AS BALTIKA

2002 ANNUAL REPORT
(Translation of the Estonian original)

Commercial Name	AS Baltika
Commercial Registry No	10144415
Legal Address:	Veerenni 24,Tallinn 10135, Estonia
Phone	+37 6302 731
Fax	+37 6302 814
E-mail	baltika@baltika.ee
Auditor	AS PricewaterhouseCoopers
Reporting Period	01.01.2002-31.12.2002
Main Fields of Activity	Manufacturing of menswear and womenswear, retail and wholesale, and sewing services

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Short Characteristics of AS Baltika group

Baltika Group is an international clothing trade company with AS Baltika as a parent company. The group operates Monton, Baltman, CHR/Evermen and Baltika Factory Shop retail chains in 70 shops at 7 countries – Estonia, Latvia, Lithuania, Poland, the Ukraine, Russia and Sweden. Baltika uses vertically integrated business model. BG's brands are marketed via its own retail chains and wholesalers, the main brands being Baltman, Evermen and Herold (overcoats) for men, and CHR and Mascara (overcoats) for women. Monton, the brand for both men and women, is marketed solely through BG's retail chain Monton.

The history of BG dates back to 1928, when the sewing factory "Gentleman" was founded. By now, BG has become a leading clothing trade company, comprising of 7 trade and 3 production enterprises.

As of 31.12.2002, the group had 1,725 employees. The company is located and has been registered at Veerenni 24, Tallinn, Estonia. AS Baltika is listed in Tallinn Stock Exchange in I-list.

As of 31.12.2002, the group consists of the following companies:

	Country of location	Participation 31.12.2002	Participation 31.12.2001
AS Baltika (parent)	Estonia		
AS Baltman	Estonia	100 %	100 %
Baltika Lietuva	Lithuania	100 %	100 %
Baltika Sweden	Sweden	100 %	100 %
Baltika Ukraina	Ukraine	99 %	99 %
Baltika Poland	Poland	100 %	100 %
Baltika Latvija	Latvia	75 %	-
OY Baltinia AB	Finland	100 %	100 %
AS Virulane	Estonia	75,02%	75,02 %
AS Elina STC	Estonia	50,10%	50,10 %

Management Report of AS Baltika Group 2002

1. Implementation of BG Strategy for 2002–2004

The general meeting of AS Baltika's shareholders, held in May 2002, approved the Baltika Group's strategy for 2002–2004. According to the strategy, the main goal of Baltika Group (BG) is to become the leading clothing-specialised trade company in Central and Eastern Europe by 2004. The goals for year 2002, the first year of the three-year programme, were:

- to accelerate the growth of sales in comparison with the year 2001 by 22% and to increase the share of retail sales to 50% of the total sales.
  Result: the sales of BG grew by 17% compared to 2001 (EEK 485.4m in 2002 compared to EEK 414.4m in 2001); the share of retail sales formed 52% of the total sales of the group (37% in 2001). This percentage grew by 67% compared to 2001. The total amount for retail sales were EEK 255m in 2002 and EEK 153m in 2001.Together with the controlled retail sales (shop-in-shop and franchise agreements), retail sales amounted to EEK 323m and formed 67% of the total sales of BG in 2002;

- to launch a new international fashion brand.
  Result: Monton was launched simultaneously on the five main retail markets of BG: Estonia, Latvia, Lithuania, Poland and Ukraine in September 2002. Since September when the brand was launched the sales of Monton brand products increased to 76% of the total retail sales of BG. More than 15,000 people have joined the Monton World customer programme on the five markets. The launch of Monton was granted with the second price at the Estonian Marketing Act competition in 2002;

- to prepare and launch a new retail concept (portfolio of retail brands) to segment the markets.
  Result: since September 2002, BG operates four retail brands: Monton, Baltman, CHR/Evermen and Vabrikupood.

2. General Economic Results

The consolidated net sales of the Baltika Group were EEK 485.4m, which exceeds the results for 2001of EEK 414.4 by EEK 71m resulting in a growth of 17.13%. The planned sales growth of Baltika was 22% (totalled to EEK 505m). The actual net sales is below the target figure by 4% i.e. EEK 19.6m. The smaller than expected sales were caused by the negative seasonal effects in all of the retail markets of Baltika Group, the re-position of the target customer groups due to the new retail concept, the falling trend of men's classical clothing in Scandinavia, and more conservative sales policy for the Russian market.
The structure of sales was as follows:

- the retail sales of shops owned by BG were EEK 254.6m, grew by 66% compared to the retail sales for 2001 of EEK 153m;
- sales covered by retail cooperation agreements (shop-in-shop and franchise) were EEK 68.6m, grew by 6% compared to 2001 of EEK 65m;
- sales under the wholesale contracts amounted to EEK 104.2m, falling by 12% as compared to EEK 119m in 2001;
- subcontracting sales amounted to EEK 53.1m, falling by 29% as compared EEK 75m in 2001;
- other sales amounted to EEK 4.6m, growing by 130% as compared to EEK 2m in 2001.

The share of the BG retail system in the total group sales grew from 37% in 2001 to 52% in 2002.
The share of export grew from 71% in 2001 to 73% in 2002 (EEK 292.2m in 2001 and EEK 354.6m in 2002).

The consolidated operating profit of BG in 2002 was EEK 13.8m (EEK 23.1m in 2001), including EEK 8.3m one-off launching costs of Monton.

The consolidated net profit of BG was EEK 6.8m (EEK 8.9m less than in 2001), when the respective figure was EEK 15.7m. Besides the above-mentioned one-off costs, the profit of 2002 was also influenced by the change that took place in the sales portfolio over the year: sales corresponding to the costs of opening new retail markets in Latvia and new retail sales areas (4256 m^2 was added during the year). The operation of those new markets and sales areas had only a partial effect on the year's results, while the volumes of wholesale and contracting agreements, mainly relating to overhead costs, decreased. Interests paid on the loan capital involved in the financing of the development of the company amounted to EEK 8.8m, which exceeds the previous year's interests by EEK 3.2m. Due to the change in the brand portfolio and the structure of the sales areas (the areas of older trademarks were replaced by Monton areas), a need arose to revaluate, on a conservative basis, the inventories kept in those areas and in stock during the previous periods (stock price value EEK 8.9m), for which an additional write-down reserve of 742 thousand EEK was formed in 2002; the total reserve was 1 720 thousand EEK.

The balance sheet total of Baltika was EEK 372.9m as of 31.12.2002, having increased by EEK 75.5m over the financial year. Inventories increased by EEK 44.7m in relation to the increased retail area. Investments in production, retail sale and IT projects increased fixed assets by EEK 30.0m. The loan capital used to finance investments and the growth of inventories increased the loan obligations of BG by EEK 55,9m. In October 2002, Baltika issued one-year bonds of EEK 50.0m with 4.95% yield. The equity capital of the group amounted to EEK 170.0m by the end of the year, having increased by EEK 30m. The special meeting of shareholders held in September decided to increase the share capital by EEK 6.444.500 through issuing 644,450 shares with a nominal value of EEK 10 and a price of EEK 36 each, totalling EEK 23.2m. This issuance of shares was undertaken to finance the strategic growth plans of the group and to increase the personal holdings of the senior management. The entire issue was administered by OÜ BMIG, an investment company founded by the senior managers of Baltika. The new amount of share capital is EEK 54.44m. Since February 17, 2003 the shares of Baltika have been transferred to the main list of the Tallinn Stock Exchange.

The market value of AS Baltika shares as of 31.12.2002 was EEK 200.2m. The closing price of the Baltika share on the Tallinn Stock Exchange on 31.12.2002 was EEK 36.77, having grown by 17% over the year.

The major economic indicators of BG for 2002 were as follows:

	2002	2001
1. Growth in sales as compared to previous year	17%	22%
2. Retail sales from total sales	52%	37%
3. Operating profit to net sales	2.8%	5.6%
4. Profit margin	1.4%	4.0%

5. Return on equity	4.0%	11.3%
6. Commercial area (m^2)	10153	6823
7. Markets (countries) managed via own retail trade organisations	6	5
8. Retail concepts	4	2
9. Shops (retail outlets)	70	55

3. The Main Events in 2002

January	- Opened Lemon Centre (Tallinn) – first testing of furniture concept of Monton - Started the implementation of Protex IT-software
March	- Tested Monton's *soft concept* in Pärnu - BG's management's seminar determined the BG's strategy for 2002-2004
April	- Opened new factory of Virulane in Ahtme
May	- The annual general meeting of BG shareholders - Opened Monton in Akropolis and Kaunas (Lithuania) – tested the *full concept* of Monton - Founded the daughter company Baltika Latvija in cooperation with SIA Care for starting retail operations in Latvia.
July-August	- Preparations for the launch of Monton.
September	- Launch of Monton (and the new retail concept as a whole) at 5 markets on September 5. - Special meeting of shareholders decided to issue 644,450 new shares to investment company OÜ BMIG that was founded by the management of AS Baltika, thus increasing the interest of the management to 22.19 %.
October	- CHR/Evermen test-shop was opened in Järve centre (Tallinn), in order to prepare the next retail concept of BG.
November	- The board prepared and approved the new management structure of BG, new directors were appointed. - The strategy meeting of the board of BG fixed objectives for 2003

4. Development of Retail Trade

In accordance to the BG strategy for 2002–2004, major developments took place in the group's retail concepts and retail network in 2002.

