Tallinna Kaubamaja AS
Consolidated Annual Report
2008

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TALLINNA KAUBAMAJA AS
CONSOLIDATED ANNUAL REPORT 2008

The companies of the Tallinna Kaubamaja Group are mostly engaged in the retail and wholesale trade. At the end of 2008, the Tallinna Kaubamaja Group employed over 3,900 employees.

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Beginning of financial year:	*1.01.2008*
End of financial year:	*31.12.2008*
Auditor:	*Ernst & Young Baltic AS*
Bank:	*AS Hansapank*
	AS SEB Eesti Ühispank
	Nordea Pank Finland Plc Eesti
Law office:	*Law firm Tamme&Otsmann OÜ*
Lawyer:	*Helda Truusa*

Subsidiaries and associated companies:	*Share capital*	*Ownership*
A-Selver AS	*22,0 MEEK*	*100%*
Selver Latvia SIA	*200,0 TLVL*	*100%*
AS Tartu Kaubamaja	*8,3 MEEK*	*100%*
Tartu Kaubamaja Kinnisvara OÜ	*40,0 TEEK*	*100%*
OptiGroup Invest OÜ	*40,0 TEEK*	*100%*
TKM Beauty OÜ	*40,0 TEEK*	*100%*
TKM Beauty Eesti OÜ	*40,0 TEEK*	*100%*
KIA Auto AS	*1,8 MEEK*	*100%*
Ülemiste Autokeskuse OÜ	*400,0 TEEK*	*100%*
KIA Automobile SIA	*4,0 TLVL*	*100%*
KIA Auto UAB	*400,0 TLTL*	*100%*
Tallinna Kaubamaja Kinnisvara AS	*400,0 TEEK*	*100%*
SIA TKM Latvija	*2,0 TLVL*	*100%*
OÜ Suurtüki NK	*40,0 TEEK*	*100%*
SIA Suurtuki	*2,0 TLVL*	*100%*
AS ABC King	*2,8 MEEK*	*100%*
SIA ABC King	*200,0 TLVL*	*100%*
Rävala Parkla AS	*10,0 MEEK*	*50%*

Subsidiaries and associated companies A-Selver AS, AS Tartu Kaubamaja, Tartu Kaubamaja Kinnisvara OÜ, Tallinna Kaubamaja Kinnisvara AS, OptiGroup OÜ, TKM Beauty OÜ, TKM Beauty Eesti OÜ, Ülemiste Autokeskuse OÜ, KIA Auto AS, OÜ Suurtüki NK, AS ABC King and Rävala Parkla AS are registered in the Republic of Estonia. Selver Latvia SIA, SIA TKM Latvija, KIA Automobile SIA, SIA Suurtuki and SIA ABC King are registered in the Republic of Latvia, and KIA Auto UAB in the Republic of Lithuania.

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

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MANAGEMENT REPORT

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

For Tallinna Kaubamaja Group, 2008 was a successful year marked by major developments. The turnover as well as the market share of the Group increased. The investments amounted to 1.2 billion kroons, yet the profit declined considerably. In 2008, the Group expanded substantially Selver store chain and its footwear retail business by acquiring footwear chains of Suurtüki and ABC King in Estonia and Latvia. In 2009, the Kaubamaja Group will continue to seek for synergy in the business areas, actively expanded during 2008, and to promote effectiveness in all of its areas of activity.

The most important events for Tallinna Kaubamaja Group in 2008 and until the publication of the annual report were:

- On April 1, 2008, the Tallinna Kaubamaja Group acquired the footwear chains of AS Suurtüki NK and SIA Suurtuki.
- On June 30, the Tallinna Kaubamaja Group acquired the company ABC King AS along with its subsidiary ABC King SIA and the footwear stores of OÜ ABC Saare.
- Tallinna Kaubamaja Kinnisvara AS built supermarkets of Selver in Kohtla-Järve, Hiiumaa, Pärnu, Paide and Keila and expanded Pirita Selver. Real estate was acquired in Kuressaare and Saku
- During 2008, real estate was acquired in the following cities: Ventspils, Kuldiga, Valmiera and 2 real estates in Riga.
- SIA TKM Latvija built supermarkets of Selver in Rezekne and Ogre that were completed in December 2008. Also, a building was delivered to Selver in Kuldiga where the store was opened by Selver in January 2009. Construction works are currently under way on the site of Salapils Selver that is planned to be opened in the second quarter of 2009.
- 8 new Selver stores were opened in Estonia – in Narva, Kohtla-Järve, Hiiumaa, Tallinn, Põlva, Pärnu, Paide and Keila – and the sales space of five Selver stores was expanded. With the additional stores and extensions, the sales space of Selver amounted to an area of 64.7 thousand square meters by the end of the year.
- In December, Selver Latvia SIA, a 100% subsidiary of A-Selver AS, opened first two stores in Latvia – in Rezekne and Ogre.
- In April, the Group entered into a lease contract with the real estate developer NordWest Kinnisvara OÜ for operation of a supermarket in the shopping centre to be constructed in Viimsi Municipality at Randvere tee 9/9B. The store is planned to be opened in 2010.
- Selver Latvia SIA, a 100% subsidiary of A-Selver AS entered into a lease contract with the real estate developer SIA TC Gulbene for operation of the supermarket at Rigas iela 69, Gulbene, Latvia.
- In May, Ain Taube, the managing director of Selver, resigned his post. Iivi Saar, the former purchase and marketing director of Selver, was elected as the new member of the management board in the capacity of the managing director, and Andres Heinver who also took over the official duties of Iivi Saar, was elected as the second member of the management board. Andres Heinver has earlier, in 1989-2001, worked as the director of Tallinn Merimetsa Hospital, in 2001-2005, as a member of the management board of West-Tallinn Central Hospital and since 2007 as the business process controller in Selver.
- In May, Iivi Saar, the former purchase and marketing director of Selver, assumed the position of the member of the management board of Selver Latvia SIA, a 100% subsidiary of A-Selver AS, in connection with the expiry of the term of office of Ain Taube, the former member of the management board.
- In October, Selver was selected from among 28 nominees as the most training friendly organisation of 2008 for its many years of work in training of its employees.
- In November, Selver was selected by Äripäev for a second year running as the best retail enterprise in Estonia.
- In January 2009, Selver opened its second store in Narva – Soldino Selver.
- Selver Latvia SIA, a 100% subsidiary of A-Selver AS, opened another store in Kuldiga which is at the same time the third

store of the Selver chain in Latvia.

- In January 2009, Kaubamaja opened an outlet on a larger sales space in Lasnamäe.
- In February 2009, Youth Fashion of Kaubamaja moved to the basement to provide young people with a better display of goods, opening hours different from the rest of the business centre, and special events.
- In March 2009 a first shop of a beauty store chain operating under the trademark of I.L.U. was opened.
- In March 2009 Kaubamaja opened a new Women's Shoe Department.

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As at 31 December 2008, the Group consisted of the following companies:

	Home country	Participation as of 31.12.08	Participation as of 31.12.07
A-Selver AS	Estonia	100%	100%
AS Tartu Kaubamaja	Estonia	100%	100%
Tartu Kaubamaja Kinnisvara OÜ	Estonia	100%	100%
Tallinna Kaubamaja Kinnisvara OÜ	Estonia	100%	100%
SIA TKM Latvija	Latvia	100%	100%
Selver Latvia SIA	Latvia	100%	100%
OptiGroup Invest OÜ	Estonia	100%	100%
KIA Auto AS	Estonia	100%	100%
Ülemiste Autokeskus OÜ	Estonia	100%	100%
KIA Auto UAB	Lithuania	100%	100%
Kia Automobiles SIA	Latvia	100%	100%
OÜ TKM Beauty	Estonia	100%	100%
OÜ TKM Beauty Eesti	Estonia	100%	100%
OÜ Suurtüki NK	Estonia	100%	0%
SIA Suurtuki	Latvia	100%	0%
AS ABC King	Estonia	100%	0%
SIA ABC King	Latvia	100%	0%
Rävala Parkla AS	Estonia	50%	50%

Economic development

Significantly influenced by world economic development, the GDP growth in Estonia has been negative in the last three quarters, falling 9,4% in fourth quarter. The fall in retail sales reflects a swift decrease in domestic demand, especially private consumption. Analytics expect a significant economic decline due to falling domestic and external demand in 2009.

Compared to 2007, the consumer price index changed by 10.4% in 2008, being the lowest in December (7.0%) and the highest in April (11.4%). According to the Statistical Office of Estonia, increase in retail turnover (without the sales of motor vehicles and fuel) constituted 3.7% in 2008. In 2007, the same indicator was 20%. In the fourth quarter, total retail turnover was 3% less than the respective figure in 2007.

Retail sales in non-specialised shops (food products prevailing) increased by 11.1% during the year (6.1% in the 4th quarter). Compared to the last year, retail sales in non-specialised shops (industrial goods prevailing) decreased by 6.1% (-14.3% in the 4th quarter). The same indicators in 2007 grew by 16.6% and 13.8%, respectively. Thus, the slowdown of economic growth is especially remarkable in retail business. During the year, this trend was most acutely expressed in the sector of second-hand goods (-18.8%), falling also most dramatically in the fourth quarter. Other sectors whose sales figures have dropped remarkably in the fourth quarter were the sector of household goods (-17.6%) and the sector of textiles (-17.5%).

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Financial results

FINANCIAL INDICATORS
2004-2008

Consolidated financial statement

	2008	2007	2006	2005	2004
Revenue	6,531	5,892	4,239	2,878	2,022
Sales increase	*11%*	*39%*	*47%*	*42%*	*15%*
Gross profit	1,592	1,478	1,102	712	498
Operating profit	136	436	288	97	105
EBITDA	368	538	383	168	164
Net profit	83	411	275	92	99
Change in net profit	*-80%*	*50%*	*199%*	*-7%*	*50%*
Gross profit margin	24.4%	25%	26%	25%	25%
Net profit margin	1.3%	7%	6%	3%	5%
Return on equity (ROE)	4%	26%	25%	11%	18%
Return on assets (ROA)	2%	14%	13%	7%	11%
Current ratio	0.86	1.0	1.0	0.7	1.2
Debt ratio	0.57	0.4	0.5	0.4	0.4
Revenue per employee (in millions of EEK)	1.76	2.1	1.8	1.5	1.4
Inventory turnover ratio	8.36	11.3	13.5	9.6	8.4
SHARE					
Average number of shares (1,000 units)	40,729	40,729	40,729	6,788	6,788
Equity per share (EEK/share)	45.06	46.5	30.5	145.8	95.3
Closing price (EEK/share)	32.5	122.0	143.6	348.1	116.9
Earnings per share (EPS)	2.0	10.1	6.7	13.6	14.6
Price to earnings ratio (P/E)	16.0	12.1	21.3	25.7	8.0
Average number of employees	3,703	2,833	2,411	1,903	1,445

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

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The consolidated non-audited revenue of Tallinna Kaubamaja in 2008 was 6.5 billion kroons (417.4 million euros). The return on sales of the Group in 2007 was 5.9 billion kroons (376.6 million euros). The growth in turnover was 11%. The net profit was 80% less than that of the last year, totalling 83,1 million kroons (5.3 million euros), which is 327.7 million kroons (20.9 million euros) less compared to 2007 when the net profit amounted to 410.8 million kroons (26.3 million euros).

In the fourth quarter, the retail sales volumes decreased, which had a strong impact on the profit. Growth in the retail sales volumes slowed down in the first nine months of 2008. In the fourth quarter, the respective volumes fell remarkably. The operating expenses for the financial year include 23.7 million kroons (1.5 million euros) of non-capitalized development costs. In 2007, the corresponding costs were 12.2 million kroons (0.8 million euros). This was mostly caused by the Selver stores that were fully or partially closed for reconstruction works (bearing operating costs) and by pre-opening costs of new Selver stores. Other factors for decrease in profit were the expected growth of maintenance and labour costs, increase in depreciation resulting from the revaluation of fixed assets, undertaken at the end of 2007 as well as the income tax expense of 21.7 million kroons (1.4 million euros, 2007: 11.5 million kroons, 0.7 million euros) on the dividends distributed for the prior financial years.

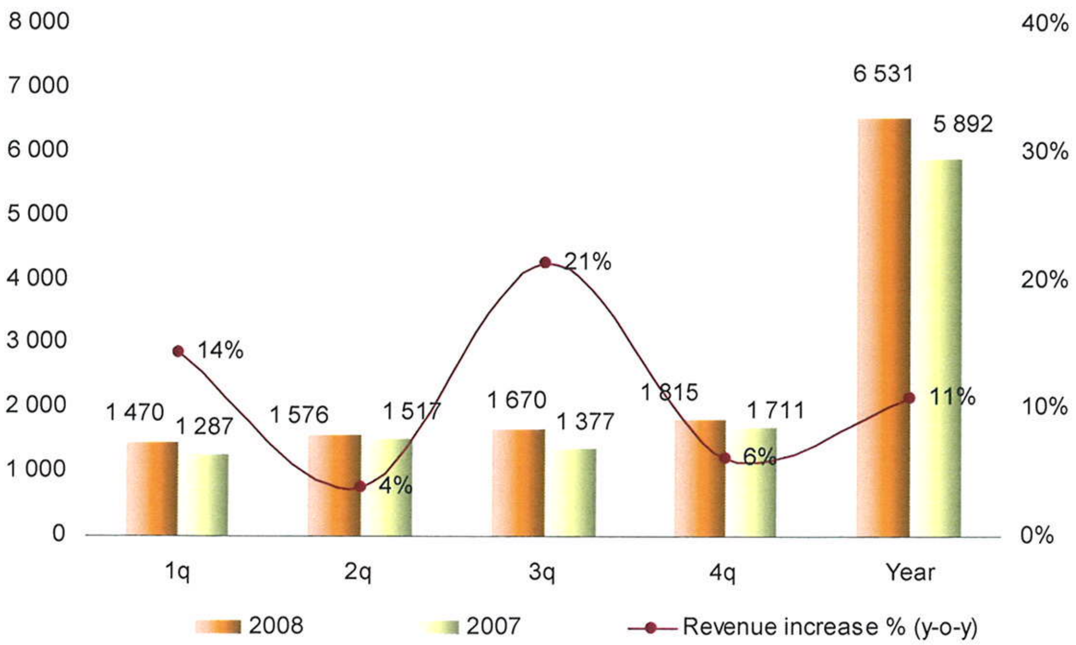
As of 31 December 2008, the balance sheet total of the Tallinna Kaubamaja Group was 4.3 billion kroons (277.0 million euros), which means an increase by 1.0 billion kroons (64.2 million euros) compared to the end of 2007. In 2008, assets increased by 30%.

