Baltika Grupp

AS BALTIKA
CONSOLIDATED FINANCIAL STATEMENTS OF 2000

Contents of the Financial Statements:

The Management Board confirms the correctness and completeness of financial statements of AS Baltika set out on pages 1 – 21.

Meelis Milder
Chairman of the Management Board

James Hayhow
Member of the Management Board

Boriss Loifenfeld
Member of the Management Board

Ülle Järv
Member of the Management Board

Maire Milder
Member of the Management Board

In Tallinn, on 6 March 2001

Balance sheet

	Notes	31.12.2000	31.12.1999
ASSETS			
Current assets			
Cash and bank	1	15 298	16 588
Marketable securities	2	431	6 194
Customer receivables	3	45 335	36 259
Other receivables	4,5	8 436	7 838
Prepaid income tax	5	786	2 657
Inventory	6	105 501	95 765
Total current assets		**175 787**	**165 301**
Non-current assets			
Long-term financial investments	7	817	1 081
Tangible fixed assets	8,9	54 746	49 931
Land and buildings (at cost)		35 044	33 523
Plant and equipment (at cost)		60 070	56 289
Other equipment, tools, fittings (at cost)		27 869	20 879
Accumulated depreciation		(68 565)	(60 760)
Prepayments for tangible fixed assets		256	0
Construction in progress		72	0
Intangible fixed assets	8	1 886	1 875
Total non-current assets		**57 449**	**52 887**
TOTAL ASSETS		**233 236**	**218 188**
LIABILITIES AND OWNERS' EQUITY			
Current liabilities			
Debt obligations	10	51 637	45 697
Customer prepayments for goods and services		732	157
Supplier payables		28 617	20 166
Income tax liability	5	0	191
Other tax liabilities	5	6 167	3 731
Accrued expenses	11	7 622	11 598
Short-term provisions		120	0
Total current liabilities		**94 895**	**81 540**
Long-term liabilities			
Long-term debt obligations	10	1 344	12 939
Total long-term liabilities		**1 344**	**12 939**
TOTAL LIABILITIES		**96 239**	**94 479**
Minority interest	13	**9 172**	**8 988**
OWNERS' EQUITY	14	**127 825**	**114 721**
Share capital at nominal value		48 000	48 000
Share premium		24 910	24 039
Reserves		22 885	22 885
Retained earnings		17 768	19 151
Net profit for the financial year	22	14 262	1 193
Treasury stock		0	(547)
TOTAL LIABILITIES AND OWNERS' EQUITY		**233 236**	**218 188**

Accounting principles set out on pages 6-9 and notes to the financial statements set out on pages 9-21 are the integral parts of the financial statements.

Income statement	Notes	2000	1999
Revenue			
Net sales	15	**340 756**	**288 926**
Other revenue	16	3 176	6 900
Total revenue		**343 932**	**295 826**
Expenses			
Materials, consumables, supplies and services		(142 559)	(108 829)
Change in inventories		2 097	(16 770)
Other operating expenses	17	(62 074)	(47 366)
Personnel expenses	18	(108 746)	(101 951)
Depreciation of non-current assets	8	(12 167)	(10 682)
Other expenses	19	(1 225)	(2 768)
Total expenses		**(324 674)**	**(288 366)**
Operating profit		**19 258**	**7 460**
Financial income	20	**2 458**	**782**
Financial expenses	21	**(5 217)**	**(6 931)**
Profit before taxes		**16 499**	**1 311**
Declared income tax		0	233
Deferred income tax		0	(734)
Net profit for the financial year		**16 499**	**1 812**
Minority interest		2 238	619
Net profit for the Group	22	**14 261**	**1 193**
Earnings per share	22	**2.97**	**0.25**

Accounting principles set out on pages 6 - 9 and notes to the financial statements set out on pages 9 - 21 are the integral parts of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT
(indirect method)

	Notes	2000	1999
Operating activities			
Operating profit		19,258	7 460
Adjustment for depreciation	8	12,167	10 682
Profit from sale of fixed assets	16,19	(593)	(3 256)
Foreign exchange difference		(73)	(661)
Other financial expenses		-	(18)
Change in receivables		(9,926)	12 701
Change in inventories	6	(9,736)	17 309
Change in payables		6,684	3 882
Interests paid	10	(4,876)	(6 070)
Income tax paid		1,680	(380)
Cash flow from operating activities		**14,585**	**41 649**
Investing activities			
Acquisition of tangible fixed assets	8	(17,521)	(13 530)
incl. by instalments		-	3 058
Sale of fixed assets		1,542	4 348
Finance lease and instalment payments		(384)	(946)
Acquisition of long-term investments		-	(7)
Acquisition of subsidiaries	25	(1,924)	-
Proceeds from sales of long-term investments	7,20	2,046	-
Interests received	4,20	332	280
Dividends received	2	5	106
Securities purchased		(9,636)	(9 032)
Securities sold		15,686	3 751
Repayments of loans granted		385	-
Loans granted		(155)	-
Cash flow from investing activities		**(9,624)**	**(11 972)**
Financing activities			
Repayment of loans	10	(10,154)	(30 065)
Loans received	10	5,328	10 605
Proceeds from treasury stock transactions	14	1,418	279
Paid for treasury stock of subsidiary	14	(150)	-
Dividends paid	14	(2,693)	(4)
Proceeds from payments into share capital		-	400
Cash flow from financing activities		**(6,251)**	**(18 785)**
Foreign exchange change		-	(1)
Total cash flows		**(1,290)**	**10 891**
	1		
Cash and cash equivalents at the beginning of the year	1	**16,588**	**5 697**
Cash and cash equivalents at the end of the year		**15,298**	**16 588**