Retail Concepts

The preparations for launching a new retail concept, that began in 2001, were completed in September 2002 when the group's new retail brand portfolio was simultaneously introduced to the five main markets of Baltika. The goal of the new concept (a set of retail brands) is to segment the markets by offering fashion and products to different consumer groups and thus cover larger market shares in all the markets. As of 2002, the retail brand portfolio of Baltika is composed of the leading retail concept MONTON; BALTMAN that offers a fashionable classical lifestyle collection for men; CHR/EVERMEN offering reliable women's and men's clothing collections at a good price; and VABRIKUPOOD that sells inventories of previous seasons' clothes.
The relative shares of the concepts in sales since the launch of the new brand portfolio in 2002 were:
Monton 76%
Baltman 8%
CHR/Evermen 11%
Baltika Vabrikupood 5%.

The launch of Monton particularly brought about a substantial change in the size of the areas operated by the brands. While up to 200 m^2 was sufficient for a concept so far, the Monton prototype shop occupies 350 m^2.
The preparation and launching on five markets of the Monton retail concept cost BG a total of EEK 22.4m, of which investments made in 2002 amounted to EEK 18.3m, including EEK 3.3m on brand development, EEK 8.0m on shop renewal and EEK 7.0m on launching.

Retail Network
Alongside the launch of the new retail concept, the retail network of BG grew significantly over the year. The number of markets managed via the group's own retail trade organisations grew from five to six (the Latvian subsidiary Baltika Latvija was added through a joint project with our former franchise partner) in 2002. The total number of shops and managed retail trade areas increased from 55 to 70 and the total area grew from 6823 m^2 to 10,153 m^2.

It is important for BG, as a rapidly growing retail trade organisation, to able to open new Monton brand shops in the most presentable shopping centres of the capitals (Tallinn, Riga, Vilnius, Kiev, Warsaw) for all our main markets in 2002.

5. Production

The restructuring of the BG production division continued in 2002 to meet the strategic goals of BG: to produce a growing proportion of retail system products for themselves along with ensuring a high quality and a flexible and quick ordering system.
The construction of the AS Virulase Ahtme factory was completed; the capacity of the renewed production unit increased by 21% in 2002.
The total output of 2002 was 818,000 products (841,000 in 2001). The output of own products continued to grow and amounted to 461,000 products (432,000 products in 2001), forming 56% of the total output. The quantity of the products manufactured under subcontracting agreements fell from 409,000 in 2001 to 357,000 in 2002. The main reasons for the decrease were the falling consumption trend of men's classical clothes in Scandinavian countries and the bankruptcy of a former major buyer, the Finnish company P.T.A.

6. Organisation and Personnel

The management structure of the Baltika Group changed after the launch of the new retail concept. The former structure, which supported development and launching activities, was replaced by a more traditional structure based on the management of specific areas of operation on 2.12.2002.
The new structure comprises four divisions:

- Production Division – manages the operations of all production units and contracting sales activities;
- Retail Division – manages the development of retail concepts, collections, and the creation and management of inventories;
- Sales Division – coordinates and supports the operations of the retail organisations, manages wholesale;
- Business Processes Division – coordinates and manages the group's internal business processes, including the movement of money, goods and information.

Market organisations have been established on all the main markets of BG to manage retail operations (the Latvian market subsidiary was added in 2002). BG currently operates on six markets via its retail organisations (Estonia, Latvia, Lithuania, Poland, Ukraine and Sweden).

The Baltika Group employed 1725 people by the end of 2002, including 387 in trade companies and 1061 in production companies; 1451 people in Estonia and 274 abroad. The parent company employed 838 people.

The members of the supervisory board and management board were paid management fees and wages in a total amount of EEK 3.1m in 2002.

The second part of the three-year share option programme aimed to motivate the senior management of BG. 192,000 convertible debentures were distributed between 24 key employees of the group on the basis of a supervisory board resolution.

7. Plans for 2003

The goals for 2003 derive from the strategies for 2002–2004 (the second year of implementation) as well as the need to respond to the results of the changes made in 2002 to review the tactical priorities.

The management of BG has pointed out the following main goals for 2003:

1. Improvement of the efficiency of operations on all levels;
2. Acceleration of the turnover of inventories;
3. Continuation of the rapid growth of sales;
4. Stabilisation of wholesale and contracting volumes.

As the goal of the improved system efficiency is prioritised, the scope of investments will significantly decrease in 2003 compared to 2002 (the investment budget for 2003 is EEK 15m).

BG is making preparations in 2003 for establishing a joint retail venture in Russia.

Meelis Milder
Chairman of Management Board

2002 FINANCIAL STATEMENTS

Management Board's Confirmation of the Financial Statements

The Management Board confirms the completeness and correctness of AS Baltika parent company and group 2002 consolidated financial statements which is presented on pages 9-35.

The Management Board confirms that:

1. The accounting principles used in preparing the financial statements are in compliance with International Accounting Standards (IAS);

2. The financial statements presents a true and fair view of the financial situation and the profit of the parent company and the group;

3. AS Baltika and its subsidiaries are going concerns.

....
Meelis Milder
Chairman of Management Board

....
Ülle Järv
Member of Management Board

....
James Hayhow
Member of Management Board

....
Maire Milder
Member of Management Board

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Boriss Loifenfeld
Member of Management Board

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Tallinn, 25th of February 2003

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Balance Sheet

	Note	Parent		Group	
ASSETS		**31.12.2002**	**31.12.2001**	**31.12.2002**	**31.12.2001**
Current assets					
Cash and bank	1	1 505	3 059	10 010	12 626
Shares and other securities	2	542	574	542	574
Customer receivables	3	42 949	50 442	47 609	56 115
Other receivables and prepaid expenses	4	113 263	59 866	19 306	10 728
Prepaid income tax	25	0	0	150	74
Inventories	6	93 423	83 385	175 857	131 145
Total current assets		**251 682**	**197 326**	**253 474**	**211 262**
Non-current assets					
Long-term investments	7,8	41 434	35 144	3 292	2 600
Deferred tax assets	9	0	0	2 868	0
Tangible fixed assets	10	45 612	44 415	108 382	78 390
Intangible assets	10	3 334	5 116	4 921	5 180
Total non-current assets		**90 380**	**84 675**	**119 463**	**86 170**
TOTAL ASSETS		**342 062**	**282 001**	**372 937**	**297 432**
LIABILITIES AND OWNER'S EQUITY					
Current liabilities					
Debt obligations	12,14	87 073	37 531	90 633	34 721
Customer prepayments for goods and services		63	37	149	154
Accounts payable		26 671	33 092	33 708	40 544
Other payables	13	9 474	7 950	0	0
Other tax liabilities	5	2 660	1 476	8 086	5 081
Accrued expenses	15	3 028	3 053	7 769	6 641
Total current liabilities		**128 969**	**83 139**	**140 345**	**87 141**
Non-current liabilities					
Long-term debt	12	43 160	58 926	55 469	63 723
Other long-term payables		0	0	25	0
Deferred tax liabilities	9	0	0	116	0
Total non-current liabilities		**43 160**	**58 926**	**55 610**	**63 723**
TOTAL LIABILITIES		**172 129**	**142 065**	**195 955**	**150 864**
Minority interest	16	**0**	**0**	**7 049**	**6 632**
OWNER'S EQUITY	17	**169 933**	**139 936**	**169 933**	**139 936**
Share capital (par value)		54 444	48 000	54 444	48 000
Share premium		41 665	24 910	41 665	24 910
Other restricted equity		22 885	22 885	22 885	22 885
Retained profit		44 141	28 430	44 141	28 430
Profit for the accounting period		6 798	15 711	6 798	15 711
TOTAL LIABILITIES AND OWNER'S EQUITY		**342 062**	**282 001**	**372 937**	**297 432**

Accounting principles presented on pages 14-17 and notes to the financial statements presented on pages 18-35 are integral parts of the financial statements.

AS Baltika 2002 Annual Report. In thousand Estonian kroons. Translation of the Estonian original

Income Statement

	Note	Parent 2002	Parent 2001	Group 2002	Group 2001
Revenue					
Net sales	18	**403 855**	**349 420**	**485 440**	**414 437**
Other revenue	19	7 228	1 448	6 023	1 303
Total revenue		**411 083**	**350 868**	**491 463**	**415 740**
Expenses					
Materials, raw materials, and services		(217 976)	(193 256)	(179 500)	(166 505)
Change in inventories		1 039	1 536	1 621	2 649
Other operating expenses	20	(58 046)	(46 035)	(126 096)	(84 578)
Personnel expenses	21	(79 615)	(72 608)	(151 043)	(126 222)
Depreciation of fixed assets	10	(10 595)	(9 309)	(19 230)	(14 241)
Other expenses	22	(2 073)	(1 788)	(3 460)	(3 717)
Total expenses		**(367 266)**	**(321 460)**	**(477 708)**	**(392 614)**
Operating profit		**43 817**	**29 408**	**13 755**	**23 126**
Financial income	23	**6 320**	**7 008**	**763**	**484**
Financial expenses	24	**(43 339)**	**(20 705)**	**(9 036)**	**(6 764)**
Profit before taxes and minority interest		**6 798**	**15 711**	**5 482**	**16 846**
Income tax expense	25,9	0	0	2150	(185)
Profit before minority interest		**6 798**	**15 711**	**7 632**	**16 661**
Minority interest	16	0	0	(834)	(950)
Net profit		**6 798**	**15 711**	**6 798**	**15 711**
Basic earnings per share (EEK)	26	**1,36**	**3,27**	**1,36**	**3,27**
Diluted earnings per share (EEK)	**26**	**1,34**	**3,25**	**1,34**	**3,25**

Accounting principles presented on pages 14-17 and notes to the financial statements presented on pages 18-35 are integral parts of the financial statements.