As of the end of the financial year, the number of loyal customers was over 345 thousand, increasing by 38% within the year. The percentage of loyal customers in the turnover of the Department store segment increased to 74% in 2008. At the end of December, the number of Partner Credit Cards was over 10,000.

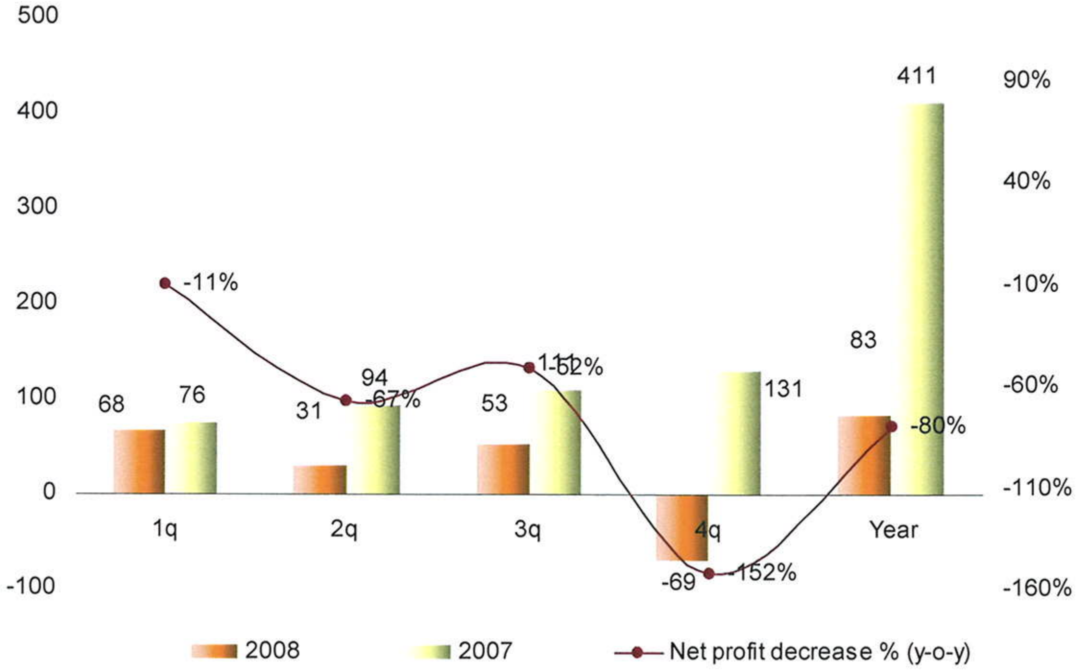
Seasonal nature of the business

The economic results of the Tallinna Kaubamaja AS group companies differ by seasons. Approximately 46% of the revenue was earned in the 1st half-year and the remainder in the 2nd half-year.

Tallinna Kaubamaja AS Group revenue for 2008 and 2007
(in million of kroons)

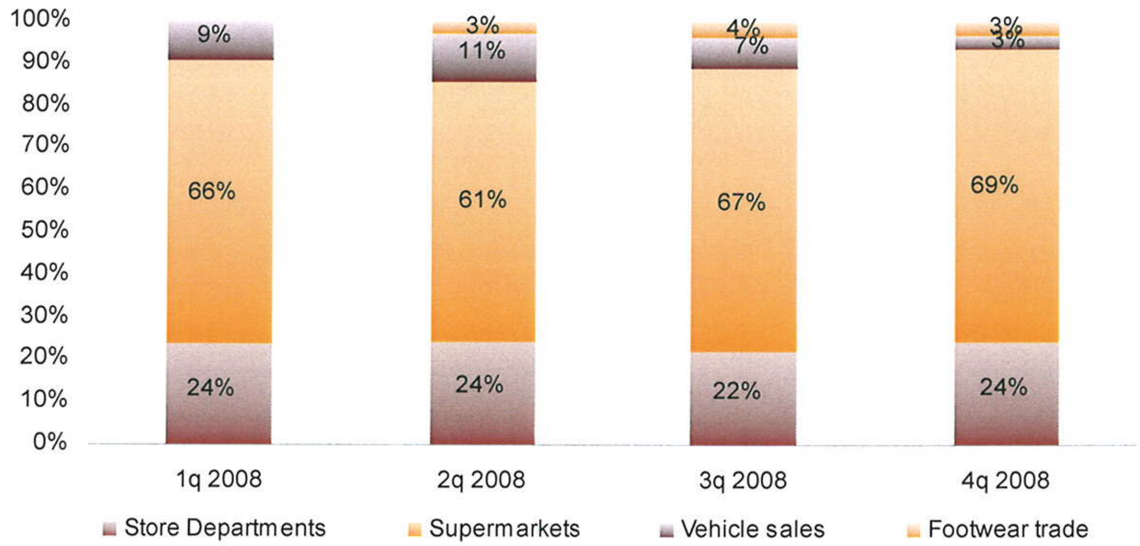


Tallinna Kaubamaja AS Group net profit for 2008 and 2007
(in million kroons)



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

Tallinna Kaubamaja AS Group revenue distribution for 2008



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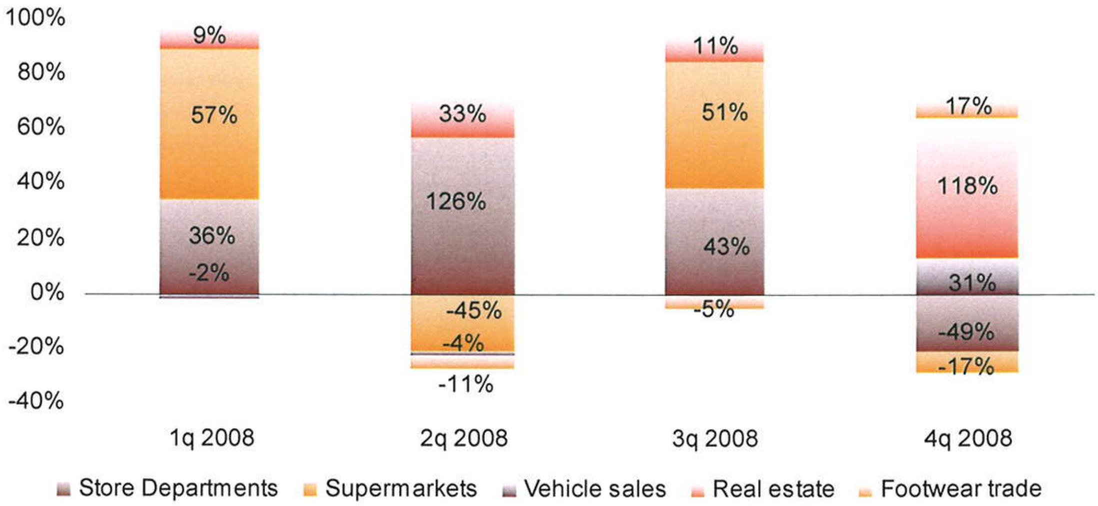
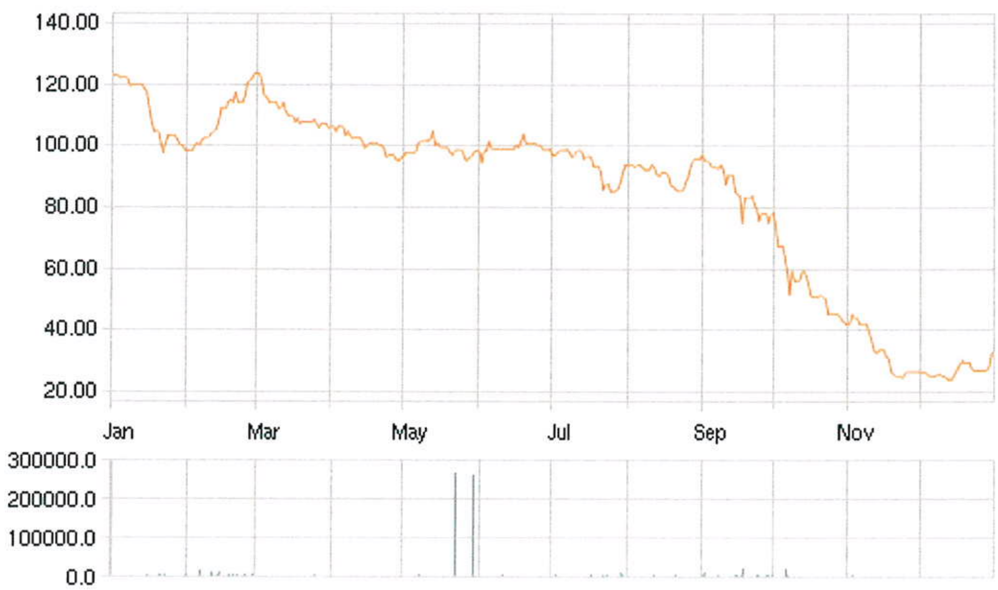
Tallinna Kaubamaja AS Group net profit distribution for 2008



Equity 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 2008, a total of 40,729.2 thousand shares had been issued, with a nominal value of 10 kroons per share.

Share price in Estonian kroons and the Tallinn Stock Exchange trading statistics for 2008



The price of a share, the value of which was 122.04 kroons at the end of 2007, decreased to 32.54 kroons by the end of 2008, thus experiencing a fall of approximately 73%. In March 2008, a share of Tallinna Kaubamaja cost 125.64 kroons. It attained the lowest price level of 23.31 kroons during the first half of December in 2008. In 2008, nearly 9.9 million shares of Tallinna Kaubamaja AS changed hands, with tradability increasing by 1.2 times during the year.
According to the calling notice of annual general meeting of the shareholders published on 14 April 2008, the management board proposed to pay dividends of 2.00 kroons per share. The general meeting of shareholders approved it.

As of 31.12.2008, the shares were divided between major (over 5% participation) shareholders as follows:

Shareholder	Participation %
AS NG INVESTEERINGUD	67.00%
ING LUXEMBOURG S.A.	6.84%

Department stores

The sales revenue for 2008 of the business segment of the Kaubamaja department stores was 1,534.7 million kroons (98.0 million euros), decreasing by 0.7% compared to the previous year. According to the Statistical Office of Estonia, retail sales of manufactured goods in Estonia as a whole decreased by approximately 10 times more. The net profit of the Kaubamaja department stores in 2008 was 119.2 million kroons (7.6 million euros), which fell behind the result achieved a year ago by 37.7 million kroons (2.4 million euros). The decrease in sales revenue in the fourth quarter (-11%) had the most negative impact on the profit of Kaubamaja department stores. In the fourth quarter, retail sales in stores selling mostly manufactured goods decreased by 14.3% in Estonia as a whole. In addition, financing costs used for acquisitions, and the growth of maintenance costs have had their impact on the profit of Kaubamaja department stores.

The share of regular customers rose to 74%, having increased by 4% from the last year.

Supermarkets

The consolidated net turnover of Selver supermarkets in 2008 was 4.3 billion kroons (274.5 million euros), which exceeds that of the same period last year by 15%. The consolidated pre-tax profit of Selver in 2008 was 63.7 million kroons (4.1 million euros), decreasing by 135.8 million kroons (8.7 million euros) compared to the same period in 2007. The pre-tax profit for the 4th quarter in 2008 was 11.7 million kroons (0.7 million euros), decreasing by 78.7% compared to the same period last year. Extensive reconstructions in five stores in Estonia, pre-opening costs of ten new stores and costs related to the start-up of the Latvian subsidiary had a negative impact on the net profit. In addition, the general economic recession and decrease in consumption had their impact on the net profit.

In 2008, the net turnover of Selver in the sector of non-specialised stores in Estonia (food products prevailing) constituted 15.2% of their total retail sales, increasing by 0.5% during the year. In 2008, Selver opened 8 new stores in Estonia and 2 in Latvia. In addition, new selling space in five existing stores was obtained through reconstructions. A total of 24.3 thousand m^2 of selling space was added in 2008. The total growth in selling space was 56%, including both Estonia and Latvia.

Real estate

The sales revenue for 2008 of the real estate segment was 127.0 million kroons (8.1 million euros), and in comparison with the same period of 2007, the sales revenue increased by 28%. The sales revenue for 2008 of the real estate segment without inter-segmental sales was 41.1 million kroons (2.6 million euros), increasing by 1.5% in comparison with the last year.

The net loss for 2008 was 58.4 million kroons (3.7 million euros), decreasing by 99.2 million kroons over the year. The loss is attributable to the property write-down at the end of the year, financial expenses and the rise in depreciation.

In March, Kohtla-Järve Selver was opened in a building developed by Tallinna Kaubamaja Kinnisvara AS. In May, Hiiumaa Selver was completed as planned. In June, the reconstruction of Pirita Selver was also completed in time. In July, the construction of Ülejõe Selver in Pärnu was completed and the store was opened at the end of July. The construction of Paide Selver was completed in August and the store was opened at the end of August. In October, Keila Selver was completed as planned and the store was opened in November. In July, a subcontracting agreement was entered into with KMG Ehitus for construction of the Selver store in Kakumäe, which is planned to be completed in February 2009.

In Latvia, the first Selver stores were completed in Ogre and Rezekne. They were opened in December. Kuldiga Selver was also completed in December and it was opened in January 2009. Construction of Salaspils Selver has also commenced and the works will be completed by the end of the first quarter of 2009.

Car trade

The sales revenue of the car trade segment for 2008 was 494,9 million kroons (31.6 million euros), which is 15% less than in 2007. In 2008, 2,056 new vehicles were sold, which is 151 vehicles less than a year ago. KIA has a 3.3% market share in the Baltic countries (growth of 24% compared to the same period last year).

During 2008, the Estonian car market dropped 22%. Despite that, KIA sales in Estonia increased by 1%, thereby achieving 3.8% of the market by end of the year. In 2008, the Latvian market experienced the most significant decrease of 40%. The sales of KIA vehicles fell a bit less - 38%. In 2008, KIA's market share in Latvia was 2.9%, which is 4% more than in 2007. The car market of Lithuania achieved a growth rate of 3% in 2008. Sales of KIA vehicles in Lithuania grew by 48% during the period, attaining 3.2% market share in Lithuania.

