

**Tallinna Kaubamaja AS**

**TALLINNA KAUBAMAJA AS**

**Consolidated Interim Report for  
the 1<sup>st</sup> half year of 2008**

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**COMPANY PROFILE AND CONTACT DETAILS**

The primary areas of activity of the companies of the Tallinna Kaubamaja AS Group include retail and wholesale trade and rental activities. The Tallinna Kaubamaja Group employs more than 3,180 employees.

The Company is listed on the Tallinn Stock Exchange.

Registered office:	2 Gonsiori St. 10143 Tallinn Republic of Estonia
Registry code:	10223439
Beginning of financial year:	1 Jan. 2008
End of financial year:	31 Dec. 2008
Beginning of interim report period:	1 Jan. 2008
End of interim report period:	30 Jun. 2008
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**MANAGEMENT REPORT**

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

Management

In order to manage the Tallinna Kaubamaja AS the general meeting of the shareholders, held at least once in a year, elects supervisory board, which according to the articles of association may have 3 to 6 members. Members of the Tallinna Kaubamaja AS supervisory board are Andres Järving (the chairman of the supervisory board), Jüri Käo, Enn Kunila, Gunnar Kraft and Meelis Milder. Members of Tallinna Kaubamaja AS supervisory board are elected for three years. The mandates of current supervisory board members will expire: Andres Järving 29 May 2009, Jüri Käo 29 May 2009, Enn Kunila 29 May 2009, Meelis Milder 29 May 2009 and Gunnar Kraft 16 May 2010. During the period between the general meetings the supervisory board is plans actions of the company, organises management and accomplishes supervision over management actions. Regular supervisory board meetings are held at least 11 times in a year. In order to manage daily activities the supervisory board appoints member(s) of a management board according to the articles of association of the Tallinna Kaubamaja AS. Members of the management board are elected for three years and the supervisory board appoints the chairman of the management board from among the members of the management board. In order to elect a member of the management board, his or her consent is required. By the articles of association a member of the management board shall be elected for a specified term of three years. Extension of the term of office of a member of the management board shall not be decided earlier than one year before the planned date of expiry of the term of office, and not for a period longer than the maximum term of office prescribed by the articles of association.

The law, the articles of association, decisions and goals stated by the shareholders and supervisory board are followed for managing the company. By Commercial Code a resolution on amendment of the articles of association shall be adopted, if at least two-thirds of the votes represented at a general meeting are in favour. A resolution on amendment of the articles of association shall enter into force as of making of a corresponding entry in the commercial register. The articles of association of the Tallinna Kaubamaja AS prescribe no greater majority requirement and the public limited company possesses no several classes of shares.

Legal structure

As of 30 June 2008, the following companies belonged to the Group:

	Country of location	Holding as of 30.06.2008	Holding as of 31.12.2007
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 Autokeskuse OÜ	Estonia	100 %	100 %
KIA Auto UAB	Lithuania	100 %	100 %
Kia Automobiles SIA	Latvia	100 %	100 %
TKM Beauty OÜ	Estonia	100 %	100 %
TKM Beauty Eesti OÜ	Estonia	100 %	100 %
TKM Shoes OÜ	Estonia	100%	0%
AS Suurtüki NK	Estonia	100%	0%
Suurtuki SIA	Latvia	100%	0%
AS ABC King	Estonia	100%	0%
SIA ABC King	Latvia	100%	0%
Rävala Parkla AS	Estonia	50%	50%

Economic Development

Compared to the same period of 2007, the consumer price index increased by 11% in the 1<sup>st</sup> half year of 2008, being the lowest in March (10.9%) and the highest in April and in June (11.4%). According to the initial data of the Statistical Office, increase in retail turnover (without the sale of motor vehicles and fuel) constituted 8.0% in 1<sup>st</sup> half year of 2008. In the 1<sup>st</sup> half of 2007 the same indicator was 24.2 %

Retail sale in non-specialised shops (food products prevailing) increased by 14.2% during first six months (12.7% in the 2<sup>nd</sup> quarter). Retail sale in non-specialised shops (industrial goods prevailing) decreased by 0.6% (-0.7% in the 2<sup>nd</sup> quarter) compared to the equivalent period of last year. The same indicators for the 2<sup>nd</sup> half year of 2007 were 17.9% for food products and 17.3% for industrial goods. Therefore, the slowdown of economic growth is especially remarkable in retail business. This trend has been most acutely expressed in the sector of textile, clothing, footwear and leather clothing (2.2%). In the 2<sup>nd</sup> quarter retail sale of other specialized stores, such as stores selling computers and their devices, photographic supplies, sports, fishing and hiking equipment, games and toys etc decreased most (5.6%).

Economic performance

<b>FINANCIAL RATIOS 2007-2008</b>						
Group's consolidated interim report	1 <sup>st</sup> half year			2 <sup>nd</sup> quarter year		
	2008	2007	<i>Change</i> %	2008	2007	<i>Change</i> %
Net sales	3,046	2,804	9%	1,576	1,517	4%
Operating profit	124	189	-34%	54	109	-51%
Net profit	98	169	-42%	31	94	-67%
Return on equity (ROE)	5.1%	12.6%		1.6%	7.0%	
Return on assets (ROA)	2.6%	6.2%		0.8%	3.4%	
Net profit margin	3.2%	6.0%		2.0%	6.2%	
Gross profit margin	24.4%	24.1%		24.6%	23.9%	
Quick ratio	1.08	0.92		1.08	0.92	
Debt ratio	0.53	0.49		0.53	0.49	
Sales revenue per employee (EEK million)	0.96	1.05		0.47	0.56	
Inventory turnover	4.24	5.76		2.19	3.11	
<b>SHARE</b>						
Average number of shares (1,000 pcs.)	40,729	40,729		40,729	40,729	
Equity per share (EEK per share)	46.92	33.70		46.92	33.70	
Share closing price (EEK per share)	98.73	142.38		98.73	142.38	
Earnings per share	2.4	4.2		0.8	2.3	
Average number of employees	3,180	2,672		3,370	2,733	
Equity ratio	= Owners' equity / Balance sheet total * 100%					
Return on equity (ROE)	= Net profit / Average owners' equity * 100%					
Return on assets (ROA)	= Net profit / Average total assets * 100%					
Sales revenue per employee	= Sales revenue / Average number of employees					
Inventory turnover (multiplier)	= Sales revenue / inventories					
Net profit margin	= Net profit / Sales revenue * 100%					
Gross profit margin	= (Sales revenue - Cost of goods sold) / Sales revenue					
Quick ratio	= Current assets / Current liabilities					
Debt ratio	= Total liabilities / Balance sheet total					

The consolidated non-audited revenue of Tallinna Kaubamaja for the first six months of 2008 was 3.0 billion kroons (194.7 million euros). The return on sales of the Group of 1<sup>st</sup> half of 2007 was 2.8 billion kroons (179.2 million euros). The growth in turnover was 9 %. Net profit was 42 % less than that of the 1<sup>st</sup> half of the last year, i.e. 98.3 million kroons (6.3 million euros), which is 71.1 million kroons (4.5 million euros) less than in the 1<sup>st</sup> half of 2007 when net profit constituted 169.4 million kroons (10.8 million euros).

Lower net profit compared to the last year's result was actually expected in the company's plans, taking into account the development of the company and also the change in economic environment. There are 14.8 million kroons (1.0 million euros) non-capitalized development costs in the 1<sup>st</sup> half year operating expenses. In the 1<sup>st</sup> half of 2007 the corresponding costs were 3.2 million kroons (0.2 million euros). The main factors for decrease in net profit were partly or entirely closed shops for reconstruction works (bearing operating costs) and pre-opening costs of seven new Selver shops. Other factors for decrease in profit were expected growth of energy and maintenance and labour costs, increase in depreciation resulting from the revaluation of fixed assets, undertaken at the end of 2007, also the income tax 21.7 million kroons (1.4 million euros, 2007: 11.5 million kroons, 0.7 million euros) expense on the dividends distributed for the prior financial years.