Accounting principles set out on pages 6-9 and notes to the financial statements set out on pages 9–21 are the integral parts of the financial statements.

CHANGES OF OWNERS' EQUITY

	Share capital	Share premium	Reserves	Treasury stock	Retained earnings	Total
Balance as at 31.12.1998	**48 000**	**23 980**	**22 891**	**(767)**	**19 137**	**113 241**
Transactions with treasury stock	0	59	0	220	0	279
Change in reserves	0	0	(6)	0	6	0
Net profit for the financial year	0	0	0	0	1 193	1 193
Foreign exchange difference	0	0	0	0	8	8
Balance as at 31.12.1999	**48 000**	**24 039**	**22 885**	**(547)**	**20 344**	**114 721**
Transactions with treasury stock	0	871	0	547	0	1 418
Net profit for the financial year	0	0	0	0	14 262	14 262
Change in retained earnings	0	0	0	0	(147)	(147)
Foreign exchange difference	0	0	0	0	(29)	(29)
Dividends	0	0	0	0	(2400)	(2400)
Balance as at 31.12.2000	**48 000**	**24 910**	**22 885**	**0**	**32 030**	**127 825**

More detailed information about owners' equity and changes in owners' equity is provided in Note 14.

Short characteristics of AS BALTIKA Group

The main fields of activity of AS Baltika Group are the manufacturing of menswear and womenswear, retail and wholesale and rendering of sewing services. In year 2000 the number of the staff of the Group was 1410. The parent company is located and registered in Veerenni 24, Tallinn, Estonia. AS Baltika is listed in the secondary list of the Tallinn Stock Exchange.

As at 31 December 2000 the Group consists of the following companies:

	Location:	Share as at 31.12.2000	Share as at 31.12.1999
AS Baltika (parent company)	Estonia		
AS Baltman	Estonia	100 %	100 %
Baltmano Prekiba	Lithuania	100 %	90 %
SIA Baltman	Latvia	100 %	100 %
Baltika Sweden AB	Sweden	100 %	100 %
Baltika Ukraine	Ukraine	99 %	-
AS Virulane	Estonia	60.88 %	54.81 %
Baltika Poland	Poland	100 %	100 %
AS Elina STC	Estonia	37.5 %	37.5 %
OY Baltinia AB	Finland	100 %	100 %

AS Baltika controls the financial activities of AS Elina STC, as a result AS Elina STC is considered as subsidiary. Year 2000 sales of AS Elina STC were all internal to the Group. Consolidation principles of AS Elina STC are in accordance with IAS 27. Subsidiary SIA Baltman is to be liquidated. More detailed information about acquisitions of year 2000 is provided in Note 27.

Accounting principles set out on pages 6-9 and notes to the financial statements set out on pages 9–21 are the integral parts of the financial statements.

Accounting methods and principles of preparing the financial statements

The financial statements of 2000 have been prepared on accrual basis in accordance with historical cost convention, if not indicated otherwise in accounting principles of specific asset (e.g. short-term securities are recorded at market value). The consolidated financial statements for year 2000 have been prepared in accordance with the International Accounting Standards (IAS) and generally accepted accounting principles. All numerical data in the financial statements are presented in thousands Estonian kroons, if not indicated otherwise. Estonian kroon is pegged to the German mark at the rate of 1 DEM = 8 Estonian kroons. In 2000 no changes have been made in the accounting methods and principles applied by the company.

Accounting principles and methods

Consolidation principles

The parent company and subsidiaries are considered as one business entity for consolidation. Revenues, unrealised profits and losses incurred from the inter-group transactions are eliminated. The consolidated financial statements of 2000 are based on the activities of AS Baltika, AS Baltman, AS Virulane, AS Elina STC, Baltmano Prekyba, SIA Baltman, Baltika Sweden, Baltika Poland, Baltika Ukraine and OY Baltinia AB. SIA Baltman has been consolidated for the last year as company is in liquidation. Baltika Ukraine has been consolidated since the month of foundation - October 2000. Foreign subsidiaries are presented according to the valuation method of the foreign operations.

Inventories

Inventories are valued according to the weighted average cost method. Inventories in stock of stores are recorded at acquisition cost. As at the balance sheet date inventories are recorded at the lower of cost and net realisable value. Finished goods and work-in-progress are recorded at production cost, which includes direct and indirect production related expenses.