In June, a new representative car salon was opened in Vilnius, which, on the one hand, caused opening costs and a fall in profit but, on the other hand, enables to enlarge the client base and profit. In the Baltic countries, good sales performance for the KIA cee'd and cee'd SW model of the C-segment was the main reason for the big sales growth in 2008. In Lithuania, KIA cee'd was chosen as the car of the year in 2007, while in Estonia and Latvia, it claimed the high runner-up place.

The net loss of the car trade segment in 2008 amounted to 23.4 million kroons (1.5 million euros). The net profit for the same period in 2007 was 13.7 million kroons (0.9 million euros). The market share growth took its toll on declining margins and growing advertising costs. Establishing the Latvian subsidiary SIA KIA Automobiles and entering the Latvian market fell in the same period with a rapidly diminishing car market of Latvia at the end of 2007, which along with the growth in costs had a negative impact on profit for 2008.

Footwear trade

The sales revenue of Suurtüki NK OÜ and Suurtuki SIA, acquired on 1 April 2008, made up 79.3 million kroons (5.1 million euros) of the sales for 2008 in group total. Today Suurtüki owns 17 footwear stores in Estonia and 2 in Latvia. As a group company, Suurtüki has opened 2 new stores in Estonia. In the fourth quarter Väike-Karja store in Tallinn was closed. Loss of the group companies OÜ Suurtüki NK and Suurtuki NK SIA amounted to 13 million kroons (0.8 million euros). The result was influenced by costs for opening new stores and accumulated goods in stock that were sold at final sale at the end of summer and at closing down sale in Väike-Karja store.

On 30 June 2008 Tallinna Kaubamaja group acquired ABC King AS with its subsidiary ABC King SIA and OÜ ABC Saare footwear stores. At the end of 2008, Tallinna Kaubamaja group had 11 footwear stores in Estonia and 5 in Latvia. Sales of ABC King companies in total amounted to 98.3 million kroons (6.3 million euros) and loss to 4.6 million kroons (-0.3 million euros). The result was influenced by costs for opening new stores in Tasku Keskus in Tartu, Põhjakeskus in Rakvere and Auriga Keskus in Saaremaa.

Beauty stores

The subsidiary OÜ TKM Beauty, founded in autumn 2007, continued preparations for launching a chain of beauty stores operating under the trademark of I.L.U. The new beauty stores will be considerably larger than standard beauty stores: with a sales space of 350 up to 600 square meters. Also, the concept will differ from the usual one. The main sales articles of the stores will be exclusive and decorative cosmetic products, perfumes for men and women, spa products and hair care products. The so-called "own I.L.U brand" (private brand) is planned to be developed. More attention than before is paid to beauty products intended for men. As the most distinctive novelty, the sales space will be provided with facilities for offering different services – thus, all new I.L.U. stores will have a nail studio, hairdresser and beauty studio. The Group has involved the young and innovative bureau Torpedo as interior architects of the store chain and advertising agency Tank as its strategic partner in the marketing strategy. Investments of 16 thousand kroons (1,025 euros) are planned for each square meter of the store.

The end of 2007 and the year 2008 were spent preparing for the launch of the I.L.U. store chain. The Group entered into 5 lease contracts with shopping centres, including one in Riga, registered the trademark of I.L.U., prepared the marketing and communication plan and personnel strategy for the store chain and looked actively for new potential commercial spaces in the Baltic countries. The company planned to open the first store in Pärnu in late autumn of 2008, but the project was late due to delays by shopping centre developers and therefore it has now been opened since March 2009. The next stores are planned to be opened in late 2009.

Staff

In 2008, the average number of employees of the Tallinna Kaubamaja Group was 3,703, increasing by 31% when compared to 2007. Total labour costs (wages and salaries and social tax cost) amounted to 669.2 million kroons (42.8 million euros), increasing by 27% in comparison with the same period last year. The average monthly expenses on wages and salaries per employee decreased by 3% compared to 2007. In the fourth quarter, the respective decrease was 6% when compared to the same period in 2007.

Investments

During the accounting period, real estates have been purchased and renovation works have been performed in the amount of 616.3 million kroons. An advance payment in the amount of 34.1 million kroons has been made for uncompleted buildings. During the reporting period new buildings have been built in Põltsamaa, Paide, Pärnu, Hiiumaa, Keila and in Kohtla-Järve. Additional investments for widening of the sales are have been made in Pirita Selver. Ground lots have been bought in Tallinn and in Kuressaare. The total investment has been 317.4 million kroons. New buildings have been constructed in Latvia during the accounting period in the total amount of 298.9 million thousand kroons

Future trends

According to current prognoses, in 2009 all markets of the Kaubamaja Group are going to experience an economic recession, alongside with a drop in the turnovers of retail business. According to optimistic prognoses, the first signs indicating to the resumption of economic growth are likely to appear in 2010. The negative processes in economy spell a continuous fall in the prices of services, labour force and assets, thus, inevitably leading to a reduction in private consumption and in retail business as a whole.

In 2009, Selver plans to open 2 stores in Estonia and 4 in Latvia. At the beginning of 2007, the objective was to open 15 stores in Latvia, but this plan has been modified in view of the economic situation in Latvia.

The priorities of the Department store segment for 2009 are the further development of sales environments and promotion of the effectiveness of its activities through cost management. This year there have been and will be several restructurings in the business segment of Department stores, including the launch of a new department - Women's Shoe Department - and the expansion of the area of the Beauty Department.

In the area of footwear retail, the Group will engage in the development of a new trade concept and updating of the stores of ABC King. The merging of footwear businesses will continue. In February 2009, Suurtüki NK AS and ABC King AS moved into a joint office-logistic centre at Betooni tn 14, Tallinn. Further organisation of the existing network of stores will be carried out. With the advantage of strong purchase channels, large market share and long-term trade experience of Kaubamaja and footwear chain, results above the average of the market are expected also in the years of economic recession.

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 of 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.

Unlike 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 the 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.

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 deems the disclosure of remuneration separately with regard to each member to constitute disclosure of private information, i.e. a business secret, and does not wish to disclose it to its competitors.

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.

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CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Chairman of the Management Board confirms the correctness and completeness of Tallinna Kaubamaja AS's consolidated financial statements 2008 as presented on pages 15 - 58.

The Chairman of the Management Board confirms that:

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

Raul Puusepp
Chairman of the Management Board

Tallinn, 22 April 2009

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22.04.2009

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CONSOLIDATED BALANCE SHEET

In thousands of kroons/euros, as of December 31

	Note	31 December 2008 EEK	31 December 2008 EUR*	31 December 2007 EEK	31 December 2007 EUR*
ASSETS					
Current assets					
Cash and bank accounts	2	101,353	6,478	282,635	18,064
Accounts receivable	3	96,538	6,170	50,966	3,257
Other short-term receivables	4	73,019	4,668	50,755	3,244
Prepaid and refundable taxes	5	41,475	2,651	10,610	678
Other prepayments	5	12,161	777	9,523	608
Inventories	6	781,304	49,933	519,630	33,209
Total current assets		**1,105,850**	**70,677**	**924,119**	**59,061**
Non-current assets					
Prepayments	5	31,074	1,985	37,291	2,383
Investments in associates	8	17,505	1,119	14,201	908
Other long-term receivables	9	3,801	243	2,828	181
Property, plant and equipment	10	2,998,073	191,612	2,300,878	147,053
Intangible assets	11	68,431	4,374	0	0
Goodwill	11	109,499	6,998	49,388	3,156
Total non-current assets		**3,228,383**	**206,331**	**2,404,586**	**153,681**
TOTAL ASSETS		**4,334,233**	**277,008**	**3,328,705**	**212,742**
LIABILITIES AND OWNERS' EQUITY					
Current liabilities					
Interest bearing loans and borrowings	12	318,098	20,330	120,626	7,709
Prepayments received for goods and services		5,237	333	11,673	745
Accounts payable		800,467	51,161	611,454	39,080
Taxes payable	14	76,460	4,887	67,658	4,324
Other short-term liabilities	14	78,213	4,997	99,098	6,333
Provisions	14	3,534	226	0	0
Total current liabilities		**1,282,009**	**81,934**	**910,509**	**58,191**
Long-term liabilities					
Interest bearing loans and borrowings	12,13	1,215,409	77,679	522,214	33,375
Provisions	14	1,462	93	2,075	132
Total long-term liabilities		**1,216,871**	**77,772**	**524,289**	**33,507**
TOTAL LIABILITIES		**2,498,880**	**159,706**	**1,434,798**	**91,698**
Owners' equity					
Share capital	15	407,292	26,031	407,292	26,031
Mandatory reserve	15	40,729	2,603	40,729	2,603
Revaluation reserve		682,028	43,590	759,721	48,555
Retained earnings		705,719	45,105	686,155	43,854
Foreign currency translation		-415	-27	10	1
TOTAL OWNER`S EQUITY		**1,835,353**	**117,302**	**1,893,907**	**121,044**
TOTAL LIABILITIES AND OWNER`S EQUITY		**4,334,233**	**277,008**	**3,328,705**	**212,742**

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

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CONSOLIDATED INCOME STATEMENT

In thousands of kroons/euros, per annum

	Note	12 months 2008 EEK	12 months 2008 EUR*	12 months 2007 EEK	12 months 2007 EUR*
Revenue	16	6,531,420	417,434	5,892,423	376,594
Other income	17	166,164	10,619	117,781	7,527
Materials and consumables used	6	-4,937,923	-315,592	-4,414,842	-282,160
Other operating expenses	18	-706,908	-45,180	-516,846	-33,032
Personnel expenses	19	-669,319	-42,777	-528,638	-33,786
Depreciation, amortisation and impairments	10, 11	-232,766	-14,876	-102,416	-6,546
Other expenses		-15,429	-983	-11,536	-736
Operating profit		**135,239**	**8,645**	**435,926**	**27,861**
Financial expenses	20	-42,586	-2,722	-27,446	-1,754
Financial income	20	8,825	564	11,072	708
Financial income from shares of associated companies	8	3,304	211	2,772	177
Total net financial items		**-30,457**	**-1,947**	**-13,602**	**-869**
Profit before income tax		**104,782**	**6,698**	**422,324**	**26,992**
Income tax	15	-21,653	-1,385	-11,488	-735
NET PROFIT FOR THE FINANCIAL YEAR		**83,129**	**5,313**	**410,836**	**26,257**

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

	Note	2008 EEK	2008 EUR	2007 EEK	2007 EUR
Basic and diluted earnings per share (EEK/EUR)	21	2.04	0.13	10.09	0.64

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CONSOLIDATED CASH FLOW STATEMENT

In thousands of kroons/euros, per annum

	Note	12 month 2008 EEK	12 month 2008 EUR*	12 month 2007 EEK	12 month 2007 EUR*
CASH FLOW FROM OPERATING ACTIVITIES					
Net profit		83,129	5,313	410,836	26,257
Adjustments:					
Income tax on dividends	15	21,653	1,384	11,488	734
Interest expense	20	39,851	2,547	27,446	1,754
Interest income	20	-8,825	-564	-11,072	-708
Depreciation, amortisations and impairment	10,11	232,766	14,876	102,416	6,546
Loss from disposals and write-off of non-current assets		1,079	69	459	29
Effect of the equity method	8	-3,304	-211	-2,772	-177
Change in inventories		-141,264	-9,028	-100,233	-6,405
Change in receivables and prepayments related to operating activities		-62,755	-4,011	19,543	1,249
Change in liabilities and prepayments related to operating activities		133,409	8,526	183,242	11,711
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		**295,739**	**18,901**	**641,353**	**40,990**
CASH FLOW FROM INVESTMENT ACTIVITIES					
Purchase of property, plant and equipment (except for financial lease)	10	-976,335	-62,399	-424,255	-27,115
Including purchase of PPE under finance lease		2,354	150	0	0
Proceeds from disposal of property, plant and equipment		644	41	217	14
Loan to group account		-16,831	-1,076	0	0
Acquisition of subsidiary, net of cash acquired	7	-231,895	-14,821	-72,804	-4,653
Loan repayments received from associates		3,250	208	2,000	128
Interest received		9,297	594	10,678	682
TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES		**-1,209,516**	**-77,302**	**-484,164**	**-30,944**
CASH FLOW FROM FINANCING ACTIVITIES					
Loans received		1,344,388	85,922	684,764	43,765
Repayments of loans received		-508,475	-32,497	-797,303	-50,957
Redemption of bonds		0	0	-50,000	-3,196
Dividends paid	15	-81,458	-5,206	-40,729	-2,603
Income tax on dividends	15	-21,653	-1,384	-11,488	-734
Change in overdraft balance		42,298	2,703	-682	-44
Repayment of financial lease principal		-4,671	-299	-4,229	-270
Interest paid		-37,509	-2,397	-26,265	-1,679
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**732,920**	**46,842**	**-245,932**	**-15,719**
Currency exchange differences		-425	-28	10	1
TOTAL CASH FLOW		**-181,282**	**-11,586**	**-88,733**	**-5,672**
Cash and cash equivalents at the beginning of the period	2	282,635	18,064	371,368	23,735
Cash and cash equivalents at the end of the period	2	101,353	6,478	282,635	18,064
Change in cash and cash equivalents		**-181,282**	**-11,586**	**-88,733**	**-5,672**

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

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CONSOLIDATED STATEMENT OF CHANGES OF EQUITY

In thousands of kroons, per annum

	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Foreign currency translation	Total
Balance as of 31.12.2006	**407,292**	**7,269**	**492,014**	**337,215**	**-20**	**1,243,770**
Revaluation of land and buildings (Note 10)	0	0	280,000	0	0	280,000
Depreciation transfer for land and buildings	0	0	-12,293	12,293	0	0
Change in conversion difference	0	0	0	0	30	30
Total income and expenses for the year recognized directly in equity	0	0	267,707	12,293	30	280,030
Profit for the year	0	0	0	410,836	0	410,836
Total income and expenses for the year	0	0	267,707	423,129	30	690,866
Change in the mandatory reserve	0	33,460	0	-33,460	0	0
Dividends paid (Note 15)	0	0	0	-40,729	0	-40,729
Balance as of 31.12.2007	**407,292**	**40,729**	**759,721**	**686,155**	**10**	**1,893,907**
Revaluation of land and buildings (Note 10)	0	0	-59,800	0	0	-59,800
Depreciation transfer for land and buildings	0	0	-17,893	17,893	0	0
Change in conversion difference	0	0	0	0	-425	-425
Total income and expenses for the year recognized directly in equity	0	0	-77,693	17,893	-425	-60,225
Profit for the year	0	0	0	83,129	0	83,129
Total income and expenses for the year	0	0	-77,693	101,022	-425	22,904
Dividends paid (Note 15)	0	0	0	-81,458	0	-81,458
Balance as of 31.12.2008	**407,292**	**40,729**	**682,028**	**705,719**	**-415**	**1,835,353**

