



AS BALTIKA

consolidated interim report for the first quarter of 2003

Commercial name	AS Baltika
Commercial Registry No	10144415
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E-mail	baltika@baltika.ee
Auditor	AS PricewaterhouseCoopers
Reporting period	01.01.2003-31.12.2003
Main fields of activity	Manufacturing of menswear and womenswear, retail and wholesale and sewing services

AS Baltika consolidated interim report for the first quarter of 2003. In `000 EEK and in `000 EUR.

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The Management Board hereby confirms that the AS Baltika consolidated interim report presented on pages 2 through 25 are correct and complete:

.....
Meelis Milder
Chairman of the Management Board

.....
Ülle Järv
Member of the Management Board

.....
James Hayhow
Member of the Management Board

.....
Maire Milder
Member of the Management Board

.....
Boriss Loifenfeld
Member of the Management Board

In Tallinn, on May 23rd, 2003

Letter of explanation to AS Baltika interim report for the first quarter of 2003

The implementation plan of retailing strategy prescribed the following main objectives for 2003:

- efficient increase in the operation of retailing premises;
- decrease in the proportion of previous (older than one season) stocks in the system;
- increase in turnover (above all, in the retailing system);
- guarantee and strengthening of positive cash flow.

General results

The unaudited consolidated net turnover of Baltika in the first quarter of 2003 was EEK 112.7m (EUR 7.2m) and the net losses were EEK 14.2m (EUR 0.9m). When compared to the same period of 2002, the net turnover decreased by 9.4% (net turnover EEK 124.3m; EUR 7.94m, respectively) and profit by EEK 22m (EUR 1.4m) (profit EEK 7.8m; EUR 0.5m, respectively).

Sale

When compared to the same period of the previous year, retail sales increased by 33.7%, amounting to EEK 66.6m (EUR 4.26m) in the first quarter. Retail sales were EEK 49.8m (EUR 3.18m) in the first quarter of 2002. The share of retail sales in total turnover was 59%, whereas in the same period of the previous year, it reached 40%.

The sale of the new retail brands formed EEK 51m (EUR 3.26m) in the retail sales of the Baltika Grupp, i.e. 76.6%. As of 31.03.2003, the number of the members who had joined the Monton client programme in five countries was 23,200. At the end of the first quarter, the area of the sales premises in the shops of Baltika in Estonia, Latvia, Lithuania, Ukraine, Poland and Sweden amounted to 8645 m² (53 shops), totalling 10,101 m² together with controlled retail premises (68 shops).

The traditionally weakest quarter of apparel retailing of the year was additionally affected by a discount period of autumn and winter collections on all the retail markets of the Baltika Grupp, which lasted over a very long period. As a result of the weakness of the clothes markets wholesale also decreased by EEK 32m (EUR 20.5m) in the first quarter, when compared to the last year, totalling EEK 29.2m (EUR 1.87m) against the background of that of EEK 61.2m (EUR 3.91m) in the previous year.

Profit

The net losses of Baltika in the first quarter were EEK 14.2m (EUR 0.9m). The net profit earned during the same period in the previous year amounted to EEK 7.8, which included an income of EEK 4.9 (EUR 0.31m) from the sale of property. Because of a more aggressive sale of stocks, all the losses were incurred in January and February. In March, the results improved thanks to an increase in the share of the sale of the new season products.

When compared to the first quarter of the past year, the operating expenses have increased in proportion to the growth of the entire system.

Balance sheet

The consolidated balance sheet total of Baltika was EEK 367.1m (EUR 23.5m) as of 31.03.2003; the decrease compared to the beginning of the year was EEK 5.8m (EUR 0.37m). The stocks in the system decreased by EEK 7.8m (EUR 0.5m) when compared to the beginning of the year. The assets recorded in net realisable value amounted to EEK 7.5m (EUR 0.48), with a discount reserve of EEK 1.2m (EUR 0.08m). The loans repaid to banks amounted to EEK 3.9m (EUR 0.25m) in the first quarter.

Cash flow

The cash flow from operations in the first quarter was EEK 5.6m (EUR 0.36m), whereas in the same period past year, it was negative EEK –15.7m (EUR –1.0m). The activities by which BG ensures a stronger cash flow are: reduction in the volume of investments, a more precise planning of financial activities and improvement in the stock management system.

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The main ratios of AS Baltika Group as of 31.03.2003 were:

	31.03.2003	31.03.2002
Increase in turnover %	-9.4	13.7
Share of retail sales in net turnover %	59	40
Number of shops	68	53
Retail premises managed (m ²)	10 101	6 431
Markets managed through own retail organisations	6	6
Operating profit to net sales %	-10.5	8.1
Net profit to net turnover %	-12.6	6.3
Return on equity ROE (net profit/average equity capital of 12 months) %	-9.7	12.4
Return on assets (net profit/average cost of assets of 12 months) %	-4.1	6.1

Ülle Järv
The Member of the Management Board

AS Baltika consolidated interim report for the first quarter of 2003. In `000 EEK and in `000 EUR.