Marketable securities

Marketable securities are recorded at market value: quoted shares are recorded at the closing price of the Tallinn Stock Exchange on 31.12.2000; other securities at the sales prices on financial markets. Unrealised profits and losses from revaluation of shares are recorded in the income statement under financial income (expenses).

Long-term financial investments

Other long-term financial investments (excl. subsidiaries) are recorded in the balance sheet at acquisition cost or at net realisable value in case of other than temporary diminution in value.

Business combinations

Business combinations are accounted for using the acquisition (purchase) method of accounting.

Minority interest

Minority interest in income statement indicates the share of net profit for the financial year belonging to non-group shareholders of subsidiaries. Minority interest in the balance sheet indicates the share of equity belonging to non-group shareholders of subsidiaries.

Goodwill

Goodwill reflects difference between purchase price paid for subsidiary and the fair value of the purchased net assets. Goodwill is depreciated within 5 years. The depreciation of goodwill is indicated under “financial expenses” in the income statement. The negative goodwill is recorded as revenue, when occurred and indicated under “financial income”.

Accounting for foreign currency transactions

All transactions of the Group are recorded in Estonian kroons according to the exchange rate of the Bank of Estonia valid on the date of transaction. Receivables and payables denominated in foreign currencies are revalued using the Bank of Estonia exchange rate on the balance sheet date. During the financial year the foreign currency transactions are recorded in Estonian kroons using the Bank of Estonia exchange rate on the date of transaction. Profits and losses from foreign currency transactions related to operating activities are recorded in net amount in income statement as “other revenue” / “other expenses”. Profits and losses from foreign currency transactions related to investing and financing activities are recorded in net amount in income statement as “financial income” / “financial

Non-current assets

Assets with useful life over one year and the acquisition cost from 5000 kroons are recorded as fixed assets. Assets with the acquisition cost under 5000 kroons are expensed in full amount when acquired. Tangible fixed assets are recorded at acquisition cost. Non-current self-constructed assets are recorded at acquisition cost, which includes the actual production costs. The acquisition cost of reconstructed non-current physical assets is increased by reconstruction expenses. Depreciation of non-current assets is based on the straight-line method, using the useful life of fixed assets.

Intangible fixed assets are recorded at acquisition cost and depreciated during five years based on the straight-line method. Depreciation cost of intangible fixed assets is recorded on the income statement line “Depreciation of non-current assets”.

Profits and losses received from the sale of non-current assets are recorded as other revenue and other expenses in income statement.

The Group applies the following depreciation rates (rate per year):

Buildings, premises	1.5- 9%
Production equipment	18 - 30 %
Investments in stores	30 %
Other machinery and equipment	8 - 15 %
Computer equipment	40 %
Tools	20 %
Office equipment	15%
Intangible fixed assets	20%

Customer receivables

Accounts receivable are included in the balance sheet according to the probability of the receipt of the receivables assessed on an individual basis, considering the information available regarding the client’s solvency. Doubtful receivables have been written down in the balance sheet to the amount that is probable to be received (write-down is recorded in the balance sheet on the line “Customer receivables” in negative value; in the notes on the separate line “Allowance
and in income statement on the line “ uncollectible receivables have been written off from the balance sheet.

Corporate income tax

According to Estonian Income Tax Law which took effect on 1 January 2000 dividends paid by the company to resident individuals and non-residents and also certain payments and expenses mentioned in Income Tax Law chapter no 10, are the subject to income tax (26/74 of net dividend paid).

According to the local income tax law, the tax rate for calculating income tax expense from the net profit (profit to be corrected with temporary and permanent differences), is in Latvia 25%; in Lithuania 24 %, Poland 30 %, Sweden 28 %, Finland 29 % and in the Ukraine 30 %.

Deferred tax is calculated according to the liability method on all temporary differences between the taxation values and net book values of assets and liabilities. The major differences were due to the depreciation of fixed assets and deferred tax loss and in Lithuania also due to imported assets. Assets originated from deferred tax loss are presented in balance sheet, only if it is likely to be realised.

The company's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The amount of potential tax liability related to the distribution of dividends depends on whether and when the company pays out the dividends, and in which proportion the shares are owned by resident entities, resident natural persons and non-residents at that moment. The maximum possible tax liability, which would become payable if the retained earnings, would be fully paid out as dividends is disclosed in Note 12.

Income tax from the payment of dividends is recorded as expense in Income Statement at the moment of declaring the dividends.

Vacation pay accrual

Vacation pay is recorded at the moment the liability occurred, i.e. when employee's right to vacation pay arises. The vacation pay earned is recorded as personnel expenses in the income statement and as current liability in the balance sheet.

Net sales

Net sales are recorded on accrual basis according to the realisation principle based on the supplying terms and include neither taxes nor commission fees.

Segment reporting

The primary segments of the Group are operational segments (textile industry, rental and other services); the secondary segments are geographical - by the locations of distribution network. Expenses not related to specific segment are recorded as not allocated expenses of the Group.

All assets directly related to the segments are recorded as the assets of the segment and all liabilities directly related to the segments are recorded as the liabilities of the segments. Unallocated assets and liabilities are recorded as the assets and liabilities of the Group. The company's management assessment is that the prices used in inter-segment transactions do not materially differ from the market prices.