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CONSOLIDATED STATEMENT OF CHANGES OF EQUITY

In thousands of euros, per annum

In thousands of EUR*

	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Foreign currency translation	Total
Balance as of 31.12.2006	**26,031**	**465**	**31,445**	**21,552**	**-1**	**79,491**
Revaluation of land and buildings (Note 10)	0	0	17,895	0	0	17,895
Depreciation transfer for land and buildings	0	0	-786	786	0	0
Change in conversion difference	0	0	0	0	2	2
Total income and expenses for the year recognized directly in equity	0	0	17,110	786	2	17,897
Profit for the year	0	0	0	26,257	0	26,257
Total income and expenses for the year	0	0	17,110	27,043	2	44,154
Change in the mandatory reserve	0	2,138	0	-2,138	0	0
Dividends paid (Note 15)	0	0	0	-2,603	0	-2,603
Balance as of 31.12.2007	**26,031**	**2,603**	**48,555**	**43,853**	**1**	**121,044**
Revaluation of land and buildings (Note 10)	0	0	-3,822	0	0	**-3,822**
Depreciation transfer for land and buildings	0	0	-1,144	1,144	0	0
Change in conversion difference	0	0	0	0	-27	-27
Total income and expenses for the year recognized directly in equity	0	0	-4,965	1,144	-27	-3,849
Profit for the year	0	0	0	5,313	0	5,313
Total income and expenses for the year	0	0	-4,965	6,456	-27	1,464
Dividends paid (Note 15)	0	0	0	-5,206	0	-5,206
Balance as of 31.12.2008	**26,031**	**2,603**	**43,590**	**45,103**	**-27**	**117,300**

* For reader convenience, the financial statements are also presented in thousands of euros (EUR)
Additional information on the share capital has been presented in Note 15.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

General information

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

These consolidated financial statements were authorized for issue by the Management Board on 22 April 2009.

Basis of preparation

The consolidated financial statements 2008 of AS Tallinna Kaubamaja have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

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

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

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 stated otherwise.

Significant accounting judgments, estimates and assumptions

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

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

- *Estimates of useful lives of property, plant and equipment*: the Group has several newly built shopping centres, where the useful life of items of property, plant and equipment is estimated based on the technical projects' data. However, economic useful life may differ from the originally estimated one.
- *Estimation of revalued value of land and buildings:* The Group uses the revaluation method in accounting for land and buildings. The management of the Group assesses regularly, based on expert opinions that the recoverable amount of the revalued assets does not differ materially from its carrying amount. Previous revaluation of assets was performed as at 31.12.2007 when the value was increased by 280,000 thousand kroons. As at 31.12.2008, an impairment test was performed by management and the value of certain assets among land and buildings was decreased by 71,600 thousand kroons (59,800 thousands of which through revaluation reserve). According to management estimate, for other assets in "land and buildings" group, the fair values have not changed significantly during 2008. The carrying amount of the revalued assets as at 31.12.2008 was 1,349,487 thousand kroons (2007: 1,195,944 thousand kroons). More detailed information is provided in Note 10.
- *Determination of fair values of net assets acquired in business combinations:* Purchase method was used in acquisition of subsidiaries AS Suurtüki NK, Suurtuki SIA, AS ABC King and SIA ABC King. For this purpose, purchase price allocation analysis was made as of the date of acquisition (the moment when all net assets and management of the company went to acquirer). The fair value of acquired net assets amounted to 174,867 thousand kroons and goodwill arised during the acquisitions amounted to 64,801 thousand kroons. More detailed information is provided in Note 7.

- *Impairment test of goodwill:* The Group determines whether goodwill arisen from business combinations is impaired at least on an annual basis. For this purpose, either fair value of cash-generating business units for which the goodwill is allocated or value in use, is used by the Group. For finding out the value in use, the Group has forecasted the expected cash flows of the cash generating business units and chosen an appropriate discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31.12.2008 was 109,499 thousand kroons. The decrease of the value of goodwill in amount of 4,688 thousand kroons was recognised in the financial year of 2008. More detailed information is provided in Note 11.
- *Carrying value of receivables:* The Group's receivables include mostly marketing, bonus and rent receivables. As at 31.12.2008 total receivables amount to 179,789 thousand kroons (2007: 104,549 thousand kroons). Further details on risks that might affect the carrying values of receivables are disclosed in note 27.
- *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. In such cases, the fair values have been estimated by an external appraiser.

Changes in accounting policies and presentation

The accounting policies and presentation practice adopted are consistent with those of the previous financial year. In addition, the following new and revised standards and interpretations have been adopted which did not have any effect on the Group's results for 2008 or disclosures of the financial statements:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions;
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;
- Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets.

New IFRS standards and interpretations

The following new and revised standards and interpretations issued but not yet effective for the reporting period are adopted by the Group when they become mandatory:

- IAS 1 Revised Presentation of Financial Statements, effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is yet to decide whether to present one or two statements;
- IFRS 8 Operating Segments, effective for financial years beginning on or after 1 January 2009. IFRS 8 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. The Group has determined that the operating segments disclosed in IFRS 8 will be the same as the business segments disclosed under IAS 14. The impact of this standard on other segment disclosures is still to be determined;
- IAS 23 Borrowing costs (revised), effective for annual periods beginning on or after 1 January 2009;
- IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements, effective for financial years beginning on or after 1 January 2009. The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the consolidated financial statements;
- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements, effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no

longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary;

- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation, effective for financial years beginning on or after 1 January 2009;
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective for financial years beginning on or after 1 July 2009;
- IFRS 2 Share-Based Payment (Amendments), effective for financial years beginning on or after 1 January 2009;
- IFRIC 12 Service Concession Agreements, effective once adopted by the EU;
- IFRIC 13 Customer Loyalty Programmes, effective for financial years beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled;
- IFRIC 15 Agreement for the Construction of Real Estate, effective for financial years beginning on or after 1 January 2009;
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation, effective for financial years beginning on or after 1 October 2008;
- IFRIC 17 Distribution of Non-cash Assets to Owners, effective for financial years beginning on or after 1 January 2009;
- IFRIC 18 Transfers of Assets from Customers, effective for financial years beginning on or after 1 January 2009.

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

Improvements to IFRS

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

- IFRS 7 Financial Instruments: Disclosures.
- IAS 1 Presentation of Financial Statements.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.
- IAS 10 Events after the Reporting Period.
- IAS 16 Property, Plant and Equipment.
- IAS 18 Revenue.
- IAS 19 Employee Benefits.
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance.
- IAS 23 Borrowing Costs.
- IAS 27 Consolidated and Separate Financial Statements.
- IAS 28 Investment in Associates.
- IAS 29 Financial Reporting in Hyperinflationary Economies.
- IAS 31 Interest in Joint ventures.
- IAS 34 Interim Financial Reporting.
- IAS 36 Impairment of Assets.
- IAS 38 Intangible Assets.

- IAS 39 Financial Instruments: Recognition and Measurement.
- IAS 40 Investment Property.
- IAS 41 Agriculture.

Information on the financial statements of the parent company

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

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

Foreign currency translation

Functional and presentation currency

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

Foreign currency transactions

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

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

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

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

Translation of the principal financial statements presented as supplementary information

The principal financial statements translated into euro are presented as supplementary information for convenience of the users. Because Estonian kroon is pegged with euro with a fixed exchange rate (1 EUR=15.6466 kroons), no translation differences occur.

Basis of consolidation

Subsidiaries

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

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

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the parent company are combined on a line-by-line basis. Any receivables, liabilities, revenue, expenses and unrealised profit and loss arising from transactions between the parent company and its subsidiaries have been eliminated in the consolidated financial statements. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Associated companies

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

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

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

If the company's stake in the loss of the associated company recorded based on the equity method equals to or exceeds the net book value of the associated company, the net book value of the investment will be written down, and further losses accounted for off-balance sheet. If the company has guaranteed or obliged to satisfy the obligations of the investment object, both the respective obligation and the loss from the equity method will be recognised in the balance sheet. Where necessary, accounting policies of associates have been changed to ensure consistency with the policies adopted by the Group.

Segment reporting

A business segment is a distinguishable part of the company's economic activity engaged in providing products/services or a group of associated products/services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable part of the company's economic activity engaged in providing products or services within particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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

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

Cash and cash equivalents

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

Financial assets

The Group's financial assets fall only in the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets on each balance sheet date and re-categorizes items if required. The financial assets whose reclassification is not permitted by IFRS are not reclassified.

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

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

A provision for impairment of the receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, bankruptcy or failure to fulfil the obligations to the Group are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

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

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

Inventories

Inventories are initially recognized at cost, consisting of purchase price, customs duty and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and rebates. The acquisition cost of inventories is calculated based on the FIFO method. Inventories are measured in the balance sheet at the lower of acquisition cost/cost price and net realisable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

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

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

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

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

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

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

▪ Buildings and facilities	12-50 years
▪ *including renovation of buildings*	*12-23 years*
▪ Machinery and equipment	5 years
▪ IT equipment and software	3 years
▪ Vehicles and fixtures	5 years
▪ Capitalised improvement of the lease space	4-10 years

- Land is not depreciated.

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

At each balance sheet date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. PPE will be written down to their recoverable amount, if the recoverable amount is lower than the net book value. An impairment loss recognized for an asset in prior years will be reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

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

Intangible assets

Intangible assets acquired outside of business combinations are recognised only if the following criteria are met:

a) asset is controlled by the Group;
b) it is likely that future economic benefits attributable to the asset will flow to the Group;
c) acquisition cost of the asset can be reliably measured.

Intangible assets acquired in a business combination are recognised separately from goodwill, if the assets are separable or have arisen from contractual or other legal rights and the assets' fair values as at the acquisition date can be measured reliably.

Intangible assets are measured on initial recognition at cost, consisting of purchase price and expenditures directly related to the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised using the straight-line method. The following annual amortisation rates apply:

▪ Development costs	5 years
▪ Purchased licenses, trade marks and similar items	3-15 years

The amortisation period and method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as changes in the amortisation period and method i.e. are treated as changes in accounting estimates.

Intangible assets with finite useful lives are tested for impairment when there are indications that the carrying values of assets may not be recoverable and, if necessary, the asset is written down to its recoverable amount.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of such an intangible asset is reviewed in each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate.

Impairment of assets

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

Goodwill

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

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

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

Finance lease and operating lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset and assets or the arrangement conveys a right to use the asset.

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

Company as the lessee

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

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

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Company as the lessor

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

Financial liabilities

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

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

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

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

Provisions and contingent liabilities

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

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

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

Corporate income tax

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

Estonian companies of the Group

Pursuant to the applicable laws, Estonian companies are not subjected to pay income tax on the profit. Therefore, all temporary differences between the tax bases and carrying values of assets and liabilities cease to exist. Rather than being subjected to income tax on the profit, Estonian companies are subjected to income tax on the dividends paid from retained earnings. The established tax rate is 21/79 of the net dividend paid (21/79 until 31 December 2008 and 22/78 until 31 December 2007). According to current Income Tax Act, starting from 1 January 2010 the tax rate will decrease every year by one point until reaching 18/82 of net dividends paid out after 1 January 2012. Since income tax is paid on dividends rather than profit, there are no temporary differences between the tax bases and carrying values of assets and liabilities that may give rise to deferred income tax assets and liabilities.

Corporate income tax on the payment of dividends is recorded under income tax expense in the income statement at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid.

Because of the specific nature of the taxation system, deferred income tax liabilities and assets do not arise for Estonian companies. The income tax liability which would arise on the distribution of retained earnings as dividends is not recognised

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in the balance sheet. Instead, the maximum income tax liability which would arise if all of the unrestricted equity were distributed as dividends is disclosed in the notes to the consolidated financial statements (note 29).

Latvian and Lithuanian companies of the Group

In Latvia and Lithuania, the profit earned by companies is subject to income tax. The tax rate is 15% in Latvia and Lithuania (20% since 1 January 2009 for Lithuania). Taxable income is identified by adjusting profit before tax for the temporary and permanent differences permitted by the local tax laws.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the company's activities. Revenue is shown as the net amount without value-added tax, returns, rebates and discounts and after eliminated sales within the Group.

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

Revenue from sales of goods - retail

Revenue from the sale of goods is recognized at the time of selling the goods to the customer at the retail store, generally for cash or by card payment.

Revenue from sales of services

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

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, calculated based on the discounted cash flow method by using the initial effective interest rate. If the value of the borrowing has dropped, the interest income from the borrowing will be recorded by using the effective interest rate.

Dividend income

Dividend income is recognized upon announcement of the dividends.

Mandatory reserve

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

Earnings per share

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

Note 2. Cash and bank accounts

In thousands of kroons, as of December 31

	31 December 2008	31 December 2007
Cash in hand	5,825	4,966
Cash at bank	78,201	262,021
Cash in transit	17,327	15,648
Total cash and bank accounts	**101,353**	**282,635**

Note 3 Accounts receivable

In thousands of kroons, as of December 31

	31 December 2008	31 December 2007
Card payments	29,383	16,281
Accounts receivable	67,155	34,685
Total accounts receivable	**96,538**	**50,966**

Note 4 Other short-term receivables

In thousands of kroons, as of December 31

	31 December 2008	31 December 2007
Bonuses receivable from suppliers	42,422	39,672
Short-term receivables from associates (Note 9)	2,750	5,000
Other short-term receivables *	27,847	6,083
Total other short-term receivables	**73,019**	**50,755**

* Other receivables include receivables from related parties, see Note 23 for details.