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PricewaterhouseCoopers, Tallinn

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Cash flow statement
(indirect method)

		Parent		Group	
Operating activities	**Notes**	**2002**	**2001**	**2002**	**2001**
Operating profit		43 817	29 408	13 755	23 126
Adjustment for depreciation	10	10 595	9 309	19 230	14 241
Profit from sale of fixed assets	10	(4 727)	154	(4 718)	133
Change in receivables from operating activities	8	(80 557)	(46 069)	(1 169)	(17 679)
Change in inventories	6	(10 038)	(11 573)	(44 712)	(25 644)
Change in payables		(2 842)	11 772	(2 962)	9 805
Interest paid	24	(7 558)	(5 451)	(8 733)	(5 433)
Income tax paid	25	0	0	(678)	527
Other financial income/expenses		32	(145)	32	0
Total cash flow from operating activities		**(51 278)**	**(12 595)**	**(29 955)**	**(924)**
Investing activities					
Purchase of tangible and intangible assets	10	(11 747)	(18 752)	(45 895)	(39 574)
Proceeds from sale of fixed assets	10	0	5	298	1 045
Proceeds from sale of right of pre-emption of real estate	10,19	5 752	0	5 752	0
Acquisition of subsidiaries	8	(1 873)	(7 751)	(354)	(3 345)
Interest received	23	830	66	167	124
Dividends received	2	56	1 734	56	9
Proceeds from sales of marketable securities	2	95	0	95	0
Repayments of loans granted		23	694	25	75
Loans granted		0	(876)	0	(53)
Total cash flow from investing activities		**(6 864)**	**(24 880)**	**(39 856)**	**(41 719)**
Financing activities					
Loan repayments	12	(1 874)	(45 925)	(4 018)	(45 925)
Loans received	12	13 341	64 995	26 535	66 802
Capital lease payments and instalments paid	11,12	(941)	(787)	(1 753)	(943)
Dividends paid		(2)	(3 598)	(2)	(3 894)
Receipts from contributions into share capital	17	23 200	0	23 200	5
Redemption of commercial papers	14	(55 050)	0	(55 050)	0
Proceeds from sale of commercial papers	14	78 108	24 301	78 108	24 301
Proceeds from sale of convertible bonds	14	192	190	192	190
Cash flow from financing activities		**56 974**	**39 176**	**67 212**	**40 536**
Changes in foreign currency exchange rate		(386)	(458)	(17)	(565)
Total cash flow		**(1 554)**	**1 243**	**(2 616)**	**(2 672)**
Opening cash and equivalents balance	1	**3 059**	**1 816**	**12 626**	**15 298**
Closing cash and equivalents balance	1	**1 505**	**3 059**	**10 010**	**12 626**

Accounting principles presented on pages 14-17 and notes to the financial statements presented on pages 18-35 are integral parts of the financial statements.

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Statement of Changes in Equity

	Share capital	Share premium	Reserves	Retained earnings	Profit/loss for the financial year	Total
Balance per 31.12.2000	**48 000**	**24 910**	**22 885**	**17 768**	**14 262**	**127 825**
Appropriation of 2000 profit	0	0	0	14 262	(14 262)	0
Dividends	0	0	0	(3 600)	0	(3 600)
Net profit for the accounting period	0	0	0	0	15 711	15 711
Balance per 31.12.2001	**48 000**	**24 910**	**22 885**	**28 430**	**15 711**	**139 936**
Appropriation of 2001 profit	0	0	0	15 711	(15 711)	0
Net profit for the accounting period	0	0	0	0	6 798	6 798
Contribution to share capital	6 444	16 755	0	0	0	23 199
Balance per 31.12.2002	**54 444**	**41 665**	**22 885**	**44 141**	**6 798**	**169 933**

More detailed information on owner's equity and changes in equity is provided in Notes 14 and 17.

Accounting methods presented on pages 14-17 and notes to the financial statements presented on pages 18-35 are integral part of the financial statements.

Accounting methods and principles used in preparing the financial statements

The 2002 AS Baltika financial statements have been prepared on accrual basis in accordance with historical cost convention, if not indicated otherwise in the accounting principles of a specific asset. Accountancy is being held and the 2002 parent and group consolidated financial statements have been prepared in accordance with international accounting standards (IAS). The financial statements are prepared in thousand of Estonian kroons, unless individually referred to another currency. Estonian kroon is pegged to Euro, 1 EUR = 15,64664 EEK.
In 2002, there have been no significant changes in accounting methods and principles used by the group.

First-time Application of IAS to Parent Company's Report

From 2002 on, AS Baltika's IAS-compliant annual report includes the non-consolidated financial indicators of the parent company, which are also prepared in accordance with IAS. As the previous years parent company's financial statements were based on Estonian Accounting Law, there are discrepancies with comparative data presented about parent company in 2001 report. The main differences originate from classification of lease contracts, and from provisions in accounts receivable in daughter companies in amount of their negative equity.

Consolidation Principles

The parent company and subsidiaries are considered as one business entity for consolidation. Revenues, unrealized profits and losses incurred from the inter-group transactions are eliminated. The 2002 consolidated annual report incorporates the financial reports of AS Baltika, AS Baltman, AS Virulane, AS Elina STC, Baltika Lietuva, Baltika Latvija, Baltika Sweden, Baltika Poland, Baltika Ukraina, and OY Baltinia AB.
Foreign subsidiaries are presented according to the valuation method of the foreign operations. Monetary assets and liabilities are revalued based on the foreign currency exchange rates of balance sheet date. Other assets and expenses related to assets (for example, depreciation) are assessed based on the currency rates of the acquisition date of the assets. Equity transactions are assessed based on the currency rates of transaction date. Revenues and expenses based on the average currency rates during the period. Foreign exchange gains and losses are recorded in income statement.

Cash and Cash Equivalents

Cash in hand, bank account balances (excl overdraft), and short-term deposits are recorded as cash and cash equivalents in the cash flow statement.

Inventories

Inventories are accounted by using the average price method. Inventories in stock of stores are recorded at acquisition cost. On balance sheet date, the inventories are recorded at the lower of cost and net realizable 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 31.12.2002 at Tallinn Stock Exchange; other securities at the sales price on financial markets of the transaction date. Unrealized profits and losses from revaluation of the shares are recorded in income statement, at line "Financial income from investments".

Subsidiaries

Companies controlled by parent company are considered as subsidiaries. Companies are considered to be controllable by the parent company if the latter owns over 50% of the voting shares of the subsidiary or if it is capable of controlling the operational or financial policy of the subsidiary or if the it has the right to appoint or call back the majority of council members of the subsidiary.
Investments in subsidiaries have been recorded in the balance sheet of the parent using the equity method. Unrealized profits and losses from the transactions between group companies have been eliminated.

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Other long-term Financial Investments
Other long-term investments (excl investments in subsidiaries) are recorded at fair value. If the value of shares has decreased, the investment is written down to its net realizable value.

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 shareholding in the balance sheet presents the share of equity belonging to the non-group shareholders of subsidiaries.

Goodwill
Goodwill is the amount of the acquisition cost that exceeds the fair value of net assets acquired. Goodwill is amortized using the straight-line method over their useful lives, not exceeding a period of 5 years.

Related Parties
Following parties are considered as related parties in the AS Baltika annual report:
a) Owners;
b) Members of management, management board and supervisory board;
c) Confidants of the above mentioned; and
d) Employees of the company;
e) Companies that are under the control of the members of management board and supervisory board;
f) Subsidiaries.

Foreign Currency Transactions
All transactions of AS Baltika and the group are recorded in Estonian kroons. Assets and liabilities denominated in foreign currency have been revalued into Estonian kroons based on the foreign currency exchange rates of Bank of Estonia officially valid on the balance sheet date. During the year, transactions in foreign currency are recorded in Estonian kroons based on the foreign currency exchange rates of Bank of Estonia officially valid on the transaction date.

Fixed assets
Fixed assets are presented in balance sheet in their residual value, showing also the acquisition cost and accumulated depreciation.
Assets with a useful life of over 1 year and acquisition cost of over 10 000 kroons are considered to be fixed assets. Assets with a useful life of over 1 year but acquisition cost of less than 10 000 kroons are expensed at acquisition date, except production equipment.
Fixed assets are recorded at acquisition cost. Self-constructed assets are recorded at acquisition cost that includes actual production expenses. Reconstruction expenses increase the acquisition cost of reconstructed non-current physical assets. Depreciation is calculated based on the straight-line method, depending on the useful life of the fixed asset.

