK thousand)	68.2	56.4	51.4	53.8	55.5
Net turnover per employee (EEK million)	1.8	1.5	1.4	1.4	1.3
Sales area per employee (m ²)	25.8	26.8	27.2	25.4	22.7
Inventory turnover	13.54	9.93	9.03	10.01	8.96
SHARES					
Average number of shares (1,000 pcs.)	40,729	6,788	6,788	6,788	6,788
Equity per share, (EEK / a share)	30.5	145.8	95.3	64.1	55.4
Share closing price (EEK / a share)	143.6	348.1	116.9	73.1	53.8
Earnings per share	6.7	13.5	14.5	9.7	6.6
P/E (price to earnings) ratio	21.3	25.7	8.0	7.5	8.1
Average number of employees	2,411	1,903	1,445	1,289	1,215
Average sales area (m ²)	62,185	51,008	39,327	32,715	27,629
Increase in sales area (%)	22%	30%	20%	18%	4%
Equity ratio	= Owners' equity / Balance sheet total * 100%				
Return on equity (ROE)	= Net profit / Average owners' equity * 100%				
Return on assets (ROA)	= Net profit / Average total assets * 100%				
Net turnover per sales area	= Net turnover / Average sales area				
Net turnover per employee	= Net turnover / Average number of employees				
Sales area per employee	= Average net turnover / Average number of employees				
Inventory turnover (ratio)	= Net turnover / Inventories				
Net profit margin	= Net profit / Net turnover * 100%				
P/E (price to earnings) ratio	= Share closing price / Earnings per share				
Quick ratio	= Current assets / Current liabilities				
Debt ratio	= Total liabilities / Balance sheet total				



Division of sales revenue of Tallinna Kaubamaja AS Group in 2006



Division of net profit of Tallinna Kaubamaja AS Group in 2006



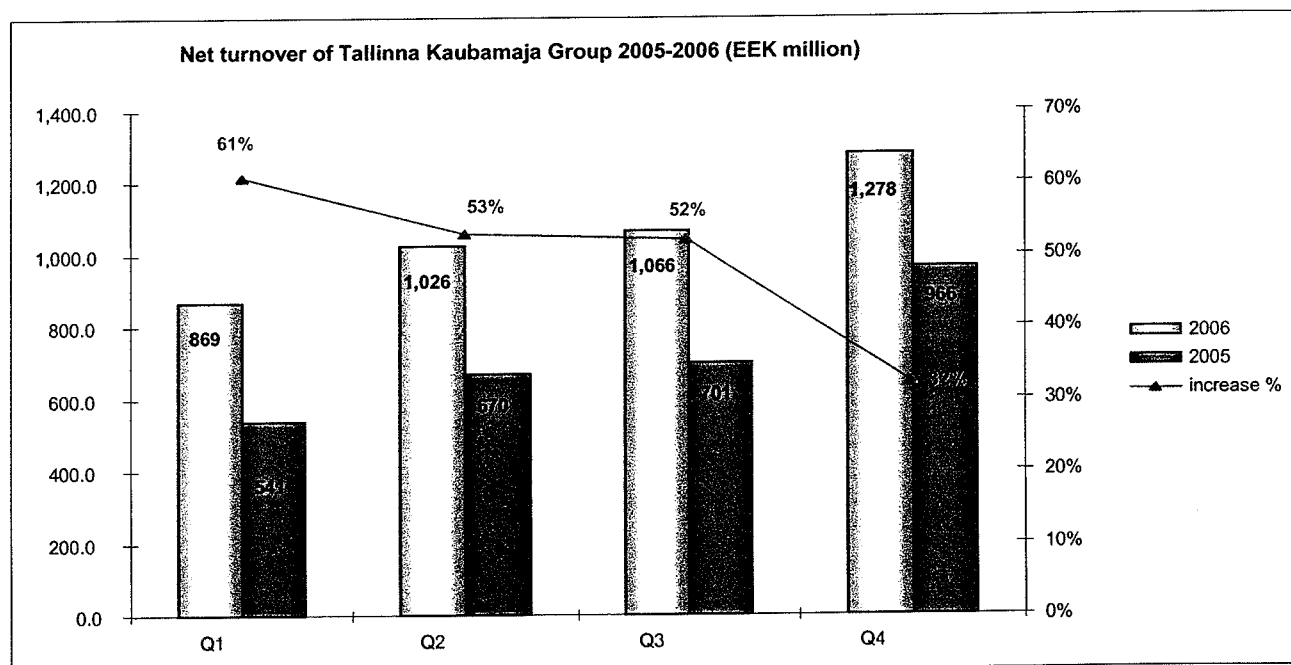


As of 31 December 2006, the balance sheet total of the Tallinna Kaubamaja Group amounted to EEK 2,537 million, having increased by EEK 837 million since the end of 2005 (as of 31 December 2005). The increase in assets and owners' equity during the same period amounted to 50% and 26%, respectively.

The number of loyal customers with Partner cards increased to 240,000 by the end of 2006, growing by 27% as compared to the end of the year 2005.

Seasonality of commercial activities

There are seasonal differences in the economic results of companies of the Tallinna Kaubamaja Group. About 45% of the sales revenue is earned in the first half-year and the remaining part in the second half-year, while approximately 37% of the net profit is earned in the first half-year. Q4 is the most effective among the companies of the Group as 30% or more of the sales revenue and about 35% of the net profit is earned in the last quarter.



The division of sales revenue and net profit is also discernible between business segments. While in the earlier periods the biggest part of the profit is the profit earned from the supermarket business segment, in the last quarter of the year more than a half of the profit is earned from the department store business segment.



Share market

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

According to the notice of general meeting published on 4 May 2006, the management board of the Company made a proposal for disbursement of dividends to shareholders of EEK 3 per share. The supervisory board approved the proposal. Furthermore, the supervisory board proposed to shareholders to increase the share capital of the Company through a bonus issue, by issuing five new shares per existing share.

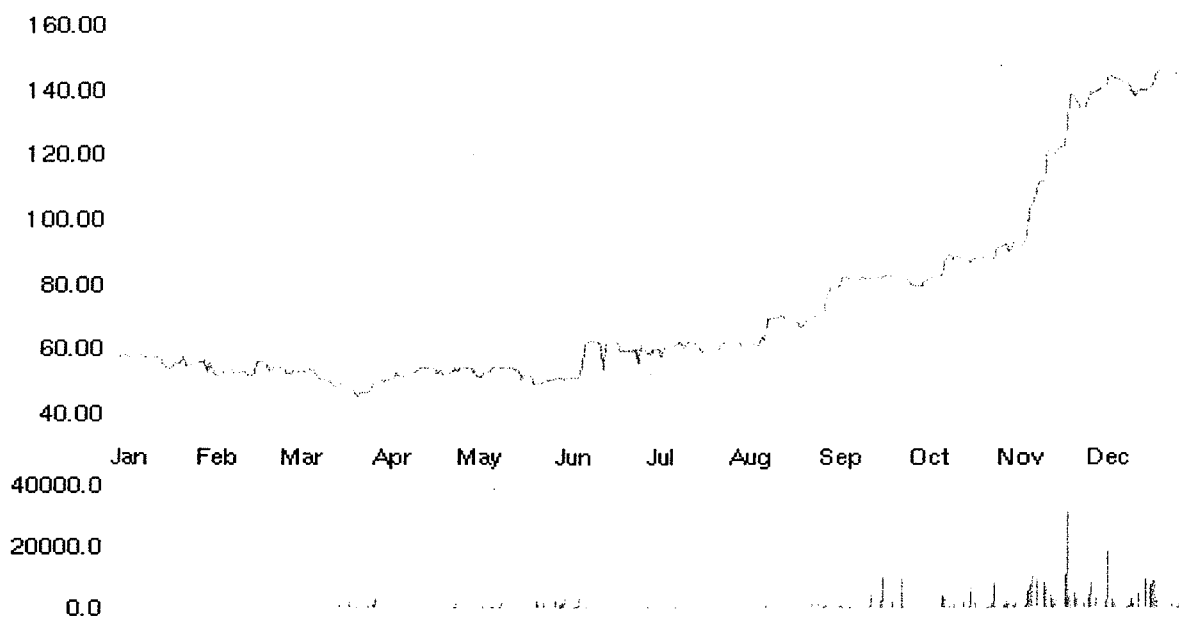
The shareholders registered in the share register of Tallinna Kaubamaja AS on 13 June 2006 at 8 a.m. were entitled to the dividend and bonus issue. The dividends were transferred to the bank accounts of the shareholders and the bonus issue took place on the same day.