Note 5 Prepayments

In thousands of kroons, as of December 31

	31 December 2008	31 December 2007
Prepaid and refundable value added tax	41,475	10,610
Total prepaid and refundable taxes	**41,475**	**10,610**
Prepaid rental expenses	5,714	5,603
Other prepaid expenses	6,447	3,920
Total other prepayments	**12,161**	**9,523**
Prepaid rental expenses	31,074	37,291
Total long-term prepayments	**31,074**	**37,291**

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

Note 6 Inventories

In thousands of kroons, as of December 31

	31 December 2008	31 December 2007
Goods purchased for resale	619,576	397,719
Cars purchased for resale	145,341	111,346
Raw materials	10,332	7,620
Prepayments for goods	6,055	2,945
Total inventories	**781,304**	**519,630**

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:

	2008	2007
Materials and consumables used	4,827,745	4,343,351
Write-down and write-off of inventories	82,472	47,371
Inventory shortages	27,706	24,120
Total	**4,937,923**	**4,414,842**

Aging of inventory and seasonal nature of fashion items is used as basis for write down of inventories. Carrying value of inventory is adjusted through allowance. As of 31 December 2008, the allowance used for adjusting inventories amounted to 11,767 thousand kroons (31.12.2007: 6,595 thousand kroons).

As of 31.12.2008, the group's inventories, recorded at net realizable value, amounted to 6,397 thousand kroons (31.12.2007: 5,259 thousand kroons).

Information on the pledged assets has been disclosed in Note 22.

Note 7 Shares in subsidiaries

In thousands of kroons

The Tallinna Kaubamaja Group incorporates:

Name of company	Location	Field of activity	Share	Acquisition cost	Year of acquisition
A-Selver AS	Tallinn Pärnu mnt.238	Retail trade	100%	22,000	1996
AS Tartu Kaubamaja	Tartu Riia 2	Retail trade	100%	15,849	1996
Tallinna Kaubamaja Kinnisvara AS	Tallinn Gonsiori 2	Real estate management	100%	46,285	1999
OptiGrupp Invest OÜ	Tallinn Gonsiori 2	Trade and financing	100%	40	2007
OptiGrupp Invest OÜ's subsidiary:					
KIA Auto AS	Tallinn Ülemiste tee 1	Retail trade	100%	79,400	2007
KIA Auto AS's subsidiaries:					
Ülemiste Autokeskus OÜ	Tallinn Ülemiste tee 1	Retail trade	100%		2007
KIA Automobile SIA	Riga Pulkeveza Brieza 31	Retail trade	100%	90	2007
KIA Auto UAB	Vilnius jasinskoe 14	Retail trade	100%		2007
AS Tartu Kaubamaja's subsidiary:					
TKM Beauty OÜ	Tallinn Gonsiori 2	Retail trade	100%		2007
TKM beauty OÜ's subsidiary:					
TKM Beauty Eesti OÜ	Tallinn Gonsiori 2	Retail trade	100%		2007
AS ABC King	Tallinn Pärnu rd 139E	Retail	100%	170,678	2008
AS ABC King subsidiary:					
ABC King SIA	Riga Ieriku iela 3	Retail	100%		2008
OÜ Suurtüki NK	Tallinn Ehitajate rd 110	Retail	100%	55,017	2008
SIA Suurtuki	Riga Ieriku iela 3	Retail	100%	13,973	2008
Tallinna Kaubamaja Kinnisvara AS's subsidiaries:					
Tartu Kaubamaja Kinnisvara OÜ	Tartu Riia 1	Real estate management	100%		2004
SIA TKM Latvia	Riga Ieriku iela 3	Real estate management	100%		2006
A-Selver AS's subsidiary:					
SIA Selver Latvija	Riga Ieriku iela 3	Retail trade	100%		2006
Acquisition cost of subsidiaries as of 31.12.2008				**403,332**	

Business combinations in 2007:

Acquisitions made in 2007:

Company	Country of incorporation	Principal activity	Time of acquisition	Ownership interest
Ülemiste Autokeskus OÜ	Estonia	Retail	31.03.2007	100%
KIA Auto UAB	Lithuania	Retail	31.03.2007	100%
KIA Auto AS	Estonia	Retail	31.03.2007	100%

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The fair value of the identifiable assets and liabilities of Kia Auto AS as at the date of acquisition (31 March 2007) and the corresponding consolidated carrying amounts immediately before the acquisition were:

In thousands of kroons

	Previous carrying value	Fair value recognised on acquisition
Cash	1,306	1,306
Other current assets	125,933	125,933
Fixed assets (Note 10)	21,320	28,900
Liabilities	-126,127	-126,127
Total net assets		**30,012**
Goodwill arising on acquisition (Note 11)		**49,388**
Total consideration		**79,400**

During the reporting period, 45 thousand kroons were added to the share capital of KIA Automobiles SIA. As of 30 June 2008, the share capital of KIA Automobiles SIA amounted to 90 thousand kroons.

Business combinations in 2008:

Acquisitions made in 2008:

Company	Country of incorporation	Principal activity	Time of acquisition	Ownership interest
Suurtüki NK AS	Estonia	Retail	01.04.2008	100%
Suurtuki SIA	Latvia	Retail	01.04.2008	100%
AS ABC King	Estonia	Retail	30.06.2008	100%
ABC King SIA	Latvia	Retail	30.06.2008	100%

The fair value of the identifiable assets and liabilities of OÜ Suurtüki NK and Suurtuki SIA as at the date of acquisition (1 April 2008) and the corresponding consolidated carrying amounts immediately before the acquisition were:
In thousands of kroons

	Previous carrying value	Fair value recognised on acquisition
Cash	4,873	4,873
Other current assets	56,945	56,945
Fixed assets	2,910	2,910
Liabilities	-39,785	-39,785
Total net assets		**24,943**
Goodwill arising on acquisition (Note 11)		**44,334**
Total consideration		**69,277**

Goodwill from the transaction was recognised in the amount of 44,334 thousand kroons, which relates to the future cash flows of the companies. Tallinna Kaubamaja Group paid 67,371 thousand kroons in cash for the acquisition of OÜ Suurtüki NK and SIA Suurtuki. Upon acquisition, OÜ Suurtüki NK and SIA Suurtuki had 4,873 thousand kroons on their bank accounts. Upon acquisition, Tallinna Kaubamaja Group also paid 1,906 thousand kroons of transaction costs.

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The fair value of the identifiable assets and liabilities of AS ABC King and ABC King SIA as at the date of acquisition (30 June 2008) and the corresponding carrying amounts immediately before the acquisition were:

In thousands of kroons

	Previous carrying value	Fair value recognised on acquisition
Cash	10,496	10,496
Other current assets	60,468	76,332
Fixed assets	4,136	4,196
Trademark (Note 11)	0	54,601
Beneficial rental contracts	0	16,900
Development cost	0	286
Liabilities	-12,885	-12,885
Total net assets		**149,926**
Goodwill arising on acquisition (Note 11)		**28,061**
Total consideration		**177,987**

The transaction also involved the acquisition of the footwear business and stores of ABC Saare OÜ. As a result, goodwill in the amount of 28,061 thousand kroons arouse, which relates to the future cash flows of AS ABC King and ABC King SIA.

Tallinna Kaubamaja Group paid 177,987 thousand kroons in cash for the acquisition of AS ABC King and ABC King SIA. At the time of their acquisition, AS ABC King and ABC King SIA had 10,496 thousand on their bank accounts.

Goodwill was tested for impairment as of the balance sheet date (see Note 11).

The subsidiary of AS Tartu Kaubamaja, TKM Shoes OÜ with share capital of 40 thousand kroons, was established on 28 April 2008. According to the agreement signed on 11 July 2008, TKM Shoes OÜ and ABC King were merged. They were 100% subsidiaries of Tallinna Kaubamaja AS. The transaction aimed at improving the legal structure of the companies and at bringing the activities of the footwear trade segment in Estonia under one commercial undertaking.

OÜ Suurtüki NK, Suurtuki SIA, ABC King AS and ABC King SIA contributed a loss of 17,580 thousand kroons from the date of acquisition until 31 December 2008 to the net result of the Group for 2008. If the combinations had taken place at the beginning of 2008, the contributed loss for the year for the Group would have been 16,066 thousand kroons and revenue from continuing operations would have been 296,615 thousand kroons.

Note 8 Shares of associated companies

In thousands of kroons, as of December 31

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

	2008	2007
Number of shares at the end / (beginning) of year	501 / (501)	501 / (501)
Ownership % at the end (beginning) of the year	50 / (50)	50 / (50)
At the beginning of the year		
Acquisition cost	6,500	6,500
Participation in the equity of the investment object	**14,201**	**11,429**
Profit from equity method	3,304	2,772
At the end of the year		
Acquisition cost	6,500	6,500
Participation in the equity of the investment object	**17,505**	**14,201**

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Financial information on the associated company Rävala Parkla AS (reflecting 100% of the associate):

	31 December 2008	**31 December 2007**
Assets	61,422	63,629
Liabilities	26,436	35,235
Revenue	9,390	8,590
Profit	6,608	5,545

Note 9 Other long-term receivables

In thousands of kroons, as of December 31

	31 December 2008	31 December 2007
Receivables from associated companies (Note 23)	**4,578**	**7,828**
Repayable:		
within up to 12 months	*2,750*	*5,000*
in 1-5 years	*1,828*	*2,828*
Interest rate	6%	6%
Term of payment	2010	2010
Other long term receivables	1,973	0
Total other long-term receivables	**3,801**	**2,828**

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

Note 10 Property, plant and equipment

In thousands of kroons

	Land and buildings	Machinery and equipment	Other equip-ment, fixtures and fittings	Prepay-ments for property, plant and equipment	Cons-truction in progress	Total
31.12.2006						
Acquisition cost or valuation	1,058,609	184,776	230,657	9,662	506,186	1,989,890
Accumulated depreciation	-62,950	-113,809	-142,315	0	0	-319,074
Net book value	995,659	70,967	88,342	9,662	506,186	1,670,816
Changes in 2007						
Additions from business combinations (Note 7)	26,650	1,356	893	0	0	28,900
Purchases and additions	110,604	49,141	27,490	12,145	224,874	424,254
Sales and write-off	0	-556	-120	0	0	-676
Depreciation	-36,598	-32,193	-33,626	0	0	-102,416
Revaluations	280,000	0	0	0	0	280,000
Reclassification	240,468	2,271	574	-9,662	-233,650	0
31.12.2007						
Acquisition cost or valuation	1,656,657	232,359	256,811	12,145	497,410	2,655,383
Accumulated depreciation	-39,874	-141,374	-173,257	0	0	-354,505
Net book value	**1,616,783**	**90,985**	**83,555**	**12,145**	**497,410**	**2,300,878**
Changes in 2008						
Additions from business combinations (Note 7)	714	740	5,652	0	0	7,106
Purchases and additions	205,168	121,413	86,020	33,250	530,484	976,335
Reclassification	115,275	-4,149	14,943	-10,861	-115,208	0
Write down due to impairment	-71,600	0	0	0	-75,000	-146,600
Sales	-290	-445	-988	0	0	-1,723
Depreciation	-50,922	-42,893	-44,108	0	0	-137,923
31.12.2008						
Acquisition cost or valuation	1,969,527	355,830	362,439	34,534	912,686	3,635,016
Accumulated depreciation	-154,399	-190,179	-217,365	0	-75,000	-636,943
Net book value	**1,815,128**	**165,651**	**145,074**	**34,534**	**837,686**	**2,998,073**

During the accounting period, real estates have been purchased and renovation works have been performed in the amount of 735,652 thousand kroons. An advance payment in the amount of 33,250 thousand kroons has been made for uncompleted buildings. During the reporting period, new buildings have been built in Põltsamaa, Paide, Pärnu, Hiiumaa, Keila and in Kohtla-Järve. Additional investments for widening of the sales are have been made in Pirita Selver. Ground lots have been bought in Tallinn and in Kuressaare. The total investment has been 316,217 thousand kroons. New buildings have been constructed in Latvia during the accounting period in the total amount of 419,435 thousand kroons. In the period of 12 months of 2008, eight new stores were opened in Narva, Kohtla-Järve, Hiiumaa, Tallinn, Põlva, Pärnu, Paide and Keila. Reconstruction works for widening the sales area took place in Järve Selver, Pirita Selver, Tartu Anne Selver and in Rakvere Krooni Selver. New stores were opened in Rezekne and Ogre, Latvia, in December 2008. The total investment sum for new Selver stores is 209,864 thousand kroons.

Furnishing for sales rooms, coolers, computing equipment in the amount 207,433 thousand kroons have been purchased.

As of 31 December 2008, the Group has concluded agreements for acquisition of non-current assets in the total amount of 347,605 thousand kroons.

In view of the market situation in 2008, the recoverable amount of the "Land and buildings" and "Construction in progress" was estimated for impairment. Recoverable amounts (determined based on value in use) were determined on the basis of valuation acts from independent real estate experts. The discounted cash flow method as well as market-based evidence (comparable deals, rental income etc) was used for the determination of recoverable value. Following assumptions have been used in the valuation: discount rates of 9%-13,5% and growth rates of 0,5%-1,5%.

As a result of the valuations, impairment in the amount of 146,600 thousand kroons was recorded, out of which 86,800 kroons has been recorded in income statement line „Depreciation, amortisation and impairments" and 59,800 thousand kroons has been recorded directly in owner`s equity as a reduction of „Revaluation reserve". In Estonia, the impairment loss of Pirita Selver in amount of 59,800 kroons and impairment loss of Põltsamaa Selver and Kohtla-Järve Selver in amount of 11,800 kroons was recognised. In Latvia, the impairment loss of 75,000 thousand kroons was recognised.

Financing costs (loan interests) of major investments of SIA TKM Latvija in the amount of 12,829 thousand kroons (2007: 11,672 thousand kroons), were capitalised.

As of 31.12.2008 the purchase price of non-current assets with zero net book value was 164,103 thousand kroons (2007:158,478 thousand kroons).

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

31.12.2008 719,186 thousand kroons

31.12.2007 459,658 thousand kroons

As of 31 December 2008, property, plant and equipment with the net book amount of 921,307 thousand kroons had been pledged as collateral for liabilities (see Note 22).

Information on non-current assets leased under finance lease has been disclosed in Note 13.