Accounting for leases

IAS 17 has been followed in accounting for leases. The lease agreement is considered the finance lease, if all significant income and risks are transferred to the lessor. The assets leased based on the finance lease agreement are capitalised in the present value of lease payments and depreciated based on their useful life or lease period. The rest of lease agreements are dealt with as operating lease and the payments made according to such agreements are expensed as rental cost when occurred in income statement under "other operating expenses".

Cash and cash equivalents

Cash consists of cash in hand and on bank accounts and short-term deposits.

Cash flow statement has been prepared based on indirect method where the cash flows from operating activities are derived from adjusting the operating profit with the non-monetary transactions (e.g. depreciation).

Derivative instruments

Derivatives - forwards, swaps etc - are recorded at their fair value determined using the quotations of the commercial banks for the similar instruments. Assets or liabilities originated from these transactions are presented in balance sheet as "other receivables" or "other liabilities", and related profits/losses in income statement as "financial income" / "financial expenses".

Loan expenses
Loan expenses and interests paid on loans are expensed when occurred. Loan expenses are not capitalised.

Research and product development costs
Research and product development costs are not capitalised.

Reserves
Reserves included in equity are constituted by mandatory transfers from the company's net profit of previous periods, as stipulated by the Commercial Code. The capital reserves of companies located in Estonia must not be less than 1/10 of the share capital. Reserves may be used for covering losses, if these cannot be covered from unrestricted equity.

Earnings per share
Earnings per share are calculated in accordance with the International Accounting Standard No 33 (IAS 33). For issued shares the earnings per share has been calculated based on the weighted average number of shares outstanding during the year. Treasury stock has been excluded as not having a material impact. The company has no potential common shares and therefore earnings per share equal with diluted earnings per share.

Provisions
Considering potential returns of the goods sold, the short-term provision has been made. The provision reflects the difference of the goods average selling price from the production cost. Provision indicates the probable profit decrease related to the returnable goods.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1
Cash and bank

	31.12.2000	31.12.1999
Cash and bank	15 298	16 588
Total	**15 298**	**16 588**

A group account has been taken into use for more flexible management of funds, and for decreasing interest expense and credit needs. The account enables the members of the Group to utilise the Group's funds within limits set by AS Baltika.

NOTE 2
Marketable securities, short-term placements of monetary funds

	31.12.2000		**31.12.1999**	
	Quantity	**Book value**	**Quantity**	**Book value**
Shares of Tallinna Kaubamaja (acquisition cost 5160 kroons)	5 160	284	5 160	164
Hansabank AS (acquisition cost 136224 kroons)	1 056	147	0	0
Hansa Interest Fund	0	0	26 174	3 012
Merita Bank CB	0	0	30	2 991
Securities portfolio	-	0	-	27
Kokku		**431**		**6 194**

Securities portfolio was liquidated at the beginning of the year 2000. During the accounting period main investment were made into the shares of Hansa Interest Fund and Money Market Fund, which were all disposed of by the end of the year.
Profit from dividends paid out by Hansabank was 5,1 th. kroons in 2000. Realised financial income from disposed securities in 2000 was 150 thousand kroons and unrealised income from revaluation was 130 th. kroons.

NOTE 3
Customer receivables

	31.12.2000	31.12.1999
Accounts receivable	46 087	41 880
Allowance for doubtful accounts	(752)	(5 622)
Total	**45 335**	**36 258**

Every receivable has been reviewed separately when assessing the value of receivables. In 2000 bad debts amounting to 930 th. kroons were expensed. Uncollectible receivables have been written off from the balance sheet. Uncollectible receivables, expensed in previous periods were written off the balance sheet in amount of 5,1 million kroons in 2000. During 12 months 819 th. kroons of receivables written off in previous periods were collected.
In 1999 bad debts amounting to 0.4 million kroons were written off and allowances for doubtful accounts were made amounting to 1.5 million kroons.

NOTE 4
Other receivables and prepaid expenses

	31.12.2000	31.12.1999
Receivables from shareholders	4	0
Other short-term receivables	1 881	1 788
Prepaid / refundable taxes	5 560	6 746
Prepaid expenses	1 737	1 893
Interest receivables	40	69
Total	**9 222**	**10 496**

See for further information about prepaid and refundable taxes in Note 5. As at 31.12.1999 and 31.12.2000 prepaid expenses consist of rental prepayments, insurance prepayments, subscription costs of periodicals, etc.

NOTE 5
Tax receivables and liabilities (see also Note 12)

Tax receivables (prepayments)

	31.12.2000	31.12.1999
Corporate income tax	786	2 658
VAT	4 774	3 217
Personal income tax	0	574
Social security tax	0	295
Income tax on fringe benefits	0	2
Total	**5 560**	**6 746**

Tax liabilities

	31.12.2000	31.12.1999
Corporate income tax	0	191
Personal income tax	1 777	1 099
Social tax	2 938	1 683
Income tax on fringe benefits	42	28
VAT	1 399	884
Road tax	11	37
Total	**6 167**	**3 922**

See also Note 12 regarding potential tax liability.