Balance sheet

`000 EEK	Note	31.03.2003	Group 31.03.2002	31.12.2002
ASSETS				
Current assets				
Cash and bank		9 099	11 850	10 010
Shares and other securities	1	542	516	542
Customer receivables	2	55 338	70 912	47 609
Other receivables and prepaid expenses		17 360	15 518	19 456
Inventories	3	168 028	139 508	175 857
Total current assets		250 367	238 304	253 474
Non-current assets				
Long-term investments		6 043	2 570	6 160
Tangible fixed assets	4	98 491	88 549	108 382
Intangible fixed assets	4	12 241	5 038	4 921
Total non-current assets		116 775	96 157	119 463
TOTAL ASSETS		367 142	334 461	372 937
LIABILITIES AND OWNER'S EQUITY				
Current liabilities				
Debt obligations	5,6	88 249	53 384	90 633
Customer prepayments for goods and services		119	165	149
Accounts payable		40 765	40 717	33 708
Other tax liabilities		7 775	4 309	8 086
Accrued expenses		11 164	10 015	7 769
Total current liabilities		148 072	108 590	140 345
Non-current liabilities				
Long-term debt	5	55 737	71 296	55 469
Provisions		141	0	141
Total non-current liabilities		55 878	71 296	55 610
TOTAL LIABILITIES		203 950	179 886	195 955
Minority interest		7 024	6 811	7 049
OWNER'S EQUITY	7	156 168	147 764	169 933
Share capital (par value)		54 599	48 000	54 444
Share premium		41 898	24 910	41 665
Other restricted equity		22 885	22 885	22 885
Retained profit		50 938	44 141	44 141
Profit (loss) for the accounting period		(14 152)	7 828	6 798
TOTAL LIABILITIES AND OWNER'S EQUITY		367 142	334 461	372 937

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Balance sheet

`000 EUR	Note	31.03.2003	Group 31.03.2002	31.12.2002
ASSETS				
Current assets				
Cash and bank		582	757	640
Shares and other securities	1	35	33	35
Customer receivables	2	3 537	4 532	3 043
Other receivables and prepaid expenses		1 110	992	1 243
Inventories	3	10 739	8 916	11 239
Total current assets		16 001	15 230	16 200
Non-current assets				
Long-term investments		386	164	394
Tangible fixed assets	4	6 295	5 659	6 927
Intangible fixed assets	4	782	322	315
Total non-current assets		7 463	6 146	7 635
TOTAL ASSETS		23 465	21 376	23 835
LIABILITIES AND OWNER'S EQUITY				
Current liabilities				
Debt obligations	5,6	5 640	3 412	5 792
Customer prepayments for goods and services		8	11	10
Accounts payable		2 605	2 602	2 154
Other tax liabilities		497	275	517
Accrued expenses		714	640	497
Total current liabilities		9 464	6 940	8 970
Non-current liabilities				
Long-term debt	5	3 562	4 557	3 545
Provisions		9	0	9
Total non-current liabilities		3 571	4 557	3 554
TOTAL LIABILITIES		13 035	11 497	12 524
Minority interest		449	435	451
OWNER'S EQUITY				
Share capital (par value)	7	3 490	3 068	3 480
Share premium		2 678	1 592	2 663
Other restricted equity		1 463	1 463	1 463
Retained profit		3 256	2 821	2 821
Profit (loss) for the accounting period		(904)	500	434
TOTAL LIABILITIES AND OWNER'S EQUITY		23 465	21 376	23 835

AS Baltika consolidated interim report for the first quarter of 2003. In `000 EEK and in `000 EUR.

Income statement

`000 EEK

	Note	1 st quarter 2003	Group 1 st quarter 2002	2002
Revenue				
Net sales	8	112 563	124 306	485 440
Other revenue		112	5 030	6 023
Total revenue		112 675	129 336	491 463
Expenses				
Materials, raw materials and services		(41 365)	(58 710)	(179 500)
Change in inventories		(3 823)	5 315	1 621
Other operating expenses		(32 532)	(26 025)	(126 096)
Personnel expenses		(40 141)	(35 210)	(151 043)
Depreciation of fixed assets	4	(6 144)	(4 336)	(19 230)
Other expenses		(469)	(313)	(3 460)
Total expenses		(124 474)	(119 279)	(477 708)
Operating profit (loss)		(11 799)	10 057	13 755
Financial income		594	118	763
Financial expenses		(2 520)	(2 168)	(9 036)
Profit (loss) before taxes		(13 725)	8 007	5 482
Income tax expense		-	-	2 150
Profit (loss) before minority interest		(13 725)	8 007	7 632
Minority interest		427	179	834
Net profit (loss)		(14 152)	7 828	6 798
Basic earnings per share	9	(2,59)	1,63	1,36
Diluted earnings per share	9	(2,59)	1,61	1,34