Software licenses and intangible assets arising from development are recorded as intangible assets. Development expenditures are capitalized only if the company is capable of controlling the use of the asset, capable of assessing the profit generated by that asset, and if technical facilities and practical solutions for applying the new project exist. Intangible assets are depreciated on straight-line method over 5 years.
Intangible assets are recorded at acquisition cost and depreciated at straight-line method in 5 years.
Profits and losses from the sale of fixed assets are recorded in the income statement, in other income or other expenses.

Annual depreciation rates used by the group companies are:

Building and facilities	1,5-9%
Capital repairs	8-15%
Production equipment	18-30%
Cars	20%
Computer hardware	40%
Furniture, other equipment, security systems	30%

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Office equipment	30%
Intangible assets	20%
Investments at rented space	20-33%

Receivables

Customer receivables and other receivables 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 will probably be received. Doubtful receivables that have been written down in previous periods but have been received during the accounting period, are recorded as "other income". Uncollectible receivables have been written off from the balance sheet.

Corporate Income Tax

According to Estonian Income Tax Law, which took effect on January 1, 2000, dividends paid by the company to resident natural persons and non-residents are subject to income tax (26/74 of net dividends paid) up to December 31, 2002. According to the amendment to the law, effective from January 1, 2003, all dividends paid by the company are subject to income tax (26/74 of net dividends paid), regardless of the receiver of the dividend.
The company's potential corporate income tax liability related to the distribution of the company's retained earnings as dividends, is not recorded in the balance sheet. The maximum possible tax liability, which would become payable if the retained earnings would be fully paid out as dividends, is disclosed in Note 25. Income tax from the payment of dividends is recorded as expense in the income statement at the moment of declaring the dividends.

Deferred income tax

According to the Estonian Income Tax Law, the permanent and temporary differences between the tax bases of assets and liabilities and their carrying values in Estonian companies of the group does not arise, thus no deferred income tax assets or liabilities arise. Subsidiaries in Latvia, Lithuania, Poland and Ukraine are the subjects of corporate income tax, adjusted with temporary and permanent differences between the tax bases of assets and liabilities and their carrying values in the balance sheet (Income tax rate in Latvia is 22%; Lithuania 15%; Poland 27% and Ukraine 30%).
Deferred tax is provided for all temporary differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. Main temporary differences arise from depreciation of fixed assets and tax loss carry forward. Deferred tax asset in respect of tax losses carry forward are recognized in the balance sheet only if their realization is probable.

Vacation Payments and Liabilities

Vacation expense is recorded at the period of recognizing the liability, thus at the moment when the employee has the right of demand. Payments for vacations served but not used are recorded in income statement as personnel costs and in balance sheet as short-term accrued expense.

Recognizing Revenue

Revenue from the sales of goods is recognized when all material risks related to the asset have been transferred to the purchaser and the sales revenue and expenses related to the transaction can be determined reliably. Revenue from the sales of services is recorded upon rendering of the service. Interest income is accounted for by using the effective interest rate, except if the receipt of the interest is uncertain. In such cases, the interest income is accounted for on a cash basis. Dividend income is recognized at the moment when the company's right to receive payment is established.

Cash Flow Statement

Cash flow statement is compiled based on the indirect method. According to that method, operating cash flow is calculated by adjusting the operating profit by eliminating the non-monetary transactions and changes in balances of current assets and current liabilities related to operating activities.

Segment Reporting

All assets and liabilities related to segments are recorded as segmental assets and liabilities accordingly. Unallocated assets and liabilities (corporate income tax, interest receivables and liabilities, dividend receivables and liabilities, shares) are recorded as the assets and liabilities of the Group. The primary segments of the group are the business segments by areas of operation (differentiating retail trade and

production/wholesale), and its secondary segments are geographical segments on the basis of the location of the company's sales network.
Retail segment reflects assets, liabilities, revenues and expenses of retail subsidiaries, related to retail trade as well as assets, liabilities, revenues and expenses of factory shops belonging to production companies. Production and wholesale segment reflects assets, liabilities, revenues and expenses related to production, wholesales and other associated operations. Assets and liabilities of segments do not include financial assets and liabilities, and the revenues and expenses of segment do not include the revenues and expenses accruing from these assets and liabilities. In segment reporting, administrative buildings are considered as indivisible asset of the group; long-term loans, dividends and interest liabilities are considered as indivisible liabilities of the group; administrative costs of centre are considered as non-allocated expenses of the group.
The management is convinced that the prices used in inter segmental transactions do not substantially differ from market prices.

Operating and Finance Leases
Rental agreements are divided in operating and finance lease contracts according to the rules in IAS 17. Rental agreement is considered as finance lease agreement, if all material revenues and expenses deriving from the agreement are transferred to the lessee. Assets rented under finance lease agreements are capitalized at the present value of rental payments and are depreciated according to the shorter of their useful life or rental period. The other rental agreements are considered as operating lease agreements and rental payments deriving from these agreements are recorded as rental expense in income sheet line "other operating expenses" at the period when the payments have accrued.

Financial liabilities
Loans, bonds and convertible bonds are considered as financial assets. Financial assets are initially recognized at the proceeds received, net of transaction cost incurred and subsequently stated at amortized cost using the affective yield method. The financial liabilities value in balance sheet does not materially differ from their fair value.

Reserves
Reserves in owner's equity consist of statutory legal reserves, which were formed from the retained earnings. Statutory legal reserves of Estonian companies must equal to at least 1/10 of share capital. Statutory legal reserves can be used for covering losses if the losses cannot be covered by retained earnings.

Earnings Per Share
Basic earnings per share is the amount that company can pay out to shareholders, based on the weighted average number of shares outstanding during the year. The diluted earnings per share is calculated taking into account the weighted average number of potential ordinary shares (considering the influence of convertible bonds).

Subsequent Events
Material matters that have an effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of approving the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.
Subsequent events that have not been taken into consideration when evaluating the assets and liabilities but have material effect on the result of the next financial year are disclosed in the Notes to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

Note 1 Cash and Bank

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Accounts in Estonian kroons and cash on hand	107	392	1 281	3 737
Accounts in foreign currencies and cash on hand	1 398	2 667	8 729	8 889
	1 505	**3 059**	**10 010**	**12 626**

Note 2 Short Term Shares and Securities

		31.12.2002		31.12.2001	
	Acquisition value	Quantity	Book value	Quantity	Book value
Shares of AS Tallinna Kaubamaja	5	5 160	278	5 160	308
Shares of AS Hansapank	136	1 056	264	1 056	171
Shares of AS Briti Kaubamaja	95	0	0	95	95
Total	**236**		**542**		**574**

Income from dividends drawn was 55,8 thousand kroons in 2002.
Data of parent company is equal to the data of the group.

Note 3 Customer Receivables

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Customer receivables	44 193	52 703	48 912	58 546
Allowance for doubtful receivables	(1 244)	(2 261)	(1 303)	(2 431)
Total	**42 949**	**50 442**	**47 609**	**56 115**

Doubtful receivables that have been written down in previous periods but have been received during the accounting period, are recorded as "other income" (Note 19).
Changes in allowance for doubtful receivables:

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Allowance for doubtful receivables 31.12.01	(2 261)	(649)	(2 431)	(752)
Doubtful receivables expensed in 2002	(2 842)	(1 612)	(3 005)	(1 967)
Debts expensed in previous periods collected in 2002	0	0	27	0
Uncollectable receivables written off in year 2002	3 859	0	4 106	288
Allowance for doubtful receivables 31.12.02	**(1 244)**	**(2 261)**	**(1 303)**	**(2 431)**

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Note 4 Other Receivables and Prepaid Expenses

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Receivables from subsidiaries	109 636	55 512	0	0
Other short-term receivables	902	510	1 158	700
Prepaid and refundable taxes	2 059	2 940	15 573	8 083
Prepaid expenses	619	872	2 527	1 910
Interest receivables	47	32	48	35
Total	**113 263**	**59 866**	**19 306**	**10 728**

More detailed information about prepaid and refundable taxes is disclosed in note 5. Prepaid expenses reflect rental and insurance expenses, ordering costs of intermittent publications and other similar costs, prepaid as at 31.12.2002.

Receivables from subsidiaries	**31.12.2002**	**31.12.2001**
For goods		
Baltika Lietuva	27 828	16 906
Baltika Sweden	1 556	2 974
Baltika Poland	30 057	15 539
Baltika Ukraina	32 254	11 445
Baltika Latvija	14 219	0
Baltinia OY	494	434
Total	**106 408**	**47 298**
Loan	**3 228**	**0**
Other		
Baltika Ukraina	0	5 055
AS Virulane	0	3 158
Total	**0**	**8 213**
Total receivables from subsidiaries	**109 636**	**55 511**

Receivables from subsidiaries in parent company's balance sheet includes allowance in total 22,1 million kroons (Note 8).