NOTE 6
Inventories

	31.12.2000	31.12.1999
Raw materials	36 706	32 186
Allowance for materials	(2 021)	(1 865)
Work in progress	7 509	6 328
Finished goods; goods on sale	65 230	60 669
Allowance for finished goods	(2 610)	(2 025)
Prepayments to suppliers	687	472
Total	**105 501**	**95 765**

The balance of finished goods as at 31.12.2000 includes inventory at net realisable value amounting to 12.4 million kroons (from which finished goods form 9.9 million kroons and materials 2.5 million kroons). As at 31.12.1999 the balance of finished goods includes inventory at net realisable value amounting to 7.0 million kroons.

NOTE 7
Long-term financial assets

	31.12.2000	31.12.1999
Shares	102	707
Long-term receivables	715	374
Total	**817**	**1 081**

Shares

	Quantity 31.12.2000	Acquisition cost at 31.12.2000	Quantity 31.12.1999	Acquisition cost at 31.12.1999
E-Investeeringugrupi AS	0	0	335	524
Moskva Ärikeskus	3	37	3	37
AS Briti Kaubamaja	50	95	50	95
OY Baltinia AB	0	0	120	45
OÜ Temotent	1	7	1	7
Total		**138**		**707**
Write-down		(37)		0
Book value		**102**		**707**

In 2000 shares of E-Investeeringugrupi AS were sold, profit from the transaction was 1 521,7 thousand kroons. Shares of Moskva Ärikeskus were written down to the book value of 0 kroons. OY Baltinia AB started its business operations as subsidiary in 2000 and has been consolidated in the Group financial statements since the beginning of 2000.

Long-term receivables

	31.12.2000	31.12.1999
Loan to a related party (see also Note 23)	126	373
Long-term rental prepayment	519	0
Other long-term receivables	70	0
Total	**715**	**373**

NOTE 8
Tangible and intangible fixed assets

In 2000 production equipment totalling at 4,65 million kroons were acquired (incl. automatic cutting machinery with acquisition cost of 1.4 million kroons), vehicles amounting to 0.4 million kroons and shop furnishing amounting to 7.2 million kroons were acquired; construction expenses of main building in Veerenni Str 24 for 1.6 million kroons and building in Viru Str 22 for 0.6 million were capitalized; other equipment for 1.7 million kroons were acquired.

Tangible fixed assets

	Land	Buildings premises	Plant, equipment	Other equipment	Constr. in progress	Pre-payment	Total
Acquisition cost at 31.12.1999	3,070	30,453	56,289	20,880	0	0	110,692
Accumulated depreciation 31.12.1999	0	(8,094)	(43,177)	(9,490)	0	0	(60,761)
Net book value at 31.12.1999	3,070	22,359	13,112	11,390	0	0	49,931
Acquired in 2000	0	1,648	6,240	8,830	1,370	1,281	19,369
Sold in 2000	(27)	(52)	(759)	(111)	0	0	(949)
Written off in 2000	0	0	0	(1)	0	0	(1)
Taken into use	0	0	0	0	(1,298)	(1,025)	(2 323)
Internal reclassification	0	70	304	(374)	0	0	0
Depreciation of 2000	0	(1,179)	(5,240)	(4,862)	0	0	(11,281)
Acquisition cost at 31.12.2000	3,043	32,001	60,070	27,868	72	256	123,310
Accumulated depreciation 31.12.2000	0	(9,155)	(46,413)	(12,996)	0	0	(68,564)
Net book value at 31.12.2000	3,043	22,846	13,657	14,872	72	256	54,746

To unify the Group's non-current assets' accounting principles, during the reporting period tangible assets were reclassified in the following subsidiaries: AS Baltman, Baltika Poland ja Baltika Sweden. Due to mentioned reclassifications the balance of "other equipment" was reduced, accordingly balances of "buildings, premises" and "plant, equipment" were increased.

Intangible fixed assets

	Intangible fixed assets	Goodwill	Total
Acquisition cost at 31.12.1999	**1 927**	**1 417**	**3 344**
Acquisitions in 2000	189	501	690
Acquisition cost at 31.12.2000	**2 116**	**1 918**	**4 034**
Accumulated amortisation at 31.12.1999	(661)	(807)	(1 468)
Amortisation of 2000	(399)	(281)	(680)
Accumulated amortisation at 31.12.2000	**(1 060)**	**(1 088)**	**(2 148)**
Net book value at 31.12.2000	**1 056**	**830**	**1 886**

Low-value tangible assets were expensed in amount of 150 thousand kroons and were recorded in income statement as "depreciation of non-current assets" together with exchange rate differences occurring from translation of foreign subsidiaries fixed assets into Estonian kroons.
Depreciation of the goodwill is recorded in the income statement as "financial expenses".