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Income statement

`000 EUR

	Note	1 st quarter 2003	Group 1 st quarter 2002	2002
Revenue				
Net sales	8	7 194	7 945	31 025
Other revenue		7	321	385
Total revenue		7 201	8 266	31 410
Expenses				
Materials, raw materials and services		(2 644)	(3 752)	(11 472)
Change in inventories		(244)	340	104
Other operating expenses		(2 079)	(1 663)	(8 059)
Personnel expenses		(2 565)	(2 250)	(9 653)
Depreciation of fixed assets	4	(393)	(277)	(1 229)
Other expenses		(30)	(20)	(221)
Total expenses		(7 955)	(7 623)	(30 531)
Operating profit (loss)		(754)	643	879
Financial income		38	8	49
Financial expenses		(161)	(139)	(578)
Profit (loss) before taxes		(877)	512	350
Income tax expense		0	0	137
Profit (loss) before minority interest		(877)	512	488
Minority interest		27	11	53
Net profit (loss)		(904)	500	434
Basic earnings per share	9	(0,17)	0,10	0,09
Diluted earnings per share	9	(0,17)	0,10	0,09

**Cash flow statement
(indirect method)**

`000 EEK

		Group	
	Note	1st quarter 2003	1st quarter 2002
Operating activities			
Operating profit (loss)		(11 799)	10 057
Adjustment for depreciation	4	6 144	4 336
Profit from the sale of fixed assets		(70)	(4 919)
Change in receivables		(5 550)	(17 442)
Change in inventories		7 829	(8 363)
Change in payables		11 313	2 137
Interests paid		(2 224)	(1 495)
Income tax paid		(3)	0
Cash flow from operating activities		5 640	(15 689)
Investing activities			
Acquisition of tangible and intangible assets incl. acquisition on conditions of capital lease	4	(3 541) 463	(16 846) 0
Sale of fixed assets		73	11
Sale of right of pre-emption of real estate		0	5 501
Interests received		37	54
Sale of marketable securities	1	0	95
Repayments of loans granted		2	3
Other financial income/expenses		492	0
Cash flow from investing activities		(2 474)	(11 182)
Financing activities			
Repayment of loans	5	(3 941)	0
Loans received	5	2 144	27 191
Finance lease and instalments payments		(454)	(954)
Receipts from contributions into share capital		372	0
Proceeds from repurchase of convertible bonds		(4)	0
Cash flow from financing activities		(1 883)	26 237
Foreign exchange change		(372)	(142)
Total cash flows		911	(776)
Opening cash and equivalents balance		9 099	12 626
Closing cash and equivalents balance		10 010	11 850

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**Cash flow statement
(indirect method)**

`000 EUR

		Group	
	Note	1st quarter 2003	1st quarter 2002
Operating activities			
Operating profit		(754)	643
Adjustment for depreciation		393	277
Profit from the sale of fixed assets		(4)	(314)
Change in receivables		(355)	(1 115)
Change in inventories		500	(534)
Change in payables		723	137
Interests paid		(142)	(96)
Income tax paid		(0)	0
Cash flow from operating activities		360	(1 003)
Investing activities			
Acquisition of tangible and intangible assets incl. acquisition on conditions of capital lease		(226)	(1 077)
Sale of fixed assets		30	0
Sale of right of pre-emption of real estate		5	1
Interests received		0	352
Sale of marketable securities		2	3
Repayments of loans granted		0	6
Other financial income/expenses		0	0
Cash flow from investing activities		(158)	(715)
Financing activities			
Repayment of loans		(252)	0
Loans received		137	1 738
Finance lease and instalments payments		(29)	(61)
Receipts from contributions into share capital		24	0
Proceeds from repurchase of convertible bonds		(0)	0
Cash flow from financing activities		(120)	1 677
Foreign exchange change		(24)	(9)
Total cash flows		58	(50)
Opening cash and equivalents balance		582	807
Closing cash and equivalents balance		640	757

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Statement in Changes in Equity (`000 EEK)

	Share capital	Share premium	Reserves	Retained earnings	Profit/loss for the accounting period	Total
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	7 828	7 828
Contribution to share capital	0	0	0	0	0	0
Balance per 31.03.2002	48 000	24 910	22 885	44 141	7 828	147 764
Balance per 31.12.2002	54 444	41 665	22 885	44 141	6 798	169 933
Appropriation of 2002 profit	0	0	0	6 798	(6 798)	0
Contribution to share capital	155	233	0	0	0	388
Net profit/loss for the accounting period	0	0	0	0	(14 152)	(14 152)
Balance per 31.03.2003	54 599	41 898	22 885	50 938	(14 152)	156 168

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Statement in Changes in Equity (`000 EUR)

	Share capital	Share premium	Reserves	Retained earnings	Profit/loss for the accounting period	Total
Balance per 31.12.2001	3 068	1 592	1 463	1 817	1 004	8 944
Appropriation of 2001 profit	0	0	0	1 004	(1 004)	0
Net profit for the accounting period	0	0	0	0	500	500
Contribution to share capital	0	0	0	0	0	0
Balance per 31.03.2002	3 068	1 592	1 463	2 821	500	9 444
Balance per 31.12.2002	3 480	2 663	1 463	2 821	434	10 861
Appropriation of 2002 profit	0	0	0	434	(434)	0
Contribution to share capital	10	15	0	0	0	25
Net profit/loss for the accounting period	0	0	0	0	(904)	(904)
Balance per 31.03.2003	3 490	2 678	1 463	3 256	(904)	9 981

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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. 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.