Note 5 Tax Receivables and Liabilities

Tax Receivables (Prepayments)

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
VAT	2 059	2 841	15 552	7 976
Personal income tax	0	0	0	7
Other taxes	0	99	21	99
Total	**2 059**	**2 940**	**15 573**	**8 082**

Tax Liabilities

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Personal income tax	1 017	707	2 441	1 872

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Social tax	1 631	769	4 038	1 844
VAT	0	0	1 328	1 267
Other taxes	12	0	279	98
Total	**2 660**	**1 476**	**8 086**	**5 081**

Information about income tax of parent company is provided in note 25.

Note 6 Inventories

	Parent		Group	
	31.12.2002	**31.12.2001**	**31.12.2002**	**31.12.2001**
Raw materials (fabric, accessories, material on the way)	40 459	39 602	45 996	44 049
Write-down provision for inventories of material	(294)	(1 078)	(354)	(1 199)
Work-in progress	6 443	10 583	7 322	11 681
Finished goods	35 028	30 085	89 662	66 354
Write-down provision for inventories of finished goods	(1 483)	(977)	(1 529)	(1 131)
Purchased goods	13 431	5 020	34 851	10 895
Write-down provision for inventories of purchased goods	(237)	0	(237)	0
Prepayments to suppliers	76	150	146	496
Total	**93 423**	**83 385**	**175 857**	**131 145**

Of the balance of inventories presented in the balance sheet as of 31.12.2002, the inventories of 9.7 million EEK are presented in their net realizable value, including 8.8 million EEK of finished goods and 0.9 million EEK of materials.

Note 7 Long-term financial assets

	Parent		Group	
	31.12.2002	**31.12.2001**	**31.12.2002**	**31.12.2001**
Shares and securities	7	7	7	7
Long-term receivables	308	308	3285	2593
Loan to the manager of a subsidiary (note 27)	0	0	136	133
Long-term lease prepayment	308	308	3 149	2 460
Investments in subsidiaries	41 119	34 829	0	0
Total	**41 434**	**35 144**	**3 292**	**2 600**

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Note 8 Investments in Subsidiaries

	AS Baltman (Estonia)	Baltika Sweden (Sweden)	Baltika Poland (Poland)	AS Virulane (Estonia)	AS Elina STC (Estonia)	Baltika Lietuva (Lithuania)	Baltika Latvija (Latvia)	OY Baltinia (Finland)	Baltika Ukraina (the Ukraine)
Number of shares 31.12.2001	96 000	1 000	2 000	31 561	5 010	1000	0	120	1
Acquired shares in 2002	0	0	800	1 770	0	2 000	984		0
Number of shares 31.12.2002	96 000	1 000	2 800	33 331	5 010	3 000	984	120	1
Participation % year end/beginning	**100%**	**100%**	**100%**	**79,22%/ 75,02%**	**50,1 %/ 50,1 %**	**100%**	**75%/0**	**100%**	**99%**
Acquisition cost 31.12.2001	9 600	1 316	4 117	7 954	1 214	3 614	0	45	716
Book value 31.12.2001	18 994	0	0	15 500	891	134	0	55	0
Incl goodwill	57	0	0	608	0	134	0	0	0
Acquisition cost of shares acquired in 2002	0	1 691	1 748	354	0	4 985	2 566	0	0
Goodwill from acquisition of shares	0	0	0	(918)	0	0	0	0	0
Depreciation of goodwill in 2002	57	0	0	(308)	0	45	0	0	0
Change in participation after repurchase of own shares	0	0	0	0	0	0	0	0	0
2002 profit/(loss) at equity method	1 685	(1 691)	(2 108)	4 204	151	(4 187)	(1 212)	1	0
Change of unrealized profit in inventories	(223)	68	360	0	0	(798)	(1 249)	0	0
Dividends received	0	0	0	0	0	0		0	0
Book value 31.12.2002	**20 399**	**68**	**0**	**19 448**	**1 042**	**89**	**105**	**56**	**0**
Incl goodwill	**0**	**0**	**0**	**-2**	**0**	**89**	**0**	**0**	**0**

Owner's equity of subsidiaries per 31.12.2002

	AS Baltman (Estonia)	Baltika Sweden (Sweden)	Baltika Poland (Poland)	AS Virulane (Estonia)	AS Elina STC (Estonia)	Baltmano Prekiba (Lithuania)	Baltika Latvija (Latvia)	OY Baltinia (Finland)	Baltika Ukraina (the Ukraine)
Share capital	2 400	3 007	5 865	8 414	1 000	7 151	3 421	44	723
Share premium	0	0	67	0	150	0	0	0	0
Reserves	960	-	15 612	868	69	189	0	0	0
Retained profit/(loss)	11 011	(2 535)	(5 579)	13 712	560	(2 840)	0	11	(1 993)

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Profit/(loss) of accounting period	1 686	(348)	(18 200)	3 771	300	(4 282)	(1 614)	1	(11 936)
Total owner's equity	**16 057**	**124**	**(2 235)**	**26 765**	**2 079**	**218**	**1 807**	**56**	**(13 206)**
Additional change in value of investment	0	0	(9)	0	0	(2 681)	(1 249)	0	(4 180)
Investor's share in owner's equity	**16 057**	**124**	**(2 235)**	**19 448**	**1 042**	**218**	**1 355**	**35**	**(13 206)**
Total value of the investment	**16 057**	**124**	**(2 244)**	**19 448**	**1 042**	**(2 463)**	**106**	**35**	**(17 386)**

Of the gross value amount of the negative investment of 22,093 thousand EEK, receivables from subsidiaries have been written off from the parent company balance sheet.

Note 9 Deferred Income Tax

	2002				
Deferred income tax liability	**Poland**	**Latvia**	**Lithuania**	**Ukraine**	**Total**
From fixed assets	0	0	0	116	**116**
Deferred income tax receivables					
From fixed assets	104	(198)	24	0	**(70)**
From tax losses carry forward	1576	487	870	0	**2933**
From pension liability	5				**5**
	1685	289	894	0	**2868**
Total	**1685**	**289**	**894**	**(116)**	**2 752**

As at 31.12.2001 the deferred tax asset in respect of tax losses carry forward and deferred tax liabilities was not recorded in the balance sheet because the deferred tax liabilities were immaterial and the deferred tax asset was not expected to be realized based on management opinion.

Deferred tax assets in Ukraine and Lithuania are calculated using the current income tax rate respectively 30% and 15%. In Latvia the lower tax rate 15% that will take effect in 2004 is used as a basis of calculation. In Poland current tax rate 27% and the future rate 22% have been used in calculation based on the estimate of the realization of the assets and liabilities.
In addition to the deferred tax losses carried forward recorded in the balance sheet of Polish subsidiary, the company also has an off-balance sheet tax losses carry forward in amount of 2 625 kroons, that management estimates will not be realized.
The realization of the deferred assets from tax loss carry forward is dependent on the future taxable profit in subsidiaries that exceed the losses carried forward. Tax losses carried forward in Latvia, Lithuania and Poland will expire during the 5 years starting with 2003.

Note 10 Tangible and Intangible Assets

As a result of the change in the structure of sales space in 2002, old shops were renovated and new shops were opened in all retail markets. Total investments in retail trade amounted to 29.4 million EEK.

In 2002, production buildings and equipment were acquired in the amount of 24.3 million EEK, IT equipment in the amount of 1.9 million EEK and other fixed assets in the amount of 1.8 million EEK. The buildings and equipment for the new sewing plant in Ahtme, belonging to the subsidiary Virulane, constitute the majority of the production fixed assets acquired in 2002. Prepayments for these assets in the amount of 10.4 million EEK were already made in 2001. Equipment and fixtures of Ahtme plant in total of 4.9 million EEK are acquired under finance lease conditions. Finance lease period is 3 years for the production equipment and 2 years for furniture. The interest rate of the finance lease is 6-months' EURIBOR + margin 3.25%. The new plant started functioning April 1, 2002.

During the reporting period, fixed assets no longer used were acquisition cost of 4.2 million EEK, and residual value of 1.2 million EEK were written down in the whole group.