During the bonus issue the share capital was increased by EEK 339,410,000 from EEK 67,882,000 to EEK 407,292,000, by issuing five new shares per existing share, totalling 33,941,000 new shares. On 27 June 2006 the entry made in the Commercial Register with regard to increase in the share capital of Tallinna Kaubamaja AS took effect.

On 4 December 2006 Tallinna Kaubamaja AS issued commercial papers in total for EEK 50 million with the term of 6 months and the redemption date on 4 June 2007. 5,000 bonds with a nominal value of EEK 10,000 and interest rate of 4.45% were issued.



Share price in Estonian kroons and trading statistics in the Tallinn Stock Exchange in 2006



Tallinna Kaubamaja AS started the year 2006 with a share price of EEK 350.48 and the number of shares 6,788.2 thousand and, after having completed the bonus issue within the year, finished the year 2006 with a share price of EEK 143.64 and the number of shares of 40,729.2 thousand. The total number of shares of Tallinna Kaubamaja AS with which transactions were conducted amounted to 1.8 million in 2006, and the tradability increased approximately twice within the year. The number of shares, which increased as a result of the bonus issue, made the share more liquid and added new minority shareholders among the owners of the Company.

As of 31 December 2006, the number of shareholders of Tallinna Kaubamaja amounted to 2,132 shareholders, being twice as much as the year before, and as of 31 December 2005, the number of shareholders had amounted to 1,020.

Department stores

In 2006, the turnover in the department store business segment increased by 29%, i.e. EEK 289 million, as compared to the same period in 2005. As compared to the previous year the profit of the period under review increased approximately three times to EEK 105 million.

At the end of August the newly renovated Men's Department in The Tallinn Department Store was opened. The renovation started on two floors (with a total area of 2,200 m²) in the second week of July. At the same time, the enlarged Technology Department was opened and in the Youth Department new trendy fashion brands were introduced and the selection of jeans was increased.



In November, Tallinna Kaubamaja AS in cooperation with Hansapank brought to the market the Partner Credit Card, which can be used in the Tallinn and Tartu Department Stores and in Selver chain supermarkets. The minimum limit of the credit card is EEK 5,000. By the end of the year approximately 5,000 Partner Credit Cards had been issued.

In 2007 new brands will be added in the department store business segment, this will particularly be the case in the Beauty Department in Tallinn. Due to the aforementioned some changes will also be made to the sales environment of the Beauty Department in Tallinn.

Supermarkets

In 2006, the turnover in the supermarket business segment increased by 56%, i.e. EEK 1,041 million, as compared to the same period in 2005. As compared to the previous year, the profit of the period under review increased more than four times to EEK 114 million.

The market share of the stores in the retail turnover of the Republic (without the sales of motor vehicles and fuel) amounted to 6.5% in 2006, the same market share in 2005 amounted to 5.1%. The market share in the food and convenience goods market, i.e. in the retail turnover of non-specialty stores (mostly food products) increased in 2006 by 3.6% to 13.3%.

In 2006, the main stress in the activities of the supermarkets was placed on launching the stores opened in 2005 and preparing future expansion projects. In 2006, lease agreements were concluded for opening three stores in Estonia, two of which will be in Tartu and one in Jõgeva.

In October, a 100% subsidiary, Selver Latvia SIA, with a share capital of 200 thousand Latvian lats, was established in Latvia. The objective of activities of the subsidiary is to develop and operate the Selver chain supermarkets in the Latvian retail market. The managing director of the subsidiary, Uldis Priekulis, who was previously employed as a development director of Rimi Baltic SIA in the field of logistics and the chain manager of Latvian market of Kesko Food SIA, commenced work in January 2007.

As before, the priority of the segment in 2007 is increasing the market share. By the end of 2008, the objective is to increase the number of stores in Estonia to 33-35 stores, which means opening 12-14 stores within two years. There are firm agreements for opening six stores. In 2007, stores will be opened in Jõgeva with a sales area of 800 m², in Tartu with a sales area of 1,400 m², in Pärnu with a sales area of 1,872 m² and in Põltsamaa with a sales area of 1,600 m². In 2008 stores will be opened in Mustamäe tee, Tallinn, with a sales area of 2,100 m² and in Rannamõisa tee, Tallinn, with a sales area of 2,000 m². Preparatory work is being done for carrying out the development projects of Tartu, Narva, Põlva, Paide, Haapsalu, Keila, Kohtla-Järve and Hiiumaa.

In autumn 2007, a central kitchen with a total area of 4,200 m² will be opened in Lasnamäe Industrial Park, where the production units of the Selver Kitchen, presently located in Tallinn and Tartu, will be moved together. The establishment of the central kitchen enables the production capacity to be increased to a significant extent and make the whole production process more effective.



The objective of the supermarket business segment in the Latvian market is to open at least 15 stores and a central kitchen, which will supply all the Latvian stores with its production, by the end of 2009. In 2007, design and construction work of the store buildings will be started and in 2008-2009 the stores will be opened to customers.

Selver will bring to Latvia retail market stores of both the supermarket and hypermarket types. It has been planned to open the first Selver stores on immovable properties located in Cēsis, Jelgava, Jūrmala, Liepāja, Rēzekne, Rīga, Salaspils and Tukums, which used to belong to Lidl Latvija SIA and have now been purchased by TKM Latvija SIA, a 100% subsidiary of Tallinna Kaubamaja Kinnisvara AS. In addition to the aforementioned sites opportunities are being searched for establishing stores of the Selver chain in other bigger Latvian towns like Daugavpils, Ventspils, Jēkabpils and Ogre as well. Additional sites are also continuously being searched for in Rīga.

The objective in the Latvian market is to become one of the 3-4 bigger retail chains.

Real estate

In 2006, the turnover in the real estate business segment increased by 170%, i.e. EEK 31 million, as compared to the same period in 2005. As compared to the previous year the profit of the period under review increased more than twice to EEK 60 million.

The Tartu Kaubamaja shopping centre was opened in October 2005 and it has started successfully. The main activities of the year 2006 included management and maintenance of the building and leasing sales areas. As of 31 December 2006, the usable area of the building amounts to 32,123 m², of which 15,967.24 m² is leasable area. A half of the area under the building is covered by 2 parking floors with an area of 7,326 m² and 227 parking places. The total number of lessees in the building is 68, the anchor lessee being Tallinna Kaubamaja AS. The best known brands operating on bigger leasable areas of Tartu Kaubamaja also include Vero Moda, Terranova, House, Sportland, Mediapoint, Apollo Raamatud, Home 4 You, Monton, PTA, Suurtüki Kingaäri, Chicco, The Body Shop, etc. During the period under review 2 lessees changed and 2 lessees were added. The leasable area was extended by 187.7 m², incl. the leasable area of Tallinna Kaubamaja AS being extended by 119.3 m² with regard to the Kids' Department and Sports Department.

In November 2006, SIA TKM Latvija, a subsidiary of Tallinna Kaubamaja Kinnisvara AS, was established. The objective of the company is to find and develop suitable immovable properties for A-Selver AS.