Factory outlets are used to sell the previous periods' stocks of different brands of clothing.

The average number of employees in the Group was 1701 in the quarter accounted for.

The seat of the parent company is (and is registered) in Estonia at Veerenni 24 in Tallinn.

As Baltika is listed in Tallinn Stock Exchange.

As of 31.03.2003 the Group comprises the following companies:

	Country of location	Participation 31.03.2003	Participation 31.12.2002
AS Baltika (parent)	Estonia		
OÜ Baltman	Estonia	100 %	100 %
Baltika Lietuva	Lithuania	100 %	100 %
Baltika Sweden	Sweden	100 %	100 %
Baltika Ukraina	Ukraine	99 %	99 %
AS Virulane	Estonia	79,23%	79,23 %
Baltika Poland	Poland	100 %	100 %
AS Elina STC	Estonia	50,10%	50,10 %
OY Baltinia AB	Finland	100 %	100 %
Baltika Latvija	Latvia	75%	75 %

Accounting principles and valuation assumptions used in preparing the consolidated interim report

This consolidated interim report has been prepared in compliance with the Republic of Estonia Accounting Act, the "Guidelines for the Preparation of Interim Reports" of the Estonian Accounting Board and the requirements of the international accounting standard IAS 34 "Interim Financial Reporting" regarding condensed interim financial statements. The same accounting methods were used in the preparation of the interim report as in the annual report for the financial year that ended on 31.12.2002.

According to the assessment of the management board, the 1st quarter 2003 interim report of Baltika Group presents a true and fair view of the company's economic results in compliance with the going-concern assumption. This interim report has not been audited or otherwise reviewed by auditors.

This interim report has been prepared in thousands of Estonian kroons and thousands of euros unless another currency is specified. The Estonian kroon is pegged to the euro at the rate 1 EUR = 15.64664 EEK.

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NOTES TO THE CONSOLIDATED INTERIM REPORT

Note 1 Short-term shares and securities

`000 EEK

	31.03.2003		31.12.2002		
	Acquisition value	Quantity	Book value	Quantity	Book value
Shares of AS Tallinna Kaubamaja	5	5 160	285	5 160	278
Shares of AS Hansapank	136	1 056	257	1 056	264
Total	141		542		542

`000 EUR

	31.03.2003		31.12.2002		
	Acquisition value	Quantity	Book value	Quantity	Book value
Shares of AS Tallinna Kaubamaja	0	5 160	18	5 160	18
Shares of AS Hansapank	9	1 056	16	1 056	17
Total	9		35		35

Profit/loss from the revaluation of the shares is presented on the line "Financial income/loss" of the Income Statement.

Note 2 Accounts receivable

	`000 EEK		`000 EUR	
	31.03.2003	31.12.2002	31.03.2003	31.12.2002
Accounts receivable	56 648	48 912	3 620	3 126
Doubtful accounts	(1 310)	(1 303)	(84)	(83)
Total	55 338	47 609	3 537	3 043

In evaluating accounts receivables, each account has been treated separately. Doubtful accounts were written off in the amount of 11 thousand EEK (0.7 thousand EUR) during the accounting period. Debts expensed in previous periods were collected 4 thousand EEK (0.3 thousand EUR)

Accounts known to be uncollectible are written off the balance sheet. There was no uncollectible debts in the group during the accounting period.

The expense from doubtful and uncollectible accounts is shown as "operating expenses" in income statement. Doubtful receivables that have been written down in previous period, but have been received during the accounting period, are recorded as "other income".

Note 3 Inventories

	`000 EEK		`000 EUR	
	31.03.2003	31.12.2002	31.03.2003	31.12.2002
Raw materials (fabric, accessories, material on the way)	42 615	45 996	2 724	2 940
Write-down provision for inventories of material	(267)	(354)	(17)	(23)
Work in progress	7 513	7 322	480	468
Finished goods and purchased goods (warehouses, stores)	82 138	89 662	2 252	2 493
Write-down provision for inventories of finished goods	(784)	(1 529)	(50)	(98)
Purchased goods	36 789	34 851	5 349	5 464
Write-down provision for inventories of purchased goods	(147)	(237)	(9)	(15)
Prepayments to suppliers	171	146	11	9
Total	168 028	175 856	10 739	11 239

Of the balance of inventories set out in the balance sheet as of 31.03.2003, inventories worth 7.5million EEK (0.5 million EUR) are presented in their net realisable value, including 6.9 million EEK (0.4 million EUR) of finished goods and 0.6 million EEK (0.04 million EUR) of materials.