As of 30 June 2008, the balance sheet total of the Tallinna Kaubamaja Group was 4.1 billion kroons (262.6 million euros), which means an increase by 1.4 billion kroons (90.1 million euros) compared to the end of 1<sup>st</sup> half of 2007. In the 1<sup>st</sup> half year of 2008, assets and shareholders' equity increased by 23% and 1% respectively.

As of the end of the first half of the year, the number of loyal customers amounted to 301 thousand, increasing by 20% within six month. The percentage of loyal customers in the turnover of the shops of the Group increased to 74% in first half of 2008. At the end of June the number of Partner Credit Cards was over 11 700.

#### Share Market

Since 19 August 1997, the shares of AS Tallinna Kaubamaja have been listed in the main list of securities of the Tallinn Stock Exchange. Tallinna Kaubamaja AS has issued 40 729.2 thousand registered shares, each with the nominal value of 10 kroons. The shares are freely transferable, no statutory restrictions apply. There are no restrictions on transfer of securities to the company as provided by contracts between the company and its shareholders. We do not have information about contracts between the shareholders restricting the transfer of securities. NG Investeeringud OÜ has direct significant participation. Shares granting special rights to their owners have not been issued.

The members of the management board of Tallinna Kaubamaja AS have no right to issue or buy back shares. In addition, there are no commitments between the company and its employees providing for compensation in mergers and acquisitions under article 19' of Stock Market Trade Act.

The price of a share, the value of which was 142.38 kroons at the end of 1<sup>st</sup> half of 2007, decreased over the year to 98.73 kroons by the end of the 1<sup>st</sup> half of 2008, thus experiencing a fall of approximately 31%. At the beginning of 2008, a share of Tallinna Kaubamaja cost 122.04 kroons.

According to the notice of regular annual general meeting of the shareholders published on 14 April 2008, the management board proposed to pay dividends 2.00 kroons per share. The general meeting of shareholders approved it.

**Price of a share in Estonian kroons and trading statistics on the Tallinn Stock Exchange from 1 January 2007 to 30 June 2008**



Kaubamaja department stores

Sales revenue of the first six months of 2008 of the business segment of the Kaubamaja department stores was 733.0 million kroons (46.9 million euros), showing a growth of 6 % in comparison with the same period of the previous year, regardless of decrease in retail sales in stores selling manufactured goods in whole Estonia. Net profit of the Kaubamaja department stores in the 1<sup>st</sup> half of 2008 was 62.7 million kroons (4.0 million euros), which fell behind the result achieved a year ago by 1.1 million kroons (0.1 million euros). Financing cost used for acquisitions and growth of energy and maintenance costs have had the most negative impact on the profit of Kaubamaja department stores.

In the first half year, the segment of Kaubamaja department stores was actively seeking perspective areas of development. In the 2<sup>nd</sup> quarter, shoe stores operating under the brands of Suurtüki and ABC King were acquired. According to the nature and concept of footwear business, the Tallinna Kaubamaja group has decided to show footwear as a separate business segment from now on and it will be explained in a greater detail below.

OÜ TKM Beauty, the subsidiary founded in autumn 2007, continued preparing for the launch of the chain of beauty shops operating under the trademark I.L.U. in the first half of 2008. Opening of the shops depends on the opening times of shopping centres. The company plans to open its first shop in Estonia in Pärnu in late autumn of 2008 and first shop in Latvia in 2010. Lease contracts have also been signed with shopping centre developers in Tartu, Riga and Tallinn.

Selver supermarkets

In the 1<sup>st</sup> half year of 2008 the net turnover of A-Selver was 1,932.1 million kroons (123.5 million euros), which exceeds that of the same period of last year by 12%. The turnover for the same period last year was 1,723.8 million kroons (110.2 million euros).

Retail sale in the sector of non-specialised shops in Estonia (food products prevailing) increased by 14.2%. The market share in this sector constituted 14.1% in the first half of 2008. The increase in the turnover of Selver was most influenced by the addition of new customers, increase in prices, primarily in the sector of food products, and the overall cooling of consumption.

In February this year, a shop was opened in Narva and in March in Kohtla-Järve, in May in Hiiumaa and in June another shop was opened in Mustamäe in Tallinn. A total of 6,653 m<sup>2</sup> of selling space was added in the first quarter.

The pre-tax profit for the supermarket segment for the reporting period was 46.5 million kroons (3.0 million euros), decreasing by 43.2 million kroons (2.8 million euros) compared to the previous year. Extensive reconstructions in three strategic locations of Selver store chain (Järve Selver in Tallinn, Pirita Selver and Krooni Selver) had a negative impact on the increase of profit. Because of reconstruction works Pirita Selver was closed for the customers for one and a half months and Krooni Selver for two weeks. In Järve Selver the reconstruction works were carried out during four months, which affected sales. Pre-opening costs of the six new shops opened in 2008 and costs related to the start-up of a subsidiary Selver Latvia SIA had an impact on the profit. In 2008 new shops were opened in Narva, Kohtla-Järve, Hiiumaa, Mustamäe in Tallinn, Põlva and Pärnu. Additional impact on the profit had two shops (Põltsamaa and Jõgeva) opened in the second half of 2007 continuing starting period and pre-opening costs of Paide Selver, which will be opened in August.

#### Real estate

The sales revenue of the 1<sup>st</sup> half of 2008 of the real estate segment was 56.0 million kroons (3.6 million euros), and in comparison with the 1<sup>st</sup> half of 2007, sales revenue increased by 21%. Sales revenue of the 1<sup>st</sup> half of 2008 of the real estate segment without inter-segmental sales was 20.5 million kroons (1.3 million euros), increasing by 17% in comparison with last year.

Net profit for the first six months was 16.4 million kroons (1.1 million euros), decreasing by 4.7 million kroons or 22 % compared to the previous year. The decrease in net profit is caused by the increase in financial costs and the depreciation of fixed assets.

In March, the Kohtla-Järve Selver was opened in a building developed by Tallinna Kaubamaja Kinnisvara AS. In April a subcontracting agreement was made with AS Eesti Ehitus for construction of the Selver store in Keila. The work is planned to be completed in the end of October. In May the Hiiumaa Selver shop was completed as planned. In June the reconstruction of Pirita Selver was also completed in time. In a same month a subcontracting agreement was made with KMG Ehitus for construction of the Selver store in Kakumäe, which completing is planned to February 2009. Additionally, the construction of the Ülejõe Selver commenced in Pärnu; the work was completed in July and the shop was opened at the end of July. The construction of the Paide Selver has commenced; the work will be completed in August and the shop will be opened at the end of August.

In Latvia the construction of the shopping centre commenced in Ogre. A subcontracting agreement was made with SIA „Orions Celtniecības kompānija”. The work will be completed in December. The construction of the Selver shop commenced in Rezekne also. A subcontracting agreement was made with SIA „Būvuzņēmums STATS”. The construction works will be to complete in October. The main tenant for both shops will be Selver.

#### Car trade

The sales revenue car trade segment of 1<sup>st</sup> six months of 2008 was 315.4 million kroons (20.2 million euros). In the first six months, 1325 vehicles were sold, which exceeds the number of vehicles sold during the same period a year ago by 193. KIA has a 3.6% market share in the Baltic countries (growth with six months 20%).

In the 1<sup>st</sup> half of 2008 the Estonian car market dropped 12%; in the 2<sup>nd</sup> quarter falloff was 18%. Despite that KIA sales increased 30% and 12% respectively, increasing KIA's market share by 27% and achieving with that 3.8% from the market.

Within the first six months the Latvian market experienced the most significant decrease of 31%. The sales of KIA vehicles fell a bit less – 19%. At the end of the 1<sup>st</sup> half year KIA's market share was 3.0%, having grown by 11% with six months.