Note 11. Intangible Fixed Assets

	Goodwill	Trademark	Beneficial contracts	Total
31.12.2006				
Acquisition cost or valuation	0	0	0	0
Accumulated amortisation and impairment loss	0	0	0	0
Net book value	0	0	0	0
Changes in 2007				
Additions from business combinations (Note 7)	49,388	0	0	49,388
31.12.2007				
Acquisition cost or valuation	49,388	0	0	49,388
Accumulated amortisation and impairment loss	0	0	0	0
Net book value	**49,388**	**0**	**0**	**49,388**
Changes in 2008				
Additions from business combinations (Note 7)	72,395	54,887	16,900	144,182
Amortisation	0	-1,820	-1,536	-3,356
Write down due to impairment	-4,688	0	0	-4,688
Other adjustments	-7,596	0	0	-7,596
31.12.2008				
Acquisition cost or valuation	114,188	54,887	16,900	185,975
Accumulated amortisation and impairment loss	-4,688	-1,820	-1,536	-8,044
Net book value	**109,499**	**53,067**	**15,364**	**177,930**

Goodwill is initially reported at the acquisition cost thereof, which is the positive difference between the acquisition cost of the holding acquired and the fair value of the acquired assets, liabilities and contingent liabilities on the date of acquisition. In further reporting goodwill is measured at the acquisition cost thereof less possible discounts resulting from impairment. With regard to goodwill an impairment test is carried out at least once a year or more frequently if events or changed circumstances show that the book value of goodwill may have decreased.

The goodwill of AS ABC King was adjusted by 7,596 thousand kroons and is related to a correction made in the initial acquisition price of AS ABC King. As of 31.12.2008, the respective amount is recorded in the balance sheet as a claim against Hansapank ESCROW account. The amount was received by the Group on 28.01.2009.

AS of 31 December 2008 goodwill was tested for impairment.

Goodwill is allocated to the Group's cash-generating units identified according to operating segment.

An operating segment level summary of the goodwill allocation is presented below.

	2008	2007
Car retail	49,388	49,388
Footwear retail	60,111	0

The recoverable amount (determined based on value in use) was found by using the future cash flows over five years as a basis. Goodwill was discounted at the rate of 12-14%. It was found for all entities except SIA Suurtuki, that the present value of cash flows covers both the goodwill and trademark as well as the value of useful lease contracts and that of the net assets of the subsidiaries. The value of goodwill related with SIA Suurtuki had declined in view of the current economic situation, and impairment loss of 4,688 thousand kroons was recognised.

The key assumptions used for value-in-use calculations are as follows:

	Car retail	Footwear retail
EBITDA margin	1 - 4%	-1 - 10%
Discount rate	14%	12 - 14%
Sales growth	-22% - 23%	6-14%
Terminal growth	0%	0%

These assumptions have been used for the analysis of each cash-generating units within the operating segment. The discount rate used is pre-tax discount rate applied to the cash flow projections.

Management determined budgeted EBITDA margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pretax and reflect specific risks relating to the relevant operating segments.

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Note 12. Interest bearing loans and borrowings

In thousands of kroons, as of December 31

2008	Balance 31.12.2008	Repayment Within12 months	Within 1-5 years	After 5 years	Due date	Interest rate
SEB Pank AS	100,702	*16,127*	*70,422*	*14,153*	28.09.2014	6 month EURIBOR +0,4%
SEB Pank AS	137,693	*15,695*	*121,998*	-	19.04.2012	6 month EURIBOR +0,4%
Nordea Bank Finland Plc Estonian Affiliate	265,992	-	*265,992*	-	7.12.2011	6 month EURIBOR+0,36%
Nordea Bank Finland Plc Estonian Affiliate	73,666	*8,109*	*65,557*	-	20.06.2013	3 month EURIBOR+0,98%
Nordea Bank Finland Plc Estonian Affiliate	56,932	*1,686*	*7,745*	*47,501*	13.05.2018	6 month EURIBOR+0,6%
Nordea Bank Finland Plc Estonian Affiliate	183,490	*5,249*	*24,308*	*153,933*	20.06.2018	6 month EURIBOR+0,6%
Nordea Bank Finland Plc Estonian Affiliate	81,853	*2,341*	*68,668*	*10,844*	20.06.2018	6 month EURIBOR+0,6%
Nordea Finance Latvia SIA	2,059	*2,059*	-	-	1.04.2009	3 month EURIBOR+1,60%
Nordea Bank Finland Plc Estonian Affiliate	103,615	*2,429*	*11,157*	*90,029*	15.04.2018	6 month EURIBOR+0,6%
Nordea Bank Finland Plc Estonian Affiliate	123,867	*4,106*	*19,025*	*100,736*	30.08.2018	6 month EURIBOR+1%
AS Hansapank	59,763	*8,103*	*51,660*	-	21.04.2013	6 month EURIBOR+0,67%
AB Bankas Hansabankas	1,580	*1,580*	-	-	15.05.2009	6 month VILIBOR+0,97%
AS Hansa Liising Eesti	114,071	*114,071*	-	-	7.03.2009	12 month EURIBOR+0,65%
Hansa Lizings SIA	378	*378*	-	-	1.10.2009	5,60%
SEB Liising AS	5,139	*5,139*	-	-	1.10.2009	6 month EURIBOR+0,8%
UAB Hansa Lizingas	1,477	*1,477*	-	-	30.05.2009	6 month EURIBOR+1,2%
UAB Hansa Lizingas	2,445	*813*	*1,632*	-	30.07.2010	6 month EURIBOR+1,1%
UAB Hansa Lizingas	207	*191*	*16*	-	30.01.2010	6 month EURIBOR+1,3%
AS Hansapank	47,200	*47,200*	-	-	18.06.2009	12 month EURIBOR+0,72%
AS Hansa Liising Eesti	1,716	*1,716*	-	-	10.04.2009	6 month EURIBOR+0,65%
AS Hansapank	20,000	*20,000*	-	-	30.03.2009	6 month EURIBOR+0,75%
Nordea Bank Finland Plc Estonian Affiliate	87,270	*11,639*	*75,631*	-	30.07.2013	6 month EURIBOR+0,98%
SEB Pank AS	42,298	*42,298*	-	-	06.02.2009	7,%
Loans	***1,513,413***	***312,406***	***783,811***	***417,196***		
Financial lease (Note 13)	*20,094*	*5,692*	*14,402*	-	7.04.2012	7%
Total interest bearing loans and borrowings	***1,533,507***	***318,098***	***798,213***	***417,196***		

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2007	Balance 31.12.2007	Repayment Within12 months	Within 1-5 years	After 5 years	Due date	Interest rate
SEB Pank AS	115,278	*14,672*	*47,470*	*53,136*	28.09.2014	6 month EURIBOR +0,6%
SEB Pank AS	152,831	*15,200*	*137,631*	-	19.04.2012	6 month EURIBOR +0,4%
Nordea Bank Finland Plc Estonian Affiliate	265,992	-	*265,992*	-	7.12.2011	6 month EURIBOR+0,36%
AS Hansa Liising Eesti	79,168	*79,168*	-	-	14.03.2008	12 month EURIBOR+0,65%
Hansa Lizings SIA	790	*790*	-	-	15.04.2008	5,60%
Hansa Lizings SIA	458	*75*	*383*	-	1.10.2009	5,60%
Nordea Finance Latvia SIA	410	*410*	-	-	15.04.2008	5,60%
UAB Hansa Lizingas	1,472	*1,472*	-	-	28.06.2008	5,30%
UAB Hansa Lizingas/ factoring	3,041	*3,041*	-	-	5.07.2008	5,75%
AB Bankas Hansabankas	1,270	*1,270*	-	-	15.05.2008	VILIBOR +0,97%
Loans	**620,710**	***116,098***	***451, 476***	***53,136***		
Financial lease (Note 13)	22,130	*4,528*	*17,602*	-	7.04.2012	7%
Total interest bearing loans and borrowings	**642,840**	***120,626***	***469,078***	***53,136***		

Bank loans are denoted in euros. Bonds issued and finance lease liabilities are denoted in Estonian kroons. Information on the pledged assets has been disclosed in Note 22.

Bank loans have floating interest rates. The borrowings in the amount of 1,309,465 thousand kroons (2007: 534,101 thousand kroons) are repriced after every 6 months based on change in EURIBOR, which is the Group's exposure on interest rate changes. Finance lease agreements are based on fixed interest rates, and therefore 20,094 thousand kroons (2007: 22,130 thousand kroons) are exposed to interest rate change when borrowings mature.

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

Note 13 Finance lease and operating lease

In thousands of kroons

Group as the lessee

Finance lease

The group leases buildings under finance lease terms:

	31 December 2008	31 December 2007
Acquisition cost	46,585	43,951
Accumulated depreciation	-32,473	-24,720
Net book value	**14,112**	**19,231**

Minimum finance lease payments:	31 December 2008	31 December 2007
up to 1 year	6,786	5,933
1-5 years	15,612	19,788
Total	**22,398**	**25,721**
Future interest expense	-2,304	-3,591
Net present value of lease payments (Note 12)	**20,094**	**22,130**

Net present value of lease payments	31 December 2008	31 December 2007
up to 1 year	5,692	4,528
1-5 years	14,402	17,602
Total (Note 12)	**20,094**	**22,130**

The Group leases on capital lease conditions premises at Papiniidu 42, Pärnu, with the operating area 3,500 m2. The agreement will end in 2012. The agreement can be prematurely terminated by notifying the other party thereof in writing one month in advance. The Group has the right of the renewal of agreement at the end of the term of validity of the agreement.

Subleases of buildings leased under finance lease.

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

	31 December 2008	31 December 2007
up to 1 year	1,149	1,310
1-5 years	1,121	1,426
Total	**2,270**	**2,736**

Operating lease

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

	31 December 2008	31 December 2007
up to 1 year	193,712	195,972
1-5 years	773,412	763,589
over 5 years	486,068	689,130
Total	**1,453,192**	**1,648,691**

Operating lease expenses include the rental expenses for leasing the retail outlet spaces. The future minimum lease payments under non-cancellable operating leases are calculated based on the non-cancellable periods of the leases. See also Note 18 for information on rental expenses.

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

Subleases of buildings leased under operating lease:

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

	31 December 2008	31 December 2007
up to 1 year	15,537	17,680
1-5 years	12,713	21,886
Total	**28,250**	**39,566**

See also Note 17 for information on rental income.

Group as the lessor

Operating lease

Operating lease income includes rental income for spaces.

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 2008	31 December 2007
up to 1 year	66,854	43,646
1-5 years	304,128	222,168
over 5 years	85,741	105,733
Total	**456,723**	**371,547**

The Group's rental contracts are not binding for a long term basis. Most of the rental contracts are concluded for periods of 7 to 10 years and rent conditions are re-negotiated usually before the term of lease expires. Rental contracts can be terminated by mutual agreement or with a two to six months advance notice. Rental contracts without a specified term are expected to be valid for 5 years.
Operating lease payments recognized in the income statement for the period are disclosed in Note 18.
Rental income from leases and sub-leases recognized in the income statement is disclosed in Note 17.

Note 14 Taxes payable and other short-term and long-term liabilities

In thousands of kroons, as of December 31

	31 December 2008	31 December 2007
Value added tax	28,049	31,669
Personal income tax	14,509	11,041
Social tax	31,310	22,696
Income tax on fringe benefits	562	757
Unemployment insurance	750	560
Funded pension	1,280	935
Total taxes payable*	**76,460**	**67,658**
Employee-related liabilities	67,358	87,498
Interest payable	3,482	1,140
Other accrued expenses	176	1,086
Prepayments received from lessees	7,197	5,145
Total other short-term liabilities	**78,213**	**99,092**

Short-term provision in the amount of 3,534 thousand kroons (2007: 0 kroons) and long term provision in the amount of 1,462 thousand kroons (2007: 2,075 thousand kroons) stand for guarantee provisions related with footwear and vehicle business.

*The tax authority has the right to audit the company's accounting for up to 6 years after submission of the tax declaration and, upon discovering mistakes, order payment of additional taxes, interest and fines. No tax audits were conducted in 2007 and 2008. According to the company's management, there are no circumstances as a result of which the tax authority could order payment of significant additional taxes.

Note 15 Share capital

As of 31 December 2008, the share capital amounted to 407,292 thousand kroons and was divided into 40,729,200 ordinary shares with a nominal value of 10 kroons. Pursuant to the Articles of Association, the maximum allowed number of ordinary shares is 162,916,800. In the 2nd quarter of 2008, the dividends were announced and paid to the shareholders with 2 kroons per share, in the total amount of 81,458 thousand kroons (2007: 40,729 thousand kroons) and income tax in amount of 21,653 thousand kroons (2007: 11,488 thousand kroons) was paid.

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

Note 16 Revenue

In thousands of kroons, per annum

	2008	2007
Retail	6,229,207	5,778,018
Wholesale	248,578	100,642
Service and catering	53,635	13,763
Total revenue	**6,531,420**	**5,892,423**

The parent company's revenue was fully generated in Estonia. In connection with the vehicle and footwear trade incorporated under the Kaubamaja Group in the financial year, the group also generated revenue in Latvia and Lithuania. Additional information on revenue has been provided in Note 24.

Note 17 Other income

In thousands of kroons, per annum

	2008	2007
Rental income*	47,352	40,285
Income from joint advertising	76,024	50,132
Foreign exchange gains	735	63
Profit from disposals of non-current assets	82	45
Income from parking services	1,389	1,391
Package treatment income	3,892	3,029
Income from utilities	15,757	9,980
Other income**	20,933	12,856
Total other income	**166,164**	**117,781**

*Rental income includes income from subleases in the amount of 47,352 thousand kroons (2007: 40,285 thousand kroons).

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

Note 18 Other operating expenses

In thousands of kroons, per annum

	2008	2007
Rental expenses	187,592	144,948
Utilities	90,464	62,930
Advertising expenses	100,156	84,576
Bank charges	43,334	38,367
Security expenses	30,057	24,928
Heat and electricity	79,454	53,040
Materials	76,174	54,492
IT and communication expenses	29,744	19,491
Business trips	7,986	4,908
Training expenses	5,191	5,368
Insurance	1,959	1,603
Logistic service	13,511	5,296
Other operating expenses	41,286	16,899
Total other operating expenses	**706,908**	**516,846**

Note 19 Personnel expenses

In thousands of kroons, per annum

	2008	2007
Wages and salaries	502,998	396,334
Social tax	166,321	132,304
Total personnel expenses	**669,319**	**528,638**

	2008	2007
Average monthly wages and salaries per employee (kroons)	11,320	11,658
Average number of employees in the financial year	3,703	2,833

Personnel expenses also include accruals for holiday pay earned as well as unpaid bonuses related to year 2008.