Tangible Fixed Assets movement in the Group in 2002

	Land	Buildings, facilities	Plant, equipment	Other fixtures	Facilities under con-struction	Pre-payments	Total
Acquisition cost 31.12.2001	3 004	44 606	67 768	25 469	9 648	2 692	153 187
Accumulated depreciation 31.12.2001	0	(11 874)	(51 419)	(11 503)	0	0	(74 796)
Residual value 31.12.2001	**3 004**	**32 732**	**16 349**	**13 966**	**9 648**	**2 692**	**78 391**
Acquired during the period	0	29 586	7 226	19 787	17 925	2 769	77 293
Sold during the period	0	0	(67)	(1 352)	0	0	(1 419)
Written off during the period	0	(167)	(5)	(979)	0	0	(1 151)
Commissioned	0	0	0	0	(21 322)	(5 398)	(26 720)
Depreciation 2002	0	(4 092)	(6 957)	(6 966)	0	0	(18 015)
Foreign exchange differences				2			2
Acquisition cost 31.12.2002	3 004	73 868	73 060	41 333	6 251	63	197 579
Accumulated depreciation 31.12.2002	0	(15 809)	(56 514)	(16 875)	0	0	89 198
Residual value 31.12.2002	**3 004**	**58 059**	**16 546**	**24 458**	**6 251**	**63**	**108 381**

Tangible Fixed Assets movements in the Parent in 2002 (In thousand of EEK)

	Land	Buildings, facilities	Plant, equipment	Other fixtures	Facilities under con-struction	Pre-payments	Total
Acquisition cost 31.12.2001	2 833	29 044	53 958	16 038	996	99	102 968
Accumulated depreciation 31.12.2001	0	(9 579)	(42 569)	(6 405)	0	0	(58 553)
Residual value 31.12.2001	**2 833**	**19 465**	**11 389**	**9 633**	**996**	**99**	**44 415**
Acquired during the period	0	699	1 257	5 766	5 255	614	13 591
Sold during the period	0	0	0	(1 335)	0	0	(1 335)
Written off during the period	0	0	0	(945)	0	0	(945)
Commissioned	0	0	0	0	0	(713)	(713)
Depreciation 2002	0	(1 592)	(4 398)	(3 474)	0	0	(9 464)
Acquisition cost 31.12.2002	2 833	29 743	54 452	18 949	6 251	63	112 291
Accumulated depreciation 31.12.2002	0	(11 171)	(46 204)	(9 304)	0	0	66 679
Residual value 31.12.2002	**2 833**	**18 572**	**8 248**	**9 645**	**6 251**	**63**	**45 612**

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In 2002, AS Baltika Parent made investments in retail trade (6.3 million EEK), production equipment (1.1 million EEK) and other fixed assets (0.3 million EEK). As of balance sheet date, the parent company had capitalized uncompleted work for implementing new software in the amount of 6.3 million EEK.
In January, the parent company sold the right of pre-emption of real property at Viru 10, Tallinn. Until the transaction date, the parent company used the premises by a long-term rental agreement with Hoiupanga Liisingu AS. Profit from the sale was 4.9 million EEK.
Sale of right of pre-emption is reflected neither in the balance sheet nor in table of movements in fixed assets.

See note 12 concerning pledged assets.

Intangible Assets movements in the Group in 2002

	Intangible assets	Prepayments for intangible assets	Positive goodwill	Negative goodwill	Total
Acquisition cost 31.12.2001	6 182	0	2 337	0	8 519
Accumulated amortization 31.12.2001	(1 801)	0	(1 538)	0	(3 339)
Residual value 31.12.2001	**4 381**	0	**799**	**0**	**5 180**
Acquired during the period	682	992	0	0	1 674
Originating from acquiring a participation	0	0	0	(919)	(919)
Written off during the period	(7)	0	0	0	(7)
Amortization 2002	(1 214)	0	0	0	(1 214)
Amortization of positive goodwill	0	0	(252)	0	(252)
Amortization of negative goodwill	0	0	0	459	459
Acquisition cost 31.12.2002	6 475	992	2 337	(919)	8 885
Accumulated amortization 31.12.2002	(2 633)	0	(1 790)	459	(3 964)
Residual value 31.12.2002	**3 842**	**992**	**547**	**(460)**	**4 921**

Intangible Assets movements in the Parent in 2002

	Intangible Assets	Positive goodwill	Negative goodwill	Total
Acquisition cost 31.12.2001	5 993	2 337	0	8 330
Accumulated amortization 31.12.2001	(1 676)	(1 538)	0	(3 214)
Residual value 31.12.2001	**4 317**	**799**	**0**	**5 116**
Acquired during the period	67	0	0	67
Originating from acquiring a participation	0	0	(919)	(919)
Written off during the period	(7)	0	0	(7)
Amortization 2002	(1 131)	0	0	(1 131)
Amortization of positive goodwill	0	(252)	0	(252)
Amortization of negative goodwill	0	0	459	459
Acquisition cost 31.12.2002	6 048	2 337	(919)	7 466
Accumulated amortization 31.12.2002	(2 802)	(1 790)	459	(4 133)
Residual value 31.12.2002	**3 246**	**547**	**(460)**	**3 333**

Amortization of intangible assets is presented in the income statement as tangible fixed asset's depreciation.

Negative goodwill of 0.9 million EEK originates from increasing the share in subsidiary Virulane, and is recorded as a negative intangible asset in the group's balance sheet.

1770 shares of the subsidiary AS Virulane was purchased in year 2002, the share increased 4,21%.

	As Virulane balance sheet	Baltika share 4,21%	Acquisition cost
Current assets	24 138	1 016	1 016
Fixed assets	32 072	1 350	1 350
Liabilities	(25 975)	(1 094)	(1 094)
Owner's equity	30 235	1 273	1 273
Acquisition cost			354
Goodwill			919

Note 11 Operating and Finance Lease

Operating Lease - Lessee

Future operating lease payments of the group companies divide as follows:

	Parent		Group	
	31.12.2002	**31.12.2001**	**31.12.2002**	**31.12.2001**
Up to 1 year	2 514	3 405	48 709	24 952
1-5 years	6 029	6 871	143 781	67 252
Over 5 years	0	0	13 161	3 944
	8 543	**10 276**	**205 651**	**96 148**

Operating lease expenses include rental expenses of shop spaces and means of transportation. Lease contracts of shops are not binding in long-term; most of them can be terminated by notifying the other party up to 3 months in advance.
In 2002, operating lease payments in Group were made in total of 39,785 thousand EEK, in 2001, they were 24,668 thousand EEK.

Operating Lease - Lessor
Operating lease income includes income from rental of premises.

Rental payment receivables divide as follows (termless rental contracts are considered as 5-year contracts):

	In thousand of EEK
Up to 1 year	726
1-5 years	2 006
Over 5 years	0

In 2002, operating lease payments were received in total of 937 thousand EEK, in 2001 1,392 thousand EEK. The direct and other expenditures relating to these revenues were in amount of 164 thousand EEK in year 2002.

Assets that Are Rented Out as at 31.12.2002 (In thousand EEK)

	Acquisition cost	Accumulated depreciation 01.01.2002	Depreciation 2002	Residual value 31.12.2002
Buildings	173	43	9	130

Finance lease – lessee

	Equipment and fittings of factory	Car	Total
Acquisition cost 31.01.2001	0	328	328
Depreciation 2001	0	65	65
Accumulated depreciation	0	65	65
Residual value 31.12.2001	0	263	263
Acquisition 2002	4 853	0	4 853
Depreciation 2002	800	62	862
Residual value 31.12.2002	**4 053**	**201**	**4 254**

Finance lease liabilities	**31.12.2002**	**31.12.2001**
Short-term – up to 1 year	1 418	74
Long-term – 1-5 year	1 595	106
Total	**3 013**	**180**

Parent company has no finance lease liabilities.

Note 12 Debt Obligations (in thousand of EEK)

	Parent		**Group**	
Short-term debt	**31.12.2002**	**31.12.2001**	**31.12.2002**	**31.12.2001**
Debt to Estonian Privatization Agency	0	941	0	941
Current portion of long-term debt	15 766	1875	17 908	1 875
Short-term loans from banks	22 865	9 523	22 865	6 639
Short-term leasing liabilities (note 11)	0	0	1 418	74
Convertible bonds (note 14)	384	192	384	192
Commercial papers (note 14)	48 058	25 000	48 058	25 000
Total	**87 073**	**37 531**	**90 633**	**34 721**

	Parent		**Group**	
Long-term debt	**31.12.2002**	**31.12.2001**	**31.12.2002**	**31.12.2001**
Long-term loans from banks	43 160	58 926	53 874	63 617
Long-term leasing debt (note 11)	0	0	1 595	106
Total	**43 160**	**58 926**	**55 469**	**63 723**

Bank Loans (in thousand of EEK)

Creditor	**Loan debt 31.12.02**	**Current portion up to 1 year**	**Long-term portion 1-5 years**	**Interest**
Nordea Bank	13 126	3 749	9 377	3 months' Euribor+2,5%
Hansapank	45 800	12 017	33 783	6,4%

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Hansapank	12 857	2 143	10 714	6 months' EURIBOR + 2,75%
Hansapank (overdraft facility)	22 865	22 865	0	6,1%
Total	**94 648**	**40 774**	**53 874**	

AS Baltika has a group account in Hansapank with an overdraft facility of 25 million EEK. As of 31.12.2002, the overdraft facility has been used to the extent of 22.9 million EEK. The loans and overdraft are secured by a commercial pledge of 67,680 thousand EEK and a mortgage on the registered immovable property at Veerenni 24 in the amount of 40 million EEK. The residual value of mortgage is 20.8 million EEK as at 31.12.2002. Supplementary clauses of the loan agreement between AS Baltika and Hansapank (loan amount 45 800 thousand EEK) are the following: Baltika AS owners equity ratio (e.g. owners equity divided with current assets and fixed assets, less intangible assets) exceeds at all times 40%; the short terms liabilities divided by EBITA (profit before interest, depreciation, amortization and income tax) will not exceed at all times 4,0; interest ratio (EBITA divided with interest costs of the period) is at least 3,5.
AS Virulane has concluded a long-term loan agreement with Hansapank to finance the construction of the Ahtme factory. The loan limit was 959 thousand EUR. The loan is secured by mortgages on the registered immovable property at Kalda 10A in Rakvere (residual value 7,5 million EEK) and Õpetajate 5 in Ahtme (residual value 17,1 million EEK) as well as the surety of AS Baltika.
Interest expenses are classified as financial expenses (note 24).