The car market of Lithuania, which made a growth swing during Q1 2008, slowed down in Q2 gaining 31% growth rate for the 1<sup>st</sup> half year. The swing of KIA was even higher, reaching even a 118% growth. At the end of the 1<sup>st</sup> half year the KIA market share was 3.0%, growing 36% with six months. In June a new



representative car salon was opened in Vilnius, which on one hand caused opening costs and fall in profit but on other hand enables to raise client base and profit.

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 the first half year. In Lithuania, KIA cee'd was chosen the car of the year in 2007, while in Estonia and Latvia, it claimed the high runner-up place.

The net loss of car trade segment of 1st six months of 2008 amounted to 2.4 million kroons (0.2 million euros). The net profit of 1st six months of 2007 was 6.2 million kroons (0.4 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 rapidly diminishing car market of Latvia in 2007 and had its negative impact on profit in the 1<sup>st</sup> half year. Gained market share allows to expect better results in the future.

#### Footwear trade

The sales revenue of Suurtüki NK AS and Suurtüki SIA, acquired on 1 April 2008, made up 45.1 million kroons (2.9 million euros) of the sales in group total. In addition to 12 already existing stores, new stores were opened in Maardu, Võru and Hiiumaa in the 2nd quarter. Reporting period ended with loss of 3.3 million kroons (0.2 million euros). The result was influenced by costs for opening new stores and leap in personnel costs (39%).

On 30 June 2008 the Tallinna Kaubamaja group acquired ABC King AS with its subsidiary ABC King SIA and OÜ ABC Saare footwear shops. 5 shops in Tallinn, 4 shops in other Estonian towns and 5 shops in Latvia were added with this to Tallinna Kaubamaja group footwear trading. New ABC King shops will be opened in Tartu, Rakvere and Saaremaa in the near future.

#### Personnel

In the 1<sup>st</sup> half year of 2008, the average number of employees of the Group of Tallinna Kaubamaja was 3 180, increasing by 12 % over six months and 19% in comparison the first six months in last year. The total labour cost (wages and salaries and social tax cost) amounted to 300.2 million kroons (19.2 million euros), increasing by 32% in comparison with the same period last year.

## INTERIM ACCOUNTS

The manager's approval for the consolidated interim financial statement.

In preparing the abbreviated financial statement as of 30 June 2008, the accounting policies and data presentation methods in conformity with the International Financial Reporting Standards (IFRS) as adopted by the European Union, were used. The abbreviated financial statement provides a true and fair overview of the assets, liabilities, financial position, and the profit of the economic operator.

The interim management report provides a true and fair overview of the important events, which have taken place within the first three months of the financial year, and their impact on the abbreviated financial statement, and includes the description of main risks and ambiguities, which may, according to the estimation by the management board, have an impact on the financial year of the economic operator during the remaining nine months.

The interim report reflects important transactions with related parties.

In the course of the preparation of the report, all the important facts, which became evident until the date of the preparation of the report (15 August 2008), were assessed.

The economic operator is continuously operating.

Raul Puusepp  
Manager

Tallinn, 15<sup>th</sup> August 2008

## CONSOLIDATED BALANCE SHEET

	Note	EEK/EUR thousand			
		30 June 2008		31 December 2007	
		EEK	EUR*	EEK	EUR*
<b>ASSETS</b>					
Current assets					
Cash at bank and in hand	2	263,822	16,861	282,635	18,064
Trade receivables	3	52,508	3,356	50,966	3,257
Other receivables	4	30,438	1,945	50,755	3,244
Prepaid expenses	5	45,997	2,940	20,133	1,287
Inventories	6	718,448	45,917	519,630	33,209
<b>Total current assets</b>		<b>1,111,213</b>	<b>71,019</b>	<b>924,119</b>	<b>59,061</b>
Fixed assets					
Prepaid expenses	5	36,127	2,309	37,291	2,383
Shares in affiliated companies	8	15,754	1,007	14,201	908
Long term investment (ABC King)	7	167,356	10,696	0	0
Other long-term receivables	9	2,828	181	2,828	181
Tangible fixed assets	10	2,683,176	171,486	2,300,878	147,053
Intangible fixed assets					
Goodwill	11,7	91,874	5,872	49,388	3,156
Total intangible assets		91,874	5,872	49,388	3,156
<b>Total fixed assets</b>		<b>2,997,115</b>	<b>191,551</b>	<b>2,404,586</b>	<b>153,681</b>
<b>TOTAL ASSETS</b>		<b>4,108,338</b>	<b>262,570</b>	<b>3,328,705</b>	<b>212,742</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities					
Debts	12	254,921	16,292	120,626	7,709
Prepayments received for goods and services		9,042	578	11,673	745
Trade payables		642,843	41,086	611,454	39,080
Other current payables	14	118,400	7,566	166,756	10,657
<b>Total current liabilities</b>		<b>1,025,206</b>	<b>65,522</b>	<b>910,509</b>	<b>58,191</b>
Long-term liabilities					
Debts	12,13	1,170,349	74,799	522,214	33,375
Long term reserve		1,913	122	2,075	132
<b>Total long-term liabilities</b>		<b>1,172,262</b>	<b>74,921</b>	<b>524,289</b>	<b>33,507</b>
<b>TOTAL LIABILITIES</b>		<b>2,197,468</b>	<b>140,443</b>	<b>1,434,798</b>	<b>91,698</b>
Owners' equity					
Share capital	15	407,292	26,031	407,292	26,031
Statutory reserve		40,729	2,603	40,729	2,603
Fixed assets revaluation reserve		742,920	47,481	759,721	48,555
Retained earnings		719,752	46,001	686,155	43,854
Currency exchange differences		167	11	10	1
<b>TOTAL OWNERS' EQUITY</b>		<b>1,910,860</b>	<b>122,127</b>	<b>1,893,907</b>	<b>121,044</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>4,108,328</b>	<b>262,570</b>	<b>3,328,705</b>	<b>212,742</b>

\* The accounts are reported in thousands of euros (EUR) in order to give additional information to readers.

## CONSOLIDATED INCOME STATEMENT

	Note	EEK/EUR thousand			
		6 months 2008		6 months 2007	
		EEK	EUR*	EEK	EUR*
Operating revenue					
Sales revenue	16	3,046,163	194,685	2,803,984	179,207
Other operating revenue	17	75,937	4,853	57,596	3,681
Cost of goods sold		-2,302,141	-147,132	-2,126,896	-135,934
Other operating expenses	18	-327,903	-20,957	-258,959	-16,550
Staff costs	19	-300,240	-19,189	-228,062	-14,576
Depreciation and impairment of fixed assets	10	-61,001	-3,899	-49,710	-3,177
Other operating expenses		-6,847	-438	-9,094	-581
<b>Operating profit</b>		<b>123,968</b>	<b>7,923</b>	<b>188,859</b>	<b>12,070</b>
Financial expenses	20	-10,218	-653	-18,364	-1,174
Financial income	20	4,605	294	9,435	603
Financial income from shares in affiliated companies	8	1,553	99	916	59
<b>Total financial income and expenses</b>		<b>-4,060</b>	<b>-260</b>	<b>-8,013</b>	<b>-512</b>
<b>Profit before income tax</b>		<b>119,908</b>	<b>7,663</b>	<b>180,846</b>	<b>11,558</b>
Income tax		-21,653	-1,384	-11,487	-734
<b>NET PROFIT FOR ACCOUNTING PERIOD</b>		<b>98,255</b>	<b>6,279</b>	<b>169,359</b>	<b>10,824</b>
Earnings per share (EEK/EUR)	14	2.41	0.15	4.16	0.27
Diluted earnings per share (EEK/EUR)	14	2.41	0.15	4.16	0.27

\* The accounts are reported in thousands of euros (EUR) in order to give additional information to readers.