Note 20 Net financial items

In thousands of kroons, per annum

Financial income

	2008	2007
Interest income from SEB	613	4,881
Interest income from Hansapank	302	3,441
Interest income from Nordea	750	0
Interest income from partner card	2,092	1,191
Interest income from NGI Group	1,605	0
Other interest income	3,463	1,559
Total interest income	**8,825**	**11,072**

Financial expenses

	2008	2007
Bank loan interest	-38,440	-22,054
Financial lease interest	-1,411	-1,711
Bond interest	0	-931
Other financial expenses*	-2,735	-2,750
Total interest expenses	**-42,586**	**-27,446**

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

Note 21 Earnings per share

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

	2008	2007
Net profit (in thousands of kroons)	83,129	410,836
Weighted average number of shares per year	40,729,200	40,729,200
Net earnings per share (in kroons)	2.04	10.09

Note 22 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 real estate 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. Additionally, a secord order morgage has been set in the amount of 242 100 thousand kroons. As of 31 December 2008, the carrying amount of the pledged assets was 420,032 thousand kroons.
- Mortgages in the amount of 449 900 thousand kroons on other real estates of Tallinna Kaubamaja Kinnisvara AS.
- Tartu Kaubamaja Kinnisvara OÜ has set a mortgage on the real estate 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. Additionally, a secord order morgage has been set in the amount of 125 000 thousand kroons and 108 000 thousand kroons. As of 31 December 2008, the carrying amount of the pledged assets was 501,275 thousand kroons.
- 350 000 shares of Tallinna Kaubamaja AS, 28 000 shares of AS ABC King and 1 share of Suurtüki NK OÜ
- Commercial pledge of 24 600 thousand kroons on movables of Suurtüki NK OÜ

Note 23 Related party transactions

In thousands of kroons

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

a. owners (parent company and parties who control or have significant influence over the parent company) (Note 28);
b. associated companies;
c. other companies of the consolidation group (incl. other subsidiaries of the Group's parent company); other companies of the consolidation group besides parent company and subsidiaries are: Liviko AS, Balbiino AS, Kitman AS. The sales and purchases of the products and services have been provided between the consolidation group companies. These are usual deals without interests and guarantees;
d. Management board and higher management;
e. family members of the persons listed above, and the companies under their control or significant influence.

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

Company	Home country	Ownership 2008	Ownership 2007
A-Selver AS	Estonia	100%	100%
AS Tartu Kaubamaja	Estonia	100%	100%
Tallinna Kaubamaja Kinnisvara AS	Estonia	100%	100%
OptiGrupp Invest OÜ	Estonia	100%	100%
OÜ Suurtüki NK	Estonia	100%	0%
SIA Suurtuki	Latvia	100%	0%
AS ABC King	Estonia	100%	0%
AS Tartu Kaubamaja's subsidiary:			
TKM Beauty OÜ	Estonia	100%	100%
TKM Beauty OÜ's subsidiary:			
TKM Beauty Eesti OÜ	Estonia	100%	100%
OptiGrupp Invest OÜ's subsidiary:			
KIA Auto AS	Estonia	100%	100%
KIA Auto AS's subsidiaries:			
Ülemiste Autokeskus OÜ	Estonia	100%	100%
KIA Auto UAB	Lithuania	100%	100%
KIA Automobile SIA	Latvia	100%	100%
Tallinna Kinnisvara AS's subsidiaries:			
Tartu Kaubamaja Kinnisvara OÜ	Estonia	100%	100%
SIA TKM Latvia	Latvia	100%	100%
A-Selver AS's subsidiary:			
SIA Selver Latvija	Latvia	100%	100%
AS's ABC King subsidiary:			
SIA ABC King	Latvia	100%	0%

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

	2008		2007	
	Purchases	**Sales**	**Purchases**	**Sales**
Parent company	1,752	1,749	779	4,290
Associated companies	0	288	0	468
Other related parties	241,278	8,250	129,138	5,903
Total	**243,030**	**10,287**	**129,917**	**10,661**

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

Loans granted to associates:

	2008	2007
Balance at the beginning of the year (Note 9)	7,828	9,828
Repayments of loans received	-3,250	-2,000
Balance at the end of the year (Note 9)	**4,578**	**7,828**

Balances with related parties:

	31 December 2008	31 December 2007
Parent company	194	665
Other related parties	1,845	1,304
Short-term receivables from associated companies (Note 9)	1,828	5,000
Total current receivables (Note 4)	***3,867***	***6,969***
Long-term receivables from associated companies (Note 9)	2,750	2,828
Total receivables from related parties	**6,617**	**9,797**
Parent company	164	0
Other related parties	53,301	26,004
Total liabilities to related parties	**53,465**	**26,004**

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

Cash pool account

AS Tartu Kaubamaja, A-Selver AS, Tallinna Kaubamaja Kinnisvara AS, OÜ Tartu Kaubamaja Kinnisvara, SIA TKM Latvija, KIA Auto AS, TKM Beauty OÜ, OptiGroup Invest OÜ, SIA Selver Latvia, OÜ Suurtüki NK, AS ABC King have joined Tallinna Kaubamaja AS Group account agreement. The said Group as a subgroup has joined NG Investeeringud OÜ group (hereinafter 'the Main Group') account agreement which also includes Balbiino AS, Liviko AS, Kitman AS, Ganiger Invest OÜ, OÜ NG Kapital, Roseni Kinnisvara OÜ and Motivo Grupp OÜ. Since autumn of 2001, the Tallinna Kaubamaja Group has placed their available funds at the disposal of the Main Group, earning interest income from the investment. During the 12 month of 2008, the Tallinna Kaubamaja Group earned 1,605 thousand kroons (2007: 3,915 thousand kroons) of interest revenue from keeping available funds in the group account. As of 31 December 2008, the group has paid interest on the use of the available funds of the Main Group in the amount of 1,692 thousand kroons (2007: 0 kroons). The average annual interest rate payable on the use of the available funds of the NG Investeeringud OÜ group account was 5.0% for EEK account and 4.3% for EUR account (2007: 3.0% EEK). According to the group account agreement, the members of the group bear joint and several liability for the amounts payable to the bank.

Key management remuneration

Tallinna Kaubamaja Group paid a total of 37,805 thousand kroons (2007: 20,484 thousand kroons) in remuneration (wages and salaries, plus bonuses) to the members of the Management Board and higher management of Group companies in the financial year. Short-term bonuses (incl. social tax) amounted to 0 thousand kroons (2007: 16,973 thousand kroons) and long-term bonuses (incl. social tax) to 0 thousand kroons (2007: 18,072 thousand kroons).

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Note 24 Segment reporting

In thousands of kroons

Business segment

2008	Depart-ment stores	Super-markets	Real estate	Vehicle trade	Foot-wear retail	Transac-tions between segments	Total
Sales to third parties	1,534,725	4,295,176	41,077	494,884	165,558	0	6,531,420
Sales between segments	14,941	9,848	85,972	225,571	11,954	-348,286	0
Total sales	**1,549,666**	**4,305,025**	**127,048**	**720,455**	**177,512**	**-348,286**	**6,531,420**
Segment profit	**119,229**	**63,747**	**-58,408**	**-23,374**	**-18,064**	**0**	**83 ,129**
Segment assets	**393,227**	**909,689**	**2,567,163**	**255,431**	**208,723**	0	**4,334 ,233**
Segment liabilities	**661,840**	**700,374**	**862,485**	**148,925**	**125,256**	0	**2,498,880**
Additions of non-current assets in the period	8,493	222,848	735,932	5,556	4,931	0	977,760
Depreciation charge	28,202	68,211	123,928	2,063	10,362	0	232,766

Write downs due to impairment in the reporting period amounted to 151,288 thousand kroons in total for all business segments, including:
- the write-down of land and buildings and construction in progress in the real estate business segment in the amount of 86,800 thousand kroons, which is recorded in the profit and loss statement line "Depreciation, amortisation and impairments";
- the write-down of goodwill in footwear retail segment in the amount of 4,688 thousand kroons, which is recorded in the profit and loss statement line "Depreciation, amortisation and impairments";
- the write down of land and buildings due to impairment in the real estate segment in the amount of 59,800 thousand kroons, which is recorded as a reduction of "Revaluation reserve" in owner's equity.

2007	Depart-ment stores	Super-markets	Real estate	Vehicle trade	Transac-tions between segments	Total
Sales to third parties	1,545,755	3,722,044	40,485	584,139	0	5,892,423
Sales between segments	3,296	9,725	58,842	162,583	-234,446	0
Total sales	**1,549,051**	**3,731,769**	**99,327**	**746,722**	**-234,446**	**5,892,423**
Segment profit	**156,839**	**199,511**	**40,800**	**13,686**	0	**410,836**
Segment assets	**566,201**	**694,015**	**1,838,823**	**229,666**	0	**3,328,705**
Segment liabilities	**469,095**	**553,321**	**300,815**	**111,567**	0	**1,434,798**
Additions of non-current assets in the period	13,934	138,011	555,019	2,475	0	709,439
Depreciation charge	27,690	47,389	26,303	1,035	0	102,416

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Geographical segment
In thousands of kroons

31 December 2008	Estonia	Lithuania	Latvia	Total
Extra-segment sales	6,367 780	92,785	70,854	**6,531 420**
Segment assets based on location	6,121 859	12,493	766,016	**6,900 368**
Additions of segment non-current assets in the period	506,167	3,608	467,985	**977 760**

31 December 2007	Estonia	Lithuania	Latvia	Total
Extra-segment sales	5,824,169	54,260	13,995	**5,892,423**
Segment assets based on location	3,022,441	11,519	12,670	**3,046,630**
Additions of segment non-current assets in the period	709,384	53	2	**709,439**

Note 25 Financial risks

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

Currency risk

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

The currencies of all the countries the Group operates in (Estonia, Latvia and Lithuania) are pegged to the euro, mitigating the currency risk arising from transactions between Group companies, net investments and the like.

Credit risk

The group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activity, including deposits with banks and financial institutions and foreign exchange transactions.

Credit risk from balances with banks and financial institutions is managed by Group Management in accordance with the Group's policy. The Group's maximum exposure to credit risk from balances with banks at 31 December 2008 and 2007 is the carrying amounts as illustrated in Note 2.

Due to the nature of retail business, the Group has no significant concentrations of credit risk related to receivables. The credit risk occurs only on the rents of premises which have been immaterial for the Group. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history. As of 31 December 2008, receivables of 173,358 thousand kroons (2007: 104,549 thousand kroons) reflect the maximum credit risk.

The aging of receivables is presented below:

	31.12.2008	31.12.2007
Not due	96,268	33,866
Overdue < 3 months	69,682	59,808
Overdue 3 - 6 months	533	44
Overdue 6 - 12 months	3,902	5,000
Overdue > 12 months	2,973	5,831
Total receivables	173.358	104,549

According to the Group estimates there is no need to write down overdue receivables due to the reason that the contractual obligations of the Group as of 31.12.2008 cover overdue receivables.

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Liquidity risk

The working capital of the Group was negative - 175,728 thousand kroons as of 31.12.2008 (2007: positive 13,610 thousand kroons). The negative floating capital in 2008 was due to the need to involve borrowings for investments. Operating profit in 2008 was lower than previous year 300,687 thousand kroons (2007: bigger than 2006 operating profit by 435,926 thousand kroons). The Group's quick ratio (current assets less inventory / current liabilities) was in 2008 0,25. Net profit for the year 2008 amounts to 83,129 thousand kroons and it shows a decrease in the profitability of the Group's business activities due to recession in global retail turnover. According to the management of the Group, there is no liquidity risk in the Group's business activities.
For support of liquidity management and development process, the Group of Tallinna Kaubamaja has a strong support from finance sector. Experience has shown that there are no problems in receiving new financial resources with good interest rates from financial institutions. Also, there is always a possibility to refinance or extend loans.

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

		Payable				
	Total 31.12.2008	< 3 months	3-12 months	2-3 years	4-5 years	After 5 years
Loans and borrowings	1,861,849	128,530	243,939	543,333	444,982	501,065
Accounts payable	800,467	0	800,467	0	0	0
Taxes payable	76,460	76,460	0	0	0	0
Short-term liabilities	78,213	78,213	0	0	0	0

		Payable				
	Total 31.12.2007	< 3 months	3-12 months	2-3 years	4-5 years	After 5 years
Loans and borrowings	653,521	10,758	31,561	264,182	284,171	62,849
Accounts payable	611,454	0	611,454	0	0	0
Taxes payable	67,658	67,658	0	0	0	0
Other short-term liabilities	99,098	99,098	0	0	0	0

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

At the end of financial year, the Group had free money on hand in the amount of 101,353 thousand kroons. Accommodation of the cash flow overbalance is strictly regulated in the Group. According to regulations, the accommodation of the cash flow balance can be made by dividing the amount between the companies within the Group. An important requirement is the existence of future cash flows. For liquidity management within the Group, limits have been established.

Events after the balance sheet date affecting the liquidity management are disclosed in Note 30.

Interest rate risk

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

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

The Group long-term borrowings are mainly related to EURIBOR and the Group is dependent on the changes in international finance markets. Interest rate risk is managed, among other things, by monitoring movements in the money market interest rate curve, which reflects the market participants' expectations in terms of market interest rates and allows estimating a trend for euro-denominated interest rates.

In 2008 EURIBOR fell from 4,7% at the beginning of the year to the level of 3.0% at the end of the year. In 2009 EURIBOR has been continuously declining. The Group estimates, that EURIBOR rates will not increase significantly during 2009 to have impact on Group's profit.

The sensitivity analysis of consolidated cash flows indicated that a 1 percentage rise/decrease in interest rates would reduce/increase the Group's cash flows for 2008 by 67,001 thousand kroons (2007: 5,529 thousand kroons).