On 26 October 2006, Tallinna Kaubamaja Kinnisvara AS and Lidl Latvija SIA signed a protocol of intentions for purchasing twenty-two immovable properties in Latvia. The transaction was concluded on 12 December 2006, the transaction value amounted to EEK 265 million and it was financed by a loan taken for five years. The immovable properties are located in Cēsis, Jelgava, Jūrmala, Rēzekne, Rīga, Salaspils and Tukums and the total area thereof is 72,505 m². Purchase agreements were concluded with regard to immovable properties located in Liepāja.



On 10 November 2006, Tallinna Kaubamaja Kinnisvara purchased ten immovable properties in Estonia with a total area of 59,372 m² from Lidl Eesti UÜ. The transaction value amounted to EEK 138 million and it was financed by a loan taken for one year. The immovable properties are located in Narva, Tartu, Tallinn, Kohtla-Järve and Viljandi. Purchase agreements were concluded with regard to immovable properties located in Paide. The development plan of the real estate business segment for the following years is to continue searching for suitable sites for new development projects and realisation, maintenance and management of projects at the present sites.

Car trade

In 2006, Tallinna Kaubamaja Group made a decision on entering a new retail market segment, starting selling cars and offering service which supports sales. To realise the decision, in 2007, 100% participating interest was acquired in Kia Auto AS and Kia Auto UAB, a subsidiary of Kia Auto AS, and in Ülemiste Autokeskuse OÜ. Kia Auto AS plans to establish sales and service centres corresponding to the modern requirements in the capitals of all the three Baltic countries. It is planned to start selling other makes of cars in the future as well.

Beauty stores

In February 2007, Tallinna Kaubamaja AS published a long-term strategic decision, in accordance with which a beauty store chain comprising all the Baltic markets will be established.

The main sales articles of the stores will include exclusive and decorative cosmetics, men's and women's perfumes, hair care products and services and consultation related to the aforementioned.

As at the moment negotiations over the sites of the stores and the opening schedules thereof are being held, further information on the store chain to be established will be published in the first half-year of 2007.

Personnel

In the 12 months of 2006, the average number of employees at the Tallinna Kaubamaja Group was 2,411 people, increasing by 27% in a year. Total staff costs (wages and salaries and social security costs) were EEK 384 million, increasing by 51% as compared to the year before, incl. the remuneration and bonuses paid to members of the management and the supervisory board of the parent company (10 in total) along with the social security costs amounted to EEK 11,442 thousand in 2006.



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 supervisory board and management of the parent company consist of five members.

In 2006 the Tallinna Kaubamaja Group did not publish the financial calendar (clause 5.2 of corporate governance) at the beginning of the financial year, but, upon publishing each interim report, it notified the investors of the term for publishing the next interim report.

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 regarding the consolidated financial statements

The Management Board confirms the correctness and completeness of Tallinna Kaubamaja AS's consolidated financial statements as presented on pages 14-44.


The Management Board confirms that:

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

Raul Puusepp
Chairman of the Management Board

Tallinn, 27 March 2007

For identification purposes only

 ERNST & YOUNG

0304.2007



CONSOLIDATED BALANCE SHEET

in thousands of Estonian kroons, as at 31 December

	Note	31 December 2006		31 December 2005	
		EEK	EUR*	EEK	EUR*
ASSETS					
Current assets					
Cash and bank	2	371 368	23 736	18 290	1 169
Trade receivables	3	50 646	3 237	28 565	1 826
Other receivables	4	39 929	2 552	18 072	1 155
Prepaid expenses	5	29 736	1 900	7 520	481
Inventories	6	313 009	20 005	290 390	18 559
Total current assets		804 689	51 430	362 838	23 190
Non-current assets					
Prepayments	5	41 732	2 667	47 331	3 025
Investments in associates	8	11 425	730	9 032	577
Other long-term receivables	9	7 828	500	9 828	628
Property, plant and equipment	10	1 670 816	106 785	1 270 549	81 203
Total non-current assets		1 731 801	110 681	1 336 740	85 433
TOTAL ASSETS		2 536 490	162 111	1 699 577	108 623
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Interest-bearing borrowings	11	239 040	15 277	83 571	5 341
Prepayments received		12 992	830	7 592	485
Trade payables		426 360	27 250	338 012	21 603
Other current liabilities	13	128 785	8 230	70 262	4 491
Total current liabilities		807 178	51 587	499 437	31 920
Non-current liabilities					
Borrowings	11	485 542	31 032	210 651	13 463
Total non-current liabilities		485 542	31 032	210 651	13 463
TOTAL LIABILITIES		1 292 720	82 619	710 088	45 383
SHAREHOLDERS' EQUITY					
Share capital	14	407 292	26 031	67 882	4 338
Mandatory legal reserve		7 269	465	7 269	465
Revaluation reserve		492 014	31 445	504 307	32 231
Retained earnings		337 215	21 552	410 031	26 206
Translation differences		-20	-1	0	0
TOTAL SHAREHOLDERS' EQUITY		1 243 770	79 492	989 489	63 240
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2 536 490	162 111	1 699 577	108 623

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



CONSOLIDATED INCOME STATEMENT

in thousands of Estonian kroons, for the year ended 31 December 2006

	Note	2006		2005	
		EEK	EUR*	EEK	EUR*
Revenue	15	4 239 130	270 930	2 877 784	183 924
Other income	16	83 836	5 358	58 391	3 732
Materials and consumables used	6	-3 136 682	-200 470	-2 165 612	-138 408
Operating expenses	17	-409 336	-26 160	-339 285	-21 685
Personnel expenses	18	-383 574	-24 515	-253 207	-16 183
Depreciation	10	-94 678	-6 051	-70 087	-4 479
Other expenses		-10 622	-679	-10 485	-670
Operating profit		288 074	18 413	97 499	6 231
Finance cost	19	-12 771	-816	-8 731	-558
Financial income	19	3 048	195	745	48
Share of profit of associates	8	2 397	153	2 263	145
Total financial income and expenses		-7 325	-468	-5 723	-365
Income before taxation		280 749	17 945	91 776	5 866
Income tax	14	-6 083	-389	0	0
PROFIT FOR THE YEAR		274 666	17 554	91 776	5 866
Basic earnings per share (EEK/EUR)	20	6,74	0,43	2,25	0,14
Diluted earnings per share (EEK/EUR)	20	6,74	0,43	2,25	0,14

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



CONSOLIDATED CASH FLOW STATEMENT

in thousands of Estonian kroons, for the year ended 31 December 2006

		2006		2005	
	Note	EEK	EUR*	EEK	EUR*
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit for the year		274 666	17 554	91 776	5 866
Adjustments for:					
Interest expense	19	12 771	816	8 731	558
Interest income		-3 190	-204	-963	-62
Depreciation	10	94 678	6 051	70 087	4 479
Gains on disposals of non-current assets		698	45	211	14
Share of net profit of associates	8	-2 397	-153	-2 263	-145
Increase in inventories		-22 620	-1 446	-66 024	-4 220
Increase in trade receivables and prepayments		-54 198	-3 464	-61 679	-3 942
Increase in trade payables and prepayments		151 251	9 667	161 696	10 334
NET CASH GENERATED FROM OPERATING ACTIVITIES		451 659	28 866	201 572	12 882
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	10	-495 992	-31 700	-417 283	-26 669
Proceeds from sales of property, plant and equipment		329	21	2 750	176
Loan repayments received from associates	24	2 000	128	500	32
Interest received		2 923	187	1 043	67
NET CASH USED IN INVESTING ACTIVITIES		-490 740	-31 364	-412 990	-26 394
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		462 457	29 556	140 001	8 948
Repayments of borrowings		-25 257	-1 614	-13 016	-832
Proceeds from issuance of bonds		48 900	3 125	33 862	2 164
Redemption of bonds		-35 000	-2 237	-15 000	-959
Dividends paid		-20 365	-1 302	0	0
Corporate income tax on dividends paid		-6 083	-389	0	0
Change in overdraft balance		-17 264	-1 102	17 264	1 104
Payment of finance lease liabilities		-3 978	-254	-3 709	-237
Interest paid		-11 251	-719	-7 661	-490
NET CASH USED IN FINANCING ACTIVITIES		392 159	25 064	151 741	9 698
NET CASH FLOWS		353 078	22 566	-59 677	-3 814
Cash and cash equivalents at the beginning of the year	2	18 290	1 169	77 967	4 983
Cash and cash equivalents at the end of the year	2	371 368	23 735	18 290	1 169
Change in cash and cash equivalents		353 078	22 566	-59 677	-3 814