## CONSOLIDATED INCOME STATEMENT

	Note	EEK/EUR thousand			
		2 <sup>nd</sup> quarter 2008		2 <sup>nd</sup> quarter 2007	
		EEK	EUR*	EEK	EUR*
Operating revenue					
Sales revenue	16	1,575,887	100,718	1,517,087	96,960
Other operating revenue	17	42,629	2,724	33,821	2,162
Cost of goods sold		-1,187,770	-75,912	-1,154,874	-73,811
Other operating expenses	18	-176,928	-11,308	-132,956	-8,497
Staff costs	19	-164,384	-10,506	-122,704	-7,842
Depreciation and impairment of fixed assets	10	-32,088	-2,051	-25,145	-1,607
Other operating expenses		-3,822	-244	-6,206	-397
<b>Operating profit</b>		<b>53,524</b>	<b>3,421</b>	<b>109,023</b>	<b>6,968</b>
Financial expenses	20	-4,611	-295	-9,281	-593
Financial income	20	2,757	176	4,872	311
Financial income from shares in affiliated companies	8	735	47	478	31
<b>Total financial income and expenses</b>		<b>-1,119</b>	<b>-72</b>	<b>-3,931</b>	<b>-251</b>
<b>Profit before income tax</b>		<b>52,405</b>	<b>3,349</b>	<b>105,092</b>	<b>6,717</b>
Income tax		-21,653	-1,384	-11,487	-734
<b>NET PROFIT FOR ACCOUNTING PERIOD</b>		<b>30,752</b>	<b>1,965</b>	<b>93,605</b>	<b>5,983</b>
Earnings per share (EEK/EUR)	14	0.76	0.05	2.30	0.15
Diluted earnings per share (EEK/EUR)	14	0.76	0.05	2.30	0.15

\* The accounts are reported in thousands of euros (EUR) in order to give additional information to readers.

**CONSOLIDATED CASH FLOW STATEMENT**

	Note	EEK/EUR thousand			
		6 month 2008		6 month 2007	
		EEK	EUR*	EEK	EUR*
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Net profit		98,255	6,280	169,359	10,824
Adjustments:					
Dividends disbursed	15	21,653	1,384	0	0
Interest expense	20	8,299	530	18,366	1,174
Interest income		-4,605	-294	-10,773	-689
Depreciation and impairment of fixed assets	10	61,001	3,899	49,710	3,177
Gains (losses) on sales and write-offs of fixed assets		-3,808	-243	-29	-2
Effect of equity method	8	-1,553	-99	-916	-59
Change in inventories		-156,479	-10,001	-174,182	-11,132
Change in receivables and prepayments related to operating activities		4,176	267	12,614	806
Change in liabilities and prepayments related to operating activities		-46,957	-3,001	102,897	6,576
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>-20,017</b>	<b>-1,279</b>	<b>167,046</b>	<b>10,676</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>					
Acquisition of tangible fixed assets (except for financial lease)	10	-440,738	-28,168	-168,751	-10,785
Tangible fixed assets sold		255	16	97	6
Acquisition of subsidiaries		-62,966	-4,024	-47,313	-3,024
Acquisition of long term investments		-167,356	-10,696	0	0
Repayments of loans granted to affiliated companies	9	2,250	144	1,000	64
Interest received		5,271	337	10,913	696
<b>TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES</b>		<b>-663,284</b>	<b>-42,392</b>	<b>-204,054</b>	<b>-13,042</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Loans raised		1,000,884	63,968	0	0
Repayments of loans raised		-229,228	-14,650	-39,354	-2,515
Redemption of bonds		0	0	-49,069	-3,136
Dividends paid	15	-81,458	-5,206	-40,729	-2,603
Income tax on dividends	15	-21,653	-1,384	-11,488	-734
Repayment of financial lease principal payments		-2,224	-142	-2,079	-133
Interest paid		-8,249	-527	-17,888	-1,143
<b>TOTAL CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>658,072</b>	<b>42,058</b>	<b>-160,607</b>	<b>-10,265</b>
<b>TOTAL CASH FLOW</b>		<b>-25,229</b>	<b>-1,613</b>	<b>-197,615</b>	<b>-12,629</b>
Cash and equivalents of cash at beginning of period		283,207	18,100	374,930	23,962
Cash and equivalents of cash at end of period	2	263,822	16,861	177,315	11,333
<b>Change in cash and equivalents of cash</b>		<b>-19,385</b>	<b>-1,239</b>	<b>-197,615</b>	<b>-12,629</b>

\* The accounts are reported in thousands of euros (EUR) in order to give additional information to readers.

## CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

	EEK thousand					
	Share capital	Revaluation reserve	Legal reserve	Retained profit	Conversion differences	Total
<b>Balance as of 31 Dec. 2006</b>	<b>407,292</b>	<b>492,014</b>	<b>7,269</b>	<b>337,215</b>	<b>-20</b>	<b>1,243,770</b>
Revaluation of land and buildings	0	280,000	0	0	0	280,000
Reclassification of amortisation of revalued land and buildings	0	-12,293	0	12,293	0	0
Change in conversion difference	0	0	0	0	30	30
Total income and expenses for period shown directly in owners' equity	0	267,707	0	12,293	30	280,030
Profit for accounting period	0	0	0	410,836	0	410,836
Total income and expense for period	0	267,707	0	423,129	30	690,866
Change in statutory reserve	0	0	33,460	-33,460	0	0
Dividends disbursed	0	0	0	-40,729	0	-40,729
<b>Balance as of 31 Dec. 2007</b>	<b>407,292</b>	<b>759,721</b>	<b>40,729</b>	<b>686,155</b>	<b>10</b>	<b>1,893,907</b>
Reclassification of amortisation of revalued land and buildings	0	-16,801	0	16,801	0	0
Change in conversion difference	0	0	0	0	157	157
Total income and expenses for period shown directly in owners' equity	0	-16,801	0	16,801	157	157
Profit for accounting period	0	0	0	98,255	0	98,255
Total income and expense for period	0	-16,801	0	115,056	157	98,411
Dividends disbursed				-81,459		-81,459
<b>Balance as of 30 Jun. 2008</b>	<b>407,292</b>	<b>742,920</b>	<b>40,729</b>	<b>719,752</b>	<b>167</b>	<b>1,910,860</b>

EUR thousand

	Share capital	Revalua- tion reserve	Legal reserve	Retained profit	Conversion differences	Total
<b>Balance as of 31 Dec. 2006</b>	<b>26,031</b>	<b>31,445</b>	<b>465</b>	<b>21,552</b>	<b>-1</b>	<b>79,491</b>
Revaluation of land and buildings	0	17,895	0	0	0	17,895
Reclassification of amortisation of revalued land and buildings	0	-786	0	786	0	0
Change in conversion difference	0	0	0	0	2	2
Total income and expenses for period shown directly in owners' equity	0	17,110	0	786	2	17,897
Profit for accounting period	0	0	0	26,257	0	26,257
Total income and expense for period	0	17,110	0	27,043	2	44,154
Change in statutory reserve	0	0	2,138	-2,138	0	0
Dividends disbursed	0	0	0	-2,603	0	-2,603
<b>Balance as of 31 Dec. 2007</b>	<b>26,031</b>	<b>48,555</b>	<b>2,603</b>	<b>43,853</b>	<b>1</b>	<b>121,044</b>
Reclassification of amortisation of revalued land and buildings	0	-1,074	0	1,074	0	0
Change in conversion difference	0	0	0	0	10	10
Total income and expenses for period shown directly in owners' equity	0	-1,074	0	1,074	10	10
Profit for accounting period	0	0	0	6,280	0	6,280
<i>Total income and expense for period</i>	0	-1,074	0	7,353	10	6,290
Dividends disbursed				-5,206		-5,206
<b>Balance as of 30 Jun. 2008</b>	<b>26,031</b>	<b>47,481</b>	<b>2,603</b>	<b>46,001</b>	<b>11</b>	<b>122,127</b>

\* The accounts are reported in thousands of euros (EUR) in order to give additional information to readers.