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

Interest rate risk table:

In thousands of kroons

2008	1 year	1-5 years	Over 5 years	Total
Fixed interest rates				
Interest bearing liabilities	6,070	14,402	0	20,472
Net debt	**6,070**	**14,402**	**0**	**20,472**

Floating interest rates	1 year	1-5 years	Over 5 years	Total
Interest bearing liabilities	269,729	783,811	417,196	1,470,736
Net debt	**269,729**	**783,811**	**417,196**	**1,470,736**

2007	1 year	1-5 years	Over 5 years	Total
Floating interest rates				
Interest bearing liabilities	110,310	451,093	53,136	614,539
Net debt	**110,310**	**451,093**	**53,136**	**614,539**

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

Capital management

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

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

The gearing ratio, 45 %, of current financial year shows that the share of interest bearing liabilities in capital is higher than the Group policy limit and the Group will take steps in 2009 to improve the ratio by slightly slowing down the investment speed.

In thousands of kroons

	2008	2007
Interest bearing liabilities	1,491,208	642,840
Net debt	**1,491,208**	**642,840**
Equity	1,835,122	1,893,907
Total Equity	**1,835,122**	**1,893,907**
Equity and interest bearing liabilities	**3,326,330**	**2,536,747**
Gearing ratio	**45%**	**25%**

Gearing ratio is calculated using following formula:

Gearing Ratio = Interest bearing liabilities / (Interest bearing liabilities + Equity).

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Note 26 Fair value

According to the management's opinion, there are no significant differences between the carrying values and fair values of financial assets and liabilities and for revalued land and buildings. The fair value of receivables and payables with a fixed interest rate is not considered different from their book value, since the fixed interest rate does not significantly differ from the prevalent interest rates on the market. For correct statement of the fair value, the calculation has been done by discounting the expected future cash-flows at prevailing interest rates.

Note 27 Interests of the members of the Supervisory Board

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

Andres Järving	Represents 4,795,730 shares (11.8%) of Tallinna Kaubamaja AS
Jüri Käo	Represents 4,768,614 shares (11.7%) of Tallinna Kaubamaja AS
Enn Kunila	Represents 4,692,370 shares (11.5%) of Tallinna Kaubamaja AS

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

Shareholder	31 December 2008 Participation	31 December 2007 Participation
NG Investeeringud AS (parent company)	67.00%	67.00%
ING Luxembourg S.A.	6.84%	6.59%
Skandinaviska Enskilda Banken Ab	4.81%	5.59%

As of 31 December 2008, 68.75% of the shares of NG Investeeringud OÜ are owned by NG Kapital OÜ, which is the ultimate controlling party.

Note 29 Restrictions on allocation of retained earnings

As of 31 December 2008, the retained earnings of Tallinna Kaubamaja AS amounted to 706,084 thousand kroons (31 December 2007: 686,155 thousand kroons). From 1 January 2008 onwards, dividend payment to owners will incur an obligation to pay 21/79 (21/79 until 31 December 2008) income tax on the net dividend to be paid. Thus, as of the balance sheet date, a total of 557,806 thousand kroons can be paid as dividends from the retained earnings (31 December 2007: 552,483 thousand kroons), with the respective income tax expenses amounting to 148,278 thousand kroons (31 December 2007: 149,454 thousand kroons).

Note 30 Events after the balance sheet date

Tallinna Kaubamaja AS and Swedbank AS concluded a loan contract in the amount of 234,699 thousand kroons and a term of five years in 28 January 2009. The purpose of the loan is the financing of trade projects in Tallinna Kaubamaja Group and refinancing of borrowings.

On 2 February, KIA Auto concluded a contract with Auto Forte Baltic on sales and service of KIA cars in Tartu.

On 25 February 2009, SIA Buvuznemums STATS submitted a statement of claim with the Riga Regional Court against the Group's subsidiary SIA TKM Latvija SIA on recovery of debt for late charge and contractual penalty, requesting that the court recovers from the defendant in favour of the claimant the main debt of LVL 678,913, contractual penalty of LVL 206,653 and late charge of LVL 227,476, the total sum being LVL 1,113,043. The main debt of LVL 678,914 is based on outstanding invoices issued by SIA Buvuznemums STATS for construction work completed to SIA TKM Latvija. In its turn, SIA TKM Latvija has claims from SIA Buvuznemums STATS for the payment of contractual penalty for the delay of handing over the object. The complaint for the contractual penalty in amount of LVL 998,871 was submitted to SIA Buvuznemums STATS on 21 January 2009.

No provisions have been recorded in the Group's financial statements to account for this claim or the counterclaim submitted by SIA TKM Latvija as the Management believes that the claim is not reasonable and probable outcome is currently difficult to estimate. If SIA TKM Latvija would also charge fines and penalties, their counterclaim would exceed the counterparty's claim.

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Note 31 Financial information on the parent company

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

BALANCE SHEET
In thousands of kroons/euros, as of December 31

	31 December 2008		31 December 2007	
	EEK	EUR*	EEK	EUR*
ASSETS				
Current assets				
Cash and bank accounts	29,206	1,867	196,861	12,582
Accounts receivable	8,267	528	5,833	373
Other receivables	803,727	51,367	317,181	20,272
Accrued income	102	7	665	43
Prepaid expenses	899	57	925	59
Inventories	239,406	15,302	224,235	14,331
Total current assets	**1,081,607**	**69,128**	**745,700**	**47,660**
Non-current assets				
Shares in subsidiaries	84,174	5,380	84,174	5,380
Shares of associated companies	6,500	415	6,500	415
Other long-term receivables	4,578	293	7,828	500
Property, plant and equipment	48,826	3,121	67,275	4,300
Total non-current assets	**144,078**	**9,209**	**165,777**	**10,595**
TOTAL ASSETS	**1,225,685**	**78,338**	**911,477**	**58,255**
LIABILITIES AND OWNER'S EQUITY				
Current liabilities				
Borrowings	105,709	6,757	0	0
Prepayments received for goods and services	3,681	234	10,035	641
Accounts payable	121,861	7,789	132,489	8,468
Other short-term payables	47,862	3,058	62,948	4,023
Total current liabilities	**279,113**	**17,839**	**205,472**	**13,132**
Non-current liabilities	383,208	24,491	265,992	17,000
Borrowings	**383,208**	**24,491**	**265,992**	**17,000**
Total non-current liabilities	**662,321**	**42,330**	**471,464**	**30,132**
TOTAL LIABILITIES				
Owner's equity				
Share capital	407,292	26,031	407,292	26,031
Mandatory reserve	40,729	2,603	40,729	2,603
Retained earnings	115,342	7,373	-8,008	-511
TOTAL OWNER'S EQUITY	**563,363**	**36,007**	**440,013**	**28,123**
TOTAL LIABILITIES AND OWNER'S EQUITY	**1,225,685**	**78,337**	**911,477**	**58,255**

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

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INCOME STATEMENT
In thousands of kroons/euros, per annum

	2008		2007	
	EEK	**EUR***	**EEK**	**EUR***
Revenue	1,534,970	98,102	1,545,842	98,797
Other income	69,776	4,459	52,404	3,349
Goods	-1,070,634	-68,426	-1,034,852	-66,139
Other operating expenses	-230,548	-14,735	-214,342	-13,699
Personnel expenses	-161,290	-10,308	-159,698	-10,207
Depreciation, amortisation and impairments	-28,191	-1,802	-27,690	-1,770
Other expenses	-5,413	-346	-4,749	-304
Operating profit	**108,670**	**6,945**	**156,915**	**10,029**
Interest income and expenses	14,773	944	6,406	409
Other financial income and expenses	81,365	5,200	40,611	2,596
Total financial income and expenses	**96,138**	**6,144**	**47,017**	**3,005**
NET PROFIT FOR THE FINANCIAL YEAR	**204,808**	**13,088**	**203,932**	**13,034**
Basic and diluted earnings per share (EEK/EUR)	5,03	0.32	4,01	0.26

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

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CASH FLOW STATEMENT

In thousands of kroons/euros, per annum

	2008		2007	
	EEK	EUR*	EEK	EUR*
CASH FLOW FROM OPERATING ACTIVITIES				
Net profit	204,808	13,090	203,932	13,034
Adjustments:				
Interest expense	26,744	1,709	19,308	1,234
Interest income	-41,330	-2,642	-25,714	-1,643
Depreciation, amortisation and impairments	28,191	1,802	27,690	1,770
Profit from disposals and write-off of non-current assets	647	41	83	5
Dividend income	-81,458	-5,206	-40,729	-2,603
Change in inventories	-15,021	-960	-56,848	-3,633
Change in receivables and prepayments related to operating activities	-759	-49	-39,135	-2,501
Change in liabilities and prepayments related to operating activities	-32,922	-2,104	20,370	1,302
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**88,900**	**5,682**	**108,957**	**6,964**
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of PPE (except for finance lease)	-10,604	-677	-13,664	-873
Interest received	41,893	2,677	25,318	1,618
Change in group account receivables	-428,895	-27,411	0	0
Investments in subsidiaries	0	0	-40	-3
Loans to subsidiary companies	-76,335	-4,880	0	0
Repayments of loans granted to subsidiary companies	3,091	198	0	0
Repayment of loans granted to associated companies	3,250	208	2,000	128
Profit from disposals of property, plant and equipment	68	4	32	2
Dividends received	81,458	5,206	40,729	2,602
TOTAL CASH FLOW FROM INVESTING ACTIVITIES	**-386,074**	**-24,675**	**54,375**	**3,475**
CASH FLOW FROM FINANCING ACTIVITIES				
Change in overdraft balance	42,298	2,704	0	0
Loans received	203,376	12,998	0	0
Repayments of loans raised	-22,748	-1,454	0	0
Redemption of bonds	0	0	-50,000	-3,196
Interest paid	-25,891	-1,655	-17,713	-1,132
Dividends paid	-81,458	-5,206	-40,729	-2,603
Change in group account liability	13,942	891	0	0
TOTAL CASH FLOW FROM FINANCING ACTIVITIES	**129,519**	**8,278**	**-108,442**	**-6,931**
TOTAL CASH FLOW	**-167,655**	**-10,715**	**54,890**	**3,508**
Cash and cash equivalents at the beginning of the period	196,861	12,582	141,971	9,074
Cash and cash equivalents at the end of the period	29,206	1,867	196,861	12,582
Change in cash and cash equivalents	**-167,655**	**-10,715**	**54,890**	**3,508**

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

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STATEMENT OF CHANGES IN EQUITY
In thousands of kroons, per annum

	Share capital	Mandatory reserve	Retained earnings	Total
Balance as of 31.12.2006	**407,292**	**7,269**	**-137,751**	**276,810**
Bonus issue	0	33,460	-33,460	0
Dividends paid	**0**	0	-40,729	-40,729
Profit for the period	0	0	203,932	203,932
Balance as of 31.12.2007	**407,292**	**40,729**	**-8,008**	**440,013**
Dividends paid	0	0	-81,458	-81,458
Profit for period	0	0	204,808	204,808
Balance as of 31.12.2008	**407,292**	**40,729**	**115,342**	**563,363**

In thousands of euros

	Share capital	Mandatory reserve	Retained earnings	Total
Balance as of 31.12.2006	**26,031**	**465**	**-8,804**	**17,691**
Bonus issue	0	2,138	-2,138	0
Dividends paid	0	0	-2,603	-2,603
Profit for the period	0	0	13,034	13,034
Balance as of 31.12.2007	**26,031**	**2,603**	**-511**	**28,123**
Dividends paid	0	0	-5,206	-5,206
Profit for the period	0	0	13,090	13,090
Balance as of 31.12.2008	**26,031**	**2,603**	**7,373**	**36,007**

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

Adjusted unconsolidated owners` equity of the parent company as at 31.12.2008 is as follows:

	2008	2007
Unconsolidated owner's equity of the parent company	563,363	440,013
Value of the subsidiaries, joint companies and associated companies in unconsolidated balance of the parent company	-90,674	-90,674
Value of the subsidiaries, joint companies and associated companies using equity method	1,362,428	1,544,568
Total	**1,835,117**	**1,893,907**

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Tallinna Kaubamaja

Report on the Financial Statements

We have audited the consolidated financial statements of AS Tallinna Kaubamaja and its subsidiaries (hereafter "the Group"), which comprise the balance sheet as of 31 December 2008, 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. Except as described in the section "Basis for Qualified Opinion", 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.

Basis for Qualified Opinion

As disclosed in Note 11, the Management of the Group has carried out an impairment test for the purpose of determining the recoverable value of goodwill and trademark related with the acquisition of subsidiaries ABC King AS and OÜ Suurtüki NK. The impairment test carried out by the Management indicated no need for impairment of these assets. The result of the impairment test is dependent on several significant management assumptions and estimations. Due to unclear

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economic outlook, that in turn affects the validity of assumptions used in the test, we were unable to obtain sufficient audit evidence in relation to the impairment test and its potential effects on the financial statements.

Qualified Opinion

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary, had we been able to obtain sufficient evidence considering the matter described in section "Basis for Qualified Opinion", the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

Tallinn, 22 April 2009

Hanno Lindpere	ENapa
Ernst & Young Baltic AS	Eneken Napa
	Authorised Auditor

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PROFIT ALLOCATION PROPOSAL

Retained earnings of the Tallinna Kaubamaja AS Group:

Total retained earnings as of 31 December 2008	705,719 thousand kroons

The Chairman of the Management Board of Tallinna Kaubamaja AS proposes to the General Meeting of the Shareholders to pay dividends from the retained earnings as of 31 December 2008 16,292 thousand kroons.

Raul Puusepp
Chairman of the Management Board

Tallinn, 24 April 2009

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SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2008

The supervisory board of Tallinna Kaubamaja AS has reviewed the annual report, prepared by the management board, consisting of the management report, the consolidated financial statements, the management board's recommendation for profit allocation and the independent auditor's report, and has approved the annual report for presentation on the annual general meeting.

Hereby we confirm the correctness of information presented in the consolidated annual report 2008 of Tallinna Kaubamaja AS:

Raul Puusepp
Chairman of the Management Board

Andres Järving
Chairman of the Supervisory Board

Jüri Käo
Member of the Supervisory Board

Meelis Milder
Member of the Supervisory Board

Enn Kunila
Member of the Supervisory Board

Gunnar Kraft
Member of the Supervisory Board

Tallinn, 24 April 2009

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SALES REVENUE GROUPING ACCORDING TO CLASSIFICATION OF ESTONIAN ECONOMIC ACTIVITIES (EMTAK)

Revenue of the Group's Parent company is grouped by EMTAK codes as follows:

In thousands of kroons

EMTAK code	EMTAK group name	2008
47191	Other retail sale in non-specialized stores	1,534,970
	Total sales revenue	**1,534,970**