NOTE 9
Accounting for leases

Operating lease

Future period operating lease payments are divided as follows:

	31.12.2000	**31.12.1999**
up to 1 year	13 922	9 500
1 to 5 years	57 147	33 924
more than 5 years	6 426	3 520

Operating lease expenses include lease payments for selling premises and vehicles. Rental contracts for selling premises are not restrictive for long periods; most of the rental contracts can be terminated at two months notice.
The total amount of operating lease payments made in 2000 was 2 515 th. kroons.

Lease payments receivable are divided as follows:

up to 1 year	696
1 to 5 year	937
more than 5 years	0

Income from operating lease includes rental payments for premises and equipment.
Lease payments received in 2000 totalled at 1 431 th. kroons, in 1999 1 725 th. kroons.

Leased out assets as at 31.12.2000:

	Acquisition cost 31.12.2000	Acc. depreciation 31.12.2000	Depreciation of 2000	Net book value 31.12.2000
Buildings	14 972	4 953	1 616	10 019

Leased out assets as at 31.12.1999:

	Acquisition cost 31.12.1999	Acc. Depreciation 31.12.1999	Depreciation 1999	Net book value 31.12.1999
Buildings	6 721	1 090	170	5 631
Equipment	98	98	0	0

NOTE 10
Debt obligations

	31.12.2000		**31.12.1999**	
	Short-term	**Long-term**	**Short-term**	**Long-term**
Liability to Estonian Privatisation Agency	384	1 344	384	2 173
Current period long-term debt repayment	0	0	5 908	0
Short-term bank loans	51 253	0	39 405	0
Long-term bank loans	0	0	0	10 766
Total	**51 637**	**1 344**	**45 697**	**12 939**

In 2000 interest payments amounted to 4 778 th. kroons, in 1999 to 6 050 th. kroons

Bank loans

Creditor	Loan balance 31.12.2000	Short-term amount	Interest rate	Repayment deadline
Merita Bank	10 125	10 125	DEM Libor + 3%	14.05.2001
Hansabank	35 800	35 800	8,0%	30.10.2001
Hansabank (credit line)	5 328	5 328	8,0%	30.10.2001
Total	**51 253**	**51 253**		

AS Baltika has opened a group account in Hansapank with overdraft limit of 10 million kroons. As at 31.12.2000 5.3 million kroons of that limit was in use. All short-term loans are to be prolonged during 2001.

Collateral of the loans is commercial pledge of 67 680 th. kroons, which is registered in the registry for the commercial pledges.

Repayment deadline of the debt to Estonian Privatisation Agency is 28.12.2008, interest rate 10 %.

NOTE 11
Accrued expenses

	31.12.2000	**31.12.1999**
Salary related expenses (salaries, vacation pay, bonuses, etc.)	6 865	10 756
Dividends payable	277	277
Interest payable (accrued loan interest with payment deadline to come)	107	205
Other accrued expenses	373	360
Total accrued expenses	**7 622**	**11 598**

NOTE 12
Income tax

The company's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet, as this liability can not be estimated reliably. If the company paid the entire amount of retained earnings as at 31.12.1999 out as dividends, no income tax liability would arise as income tax would be already paid on that part of income from 1994 to 1999. Retained earnings accumulated after 31.12.1999 are subject for income tax payable (26/74 of net dividend payments) Dividends payable are to be paid out from the parent company's profit, which in current reporting period differs from the Group profit in amount equal to the subsidiaries' negative owners' equity. The maximum possible tax liability, which would become payable if the retained earnings would be fully paid out as dividends as at 31.12.2000 would be 6 million kroons.

NOTE 13
Short-term provisions

	31.12.2000	**31.12.1999**
Provision for potential returns of goods sold	120	0

NOTE 14
Equity

Share capital

The share capital of 48,000,000 kroons consists of 4,800,000 common shares with nominal value of 10 kroons per share. The statutory minimum amount of shares is 4 000 000 and maximum amount of shares is 16 000 000. Payments have been made for all shares issued. AS Baltika's shares are listed in the secondary list of Tallinn Stock Exchange.

Complement of shareholders as at 31.12.2000:

	Quantity	Share %
1. Members of the Supervisory Board		
Burger Miles Warwick	38 000	0.7917
2. Members of the Management Board and people related to them		
Meelis Milder	384 239	8.0050
Maire Milder	15 000	0.3125
Ülle Järv	4 763	0.4117
Boriss Loifenfeld	3 360	0.0700
3. Investor holding 5% or more interest		
Customers of the Bank of Bermuda	1 894 400	39.4667
Tõnis Kotkas	250 000	5.2083

Retained earnings

Retained earnings as at 31.12.2000 amounted to 32 030 th. kroons.
Dividends payable will be recorded in the balance sheet after the general meeting of shareholders will have declared the payment of dividends. Such declaration has not been made at the time of preparing the current financial statements.
In 2000 AS Baltika has paid out dividends of 2 400 th. kroons and AS Virulane 651.2 th. kroons (the latter incl. 294 th. kroons to shareholders external to the Group).

Treasury stock and paid-in capital over par

AS Baltika has sold treasury stock amounted to 63 000 shares with selling price of 871 th. kroons higher than their acquisition cost, profit is recorded as paid-in capital over par.