Note 4 Tangible and Intangible Assets

The investments made in fixed assets during the accounting period amounted to 2 901 thousand EEK (185 thousand EUR), of which investments in production equipment were 808 thousand EEK (52 thousand EUR) and in trade 388 thousand EEK (25 thousand EUR). Intangible assets were acquired for 1 037 thousand EEK (66 thousand EUR) and other fixed assets, including a motor car, for 533 thousand EEK (34 thousand EUR). A motor car that cost 463 thousand EEK (30 thousand EUR) was acquired on financial lease conditions.

Fixed assets were sold in the group during the accounting period in the acquisition cost of 347 thousand EEK (22 thousand EUR), with a residual value of 39 thousand EEK (2 thousand EUR).

Fixed assets no longer fit for use and with no residual value were written off in the acquisition cost of 259 thousand EEK (17 thousand EUR).

Tangible Fixed Assets movements in the Group in first quarter 2003

`000 EEK

	Land	Buildings, facilities	Plant and equipment	Other fixtures	Facilities under construction	Pre-payments	Total
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
Acquired during the period	0	0	1 385	479	81	331	2 276
Sold during the period	0	0	0	(39)	0	0	(39)
Internal reclassification	0	0	0	0	(6 251)	0	(6 251)
Commissioned	0	0	0	0	0	(63)	(63)
Depreciation 2003	0	(1 547)	(1 694)	(2 575)	0	0	(5 816)
Foreign exchange differences	0	0	0	3	0	0	3

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Acquisition cost 31.03.03	3 004	73 868	74 000	41 660	81	331	192 944
Accumulated depreciation 31.03.03	0	17 356	57 763	19 334	0	0	94 453
Residual value 31.03.03	3 004	56 512	16 237	22 326	81	331	98 491

`000 EUR

	Land	Buildings, facilities	Plant and equipment	Other fixtures	Facilities under construction	Pre-payments	Total
Acquisition cost 31.12.2002	192	4 721	4 669	2 642	400	4	12 628
Accumulated depreciation 31.12.2002	0	(1 010)	(3 612)	(1 079)	0	0	(5 701)
Residual value 31.12.2002	192	3 711	1 057	1 563	400	4	6 927
Acquired during the period	0	0	89	31	5	21	145
Sold during the period	0	0	0	(2)	0	0	(2)
Internal reclassification	0	0	0	0	(400)	0	(400)
Commissioned	0	0	0	0	0	(4)	(4)
Depreciation 2003	0	(99)	(108)	(165)	0	0	(372)
Foreign exchange differences	0	0	0	0	0	0	0
Acquisition cost 31.03.03	192	4 721	4 729	2 663	5	21	12 331
Accumulated depreciation 31.03.03	0	1 109	3 692	1 236	0	0	6 037
Residual value 31.03.03	192	3 612	1 038	1 427	5	21	6 295

See note 5 concerning pledged assets.

Intangible Assets movements in the Group in first quarter 2003

`000 EEK

	Intangible assets	Prepayments for intangible assets	Uncapitalized intangible assets	Positive goodwill	Negative goodwill	Total
Acquisition cost 31.12.2002	6 475	992	0	2 337	(919)	8 885
Accumulated depreciation 31.12.2002	(2 633)	0	0	(1 790)	459	(3 964)
Residual value 31.12.2002	3 842	992	0	547	(460)	4 921
Acquired during the period	1 037	0	1 283	0	0	2 320
Internal reclassification	0	0	6 251	0	0	6 251
Commissioned	0	(992)	0	0	0	(992)
Depreciation 2003	(326)	0	0	0	0	(326)
Amortization of positive goodwill	0	0	0	(48)	0	(48)
Amortization of negative goodwill	0	0	0	0	115	115
Acquisition cost 31.03.03	7 769	0	7 534	2 337	(919)	16 721

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Accumulated depreciation 31.03.03	(3 216)	0	0	(1 838)	574	(4 480)
Residual value 31.03.03	4 553	0	7 534	499	(345)	12 241

As of balance sheet date, the parent company had capitalized uncompleted work for implementing new software in the amount of 7.5 million EEK (0.5 million EUR).