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



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
in thousands of Estonian kroons, for the year ended 31 December 2006

	Share capital	Mandatory legal reserve	Revaluation reserve	Retained earnings	Translation differences	Total
Balance as of 31.12.2004	67 882	7 269	260 506	310 984	0	646 641
Revaluation, land and buildings	0	0	251 072		0	251 072
Depreciation transfer, land and buildings	0	0	-7 271	7 271	0	0
Profit for the year	0	0	0	91 776	0	91 776
<i>Total income and expense for the year</i>	<i>0</i>	<i>0</i>	<i>243 801</i>	<i>99 047</i>	<i>0</i>	<i>342 848</i>
Balance as of 31.12.2005	67 882	7 269	504 307	410 031	0	989 489
Revaluation, land and buildings	0	0	-12 293	12 293	0	0
Profit for the year	0	0	0	274 666	-20	274 646
<i>Total income and expense 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 declared	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

In thousands of EUR*

	Share capital	Mandatory legal reserve	Revaluation reserve	Retained earnings	Differences of conversion	Total
Balance as of 31.12.2004	4 338	465	16 649	19 876	0	41 328
Revaluation, land and buildings	0	0	16 046	0	0	16 046
Depreciation transfer, land and buildings	0	0	-465	465	0	0
Profit for the year	0	0	0	5 866	0	5 866
<i>Total income and expense for the year</i>	<i>0</i>	<i>0</i>	<i>15 581</i>	<i>6 331</i>	<i>0</i>	<i>21 912</i>
Balance as of 31.12.2005	4 338	465	32 231	26 206	0	63 240
Revaluation, land and buildings	0	0	-786	786	0	0
Profit for the year	0	0	0	17 554	0	17 554
<i>Total income and expense for the year</i>	<i>0</i>	<i>0</i>	<i>-786</i>	<i>18 340</i>	<i>0</i>	<i>17 554</i>
Bonus issue	21 693	0	0	-21 693	0	0
Dividends declared	0	0	0	-1 302	0	-1302
Balance as of 31.12.2006	26 031	465	31 445	21 551		79 492

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

Additional information about share capital is presented in Note 14.

For identification purposes only

ERNST & YOUNG

03.04.2007



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of significant accounting policies

General information

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

The consolidated financial statements were authorized for issue by the Management Board on 26 March 2007.

Basis of preparation

The consolidated financial statements of AS Tallinna Kaubamaja for the year ended 31 December 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

The consolidated financial statements have been prepared 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.

Unless otherwise noted, the financial statements have been prepared in thousands of Estonian kroons.

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 judgements, estimates and assumptions

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

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

- *Estimates of useful lives of property, plant and equipment:* the Group has several newly built stores, where the useful life of items of property, plant and equipment is estimated based on the technical projects' data. However, economic useful life may differ from the originally estimated one.
- *The need for recurring revaluation of land and buildings:* land and buildings were revalued at the end of 2004 and 2005 and the Group's management estimates that fair values of similar assets have not changed significantly during 2006.
- *Classification of leases at the inception of the lease:* the Group has entered into lease agreements for some locations, where classification between finance and operating lease depends on the estimation of fair value of the asset leased by the Group. The fair values have been estimated in such cases by the external valuer.



Changes in accounting policies and presentation in 2006

The same accounting principles and way of presentation that were used in the preparation of the prior year's financial statements have been used in the preparation of the present financial statements. In addition, the following new or revised accounting principles have been applied, which had no effect on the financial result of 2006:

- IAS 1 (revised) Presentation of Financial Statements.
- IAS 19 (revised) Employee Benefits.
- IAS 21 (revised) The Effects of Changes in Foreign Exchange Rates
- IAS 39 (revised) Financial Instruments: Recognition and Measurement
- IFRS 4 Insurance Contracts
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued by balance sheet date but are not yet effective:

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRS 8 Operating Segments (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.



- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IFRS 7 "Financial Instruments: Disclosures"; IAS 1 amendment Capital Disclosures and IFRS 8 "Operating Segments". The Group is still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements.

Supplementary disclosures on the parent entity of the group

To comply with the requirements of the Estonian Accounting Law the separate principal financial statements of the parent company should be disclosed together with the consolidated financial statements. The respective disclosure is presented in Note 31. The principal financial statements of the parent company are prepared using the same accounting policies as in the preparation of consolidated financial statements, however they do not contain a complete set of parent's stand-alone financial statements, as required by the IFRS.

In the parent's non-consolidated financial statements (Note 31) investments in subsidiaries are carried at cost less impairment. It means that investments in subsidiaries 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 each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Estonian kroons, which is the functional and presentation currency of AS Tallinna Kaubamaja.

Transactions and balances

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

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 these 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 "translation differences"). On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in income statement.



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 to the euro with the fixed exchange rate (1EUR=15,6466 kroons), no translation differences occurs.

Consolidation

Subsidiaries

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

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

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

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

Associates

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

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

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

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the investment is reported at nil value and further losses are recognized as off-balance-sheet item, unless the Group has incurred obligations or made payments on behalf of the associates – in which case the Group recognizes the liability and its share of losses in an associate in the balance sheet.

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

Segment reporting

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

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

Primary segment for the group is business segment. The Group has expanded during 2006 and its property investment activities and rental income became a separate segment in 2006



As most of the Group's activities take place in Estonia, this is regarded as one geographical segment and no separate geographical segment reporting has been presented.

The reportable segments for Tallinna Kaubamaja group are: department stores, supermarkets and real estate. Main activities for department stores and supermarkets are retail sales. Supermarkets are focused on the sales of food products and basic commodities, department stores are focused on fashion items. Real estate segment is engaged in management, maintenance and lease of floor space in department stores and supermarkets.

Cash and cash equivalents

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

Financial assets

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

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

Trade receivables

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

Inventories

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

Property, plant and equipment

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

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

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

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



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

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

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

Land is not depreciated

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

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

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

Impairment of assets

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

Leases

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

Group as a lessee

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

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Group as a lessor

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



Financial liabilities

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

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

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

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

Provisions and contingent liabilities

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

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

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

Corporate income tax

According to the Income Tax Act of the Republic of Estonia the net profit earned by enterprises is not taxed. Thus, there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax 22/78 of net dividend paid (until 31 December 2006 the tax rate was 23/77 and until 31 December 2005 the tax rate was 24/76). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

Revenue recognition

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

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

Sales of goods - retail

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



Sales of services

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

Interest income

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

Dividend income

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

Mandatory reserve

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

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 not issued any potential ordinary shares, the diluted earnings per share equals to the basic earnings per share.



Note 2 Cash and bank
in thousands of Estonian kroons, as at 31 December

	31 December 2006	31 December 2005
Cash on hand	3 610	2 773
Cash at bank	352 533	2 080
Cash in transit	15 225	13 437
Total cash and cash equivalents	371 368	18 290

Note 3 Trade receivables
in thousands of Estonian kroons, as at 31 December

	31 December 2006	31 December 2005
Credit card receivables	35 601	18 014
Other trade receivables	15 045	10 551
Total trade receivables	50 646	28 565

Note 4 Other receivables
in thousands of Estonian kroons, as at 31 December

	31 December 2006	31 December 2005
Bonuses receivable from suppliers	24 647	14 116
Receivables from related parties (Note 9 and 24)	2 000	2 429
Other short-term receivables	13 282	1 527
Total other receivables	39 929	18 072

Other short-term receivables include EEK 13 000 thousand, that has been paid as a prepayment for acquisitions of the 100% shares of KIA Auto AS and Ülemiste Autokeskus OÜ.