NOTE 15
Segment information

	Textile industry		Rental and other services		TOTAL	
	2000	**1999**	**2000**	**1999**	**2000**	**1999**
Sales	337 237	283 237	3 519	5 689	340 756	288 926
Operating profit of the segment	19 422	7 882	(164)	(422)	19 258	7 460
Other financial income	-	-	-	-	2 458	782
Other financial expenses	-	-	-	-	5 217	6 931
Income tax	-	-	-	-	-	233
Profit of the Group	-	-	-	-	16 499	1 812
Minority interest	-	-	-	-	2 238	619
Net profit	-	-	-	-	14 261	1 193
Assets	227 426	191 403	65	20 039	227 491	211 442
Unallocated assets of the Group	-	-	-	-	5 745	6 746
Total assets	-	-	-	-	233 236	218 188
Liabilities	36 797	31 914	1	7	36 798	31 921
Unallocated liabilities of the Group	-	-	-	-	59 441	62 558
Total liabilities	-	-	-	-	96 239	94 479
Acquisition of fixed assets	16 656	13 618	595	66	17 251	13 684
Depreciation	12 160	10 678	7	170	12 167	10 848
Other significant non-monetary expenses	(4 128)	864	-	304	(4 128)	1 168

Geographical segment report – secondary

	2000	**1999**
Estonia	116 404	102 573
Latvia	31 569	28 402
Lithuania	39 728	33 401
Russia	25 172	7 515
Ukraine	2 589	1 025
Finland	51 024	49 844
Sweden	35 914	38 098
England	26 225	25 090
Germany	3 725	2 121
Poland	4 163	856
Norway	2 303	0
Denmark	86	0
USA	1 853	0
Total	**340 756**	**288 926**

The amount of profits earned abroad and assets equals with profits and assets of subsidiaries. The entire profit of the parent company is generated in Estonia and the assets are located in Estonia, as well. As profits generated abroad and assets located abroad have no material effect to the Group position, these have not been presented separately.

NOTE 16
Other revenue

	2000	**1999**
Profit from sales of fixed assets	642	3 256
Foreign exchange gain	634	2 999
Other revenue	1 900	645
Total	**3 176**	**6 900**

NOTE 17
Operating expenses

	2000	**1999**
Rent	13 401	10 385
Fuel and energy	4 074	3 390
Transport expenses	4 455	3 950
Travelling expenses	2 852	2 371
Advertising	7 948	5 060
Insurance	1 035	914
Municipal services	497	766
Personal retrieval	111	13
Training expenses	448	586
Security expenses	1 357	1 144
Consultancy	1 291	752
Commissions	788	1 317
Research	1 147	300
Doubtful accounts and bad debts	930	2 466
Other expenses	21 739	13 951
Total	**62 073**	**47 365**

NOTE 18
Personnel expenses

	2000	**1999**
Salaries	77 489	72 759
Social security tax	25 754	23 944
Vacation pay and bonuses	5 503	5 248
Total	**108 746**	**101 951**

NOTE 19
Other expenses

	2000	**1999**
Membership fees	132	176
Losses from sales of fixed assets	49	0
Fines, penalties, tax interests	5	189
Representation expenses	856	664
Other expenses	183	1 739
Total	**1 225**	**2 768**

NOTE 20
Financial income

	2000	**1999**
Income from sale of long-term financial investments	1 522	0
Interest income	303	227
Dividends received	5	106
Income from short-term securities	271	326
Other financial income	357	123
Total	**2 458**	**782**

NOTE 21
Financial expenses

	2000	**1999**
Interest expense on loans	4 778	6 050
Foreign exchange loss	74	661
Other financial expenses	365	220
Total	**5 217**	**6 931**

NOTE 22
Earnings per share

	2000	**1999**
Average number of shares	4 800 000	4 800 000
Net profit (kroons)	14 261 570	1 193 097
Earnings per share (kroons)	**2.97**	**0.25**
	(14 261 570/4 800 000)	(1 193 097/4 800 000)

NOTE 23
Related parties

Subsidiary Baltmano Prekiba granted a loan to the managing director in amount of 126 thousand kroons, repayment deadline 01.05.2006. Interest is not calculated until the employment contract is valid.

In 2000 the salaries in amount of 3 787 th. kroons were paid to the management of AS Baltika and 37.8 th. kroons were paid to the members of the Supervisory Board.

NOTE 24
Financial risks

Foreign currency risk

Export makes total of 65% of the sales of the Group of AS Baltika. The major sales currencies are DEM, USD, GBP, SEK and FIM. All raw materials needed for the production are imported. The major purchase currencies are USD, DEM, ITL, FRF, FIM and SEK. Although the currency of purchase and sales agreements is not EUR, the receivables and payables are partly paid also in EUR.
The Group is relatively exposed to currency risks proceeding from the exchange rates. In 2000 the foreign exchange gains totalled at 3 925 th. kroons and foreign exchange loss at 3 289 th. kroons. For decreasing the currency risks, the Group has used a few derivative instruments (as spot and swap deals), but the effect of decreasing the risks as to relatively minor deals of financial instruments has not been significant.