For more information about owners' equity and changes therein, please refer to Note 14.



## NOTES TO THE CONSOLIDATED INTERIM ACCOUNTS

### Note 1. Accounting Principles Followed upon Preparation of the Consolidated Interim Accounts

#### General Information

Tallinna Kaubamaja AS ('the Company') and its subsidiaries (jointly 'the Group') are companies engaged in rendering services related to retail sale and rental activities in Estonia, Latvia and Lithuania. Tallinna Kaubamaja AS is a company founded on 18 October 1994 in the Republic of Estonia. The shares of Tallinna Kaubamaja AS are listed on the Tallinn Stock Exchange.

#### Bases for Preparation

The Consolidated Interim Accounts of Tallinna Kaubamaja AS are prepared pursuant to the International Financial Reporting Standards (IFRS) as adopted by the European Union and the international financial reporting standards issued by the International Accounting Standards Board. The Interim Accounts are prepared pursuant to the same accounting principles as used in the Annual Report for the financial year which ended on 31 Dec. 2007.

The underlying currency of the consolidated Accounts is the Estonian kroon. Interim Accounts are presented in thousand in kroons, if not said differently. In order to help the readers to better understand the financial indicators and to adhere to the requirements of the rules and regulations of the Tallinn Stock Exchange the financial indicators in the Accounts are also given in euros which have been converted based on the original financial indicators given in Estonian kroons. As the exchange rate of the Estonian kroon and the euro has been fixed at 1 euro = 15.6466 kroons no spread is created upon conversion.

The Manager is of the opinion that the Interim Report of Tallinna Kaubamaja AS on the 1<sup>st</sup> half year 2008 gives a true and fair view of the Company's performance in accordance with the going-concern concept.

This Interim Report has not been audited or otherwise reviewed by auditors.

**Note 2. Cash at Bank and in Hand**

	30 June 2008	31 December 2007
Cash in hand	4,647	4,966
Cash at bank	251,006	262,021
Cash in transit	8,169	15,648
<b>Total cash at bank and in hand</b>	<b>263,822</b>	<b>282,635</b>

**Note 3. Trade Receivables**

	30 June 2008	31 December 2007
Trade receivables	43,140	16,281
Card payments	9,368	34,685
<b>Total trade receivables</b>	<b>52,508</b>	<b>50,966</b>

**Note 4. Other Short Term Receivables**

	30 June 2008	31 December 2007
Bonuses to be received from suppliers	21,777	39,672
Current receivables from affiliates (see Note 9)	2,750	5,000
Other short term receivables	5,911	6,083
<b>Total other short term receivables</b>	<b>30,438</b>	<b>50,755</b>

**Note 5. Prepaid Expenses**

	30 June 2008	31 December 2007
VAT	33,052	10,610
Fringe benefits income tax	120	0
<b>Total prepaid taxes</b>	<b>33,172</b>	<b>10,610</b>
Lease expenses prepaid	3,196	5,603
Other prepaid expenses	9,629	3,920
<b>Total current prepaid expenses</b>	<b>45,997</b>	<b>20,133</b>
Long term lease expenses prepaid	36,127	37,291
<b>Total long-term prepaid expenses</b>	<b>36,127</b>	<b>37,291</b>

**Note 6. Inventories**

	30 June 2008	31 December 2007
Goods for resale	707,077	509,065
Raw materials	9,562	7,620
Prepayments for goods	1,809	2,945
<b>Total inventories</b>	<b>718,448</b>	<b>519,630</b>

## Note 7. Shares in subsidiaries

Tallinna Kaubamaja group as of 30 June 2008:

EEK thousand					
Company	Location	Principal activity	Owner-ship interest	Cost of acquisition	Time of acquisition
A-Selver AS	Tallinn Pärnu rd 238	Retail	100%	22,000	1996
AS Tartu Kaubamaja	Tartu Riia 2	Retail	100%	15,849	1996
Tallinna Kaubamaja Kinnisvara AS	Tallinn Gonsiori 2	Real Estate management	100%	46,285	1999
		Retail and financial activities			2007.a.
OptiGroup Invest OÜ	Tallinn Gonsiori 2		100%	40	
<i>OptiGroup Invest OÜ subsidiary:</i>					
KIA Auto AS	Tallinn Ülemiste rd 1	Retail	100%	79,400	2007
<i>KIA Auto AS subsidiaries:</i>					
Ülemiste Autokeskus OÜ	Tallinn Ülemiste rd 1	Retail	100%		2007
KIA Automobiles SIA	Riga Pulkeveza Brieza 31	Retail	100%	90	2007
KIA Auto UAB	Vilnius Jasinskoe 14	Retail	100%		2007
<i>AS Tartu Kaubamaja subsidiary:</i>					
TKM Beauty OÜ	Tallinn Gonsiori 2	Retail	100%		2007
<i>TKM Beauty OÜ subsidiary:</i>					
TKM Beauty Eesti OÜ	Tallinn Gonsiori 2	Retail	100%		2007
TKM Shoes OÜ	Tartu Riia1	Holding	100%	40	2008
Suurtüki NK AS	Tallinn Ehitajate tee 110	Retail	100%	55,304	2008
Suurtüki SIA	Riga Tomsona iela 30-86	Retail	100%	13,973	2008
<i>Tallinna Kaubamaja Kinnisvara AS subsidiaries:</i>					
Tartu Kaubamaja Kinnisvara OÜ	Tartu Riia 1	Real Estate management	100%		2004
SIA TKM Latvia	Riga Ieriku 3	Real Estate management	100%		2006
<i>A-Selver AS subsidiary:</i>					
SIA Selver Latvija	Riga Ieriku 3	Retail	100%		2006
<b>Total cost of acquisition of subsidiaries as of 30 June 2008</b>				<b>232,981</b>	

Business combinations in 2007:

Acquisitions made in 2007.

Company	Country of incorporation	Principal activity	Time of acquisition	Ownership interest
Ülemiste Autokeskuse 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%

At the moment of acquisition (31 March 2007) the acquisition price is divided Kia Auto AS between assets and liabilities accordingly:

	Assets and liabilities of KIA Auto AS before the adjustment	Adjustment to the fair value	Assets and liabilities of KIA Auto AS after the adjustment
Cash	1,306	0	1,306
Other current assets	125,933	0	125,933
Fixed assets (Note 10)	21,320	7,580	28,900
Goodwill	0	49,388	49,388
Liabilities	-126,127	0	-126,127
<b>Cost of acquisition</b>	<b>22,432,</b>	<b>56,968,</b>	<b>79,400</b>

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%

At the moment of acquisition (1 April 2008) the acquisition price is divided Suurtüki NK AS and Suurtuki SIA between assets and liabilities accordingly:

	Assets and liabilities of Suurtüki NK AS and Suurtuki SIA before the adjustment	Adjustment to the fair value	Assets and liabilities of Suurtüki NK AS and Suurtuki SIA after the adjustment
Cash	4,873	0	4,873
Other current assets	56,945	0	56,945
Fixed assets (Note 10)	2,910	0	2,910
Goodwill	0	44,334	44,334
Liabilities	-39,785	0	-39,785
<b>Cost of acquisition</b>	<b>24,943</b>	<b>44,334</b>	<b>69,277</b>

The subsidiary of AS Tartu Kaubamaja, TKM Shoes OÜ with share capital of 40 thousand kroons, was established on 28 April 2008.

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.

On 1 April 2008 we acquired full participation in Suurtüki NK AS and in its subsidiary Suurtuki SIA in Latvia. Goodwill from the transaction was recognised in the amount of 44 334 thousand kroons, which relates to the future cash flows of the companies.