`000 EUR

	Intangible assets	Prepayments for intangible assets	Uncapitalized intangible assets	Positive goodwill	Negative goodwill	Total
Acquisition cost 31.12.2002	414	63	0	149	(59)	568
Accumulated depreciation 31.12.2002	(168)	0	0	(114)	29	253
Residual value 31.12.2002	246	63	0	35	(29)	315
Acquired during the period	66	0	82	0	0	148
Internal reclassification	0	0	400	0	0	400
Commissioned	0	(63)	0	0	0	(63)
Depreciation 2003	(21)	0	0	0	0	(21)
Amortization of positive goodwill	0	0	0	(3)	0	(3)
Amortization of negative goodwill	0	0	0	0	7	7
Acquisition cost 31.03.03	497	0	482	149	(59)	1 069
Accumulated depreciation 31.03.03	(206)	0	0	(117)	37	(286)
Residual value 31.03.03	291	0	482	32	(22)	782

The depreciation of intangible assets is recorded as depreciation of fixed assets in income statement, the amortization of goodwill as Financial income/expenses.

Negative goodwill is recorded as negative intangible assets in the balance sheet of the Group.

Note 5 Debt obligations

	`000 EEK		`000 EUR	
	31.03.2003	31.12.2002	31.03.2003	31.12.2002
Short-term debt				
Current portion of long-term debt	13 967	17 908	893	1 145
Short-term loans from banks	24 053	22 865	1 537	1 461
Short-term leasing liabilities	1 159	1 418	74	91
Convertible bonds	365	384	23	25
Commercial papers	48 705	48 058	3 113	3 071
Total	88 249	90 633	5 640	5 792

	`000 EEK		`000 EUR	
	31.03.2003	31.12.2002	31.03.2003	31.12.2002
Long-term debt				
Long-term loans from banks	53 874	53 874	3 443	3 443
Long-term leasing liabilities	1863	1 595	119	102
Total	55 737	55 469	3 562	3 545

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Bank loans (EEK `000)

Creditor	Loan debt 31.03.03	Current portion up to 1 year	Long-term portion 1-5 years	Interest
Nordea Bank	12 188	2 812	9 376	3 months Euribor+2,5%
Hansapank	42 796	9 012	33 784	6,4
Hansapank	12 857	2 143	10 714	6 months EURIBOR + 2,75%
Hansapank (overdraft facility)	24 053	24 053	0	6,1
Total	91 894	38 020	53 874	

Bank loans (EUR `000)

Creditor	Loan debt 31.03.03	Current portion up to 1 year	Long-term portion 1-5 years	Interest
Nordea Bank	779	180	599	3 months Euribor+2,5%
Hansapank	2 735	576	2 159	6,4
Hansapank	822	137	685	6 months EURIBOR + 2,75%
Hansapank (overdraft facility)	1 537	1 537	0	6,1
Total	5 873	2 430	3 443	

AS Baltika has a group account in Hansapank with an overdraft facility of 35 million EEK (2.2 million EUR). As of 31.03.2003, the overdraft facility has been used to the extent of 24.1 million EEK (1.5 million EUR). The loans and overdraft are secured by a commercial pledge of 67 680 thousand EEK (4 326 thousand EUR) and a mortgage on the registered immovable property at Veerenni 24 in the amount of 40 million EEK (2.6 million EUR).

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 and Õpetajate 5 in Ahtme as well as the surety of AS Baltika. Interest expenses are classified as financial expenses.

Note 6 Debt instruments

Convertible bonds

At the general meeting of shareholders, held on 6 April 2001, it was decided to issue 576,000 (annually 192,000) convertible bonds with a nominal value EEK 1.0 each in 2001–2003. The management of the

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company was entitled to subscribe for the bonds. Each bond entitles the holder to subscribe for one share of Baltika with a nominal value of EEK 10.0.

Dates of subscription for bonds:

- 192,000 A bonds by 15 April 2001 at the latest;
- 192,000 B bonds by 15 April 2002 at the latest;
- 192,000 C bonds by 15 April 2003 at the latest.

As a result of the subscription, the share capital of AS Baltika may be increased by a maximum of 576,000 new shares, i.e. by EEK 5,760,000 at most.

Dates of subscription for shares:

- for A shares from 1 May 2002 to 1 May 2004;
- for B shares from 1 May 2003 to 1 May 2005;
- for C shares from 1 May 2004 to 1 May 2006.

The redemption price of shares was EEK 25.0 per share in the first year. The redemption price for shares in the two following years was the weighted average price of the trading volume of a share of Baltika in the Tallinn Stock Exchange in the case of B bonds from 1 January until 31 March 2002 (EEK 34.32) and in the case of C bonds from 1 January until 31 March 2003. No interest accrues on the bonds until the maturity date.

In April 2003, 192,000 C bonds were subscribed for, which were paid for in full. Since May 2003, B bonds can be freely transferred and are subject to the right of subscription for shares at a price of EEK 34.32 per share.

According to the conditions of bonds, an employee leaving within one year is required to resell the bonds to the company. The number of B bonds repurchased during the accounting period was 4,000.

A holder of 15,500 A bonds expressed his wish to use the right to subscribe for shares. According to the decision of the management board, the share capital of AS Baltika was increased by 15,500 shares during the accounting period. After the increase in the share capital, the amount of the share capital is EEK 554,599,500 divided into 5,459,950 shares with a nominal value of EEK 10. The premium of the transaction was EEK 232,500 (EUR 14,859).