Note 13 Other Payables

Payables to subsidiaries	**31.12.2002**	**31.12.2001**
For goods and services		
AS Elina STC	1 599	1 175
AS Virulane	3 109	3 353
Baltika Ukraina	2 298	103
OÜ Baltman	2 468	3 319
Total	**9 474**	**7 950**

Note 14 Debt Instruments

Convertible Bonds

According to the resolution of the general meeting of shareholders, held on April 6, 2001, 576,000 (192,000 per annum) convertible bonds would be issued with a nominal value of 1 EEK. Management has the right to subscribe for the bonds; each bond entitles the holder to subscribe for one share of Baltika with the nominal value of 10 EEK.

Dates of subscription for the bonds:

192 000 A Bonds on April 15, 2001 at the latest;
192 000 B Bonds on April 15, 2002 at the latest;
192 000 C Bonds on April 15, 2003 at the latest.

A and B bonds were fully subscribed and 384 thousand EEK was received by the date of approving the financial statements.

As the result of subscriptions, the share capital of AS Baltika can be increased by a maximum of 576,000 shares, thus by a maximum of 5,760,000 EEK.

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Dates of subscription for the shares:

For A Bonds – starting from May 1, 2002 until May 1, 2004
For B Bonds – starting from May 1, 2003 until May 1, 2005
For C Bonds – starting from May 1, 2004 until May 1, 2006.

The share redemption price during the 1st year is 25 EEK per share. The share redemption price during the following 2 years is the weighted average price of the trading volume on the Tallinn Stock Exchange – in case of B bonds from January 1 to March 31, 2002 (34.32 EEK), and in case of C bonds from January 1 to March 31, 2003. No interest on the bonds until the maturity date.
As of 31.12.2002, 384,000 bonds have been issued and subscribed for, including 192,000 bonds that are expropriable without restraint and have the right of subscription for the shares (note 12).

Distribution of the Convertible Bonds:

	31.12.2002		**31.12.2001**	
	Quantity	Sum	Quantity	Sum
Members of the Management Board	236 000	236 000	112 000	112 000
Other Management	134 500	134 500	80 000	80 000
Third parties	13 500	13 500	0	0
Total	**384 000**	**384 000**	**192 000**	**192 000**

At the time of compiling the annual report, the owner of 15,500 A bonds has expressed the wish to use the right of subscription for the shares. Increase in share capital will occur in 2003 (note 31).

Closed Issue of Debt Instrument

In October 2002, debt obligations with term to maturity of 365 days (0% coupon interest), redemption term on October 14, 2003 were issued at a closed issue with total volume of 50 million EEK. The debt obligation is not secured. The resources acquired were used for repaying the previous issue of debt obligations (30 million EEK) and for financing investments (note 12).

31.12.2002	Quantity	Nominal EEK	Total EEK	Selling price	Effective interest rate %	Redemption term
Commercial papers	5 000	10 000	50 000 000	9 522.11	4.95	14.10.2003

Note 15 Accrued Expenses

	Parent		**Group**	
	31.12.2002	**31.12.2001**	**31.12.2002**	**31.12.2001**
Payables to employees (salaries, vacation reserves, bonus reserves etc)	2 624	2 625	7 336	6 203
Dividends payable	277	279	277	279
Interest payable (accrued interest not yet due by due date)	113	134	133	134
Other accrued expenses	14	14	24	25
Total	**3 028**	**3 052**	**7 770**	**6 641**

Note 16 Minority interest

	2002	2001
Minority share on 1 January	**6 632**	**9 172**
Change in minority interest as a result of increasing the share of parent company	(417)	(4 480)
Net profit for the financial year	1 238	2 238
Net loss for the financial year	(404)	0
Dividends paid	0	(298)
Minority interest on 31 December	**7 049**	**6 632**

Note 17 Owners' Equity

Share Capital

	31.12.2002	31.12.2001
Share capital (EEK '000)	54 444	48 000
Number of shares (pc)	5 444 450	4 800 000
Nominal value of shares (EEK)	10.00	10.00

Under the article of association, the minimum number of shares is 4,000,000 and the maximum number of shares is 16,000,000. All issued shares have been paid for.

Shareholders per 31.12.2002

	Number of shares	Participation %
1. Members of the Management board and their confidants:		
- Meelis Milder	84 239	1,5472
- Maire Milder	18 000	0,3306
- Ülle Järv	3 963	0,0728
2. OÜ BMIG	1 103 310	20,2649
3. Baltic Republics Fund	1 914 400	35,6767

Retained Earnings

Per 31.12.2002, the retained earnings amounted to 50 939 thousand EEK (31.12.2003, 44 141 thousand EEK). Dividend payables are recorded in balance sheet after general meeting of shareholders' decision of paying the dividends. The respective decision has not been taken by the time of compiling the annual report.

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Note 18 Segments

Business Segment Report - Primary

Business segment report by areas of operation for 2002

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	255 453	229 987		485 440
Intersegmental sales	0	246 657	(246 657)	0
Total sales	255 453	476 644	(246 657)	485 440
Operating profit of the segment	17 550	26 650	0	44 200
Indivisible expenses				(30 445)
Total operating profit				13 755
Other financial income				763
Other financial expenses				(9 036)
Income tax				2 150
Profit before minority shareholding				7 632
Minority shareholding				834
Net profit				6 798
Assets	158 799	207 302	(4 766)	361 335
Indivisible assets of the group				11 602
Total assets				372 937
Liabilities	143 546	37 510	(131 729)	49 327
Indivisible liabilities of the group				146 628
Total liabilities				195 955
Acquisition of fixed assets in the accounting period	31 733	47 234		78 967
Depreciation in the accounting period	9 125	10 105		19 230
Other major non-monetary expenses				3 423

Business segment report by areas of operation for 2001

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	153 079	261 358	0	414 437
Intersegmental sales	0	156 258	(156 258)	0
Total sales	153 079	417 616	(156 258)	414 437
Operating profit of the segment	16 115	16 384	0	32 499
Indivisible expenses				(9 373)
Total operating profit				23 126

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Other financial income				484
Other financial expenses				(6 764)
Income tax				(185)
Profit before minority shareholding				16 661
Minority shareholding				950
Net profit				15 711
Assets	86 355	205 337	(7 950)	283 742
Indivisible assets of the group				9 109
Total assets	86 355	205 337	(7 950)	292 851
Liabilities	66 042	50 101	(64 136)	52 007
Indivisible liabilities of the group				101 742
Total liabilities	66 042	50 101	(64 136)	153 749
Acquisition of fixed assets in the accounting period	11 165	19 366		30 531
Depreciation in the accounting period	4 863	9 378		14 241
Other major non-monetary expenses				4 761

Retail segment reflects assets, liabilities, revenues and expenses of retail subsidiaries, related to retail trade as well as assets, liabilities, revenues and expenses of factory shops belonging to production companies AS Baltika and AS Virulane.
Production and wholesale segment reflects assets, liabilities, revenues and expenses related to production, wholesales and other associated operations.
Assets and liabilities of segments do not include financial assets and liabilities, and the revenues and expenses of segment do not include the revenues and expenses accruing from these assets and liabilities.
In segment report, administrative building is considered as indivisible asset of the group; long-term loans, dividends and interest liabilities are considered as indivisible liabilities of the group; administrative costs of centre are considered as indivisible costs of the group.
Allowances for inventories and receivables are recorded under the other non-monetary expenses.

Sales and assets by Geographical Segment - Secondary

	Sales		**Fixed assets**		**Other assets**	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
Estonia	130 837	122 244	83 447	84 882	168 507	165 754
Latvia	48 168	34 078	3 452	0	13 469	0
Lithuania	71 924	44 289	8 472	4 156	24 528	16 190
Russia	51 204	56 622				
The Ukraine	54 410	29 224	5 944	4 164	28 897	14 514
Finland	53 026	57 175			550	526
Sweden	22 310	25 904	141	189	2 151	3 259
Great Britain	17 087	25 627				
Poland	34 971	14 079	13 604	3 509	21 541	13 618
Other markets	1 503	5 195				
Total	**485 440**	**414 437**	**115 060**	**96 900**	**259 643**	**213 861**

The management is of the opinion that the prices used in inter segmental transactions do not substantially differ from market prices.

Note 19 Other Income

	Parent		Group	
	2002	2001	2002	2001
Profit from sales of pre-emption right on real estate (note 10)	4 910	5	5 171	680
Other income	2 318	1 443	852	623
Total	**7 228**	**1 448**	**6 023**	**1 303**

Note 20 Operating Expenses (in thousand of EEK)

	Parent		Group	
	2002	2001	2002	2001
Rental expenses	5 074	6 819	39 785	24 668
Expenses on fuel and energy	3 525	3 147	6 899	6 060
Transportation expenses	7 966	5 317	9 236	6 171
Travel expenses	3 048	2 486	4 081	3 405
Advertising costs	12 574	6 032	19 795	9 514
Costs of insurance	950	957	1 430	1 266
Costs of utilities	413	412	798	659
Communication costs	2 511	2 157	4 022	3 070
Personnel recruitment costs	63	480	74	671
Training costs	315	789	746	971
Security costs	681	662	1 931	1 593
Consultation fees	2 603	938	2 702	1 041
Agency fees	1 550	1 194	1 905	2 738
Doubtful receivables and uncollectible receivables	2 842	1 612	3 005	1 967
IT costs	4 405	3 756	5 405	4 353
Credit card expenses	6	13	2 181	1 288
Other operating expenses	9 520	9 264	22 101	15 143
Total	**58 046**	**46 035**	**126 096**	**84 578**

The essential increase in advertising costs is connected with launching a new trademark. Increase in rental expenses results from opening new shops in the different markets.
Other operating expenses include costs of office supplies, customs services, maintenance, bank services, legal services etc.