Goodwill was tested on the balance sheet date. Recoverable value was recognized by using the company's value through five years cash flow prognosis. Discount rate of 16% was used. As a result of the test was ascertained that the net present value of discounted cash flow covers the goodwill and subsidiary's net assets value. Assumptions used for analysis are based on group's previous experience.

The contractual value of acquired subsidiaries was 69 277 thousand kroons. 67 371 thousand kroons were paid in cash. As of their acquisition, Suurtüki NK AS and Suurtuki SIA had cash in their bank accounts in the amount of 4,873 thousand kroons. Upon acquisition, an additional payment of 1,906 thousand kroons was made, covering contract preparing costs. On 30 June 2008 the Tallinna Kaubamaja group acquired 100% shares of AS ABC King and its 100% subsidiary SIA ABC King. ABC Saare OÜ footwear business and shops were also acquired by the contract. On 30 June 2008 16,356 thousand kroons were paid for the contract.

**Note 8. Shares in Affiliates**

Tallinna Kaubamaja AS has a holding in Rävåla Parkla AS which renders multi-storey car park services in Tallinn.

	30 June 2008	31 December 2007
Number of shares at end of year / (beginning of year)	501/(501)	501/(501)
Shareholding % at end of year / (beginning of year)	50/(50)	50/(50)
<b>At beginning of year</b>		
Acquisition cost	6,500	6,500
<b>Holding in owners' equity of investment object</b>	<b>14,201</b>	<b>11,429</b>
Equity profit for accounting period	1,553	2,772
<b>At end of accounting period</b>		
Acquisition cost	6,500	6,500
<b>Holding in owners' equity of investment object</b>	<b>15,754</b>	<b>14,201</b>

Financial information on the affiliate Rävåla Parkla AS:

	30 June 2008	31 December 2007
Assets	60,960	63,629
Liabilities	24,477	35,235
Revenue	4,469	8,590
Profit	3,106	5,545

**Note 9. Other Long-term Receivables**

	30 June 2008	31 December 2007
Receivables from affiliates	5,578	7,828
<i>To be repaid:</i>		
within 12 months (see Note 4)	2,750	5,000
within 1 to 5 years	2,828	2,828
Interest rate	6%	6%
Repayment term	2010	2010

The fair value of receivables does not differ significantly from book value.

## Note 10. Tangible Fixed Assets

EEK thousand

	Land and buildings	Machi- nery and equip- ment	Other fittings, fixtures and equip- ment	Prepay- ments for tangible fixed assets	Construc- tion-in- progress	Total
<b>31 Dec. 2006</b>						
Acquisition cost or revaluated cost	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
Residual value	995,659	70,967	88,341	9,662	506,186	1,670,816
Additions from subsidiaries						
Acquisition cost in 2006	30,012	3,342	2,763	0	0	36,116
Accumulated depreciation in 2006	-3,362	-1,986	-1,869	0	0	-7,217,
<b>Changes in 2007</b>						
Acquisition	110,604	49,141	27,490	12,146	224,874	424,255
Sales		-556	-120	0	0	-676
Depreciation	-36,598	-32,193	-33,626	0	0	-102,416
Revaluation of fixed assets	280,000	0	0	0	0	280,000
Revaluation of depreciation	-49,995	0	0	0	0	-49,995
Reclassification	240,468	2,271	574	-9,662	-233,650	0
<b>31 Dec. 2007</b>						
Acquisition cost or revaluated cost	1,769,278	232,359	256,812	12,146	497,410	2,768,004
Accumulated depreciation	-152,495	-141,374	-173,258	0	0	-467,126
Residual value	1,616,783	90,985	83,554	12,146	497,410	2,300,878
<b>Changes in 2008</b>						
Additions from subsidiaries	0	359	2,541	0	0	2,900
Acquisition	281,521	50,664	26,540	40,653	41,361	440,738
Reclassification	375	0	9,304	-9,304	-375	0
Sales	0	-7,627	2,269	0	0	-5,358
Depreciation	-23,551	-18,252	-19,198	0	0	-61,001
<b>30 June 2008</b>						
Acquisition cost or revaluated cost	2,051,174	275,755	297,466	43,494	538,396	3,206,285
Accumulated depreciation	-176,045	-152,180	-194,883	0	0	-523,108
Residual value	1,875,128	123,575	102,583	43,494	538,396	2,683,176

During the accounting period, registered immovables have been purchased and renovation works have been performed in the amount of 281,896 thousand kroons. An advance payment in the amount of 31,349 thousand kroons has been made for uncompleted buildings. During the reporting period four new Selver stores have been opened in Hiiumaa, in Narva, in Kohtla-Järve and in Tallinn. Reconstruction works for widening the sales area took place in Järve Selver and in Pirita Selver. The total investment in the new Selver stores has been 63,109 thousand kroons. Furnishing for sales rooms, coolers, computing equipment in the amount 86,508 thousand kroons have been purchased.

## Note 11. Intangible Fixed Assets

Under intangible assets is stated the goodwill related to acquisition of OptiGroup Invest OÜ, Suurtüki NK AS and Suurtuki SIA in the amount of 91,874 thousand kroons.

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.

## Note 12. Debts

2008	Repayment				Due date	Interest rate
	Balance 31 June 2008	Within 12 months	Within 1 year	After 5 years		
SEB Eesti Ühispank	108 033	11 972	42 925	53 136	28.09.2014	6 month EURIBOR +0,6%
SEB Eesti Ühispank	145 329	8 835	136 494		19.04.2012	6 month EURIBOR+0,4%
Nordea Pank	265 992		265 992		07.12.2011	6 month EURIBOR +0,36%
Nordea Pank	91 846	5 492	86 354		20.06.2012	3 month EURIBOR +0,98%
Nordea Pank	57 752		8 354	49 398	13.06.2018	6 month EURIBOR +0,6%
Nordea Pank	186 038		24 591	161 447	20.06.2018	6 month EURIBOR +0,6%
Nordea Pank	82 989		12 804	70 185	20.06.2018	6 month EURIBOR +0,6%
Nordea Pank	77 529	4 636	72 893		21.04.2013	6 month EURIBOR +0,98%
Nordea Pank	104 791		104 791		15.05.2018	6 month EURIBOR +0,6%
Hansapank	63 000		63 000		21.04.2013	6 month EURIBOR +0,67%
Hansapank	14 490	14 490				12 month EURIBOR
AS Hansa Liising Eesti	128 166	128 166			14.12.2008	+0,65%
Hansa Lizings	1 242	1 242			15.12.2008	5,60%
Hansa Lizings	421	38	383		01.10.2009	5,60%
Nordea Finance SIA	873	873			15.07.2008	5,60%
UAB Hansa Lizingas	1 815	1 815			28.12.2008	5,30%
UAB Hansa Lizingas/factoring AB bankas	2 462	2 462			05.09.2008	5,75%
Hansabankas/credit line	1 242	1 242			15.09.2008	VILIBOR + 0,97%
NG Investeeringud OÜ	71 355	71 355			31.12.2008	5,0%
<b>Long term loans</b>	<b>1 405 365</b>	<b>252 618</b>	<b>818 581</b>	<b>334 166</b>		
Financial lease (Note 13)	19 905	2 303	17 602		07.04.2012	7%
<b>Total long-term debts</b>	<b>1 425 270</b>	<b>254 921</b>	<b>836 183</b>	<b>334 166</b>		

  

2008	Repayment				Due date	Interest rate
	Balance 31 June 2008	Within 12 months	Within 1 year	After 5 years		
SEB Eesti Ühispank	115 278	14 672	47 470	53 136	28.09.2014	6 months EURIBOR +0,6%
SEB Eesti Ühispank	152 831	15 200	137 631		19.04.2012	6 months EURIBOR +0,4%
Nordea Pank	265 992		265 992		07.12.2011	6 months EURIBOR +0,36%
AS Hansa Liising Eesti	79 168	79 168			14.03.2008	12 months EURIBOR +0,65%
Hansa Lizings	790	790			15.04.2008	5,60%
Hansa Lizings	458	75	383		01.10.2009	5,60%
Nordea Finance SIA	410	410			15.04.2008	5,60%
UAB Hansa Lizingas	1 472	1 472			28.06.2008	5,30%
UAB Hansa Lizinga/factoring AB bankas	3 041	3 041			05.07.2008	5,75%
Hansabankas/credit line	1 270	1 270			15.05.2008	VILIBOR + 0,97%
<b>Long term loans</b>	<b>620 710</b>	<b>116 098</b>	<b>451 476</b>	<b>53 136</b>		
Financial lease (Note 13)	22 130	4 528	17 602		07.04.2012	7%
<b>Total long-term debts</b>	<b>642 840</b>	<b>120 626</b>	<b>469 078</b>	<b>53 136</b>		

Bank loans are fixed in the euro. Financial lease payables are fixed in Estonian kroons.