Distribution of the Convertible Bonds :

	31.03.2003			31.12.2002		
	Quantity	Sum in EEK	Sum in EUR	Quantity	Sum in EEK	Sum in EUR
Members of the Management						
Board	219 500	219 500	14 029	236 000	236 000	15 083
Other Management	121 000	121 000	7 733	134 500	134 500	8 596
Third parties	39 500	39 500	2 525	13 500	13 500	863
Repurchased by AS Baltika	4 000	4 000	256	0	0	0
Total	384 000	384 000	24 542	384 000	384 000	24 542

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 (3.2 million EUR). The debt obligation is not secured.

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	Quantity	Nominal EEK	Total EEK	Selling price	Effective interest rate %	Redemption term
Commercial papers	5 000	10 000	50 000 000	9522.11	4,95	14.10.2003

	Quantity	Nominal EUR	Total EUR	Selling price	Effective interest rate %	Redemption term
Commercial papers	5 000	639	3 195 574	609	4,95	14.10.2003

Note 7 Owner's equity

Share capital

	31.03.2003	31.12.2002
Share capital (EEK `000)	54 599	54 444
Number of shares (pc)	5 459 950	5 444 450
Nominal value of shares (EEK)	10.00	10.00

	31.03.2003	31.12.2002
Share capital (EUR `000)	3 490	3 480
Number of shares (pc)	5 459 950	5 444 450
Nominal value of shares (EUR)	0.64	0.64

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.

A holder of 15,500 A bonds expressed his wish to use the right to subscribe for shares. According to the decision of the management board, the share capital of AS Baltika was increased by 15,500 shares during the accounting period. After the increase in the share capital, the amount of the share capital is EEK 554,599,500 (3 489 535 EUR).

Retained earnings

Per 31.03.2003, the retained earnings amounted to 36 786 thousand EEK (2 352 thousand EUR), per 31.03.2002 51 969 thousand EEK (3 321 thousand EUR).

Dividend payables are recorded in balance sheet after general meeting of shareholders' decision of paying the dividends. The general meeting will be held on May 22nd.

Note 8 Segments

Business Segment Report by areas of operation for first quarter 2003 - Primary

`000 EEK

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	66 561	46 002		112 563
Intersegmental sales	0	64 717	(64 717)	0
Total sales	66 561	110 719	(64 717)	112 563

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Operating profit of the segment	(12 819)	7 974	0	(4 845)
Indivisible expenses				(6 954)
Total operating profit				(11 799)
Other financial income				594
Other financial expenses				(2 520)
Income tax				0
Profit before minority shareholding				(13 725)
Minority shareholding				427
Net profit				(14 152)
Assets	144 849	221 764	(10 831)	355 782
Indivisible assets of the group				11 360
Total assets				367 142
Liabilities	112 943	52 192	(105 565)	59 570
Indivisible liabilities of the group				144 379
Total liabilities				203 949
Acquisition of fixed assets in the accounting period	1 442	1 459	0	2 901
Depreciation in the accounting period	3 482	2 662	0	6 144
Other major non-monetary expenses	0	(805)	0	(805)

Business Segment Report by areas of operation for first quarter 2003 - Primary

`000 EUR

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	4 254	2 940	0	7 194
Intersegmental sales	0	4 136	(4 136)	0
Total sales	4 254	7 076	(4 136)	7 194
Operating profit of the segment	(819)	510	0	(310)
Indivisible expenses				(444)
Total operating profit				(754)
Other financial income				38
Other financial expenses				(161)
Income tax				0
Profit before minority shareholding				(877)
Minority shareholding				27
Net profit				(904)
Assets	9 258	14 173	(692)	22 739

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Indivisible assets of the group				726
Total assets				23 465
Liabilities	7 218	3 336	(6 747)	3 807
Indivisible liabilities of the group				9 227
Total liabilities				13 035
Acquisition of fixed assets in the accounting period	92	93	0	185
Depreciation in the accounting period	223	170	0	393
Other major non-monetary expenses	0	(51)	0	(51)

Business Segment Report by areas of operation for first quarter 2002 - Primary

`000 EEK	Production			TOTAL
	Retail trade	and wholesale	Intersegmental transactions	
Extra-group sales	50 081	74 225		124 306
Intersegmental sales	0	52 111	(52 111)	0
Total sales	50 081	126 336	(52 111)	124 306
Operating profit of the segment	6 045	6 892		12 937
Indivisible expenses				(2 880)
Total operating profit				10 057
Other financial income				118
Other financial expenses				(2 168)
Income tax				0
Profit before minority shareholding				8 007
Minority shareholding				179
Net profit				7 828
Assets	99 237	227 871	(2 051)	325 057
Indivisible assets of the group				9 404
Total assets				334 461
Liabilities	86 691	66 255	(75 399)	77 547
Indivisible liabilities of the group				102 339
Total liabilities				179 886
Acquisition of fixed assets in the accounting period	3 263	3 174	0	6 437
Depreciation in the accounting period	1 993	2 343	0	4 336
Other major non-monetary expenses				4 353