Note 5 Prepaid expenses
in thousands of Estonian kroons, as at 31 December

	31 December 2006	31 December 2005
Value added tax	22 468	173
Corporate income tax payable on fringe benefits	0	2
Social security tax	0	2
Total prepaid taxes	22 648	177
Prepaid rental expenses	5 603	6 148
Other prepaid expenses	1 665	1 195
Total short-term prepaid expenses	29 736	7 520
Prepaid rental expenses	41 732	47 331
Total long-term prepaid expenses	41 732	47 331

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



Note 6 Inventories

in thousands of Estonian kroons, as at 31 December

	31 December 2006	31 December 2005
Good held for resale	307 234	284 913
Materials	5 775	5 477
Total inventories	313 009	290 390

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

	2006	2005
Materials and consumables used	3 085 834	2 122 060
Write-down and write-off of inventories	30 459	27 561
Inventory shortages	20 389	15 991
Total	3 136 682	2 165 612

Aging of inventory and seasonal nature of fashion items is used as basis for write down of inventory. Carrying value of inventory is adjusted through allowance made for slow-moving inventory. As of 31 December 2006 the allowance for slow-moving inventories amounted to 2 808 thousand kroons (31.12.2005: 7 161 thousand kroons).

As of 31.12.2006, the group's inventories, recorded at net realizable value, amounted to 5 075 thousand kroons (31.12.2005: 162 thousand kroons).

Information on pledged assets is provided in Note 21.

Note 7 Subsidiaries

in thousands of Estonian kroons, as at 31 December

The Tallinna Kaubamaja group incorporates:

Company	Location	Field of activity	Ownership	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 administration	100%	46 285	1999
<i>Subsidiaries of Tallinna Kaubamaja Kinnisvara AS:</i>					
Tartu Kaubamaja Kinnisvara OÜ	Tartu Riia 1	Real estate administration	100%		2004
SIA TKM Latvia	Riga Valdemara iela 21	Real estate administration	100%		2006
<i>Subsidiary of A-Selver AS:</i>					
SIA Selver Latvija	Riga Valdemara iela 21	Retail trade	100%		2006
Acquisition cost of subsidiaries at 31.12.2006				84 134	

In 2006 there was established a subsidiary of Tallinna Kaubamaja Kinnisvara AS SIA TKM Latvija with share capital 2 thousand LVL (45 thousand kroons) and a subsidiary of A-Selver AS SIA Selver Latvija with share capital 100 thousand LVL (2 248 thousand kroons)



The Tallinna Kaubamaja group incorporates:

Company	Location	Field of activity	Ownership	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		Real estate			
Kinnisvara AS	Tallinn Gonsiori 2	administration	100%	46 285	1999
Acquisition cost of subsidiaries at 31.12.2005				84 134	
<i>Subsidiary of Tallinna Kaubamaja Kinnisvara AS:</i>					
Tartu Kaubamaja		Real estate			
Kinnisvara OÜ	Tartu Riia 1	administration	100%		2004

Note 8 Investments in associates

in thousands of Estonian kroons, as at 31 December

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

	2006	2005
Number of shares at the end / (at beginning) of year	501 / (501)	501 / (501)
Ownership % at the end / (at beginning) of year	50 / (50)	50 / (50)
Beginning of the year		
Acquisition cost	6 500	6 500
Participation in associate's equity	6 769	6 769
Profit from the equity method	2 397	2 263
End of the year		
Acquisition cost	6 500	6 500
Participation in associate's equity	11 425	9 032

Financial information of the associate:

	31 December 2006	31 December 2005
Assets	64 322	65 764
Liabilities	41 472	47 702
Revenues	7 717	7 594
Profit	4 794	4 525

Note 9 Loans granted

in thousands of Estonian kroons, as at 31 December

	31 December 2006	31 December 2005
Loans granted to associates (Note 24)	9 828	11 828
Repayable:		
<i>no later than 12 months</i>	2 000	2 000
<i>between 1 and 5 years</i>	7 828	9 828
Interest rate	4%	4%
Maturity	2010	2010

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



Note 10 Property, plant and equipment
in thousands of Estonian kroons

	Land & buildings	Vehicles & machinery	Other equipment	Pre-payments to suppliers	Construction in progress	Total
31.12.2004						
Cost or valuation	518 068	117 591	172 926	242	67 582	876 409
Accumulated depreciation	-18 388	-71 379	-111 400	0	0	-201 167
Net book value	499 680	46 212	61 525	242	67 582	675 241
Changes occurred in 2005						
Additions	221 164	69 226	63 495	83	63 315	417 283
Transfers	67 615	26	186	-242	-67 585	0
Disposals	0	-2 621	-340	0	0	-2 961
Revaluation surplus	251 072	0	0	0	0	251 072
Depreciation charge	-21 894	-24 586	-23 607	0	0	-70 087
31.12.2005						
Cost or valuation	1 047 126	174 782	224 764	83	63 312	1 510 067
Accumulated depreciation	-29 489	-86 525	-123 504	0	0	-239 518
Net book value	1 017 637	88 257	101 260	83	63 312	1 270 549
Changes occurred in 2006						
Additions	12 409	12 441	18 690	9 579	442 873	495 992
Disposals	-496	-195	-357	0	0	-1 048
Depreciation charge	-33 891	-29 535	-31 251	0	0	-94 678
31.12.2006						
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

According to the management estimates, there has not been significant changes in the fair values of land and buildings as no major changes occurred at the commercial space market in the year. Therefore, all items in the group of land and buildings have not been revalued in 2006.

In 2005, land and buildings for which the development ended during the year were revalued. The basis for revaluation was an assessment of an independent real estate expert. The discounted cash flow method as well as the market-based evidence were used for the determination of the fair value of the land and buildings. Following assumptions have been used: discount rates of 10-10.2% and the growth rates of 0.7-1.5%. The previous revaluation was carried out on the "Land and buildings" group at the end of 2004.

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

as of 31.12.2006: 205 151 thousand kroons
as of 31.12.2005: 239 174 thousand kroons

During the financial year, computer technology, furnishings and equipment of the department stores were acquired for 31 131 thousand kroons. The existing department stores were renovated for 12 409 thousand kroons and costs in the amount of 344 thousand kroons were capitalized.

As of 31 December 2006, property, plant and equipment with the net book amount of 751 583 thousand kroons had been pledged as collateral for the liabilities (Note 21).

As of 31 December 2006, the acquisition cost amount of property, plant and equipment in use with the net book value zero was 123 951 thousand kroons (31.12.2005: 118 800 thousand kroons).

Information regarding fixed assets leased under finance lease is presented in Note 12.