**Note 13. Financial Lease**

The Group uses the following buildings under financial lease terms:

	<b>30 June 2008</b>	<b>31 December 2007</b>
Acquisition cost	43,951	43,951
Accumulated depreciation	-25,819	-24,912
Residual value	17,033	19,039
	<b>30 June 2008</b>	<b>31 December 2007</b>
Minimum financial lease payments:		
within 1 year	5,933	5,933
within 1 to 5 years	16,821	19,788
<b>Total</b>	<b>22,754</b>	<b>25,721</b>
Deferred interest expense	-2,849	-3,591
<b>Present value of lease payments (Note 12)</b>	<b>19,905</b>	<b>22,130</b>
Present value of lease payments		
within 1 year	2,303	4,528
within 1 to 5 years	17,602	17,602
<b>Total present value of lease payments</b>	<b>19,905</b>	<b>22,130</b>

**Note 14. Other Current Payables**

	<b>30 June 2008</b>	<b>31 December 2007</b>
VAT	14,070	31,669
Personal income tax	11,734	11,041
Social tax	24,619	22,696
Income tax on fringe benefits	434	757
Unemployment insurance premiums	629	560
Funded pension	1,069	935
<b>Total taxes payable</b>	<b>52,555</b>	<b>67,658</b>
Employee-related liabilities	54,475	87,498
Interest payable	1,194	1,140
Other accrued expenses	3,053	5,315
Prepayments of lessees	7,123	5,145
<b>Total other current payables</b>	<b>118,400</b>	<b>166,756</b>

**Note 15. Share Capital**

As of 30 June 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 2<sup>nd</sup> quarter of 2008 the dividends were announced and paid to the shareholders. 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: 11,487 thousand kroons) was paid.



## Note 16. Sales Revenue

	1 <sup>st</sup> half 2008	1 <sup>st</sup> half 2007	2 <sup>nd</sup> quarter 2008	2 <sup>nd</sup> quarter 2007
Retail sales revenue	3,010,978	2,750,865	1,555,789	1,490,213
Wholesale revenue	14,299	7,631	9,609	4,130
Income from service and catering	20,886	45,488	10,489	22,744
<b>Total sales revenue</b>	<b>3,046,163</b>	<b>2,803,984</b>	<b>1,575,887</b>	<b>1,517,087</b>

## Note 17. Other Operating Revenue

	1 <sup>st</sup> half 2008	1 <sup>st</sup> half 2007	2 <sup>nd</sup> quarter 2008	2 <sup>nd</sup> quarter 2007
Rental income	22,062	19,631	10,180	9,050
Selling profit from fixed assets	3,967	29	3,961	0
Car park services income	651	619	337	333
Empties handling	1,554	1,184	782	900
Expedition revenue	7,902	4,639	4,579	1,362
Advertising revenue	27,437	19,659	15,867	12,300
Other operating revenue	12,364	11,835	6,923	9,876
<b>Total other operating revenue</b>	<b>75,937</b>	<b>57,596</b>	<b>42,629</b>	<b>33,821</b>

## Note 18. Other Operating Expenses

	1 <sup>st</sup> half 2008	1 <sup>st</sup> half 2007	2 <sup>nd</sup> quarter 2008	2 <sup>nd</sup> quarter 2007
Rent	85,862	69,177	48,333	35,237
Maintenance expenses	41,866	30,984	22,525	16,373
Advertising expenses	50,942	45,749	25,467	25,920
Banking charges	20,028	16,667	10,477	8,914
Security costs	13,358	12,612	6,904	6,421
Heating and power expenses	36,501	29,041	17,544	13,125
Material costs	36,486	25,847	20,887	13,880
IT and communications expenses	13,131	9,360	6,573	4,873
Travel expenses	4,325	3,289	1,917	1,537
Training expenses	2,636	1,961	1,258	816
Insurance expenses	676	767	222	335
Miscellaneous operating expenses	22,092	13,505	14,821	5,525
<b>Total other operating expenses</b>	<b>327,903</b>	<b>258,959</b>	<b>176,928</b>	<b>132,956</b>

## Note 19. Staff Costs

	1 <sup>st</sup> half 2008	1 <sup>st</sup> half 2007	2 <sup>nd</sup> quarter 2008	2 <sup>nd</sup> quarter 2007
Wages and salaries	225,478	171,101	123,513	92,051
Social tax	74,762	56,961	40,871	30,653
<b>Total staff costs</b>	<b>300,240</b>	<b>228,062</b>	<b>164,384</b>	<b>122,704</b>

	1 <sup>st</sup> half 2008	1 <sup>st</sup> half 2007	2 <sup>nd</sup> quarter 2008	2 <sup>nd</sup> quarter 2007
Average monthly wages and salaries per employee (EEK) in accounting period	11,818	10,672	12,217	11,227
Average number of employees in accounting period	3,180	2,672	3,370	2,733

**Note 20. Interest Income and Expenses**

## Interest Income

	1 <sup>st</sup> half 2008	1 <sup>st</sup> half 2007	2 <sup>nd</sup> quarter 2008	2 <sup>nd</sup> quarter 2007
Interest income from SEB	613	3,285	0	1,476
Interest income from Hansapank	3,233	1,024	2,625	2,801
Interest income from Nordea	129	0	129	0
Other interest income	630	5,126	3	595
<b>Total interest income</b>	<b>4,605</b>	<b>9,435</b>	<b>2,757</b>	<b>4,872</b>

## Interest Expenses

	1 <sup>st</sup> half 2008	1 <sup>st</sup> half 2007	2 <sup>nd</sup> quarter 2008	2 <sup>nd</sup> quarter 2007
Bank loan interest	-7,558	-13,259	-2,727	-5,191
Financial lease interest	-742	-894	-361	-439
Bond interest	0	-931	0	-372
Other interest*	-1,918	-3,280	-1,523	-3,279
<b>Total interest expenses</b>	<b>-10,218</b>	<b>-18,364</b>	<b>-4,611</b>	<b>-9,281</b>

\*Other interest expenses comprise fees for concluding and amending loan contracts, lease agreements and factoring contracts.

**Note 21. Operating Profit**

Operating profit includes the following write-downs:

	1 <sup>st</sup> half 2008	1 <sup>st</sup> half 2007	2 <sup>nd</sup> quarter 2008	2 <sup>nd</sup> quarter 2007
Write-down and write-off of inventories	30 141	17 606	16 974	9 572
Shortage of inventories	9 419	7 997	7 019	6 487
<b>Total</b>	<b>39 560</b>	<b>25 603</b>	<b>23 993</b>	<b>16 059</b>

**Note 22. Segment Reporting**

Information on segments is disclosed according to business and geographical segments. Following the internal management structure the principal format indicates the division of business segments and the additional format the division of geographical segments. The accounting principles followed with respect of segments coincide with the Company's general accounting principles.

Income, expenses, assets and liabilities are divided between segments according to the connection thereof with the activities of the segment.