Business Segment Report by areas of operation for first quarter 2002 - Primary

`000 EUR

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	3 201	4 744	0	7 945
Intersegmental sales	0	3 330	(3 330)	0
Total sales	3 201	8 074	(3 330)	7 945
Operating profit of the segment	386	440	0	827
Indivisible expenses				(184)
Total operating profit				643
Other financial income				8
Other financial expenses				(139)
Income tax				0
Profit before minority shareholding				512
Minority shareholding				11
Net profit				500
Assets	6 342	14 564	(131)	20 775
Indivisible assets of the group				601
Total assets				21 376
Liabilities	5 541	4 234	(4 819)	4 956
Indivisible liabilities of the group				6 541
Total liabilities				11 497
Acquisition of fixed assets in the accounting period	209	203	0	411
Depreciation in the accounting period	127	150	0	277
Other major non-monetary expenses				278

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.

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Sales and assets by Geographical segment – Secondary

<u>`000 EEK</u>	Sales		Fixed assets		Other assets	
	3 months 2003	3 months 2002	31.03.03	31.03.02	31.03.03	31.03.02
Estonia	27 445	31 835	80 946	81 577	168 875	179 332
Latvia	11 572	14 225	3 185	0	14 088	0
Lithuania	18 241	16 967	7 778	3 645	22 328	17 814
Russia	9 080	18 094				
The Ukraine	11 669	12 923	5 473	4 655	26 423	22 347
Finland	11 551	16 041	440	0	2 503	2 530
Sweden	7 550	4 816	126	190	1 421	3 855
England	4 349	4 017				
Poland	11 064	5 374	12 784	3 520	20 772	14 996
Other markets	42	14				
Total	112 563	124 306	110 732	93 587	256 410	240 874

Sales and assets by Geographical segment – Secondary

<u>`000 EUR</u>	Sales		Fixed assets		Other assets	
	3 months 2003	3 months 2002	31.03.03	31.03.02	31.03.03	31.03.02
Estonia	1 754	2 035	5 173	5 214	10 793	11 461
Latvia	740	909	204	0	900	0
Lithuania	1 166	1 084	497	233	1 427	1 139
Russia	580	1 156	0	0	0	0
The Ukraine	746	826	350	298	1 689	1 428
Finland	738	1 025	28	0	160	162
Sweden	483	308	8	12	91	246
England	278	257	0	0	0	0
Poland	707	343	817	225	1 328	958
Other markets	3	1	0	0	0	0
Total	7 194	7 945	7 077	5 981	16 388	15 395

Fixed assets include either tangible or intangible fixed assets.

The management is convinced that the prices used in intersegmental transactions do not substantially differ from market prices.

Note 9 Earnings per share

Basic earnings per share

		31.03.03	31.03.02
Weighted average number of shares	pcs	5 457 367	4 800 000
Net profit	`000 EEK	(14 152)	7 828
	`000 EUR	(904)	500
Basic earnings per share	EEK	(2,59)	1,63
	EUR	(0,17)	0,10

Diluted earnings per share

		31.03.03	31.03.02
Weighted average number of shares	pcs	5 457 367	4 800 000
Net profit	`000 EEK	(14 152)	7 828

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	`000 EUR	(904)	500
Diluted earnings per share	EEK	(2,59)	1,61
	EUR	(0,17)	0,10

In calculating the diluted earnings per share, the 384,000 convertible bonds issued within the framework of the top executives' share option program in 2001-2002, have been taken into account. The convertible bonds entitle their holders to exchange them for the same amount of shares of AS Baltika. The average market price of the share of AS Baltika in the first quarter of 2003 was 37.57 EEK (2.40 EUR), in the first quarter 2002 34.32 EEK (2.19 EUR).

Note 10 Related parties

In the first quarter, goods for 966 thousand EEK (62 thousand EUR) were purchased from OÜ Maisan, a company controlled by the members of the Management Board.

During the first quarter 2003, sewing services in the amount of 4 368 thousand EEK (279 thousand EUR) were sold to and services in the amount of 143.5 thousand EEK (9.7 thousand EUR) were bought from The Major Oak Clothing Co that is controlled by a member of Supervisory Board.

In the first quarter 2002 sewing services were provided for 4 034 thousand EEK (258 thousand EUR).

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 35 million EEK (note 5).

By 31.03.2003 all the overdraft was used by parent company.

Liabilities and Receivables of Parent Company to/from Subsidiaries:

	`000 EEK		`000 EUR	
	31.03.2003	31.12.2002	31.03.2003	31.12.2002
Liabilities	10 831	9 474	692	605
Receivables	105 565	109 636	6 747	7 007