Note 11 Borrowings

in thousands of Estonian kroons, as at 31 December

2006	Payable				Maturity	Interest rate
	Balance at 31.12.2006	not later than 12 months	between 1 and 5 years	over 5 years		
SEB Eesti Ühispank	58 739	13 463	45 276	0	28.01.2011	6 kuu EURIBOR +0,4%
SEB Eesti Ühispank	167 957	15 805	70 223	81 929	19.04.2012	6 kuu EURIBOR +0,4%
Nordea Pank	265 992	0	265 992	0	07.12.2011	6 kuu EURIBOR +0,36%
Long-term bank loans	492 688	29 268	381 491			
Bonds issued	49 069	49 069	0	0	4.06.2007	4,45%
SEB Eesti Ühispank	156 466	156 466	0	0	10.11.2007	6 kuu EUROBOR +0,65%
Finance lease liabilities (Note 12)	26 359	4 237	22 122	0	7.04.2012	7%
Total borrowings	724 582	239 040	403 613	81 929		

2005	Payable				Maturity	Interest rate
	Balance at 31.12.2005	not later than 12 months	between 1 and 5 years	over 5 years		
SEB Eesti Ühispank	71 952	13 297	57 393	1 262	28.01.2011	6 kuu EURIBOR +0,4%
SEB Eesti Ühispank	140 001	14 364	94 333	31 304	19.04.2012	6 kuu EURIBOR +0,4%
Long-term bank loans	211 953	27 661	151 726	32 566		
Bonds issued	34 668	34 668	0	0	7.04.2006	3,28%
Bank overdraft (Note 24)	17 264	17 264	0	0		
Finance lease liabilities (Note 12)	30 337	3 978	18 827	7 532	7.04.2012	7%
Total borrowings	294 222	83 571	170 553	40 098		

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

Bank loans have floating interest rates related to EURIBOR. The borrowings in amount of 492 688 thousand kroons (2005: 211 953 thousand kroons) are repriced after every 6 months, which is the Group's exposure on interest rate changes when borrowings reprise. Bonds issued and finance lease agreements are based on fixed interest rates, and therefore 75 428 thousand kroons (2005: 65 006 thousand kroons) are exposed to interest rate change when borrowings mature.

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



Note 12 Leases

in thousands of Estonian kroons

The group as a lessee

Finance lease

The group leases buildings under a finance lease terms:

	31 December 2006	31 December 2005
Cost – capitalized finance leases	43 951	43 951
Accumulated depreciation	-20 325	-15 930
Net book amount	23 626	28 021

	31 December 2006	31 December 2005
Minimum lease payments		
No later than 1 year	5 947	5 976
Later than 1 year and no later than 5 years	25 712	23 747
Later than 5 years	0	7 911
Total	31 659	37 634
Future interest expense	-5 300	-7 297
Present value of future minimum lease payments (Note 11)	26 359	30 337

Present value of future minimum lease payments

No later than 1 year	4 237	3 978
Later than 1 year and no later than 5 years	22 122	18 827
Later than 5 years	0	7 532
Total (Note 11)	26 359	30 337

Subleases of buildings rented under a finance lease:

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

	31 December 2006	31 December 2005
incl. up to 1 year	1 058	1 161
incl. 1-5 years	40	497
Total	1 098	1 658

Operating lease

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

	31 December 2006	31 December 2005
Up to 1 year	146 738	140 552
1-5 years	533 536	368 177
Over 5 years	330 454	154 903
Total	1 010 728	663 632

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



Subleases of buildings rented under operating lease:

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

	31 December 2006	31 December 2005
Up to 1 year	15 489	17 448
1-5 years	19 211	25 020
Over 5 years	750	0
Total	35 450	42 468

The group as a lessor

Operating lease

Operating lease income includes rental income for spaces.

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

	2006	2005
Cost / revalued amount	201 044	200 166
Accumulated depreciation as 1 January	-11 115	-8 791
Depreciation charge for the period	-4 950	-2 324
Net book amount	184 979	189 051

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 2006	31 December 2005
Up to 1 year	41 770	40 366
1-5 years	139 156	146 020
Over 5 years	106 028	128 784
Total	286 954	315 170

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

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

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

Note 13 Other short-term payables

in thousands of Estonian kroons, as at 31 December

	31 December 2006	31 December 2005
Value added tax	27 273	13 271
Personal income tax	8 135	5 617
Social security tax	16 374	11 512
Corporate income tax payable on fringe benefits	617	540
Unemployment insurance premium	411	398
Mandatory pension funds	664	443
Total indirect tax payables	53 474	31 781
Payables to employees	70 140	37 138
Interest payable	1 171	152
Other accrued expenses	100	70
Prepayments received from lessees	3 900	1 121
Total other short-term payables	128 785	70 262



Note 14 Share capital

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

In 2006, share capital was increased through bonus issue in the amount of 339 410 thousand kroons and 33 941 thousand new shares were released with the nominal value of 10 kroons.

As of 31 December 2006 the share capital of 407 292 thousand kroons consisted of 40 729 200 ordinary shares with the nominal value of 10 kroons per share. In 2006 Under the articles of association, the maximum number of shares allowed is 162 916 800 shares.

In 2006 were dividends paid out to shareholders 3 kroons per share. The total amount of dividends paid out was 20 365 thousand kroons (2005: 0 thousand kroons) and according to payments was income tax paid in amount 6 083 thousand kroons..

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

Note 15 Revenue

in thousands of Estonian kroons, for the year ended 31 December 2006

	2006	2005
Retail	4 185 076	2 846 007
Wholesale	2 440	11 656
Services and catering	51 614	20 121
Total revenue	4 239 130	2 877 784

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

Note 16 Other income

in thousands of Estonian kroons, for the year ended 31 December 2006

	2006	2005
Rental income	37 040	32 803
Income from co-operative advertising	26 490	16 494
Penalties from construction works' time nonobservance	11 000	0
Profit from the sale of tangible assets	21	359
Other income	9 235	8 614
Foreign exchange gains	50	121
Total other income	83 836	58 391

Rental income includes income from subleases in amount of 37 040 thousand kroons (2005: 29 131 thousand kroons).



Note 17 Operating expenses

in thousands of Estonian kroons, for the year ended 31 December 2006

	2006	2005
Rental expenses	132 137	117 594
Utilities	46 376	34 014
Advertising costs	52 185	43 940
Bank fees	27 299	17 514
Security costs	23 306	19 939
Heat and electricity costs	48 180	32 250
Costs of materials	40 724	39 545
Computer and communications expenses	15 573	13 112
Business trip expenses	3 114	3 257
Training expenses	4 111	3 591
Insurance costs	1 068	924
Other expenses	15 263	13 605
Total operating expenses	409 336	339 285

Note 18 Personnel expenses

in thousands of Estonian kroons, for the year ended 31 December 2006

	2006	2005
Wages and salaries	287 372	189 416
Social security tax	96 202	63 791
Total personnel expenses	383 574	253 207

	2006	2005
Average monthly wages and salaries per employee (kroons)	9 929	8 295
Average number of employees during the financial year	2 412	1 903

Staff costs also include accruals for holiday pay earned as well as unpaid bonuses related to year 2006.

Note 19 Financial income and finance cost

in thousands of Estonian kroons, for the year ended 31 December 2006

Financial income

	2006	2005
Interest from SEB Eesti Ühispaniga	2 628	479
Other interest income	420	266
Total financial income	3 048	745

Finance cost

	2006	2005
Interest on bank loans	-10 272	-4 584
Interest on finance leases	-1 998	-2 266
Interest on bonds	-501	-947
Interest on overdraft	0	-129
Other interest expenses	0	-805
Total finance cost	-12 771	-8 731



Note 20 Earnings per share

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

In 2006, bonus issue was carried out, therefore, the number of average ordinary shares has been adjusted for comparative data.

Parent company's share amount after bonus issue has been used as average ordinary shares amount and it is 40 729 200 shares.

	2006	2005	Adjusted profit per share 2005
Profit for the year (in thousands kroons)	274 666	91 776	91 776
Weighted average number of shares in a year	40 729 200	6 788 200	40 729 200
Earnings per share (in kroons)	6,74	13,52	2,25

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 2006, the carrying amount of the pledged assets was 250 409 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 2006, the carrying amount of the pledged assets is 501 174 thousand kroons.

The Group has issued the following guarantees:

- Tallinna Kaubamaja AS has guaranteed 50% of the loan of Rävala Parkla AS in the amount of 37 120 thousand kroons from AS SEB Eesti Ühispank.
- Tallinna Kaubamaja AS has guaranteed the loan of Tallinna Kaubamaja Kinnisvara AS in the amount of 10 546 thousand euros from AS SEB Eesti Ühispank.