Credit and liquidity risk

The Group is exposed to credit risks regarding the solvency of business partners in Russia and the Ukraine. In 2000 the risk was not significant. No guarantees have been given to the receivables presented in the balance sheet. The liquidity risks due to the Group's seasonal production and sales cycle are not of constant nature. The amount expressing maximum liquidity risk is as at 31.12.2000 47.2 million kroons, incl. 14.5 million kroons related to transactions with Russia and the Ukraine.

Interest risk

The interest rate risks are mainly connected with the potential fluctuation of DEM LIBOR and the changes in the banks' average interest rates.

NOTE 25
Long-term investments

Subsidiary of AS Baltika, AS Baltman has subsidiary in Latvia (SIA Baltman, owned 100% of the shares), which has been decided to be liquidated. All transactions related to this liquidation are recorded in AS Baltman financial statements. In 2000 AS Baltika acquired 100 % of the shares of Baltmano Prekiba (Lithuania), which before was controlled by AS Baltman (90 % share). All acquisitions have been made with monetary payments.

In 2000 the share in AS Virulane was increased up to 60.88 %. 1.29 % of the share increase was the effect of purchased treasury stock by the subsidiary. Due to the purchased treasury stock the share of minority interest decreased by 243 th, kroons. 4.78 % of the increase was the effect of the acquisition of additional shares. Goodwill was created in both transactions.

In October 2000 new subsidiary – Baltika Ukraine (the Ukraine) was founded, with 99 % share and share capital amounted to 40 000 USD.

AS Virulane

Purchase analysis as at 31.03.2000 – changes in share from the treasury stock

AS Virulane repurchased 1000 shares for 150 000 kroons. From that the share of AS Baltika increased by 1.29 %.

	AS Virulane balance sheet	AS Baltika share 1,29%	Net assets acquired
Current assets	16 384	211	211
Non-current assets	12 396	160	160
Liabilities	(9 916)	(128)	(128)
Owners' equity	**18 864**	**243**	**243**

Negative goodwill 243 th. kroons is recorded in income statement as "other financial income".

Purchase analysis as at 31.11.2000 – purchase of additional shares

From the purchase of 2 030 shares from the minority shareholders the share of the parent company in AS Virulane increased by 4.79 %.

	AS Virulane balance sheet	AS Baltika share 4.79 %	Acquisition cost
Current assets	16 981	813	813
Non-current assets	11 713	561	561
Liabilities	(5 230)	(251)	(251)
Owners' equity	**23 464**	**1 124**	**1 124**
Acquisition cost			**1453**
Goodwill			**329**

Goodwill in amount of 329 th. kroons will be expensed over 5 years.

Baltmano Prekiba

Acquisition of 10 % share as at 29.02.2000

	Baltmano Prekiba balance sheet	AS Baltika share 10%	Acquisition cost
Current assets	10 040	1 004	1 004
Non-current assets	3 000	300	300
Liabilities	(10 378)	(1 038)	(1 038)
Owners' equity	**2 662**	**266**	**266**
Acquisition cost			**471**
Goodwill			**205**

Goodwill in amount of 205 th. kroons will be expensed over 5 years.

OY Baltinia AB

OY Baltinia AB business activities as a member of the Group started at the beginning of the year 2000. Accordingly company's financial statements were first consolidated in 2000. The effects of the first consolidation are shown as follows:

	31.12.2000
Assets	1051
Liabilities	1016
Owners' equity	35
incl. loss	(9)

NOTE 26
Off-balance sheet assets

The raw materials (fabric, lining etc.) in total amount of 484 th. meters imported for fulfilling the orders by the sub-contractors are kept on consignment in the warehouses of AS Baltika and 11 154,7 kg of raw material in the warehouses of AS Virulane.

NOTE 27
"Fair value"

The differences of the book value of the company's financial assets and liabilities from the market value are not material.

NOTE 28
Subsequent events

In January 2001 additional 3 540 shares were purchased from minority shareholders of AS Virulane. From that acquisition the share of AS Baltika increased by 8.41 %. Acquisition cost of the share was 1 505 th. kroons. Negative goodwill occurred in amount of 238 th. kroons and was recorded in January 2001 income statement as "financial income".

Additional change in the share occurring from the repurchase of the treasury stock by AS Virulane was 0.5 % at the beginning of 2001. Accordingly minority interest decreased by 104 th. kroons.

By the end of January 2001 the share of AS Baltika in AS Virulane is 69.79 %.

Decision about the cancellation of the treasury stock will be adopted in the general meeting of shareholders.

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AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Baltika

We have audited the consolidated financial statements of AS Baltika and its subsidiaries (the Group) for the year ended 31 December 2000 as set out on pages 1 to 21. These financial statements are the responsibility of the management of AS Baltika. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements give a true and fair view of the financial position of the the Group as at 31 December 2000 and of the results of their operations and their cash flows for the year then ended in accordance with International Accounting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

Hanno Lindpere
Authorised auditor

7 March 2001