*Business Segments*

The Company's internal management structure has been divided between the following business segments:

department store  
supermarkets  
real estate  
car trade  
footwear trade

*Geographical Segments*

The Company's geographical segments are Estonia, Latvia and Lithuania.

Upon presentation of geographical segments sales revenue is reported according to the location of clients; assets of the segments are reported according to the location of assets.

## Business Segment Report

	EEK thousand						
	Depart- ment store	Super- markets	Real estate	Car trade	Footwear trade	Inter- segment tran- sactions	Total
<b>30 June 2008</b>							
Sales outside of Group	733,044	1,932,092	20,470	315,443	45,114	0	3,046,163
Intersegment sales	7,346	5,172	35,549	111,642	855	-160,565	0
<b>Total sales</b>	<b>740,391</b>	<b>1,937,265</b>	<b>56,019</b>	<b>427,085</b>	<b>45,969</b>	<b>-160,565</b>	<b>3,046,163</b>
Intersegment other revenue							75,937
Intersegment operating expenses							-2,998,132
<b>Total operating profit</b>	<b>54,671</b>	<b>39,521</b>	<b>28,770</b>	<b>4,173</b>	<b>-3,166</b>	<b>0</b>	<b>123,968</b>
Financial income/expenses							-4,060
Income tax							-21,653
<b>Net profit</b>	<b>62,712</b>	<b>24,807</b>	<b>16,411</b>	<b>-2,372</b>	<b>-3,303</b>	<b>0</b>	<b>98,255</b>
<b>Segment assets</b>	<b>2,736,516</b>	<b>871,915</b>	<b>2,720,481</b>	<b>324,413</b>	<b>220,992</b>	<b>0</b>	<b>6,874,317</b>
Shared assets							-2,765,989
<b>Total assets</b>	<b>2,736,516</b>	<b>871,915</b>	<b>2,720,482</b>	<b>324,413</b>	<b>220,992</b>	<b>0</b>	<b>4,108,328</b>
<b>Segment liabilities</b>	<b>1,034,886</b>	<b>584,302</b>	<b>1,533,474</b>	<b>296,215</b>	<b>196,800</b>	<b>0</b>	<b>3,645,677</b>
Shared liabilities							-1,448,209
<b>Total liabilities</b>	<b>1,034,886</b>	<b>584,302</b>	<b>1,533,474</b>	<b>296,215</b>	<b>196,800</b>	<b>0</b>	<b>2,197,468</b>
Acquisition of fixed assets in accounting period	5,619	87,162	273,275	1621	727	0	368,404
Depreciation in accounting period	14,297	27,966	17,247	733	759	0	61,001

  

	EEK thousand						
	Depart- ment store	Super- markets	Real estate	Car trade	Inter- segment tran- sactions	Total	
<b>30 June 2007</b>							
Sales outside of Group	693,524	1,723,795	17,435	369,231	0	2,803,984	
Intersegment sales	0	5,262	28,773	0	-34,036	0	
<b>Total sales</b>	<b>693,524</b>	<b>1,729,056</b>	<b>46,208</b>	<b>369,231</b>	<b>-34,036</b>	<b>2,803,983</b>	
Intersegment other revenue							-68,098
Intersegment operating expenses							102,133
<b>Total operating profit</b>	<b>61,119</b>	<b>87,183</b>	<b>28,994</b>	<b>11,562</b>	<b>0</b>	<b>188,859</b>	
Financial income/expenses							-8,013
Income tax							-11,487
<b>Net profit</b>	<b>63,891</b>	<b>78,138</b>	<b>21,137</b>	<b>6,193</b>	<b>0</b>	<b>169,359</b>	
<b>Segment assets</b>	<b>1,802,668</b>	<b>670,979</b>	<b>1,699,677</b>	<b>281,103</b>	<b>0</b>	<b>4,454,426</b>	
Shared assets							-1,755,316
<b>Total assets</b>	<b>1,802,668</b>	<b>670,979</b>	<b>1,699,677</b>	<b>281,104</b>	<b>0</b>	<b>2,699,112</b>	
<b>Segment liabilities</b>	<b>414,909</b>	<b>450,314</b>	<b>938,849</b>	<b>242,568</b>	<b>0</b>	<b>2,046,640</b>	
Shared liabilities							-719,948
<b>Total liabilities</b>	<b>414,909</b>	<b>450,314</b>	<b>938,849</b>	<b>242,568</b>	<b>0</b>	<b>1,326,692</b>	
Acquisition of fixed assets in accounting period	6,195	23,588	0	723	0	30,506	
Depreciation in accounting period	13,568	22,579	13,082	482	0	49,710	

## Geographical Segment

	EEK thousand			
<b>30 June 2008</b>	<b>Estonia</b>	<b>Lithuania</b>	<b>Latvia</b>	<b>Total</b>
Sales outside of segment	2,958,626	48,940	38,597	<b>3,046,163</b>
Assets of segment according to location	3,499,624	13,884	594,820	<b>4,108,328</b>
Acquisition of fixed assets of segment in accounting period	257,478	315	110,611	<b>368,404</b>
	EEK thousand			
<b>30 June 2008</b>	<b>Estonia</b>	<b>Lithuania</b>	<b>Latvia</b>	<b>Total</b>
Sales outside of segment	2,781,966	22,018	0	<b>2,803,984</b>
Assets of segment according to location	2,387,718	299,634	11,760	<b>2,699,112</b>
Acquisition of fixed assets of segment in accounting period	29,953	0	553	<b>30,506</b>

## Note 23. Transactions with Related Parties

Upon preparation of the Consolidated Interim Report of Tallinna Kaubamaja AS the following have been deemed as related parties:

- owners (parent company and parties controlling or having significant influence over the parent company);
- affiliates;
- other companies belonging to the same consolidation group (incl. other subsidiaries of the parent company);
- executive management and senior management;
- close family members of the aforementioned persons and the companies being controlled by them or being under the significant influence thereof.

Within first 6 months of 2008 the Group has purchased and sold goods and rendered services as follows:

	<b>Purchases 6 month 2008</b>	<b>Sales 6 month 2008</b>
Parent company	1,829	636
Other related companies	94,736	2,195
Affiliates	0	203
<b>Total</b>	<b>96,565</b>	<b>3,034</b>

Within first 6 months of 2007 the Group has purchased and sold goods and rendered services as follows:

	<b>Purchases 6 month 2007</b>	<b>Sales 6 month 2007</b>
Parent company	364	1,047
Other related companies	68,814	1,889
Affiliates	0	223
<b>Total</b>	<b>69,179</b>	<b>3,159</b>

Most of the purchases from other related companies consist of goods for resale. Purchases from the parent company mainly include management fees. Sales to related parties mainly include services rendered.

Balances with related parties:

	30 June 2008	31 December 2007
Parent company	0	665
Other related companies	106	1,340
Current receivables from affiliates	2,860	5,000
<b>Total current receivables</b>	<b>2,966</b>	<b>7,005</b>
Long-term receivables		
Long-term receivables from affiliates	2,828	2,828
<b>Total receivables from related parties</b>	<b>5,794</b>	<b>9,833</b>
Other related companies	35,041	26,004
<b>Total liabilities to related parties</b>	<b>35,041</b>	<b>26,004</b>

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, TKM Shoes OÜ and Suurtüki NK AS have joined the Tallinna Kaubamaja AS Group account agreement. The said Group as a subgroup has joined the 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 the 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 first 6 month of 2008 the Tallinna Kaubamaja Group was earning 630 thousand kroons (2007: 1,402 thousand kroons) of interest revenue from keeping available funds in the group account. As of 30 June 2008 the group has paid interest on the use of the available funds of the Main Group in the amount of 1,684 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% (2007: 3.0%). According to the group account agreement the members of the group bear solitarily liability for the amounts payable to the bank.

The management of Tallinna Kaubamaja AS is of the opinion that prices used in transactions with related parties do not differ significantly from market prices.