Note 22 Off-balance-sheet assets and contingent liabilities

Taxes

The tax authorities may at any time inspect the books and records up to 6 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. Tax audits were not conducted in 2005 and 2006. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.



Note 23 Post balance sheet events

In 2006, Tallinna Kaubamaja AS decided to enter a new retail business segment and start car sales and related services.

In 2007 Tallinna Kaubamaja acquired a 100% shareholding in Kia Auto AS and its subsidiaries Kia Auto UAB and Ülemiste Autokeskuse OÜ.

Note 24 Related party transactions in thousands of Estonian kroons

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

- owners (parent company and parties having control or significant influence over parent company) (Note 29);
 - associates
 - other entities in the consolidation group (incl. fellow subsidiaries);
 - management and supervisory boards;
- close relatives of the persons mentioned above and the companies over which they have control or significant influence.

The financial statements include the financial statements of Tallinna Kaubamaja AS and the subsidiaries listed in the following table:

Company	Country of incorporation	Ownership	
		2006	2005
A-Selver AS	Estonia	100%	100%
AS Tartu Kaubamaja	Estonia	100%	100%
Tallinna Kaubamaja			
Kinnisvara AS	Estonia	100%	100%
Subsidiaries of Tallinna Kinnisvara AS:			
Tartu Kaubamaja			
Kinnisvara OÜ	Estonia	100%	100%
SIA TKM Latvia	Latvia	100%	–
Subsidiary of A-Selver AS:			
SIA Selver Latvija	Latvia	100%	–

In 2006, Tallinna Kaubamaja group purchased and sold goods and rendered services as follows:

	2006		2005	
	Purchases	Sales	Purchases	Sales
Parent company	693	757	742	180
Associates	0	420	0	1 119
Other related parties	106 406	3 973	84 575	1 998
Total purchase/sale of goods and services	107 099	5 150	85 317	3 297

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

Loans to associates			
	2006	2005	
Balance at the beginning of the year (Note 9)	11 828	12 328	
Loan repayments received	-2 000	-500	
Balance at the end of the year (Note 9)	9 828	11 828	



Balances with the related parties:		
	31 December 2006	31 December 2005
Parent company	269	24
Other related parties	871	405
Short-term portion of loans granted to associates (Note 9)	2 000	2 000
Total short-term receivable (Note 4)	3 140	2 429
Loans granted to associates (Note 9)	7 828	9 828
Total receivables from related parties	10 968	12 257
Parent company	0	303
Other related parties	16 825	11 591
Group account payable (overdraft) (Note 11)	0	17 264
Total liabilities to related parties	16 825	29 158

The related party transactions of the group in 2006:

AS Tartu Kaubamaja, A-Selver AS and Tallinna Kaubamaja Kinnisvara AS, as well as Tartu Kaubamaja Kinnisvara OÜ have a joint group account with Tallinna Kaubamaja AS. This group as a subgroup has in turn joined the group account of NG Investeeringud AS (hereinafter main group), which also includes Balbiino AS, Liviko AS, Kitman AS, OÜ NG Kapital, Ganiger Invest OÜ and Roseni Majad OÜ. Since autumn 2001, the Tallinna Kaubamaja group has kept its free funds at the main group account, earning interest income on the deposits. In 2006, the Tallinna Kaubamaja group earned interest income in the amount of 636 thousand kroons (2005: 121 thousand kroons) on the deposits of its free funds. As of 31 December 2006, Tallinna Kaubamaja group did not use free funds of the group (2005: 17 264 thousand kroons) and the interest paid on the use of the funds available on the main group account in 2006 amounted to 830 thousand kroons (2005: 729 kroons). The average annual interest rate earned on deposited funds on the NG Investeeringud OÜ group account was 2.6 % (3.6% in 2005) and the average interest rate on the funds used was 3%. According to the group account contract, the group members are jointly responsible for the unpaid balances to the bank.

Key management compensations

The Tallinna Kaubamaja group paid a total of 14 495 thousand kroons (2005: 12 400 thousand kroons) in remuneration to the members of the Management Board in the financial year. Short-term compensations have been calculated in 2006 in amount 15 681 thousand kroons (2005: 5 062 thousand kroons) and long-term compensations in amount 8 699 thousand kroons (2005: 1 106 thousand kroons)

Termination benefits

As of 31 December 2006, the amount of potential termination benefits arising from employment contracts amounts to 776 thousand kroons (incl social tax).

Note 25 Segment reporting

in thousands of Estonian kroons

31.December 2006	Department stores	Super-markets	Real Estate	Transactions Between Segments	Total
External sales	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
Operating profit	102 491	115 464	70 119	0	288 074
Financial income/expenses of segments	2 720	-2 530	-10 683	0	-10 493
Financial income/expenses between segments	0	-939	4 107	3 168	3 168
Total financial income/expenses	2 720	-3 468	-6 576	3 168	-7 325
Income tax	0	0	0	0	-6 083
Net profit	105 213	113 874	61 663	0	274 666



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Assets	1 758 939	581 349	1 669 566	-1 473 364	2 536 490
Assets between segments	1 204 113	24 937	244 314	-1 473 364	0
Total assets	554 826	556 412	1 425 252	0	2 536 490
Liabilities	499 626	398 092	929 878	-534 876	1 292 720
Liabilities between segments	7 165	3 014	524 696	-534 876	0
Total liabilities	492 461	395 078	405 182	0	1 292 720
Additions of property, plant and equipment	22 696	17 154	3690	0	43 540
Depreciation of financial year	24 144	44 355	26 179	0	94 678

31. December 2005

	Department- stores	Super- markets	Real Estate	Transactions Between Segments	Total
External sales	1 004 037	1 855 291	18 456	0	2 877 784
Sales between segments	8 236	7 977	41 105	-57 317	0
Total sales	1 012 273	1 863 268	59 561	-57 317	2 877 784
Operating profit	37 505	31 741	28 253	0	97 499
Financial income/expenses of segments	2 382	-2 327	-151	0	-96
Financial income/expenses between segments	-1 710	-1 405	-2512	5 627	-5 627
Total financial income/expenses	672	-3 732	-2 664	5 627	-5 723
Profit for the year	38 178	28 008	25 590	0	91 776
Assets	1 223 983	407 067	519 206	-450 679	1 699 577
Assets between segments	339 040	449	111 190	-450 679	0
Total assets	884 943	406 618	408 016	0	1 699 577
Liabilities	191 894	339 912	354 027	-175 746	710 088
Liabilities between segments	26 690	57 811	91 244	-175 746	0
Total liabilities	165 204	282 101	262 783	0	710 088
Additions of property, plant and equipment	39 301	101 553	280 858	0	421 712
Depreciation of financial year	19 158	36 884	14 045	0	70 087

Note 26 Financial risk management

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

Foreign exchange risk

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

Credit risk

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

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03.04.2007 / J



Interest rate risk

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

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 fixed interest rates 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.

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

Shareholder	31 December 2006 Participation	31 December 2005 Participation
NG Investeeringud AS (parent company)	67,00%	66,80%
ING Luxembourg A.A.	8,94%	9,13%
Skandinaviska Enskilda Banken Ab	5,51%	6,52%

As of 31 December 2006 67.00% of the shares of NG Investeeringud OÜ is owned by NG Kapital OÜ, which is the ultimate controlling party.

Note 30 Restrictions on allocation of retained earnings

As of 31 December 2006, the retained earnings of Tallinna Kaubamaja AS were 337 215 thousand kroons (31 December 2005: 410 031 thousand kroons).

From 1 January 2007, an income tax of 22/78 (23/77 until 31 December 2006) is imposed on the sum of net dividends paid. Therefore, it would be possible to pay out dividends in the amount of 263 028 thousand kroons (31 December 2005: 315 724 thousand kroons), consequently the maximum potential income tax liability would amount to 74 188 thousand kroons (31 December 2005: 94 307 thousand kroons).