Note 21 Personnel Expenses

	Parent		Group	
	2002	2001	2002	2001
Wages and salaries	58 058	52 270	108 764	90 707
Social and other taxes	18 954	17 746	34 652	29 311
Vacation pay liabilities and unpaid bonuses	2 603	2 592	7 627	6 204
Total	**79 615**	**72 608**	**151 044**	**126 222**

Note 22 Other Expenses

	Parent		Group	
	2002	**2001**	**2002**	**2001**
Membership fees	75	65	107	96
Loss from sales and write-off of fixed assets	183	160	453	813
Penalties, delay allowances, tax interests	1	5	18	20
Representational costs	975	1 366	1 355	1523
Foreign exchange losses	284	145	378	308
Other expenses	555	47	1 149	957
Total	**2 073**	**1 788**	**3 460**	**3 717**

Note 23 Financial Income

In thousand of EEK	Parent		Group	
	2002	**2001**	**2002**	**2001**
Interest income	815	58	155	119
Dividends received	56	6	56	9
Financial income from short-term shares	93	51	93	49
Share of profit of subsidiaries	4 897	6 893	0	0
Other financial income	459	0	459	307
Total	**6 320**	**7 008**	**763**	**484**

Note 24 Financial Expenses

	Parent		Group	
	2002	**2001**	**2002**	**2001**
Interest expense from loans and leases	7 536	5 478	8 732	5 671
Foreign exchange losses	386	458	17	565
Share of loss of subsidiaries	35 134	14 270	0	0
Other financial expenses	283	499	287	528
Total	**43 339**	**20 705**	**9 036**	**6 764**

Note 25 Income Tax

Calculation of income tax	**2002**	**2001**
Current income tax	(602)	(185)
Deferred income tax (note 9)	2 752	0
Total income tax	**2 150**	**(185)**

Corporate income tax of 595 thousand EEK was paid by the Ukrainian subsidiary (income tax rate 30%) and 7 thousand EEK by the Finnish subsidiary (interest rate 29%).

Potential corporate income tax liability, concurring with distribution of the company's retained earnings as dividends, is not recorded in the balance sheet because this liability cannot be reliably assessed. In case the parent company paid out the retained earnings as of 31.12.1999 as dividends (7,364 thousand EEK), there would be no income tax liability for 1994-1999. The income tax from the respective proportion of profit has already been paid. If dividends were paid from retained earnings starting from 2000 amounted to 43 575 thousand EEK, they will be subject to income tax (26/74 of net dividends paid).

The maximum possible tax liability, which would become payable if the retained earnings would be fully paid out as dividends as at 31.12.2002, is 15.3 million EEK.

Income tax prepayment in amount of 150 thousand EEK is paid by Ukrainian, Finnish and Swedish subsidiary.

Note 26 Earnings Per Share

Basic earnings per share

		2 002	2 001
Weighted average number of shares	Pcs	5 015 817	4 800 000
Net profit	EEK '000	**6 798**	**15 711**
Basic earnings per share	**EEK**	**1.36**	**3.27**

Diluted earnings per share

		2 002	2 001
Weighted average number of shares	Pcs	5 015 817	4 800 000
Number of dilutive shares		74 202	139 373
Net profit	EEK '000	**6 798**	**15 711**
Diluted earnings per share	**EEK**	**1.34**	**3.25**

In calculating the diluted earnings per share, the 384,000 convertible bonds issued within the framework of the top executives' share option program, have been taken into account. The convertible bonds entitle their holders to exchange them for the same amount of shares of AS Baltika (see note 10). The average year 2002 market price of the share of AS Baltika was 35.41 EEK.

Note 27 Related Parties

The director of the subsidiary Baltika Lietuva has been granted a loan in the amount of 136 thousand EEK (30 thousand LTL), due date is May 1, 2006. In the current employment contract no interests are calculated on the loan.

In 2002, the salaries of members of the Management Board and the Supervisory Board amounted to 3.1 million EEK (2001 2,9 million EEK).

In April 2002 the members of the Management Board were entitled to subscribe for 124,000 convertible bonds that will entitle them to subscribe for the shares of Baltika for 34.32 EEK per share starting from May 2003 (see Note 14). In year 2001 106 000 convertible bonds were subscribed by members of Management Board.

In September 2002, OÜ BMIG that is controlled by the members of the Management Board and a member of Supervisory Board subscribed for 644,450 shares of AS Baltika, paying 36 EEK per share in total sum of 23.2 million EEK. After the transaction, OÜ BMIG holds 20,26 % of the shares of AS Baltika (see Note 14)

During 2002, goods in the amount of 4,464 thousand EEK (2001 4 531 thousand EEK) were purchased from OÜ Maisan that is controlled by a member of Management Board.

During 2002, sewing services in the amount of 17,1 thousand EEK were sold to and services in the amount of 33 thousand EEK were bought from The Major Oak Clothing Co that is controlled by a member of Supervisory Board (in the amount of 25,6 million EEK sewing services was sold in 2001).

According to the agreement of joint bank account the members of the group have a joint liability over the unpaid balances to the bank. AS Baltika, AS Virulane, AS Elina STC and OÜ Baltman have been joined with the joint bank account of AS Baltika that uses the overdraft of 25 million EEK (note 12).

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Liabilities and Receivables of Parent Company to/from Subsidiaries:

	31.12.2002	31.12.2001
Liabilities	9 474	7 951
Receivables	109 636	55 512

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

Note 28 Financial Risks

Foreign Currency Risk

Exports constitute 73% of the group's net sales. Major selling currencies are EUR and GBP. All direct materials used in production are imported. Major buying currencies are EUR and USD. Trading with countries belonging to the European Monetary Union is held solely in EUR, thus eliminating the currency risks previously connected with their national currencies. No financial instruments have been used in year 2002 to hedge the foreign currency risk. The foreign currency obtained from the sales has been used for the payments of the liabilities due with the same currency.
In 2002, foreign currency gains amounted to 4,149 thousand EEK, losses to 4,457 thousand EEK. In year 2001 the figures were accordingly gains 2 478 thousand EEK and losses 2 784 thousand EEK. The gains and losses in 2002 are recorded in income statement as net loss 308 thousand EEK (notes 15 and 18).

Credit and Liquidity Risk

The group is open to credit risk concerning the solvency of a business partner in Russia. Receivables recorded in balance sheet are not secured. As the production and sales cycle of the group are seasonal, the credit risks are not of a constant nature. The maximum credit risk per balance sheet date is 44.2 million EEK; including credit risk of Russian partner 27.9 million EEK. Credit risk in Russia is concentrated to a single business partner that Baltika has been trading with for the past 9 years, with whom the franchise and wholesales agreement have been signed. In years 1999-2002 Russian sales have grown 45%, and have reached 56,6 million in year 2002 (note 18). AS Baltika has started the negotiations for establishing a joint venture in Russia in the future and most probably the current business partner will be the main candidate.

Risk of Interest Rates
Risks of interest rates are primarily bound to the possible fluctuation of EURIBOR as well as change in average interest rates of banks.

Note 29 Warranties

Per 31.12.2002, the group has guaranteed rental payments arising from rental contracts with third parties in amount of 4,830 thousand EEK, and future payments of bills of credit to bank in amount of 2,079 thousand EEK. Information about the pledges of the warranties, see note 12.

Note 30 Off-Balance Sheet Assets

AS Baltika holds 878.9 thousand meters of direct materials (fabric, lining etc) sent by the subcontractors in its custody.

Note 31 Subsequent events
At the time of compiling the annual report, the owner of 15,500 A convertible bonds has expressed the wish to use the right of subscription for the shares. Increase in share capital by the 15 500 shares with the nominal value of 10 EEK to the amount of 55 459 950 EEK did occur in February 2003.

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AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Baltika

We have audited the financial statements of AS Baltika (the Parent Company) and the consolidated financial statements of the Parent Company and its subsidiary companies (the Group) for the year ended 31 December 2002 as set out on pages 9 to 35. These financial statements are the responsibility of the Group management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements give a true and fair view of the financial position of the Parent Company and the Group as at 31 December 2002 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

28 February 2003

Signatures of the Management Board and Supervisory Board to the 2002 Annual Report

Chairman of the Management Board
Meelis Milder

Chairman of the Supervisory Board
Miles Warwic Burger

Member of the Management Board
Ülle Järv

Member of the Supervisory Board
Joakim H. Helenius

Member of the Management Board
Maire Milder

Member of the Supervisory Board
Reet Saks

Member of the Management Board
James Hayhow

Member of the Management Board
Boriss Loifenfeld