Note 31 Financial information on the parent company

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

BALANCE SHEET

in thousand of Estonian kroons, as at 31 December

	31 December 2006		31 December 2005	
	EEK	EUR	EEK	EUR
ASSETS				
Current assets				
Cash and bank	141 971	9 074	4 956	317
Trade receivables	12 262	784	6 226	398
Other receivables	273 411	17 474	25 228	1 612
Accrued income	269	17	0	0
Prepayments	1 129	72	1 119	72
Inventories	167 388	10 698	144 577	9 240
Total current assets	596 430	38 119	182 106	11 639
Non-current assets				
Non-current financial investments				
Shares in subsidiaries	84 134	5 377	84 134	5 377
Investments in associates	6 500	415	6 500	415
Other long-term receivables	7 828	500	9 828	628
Property, plant and equipment	81 416	5 203	83 175	5 316
Total non-current assets	179 878	6 119	183 637	11 736
TOTAL ASSETS	776 308	44 238	365 743	23 375
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Interest-bearing borrowings	49 069	3 136	34 668	2 216
Prepayments received	9 118	583	7 044	450
Supplier payables	117 076	7 483	86 411	5 523
Other short-term liabilities	58 243	3 722	64 254	4 106
Total current liabilities	233 506	14 924	192 377	12 295
Non-current liabilities				
Borrowings	265 992	17 000	0	0
Total non-current liabilities	265 992	17 000	0	0
TOTAL LIABILITIES	499 498	31 924	192 377	12 295
Shareholders' equity				
Share capital	407 292	26 031	67 882	4 338
Mandatory legal reserve	7 269	465	7 269	465
Retained earnings	-137 751	-8 804	98 215	6 277
TOTAL SHAREHOLDERS' EQUITY	276 810	17 691	173 366	11 080
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	776 308	49 615	365 743	23 375

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



INCOME STATEMENT

in thousand of Estonian kroons, for the year ended 31 December 2006

	2006		2005	
	EEK	EUR	EEK	EUR
Revenue	1 281 747	81 919	885 214	56 576
Other income	50 604	3 234	51 240	3 275
Raw materials and consumables used	-874 276	-55 876	-620 014	-39 626
Operating expenses	-186 264	-11 904	-155 398	-9 932
Personnel expenses	-138 937	-8 880	-94 480	-6 038
Depreciation and amortization	-24 144	-1 543	-17 692	-1 131
Other expenses	-5 608	-358	-5 410	-346
Operating profit	103 121	6 591	43 460	2 778
Financial income and expenses				
Interest income and expenses	441	28	-2 324	-149
Other financial income and expenses	-118	-8	-101	-6
Total financial income and expenses	323	21	-2 425	-155
PROFIT FOR THE YEAR	103 444	6 611	41 035	2 623
Basic earnings per share (EEK/EUR)	2,54	0,16	6,05	0,39
Diluted earnings per share (EEK/EUR)	2,54	0,16	6,05	0,39

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



CASH FLOW STATEMENT

in thousand of Estonian kroons, for the year ended 31 December 2006

	2006		2005	
	EEK	EUR	EEK	EUR
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year	103 444	6 611	41 035	2 623
Adjustments for:				
Interest expense	2 791	178	3 577	229
Interest income	-3 232	-207	-1 253	-80
Depreciation and amortization	24 144	1 543	17 692	1 131
Gains on disposal of non-current assets	521	33	-2	0
Increase in inventories	-22 811	-1 458	-41 383	-2 645
Increase in trade receivables and prepayments	-254 228	-16 248	-24 551	-1 569
Increase in trade payables and prepayments	26 000	1 662	-19 533	-1 249
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	-123 371	-7 885	-24 418	-1 560
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	-23 188	-1 482	-38 813	-2 481
Interest received	2 963	189	0	0
Loans granted to associates	0	0	500	32
Loan repayments received from associated companies	2 000	128	1 332	85
Proceeds from sales of property, plant and equipment	282	18	60	4
NET CASH USED IN INVESTING ACTIVITIES	-17 943	-1 147	-36 921	-2 360
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in the balance of group account	265 992	17 000	0	0
Proceeds from borrowings	48 900	3 125	33 862	2 164
Proceeds from issuance of bonds	-35 000	-2 237	-15 000	-959
Interest paid	-1 563	-100	-3 446	-220
NET CASH USED IN FINANCING ACTIVITIES	278 329	17 788	15 416	985
NET CASH FLOWS	137 015	8 757	-45 923	-2 935
Cash and cash equivalents at the beginning of the year	4 956	317	50 879	3 252
Cash and cash equivalents at the end of the year	141 971	9 074	4 956	317
Change in cash and cash equivalents	137 015	8 757	-45 923	-2 935

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



STATEMENT OF CHANGES IN EQUITY

in thousand of Estonian kroons, for the year ended 31 December 2006

	Share capital	Revaluation reserve	Mandatory legal reserve	Retained earnings	Total
Balance at 31 December 2004	67 882	0	7 269	57 180	132 331
Profit for the year	0	0	0	41 035	41 035
Balance at 31 December 2005	67 882	0	7 269	98 215	173 366
Bonus issue	339 410	0	0	-339 410	0
Profit for the year	0	0	0	103 444	103 444
Balance at 31 December 2006	407 292	0	7 269	-137 751	276 810

In thousands of EUR

	Share capital	Revaluation reserve	Mandatory legal reserve	Retained earnings	Total
Balance at 31 December 2004	4 338	0	465	3 654	8 457
Profit for the year	0	0	0	2 623	2 623
Balance at 31 December 2005	4 338	0	465	6 277	11 080
Bonus issue	21 692	0	0	-21 692	0
Profit for the year	0	0	0	6 611	6 611
Balance at 31 December 2006	26 031	0	465	-8 804	17 691

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

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Tallinna Kaubamaja

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 2006, 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.

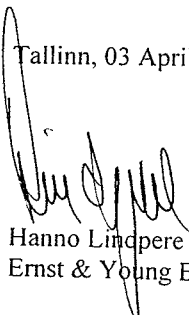
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 2006, 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.

Tallinn, 03 April, 2007



Hanno Lindpere
Ernst & Young Baltic AS



PROFIT ALLOCATION PROPOSAL

Retained earnings of the Tallinna Kaubamaja AS group:

Retained earnings as of 31 December 2006

337 215 thousand kroons

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

- | | |
|---|------------------------|
| 1. Change in revaluation reserve | 33 460 thousand kroons |
| 2. Payment of dividends (1.00 kroons per share) | 40 729 thousand kroons |


Raul Puusepp
Chairman of the Management Board

Tallinn, 27. March 2007

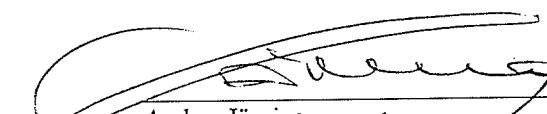


SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2006


The Annual Report 2006 of Tallinna Kaubamaja AS, approved by the General Meeting of Shareholders on _____ 2007, was signed on _____ by:




Raul Puusepp
Chairman of the Management Board



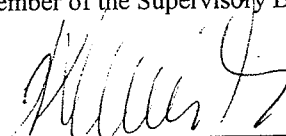
Andres Järving
Chairman of the Supervisory Board



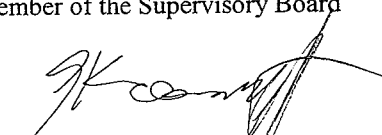
Jüri Kõo
Member of the Supervisory Board



Meelis Milder
Member of the Supervisory Board



Enn Kunila
Member of the Supervisory Board



Gunnar Kraft
Member of the Supervisory Board

Tallinn, April 2007