



AS BALTIKA

consolidated interim report for the second quarter of 2003

Commercial name	AS Baltika
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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 second 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 August 1st, 2003

Comments to AS Baltika interim report for the second quarter of 2003

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

- Increasing the efficiencies of the retail operations;
- Decrease 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 second quarter of 2003 was EEK 108,4 mil (EUR 6,9 mil) and the net losses were EEK 9,3 mil (EUR 0,6 mil). When compared to the same period of 2002, the net turnover increased by 1,0% (net turnover EEK 107,3 mil; EUR 6,9 mil, respectively) and profit decreased by EEK 11 mil (EUR 0,7 mil) (in 2002 II quarter profit EEK 1.8 mil; EUR 0,1mil, respectively).

“Even though we were not able to demonstrate positive results in the second quarter, positive trends are showing us that we are on the right track. Indicators like selling during the 2. quarter more than last year the same time, the constant decrease in old stock and cutting business costs has ensured us positive operating cash flow for the period,” Mr. Meelis Milder noted commenting the results of the 2. quarter of 2003.

“The results for the first half of 2003 were in line with the boards budgets,” declared Mr. Miles Burger, Chairman of the Supervisory Board of AS Baltika. “The well publicised company decision to move to become the leading specialist clothing retailers in Central and Eastern Europe will not be achieved without some growing pains,” Mr. Burger added , noting that the Board does not envisage the 2nd half 2003 financials to be spectacular but are confident the retail strategy is the best course for the long term prosperity of Baltika's staff and shareholders.

“We are optimistic, though cautious in the matter, concerning the 2. half of the year. Especially because during the first half we managed to renew and prepare two of Baltika’s smaller retail conceptions – Baltman and CHR/Evermen, which contribution in the business can not be underestimated” Mr Milder appended commenting the results.

Sales

When compared to the same period of the previous year, retail sales increased by 24,4%, amounting to EEK 78 mil (EUR 4,99 mil) in the second quarter. Retail sales were EEK 62,7 mil (EUR 4,01mil) in the second quarter of 2002. The share of retail sales of the first half of the year in total turnover was 65% (total EEK 144,6 mil, EUR 9,25 mil), whereas during the same period of the previous year, it reached 49% (EEK 112,5 mil, EUR 7,19 mil).

New retail brand Monton sales composed EEK 114,13 mil (EUR 7,29 mil) of Baltika Group six months turnover, so. 78,9 %. Compared to first quarter Monton sales increased by EEK 12,13 mil (23,8%). Dated 30.06.03. the number of Monton World members was 27 200, encompassing 5 countries, during 2. quarter 4000 new members registered. Dated by the end of June Baltika owned 8649 m² of own retail space (53 shops) in Estonia, Latvia, Lithuania, Ukraine, Poland and Sweden, totally with operated retail space 9953 m² (68 shops). During the second quarter the differences of the new retail concept Monton in different markets started to clear off. While in the two biggest markets – Estonia and Lithuania – the results have started to approach expected levels, in Poland and Ukraine the process will take at least another season. During the next six months the retail buying and merchandising team will also be greatly strengthened allowing current staff to focus more on the strengths and weaknesses of the retail operations.

Wholesale trends present that the negative difference in revenues to the last year result diminished during the second quarter. Second quarter own wholesale turnover totalled to EEK 20,5 mil (EUR 1,31 mil), which was EEK 8,5 mil (EUR 0,54 mil) less compared to last year, in first quarter the backlog was EEK 32 mil. Positive trend can be seen in production, since the manufacturing division is currently enjoying record order books.

Profit

The net loss of Baltika in the first quarter was EEK 9,3 mil (EUR 0,6 mil). The net profit earned during the same period in the previous year amounted to EEK 1,8 mil (EUR 0,1 mil). Six months total net losses amounted to EEK 23,4 mil (EUR 1,5 mil), last year same period the profit was in amount EEK 9,6 mil (EUR 0,61 mil), which included an income of EEK 4.9 mil (EUR 0.31mil) from the sale of property. The

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second quarter results have been influenced mostly by the lower margins in retail sale and by the fluctuation in efficiency in most markets, which is caused by the general depression on garment markets, including most of Baltika Groups operated markets. During the 1st half 2003 stocks of previous brands had to be cleared which had an adverse effect on profits but gave a positive cash flow. One off costs were also incurred in this period related to the launch of two new brand concepts CHR/EM and Baltman.

Retail income earned in March, April and May, started to decrease in June, influenced by regular seasonal stock realization actions (sales). The stock in system has decreased from the beginning of the year by EEK 12,5 mil (EUR 0,8 mil).

Operating costs increased proportionally with whole system, actually personnel costs compared to last period same period decreased by EEK 0,56 mil (EUR 0,04 mil). Amortization decreased caused by gross investments into retail, manufacturing and info technology in 2002.

Balance sheet

The consolidated balance sheet total of Baltika was EEK 340,5 mil (EUR 21,8 mil) as of 30.06.2003; the decrease compared to the beginning of the year was EEK 32,5 mil (EUR 2,1 mil). The stocks in the system decreased by EEK 12,5 mil (EUR 0,8 mil) when compared to the beginning of the year. The assets recorded in net realisable value amounted to EEK 5,65 mil (EUR 0,36 mil), with a discount reserve of EEK 0,65 mil (EUR 0,04mil). The loans repaid to banks amounted to EEK 3,34 mil (EUR 0,21 mil) from beginning of the year.

Cash flow

The cash flow from operations in the first half year was EEK 7,6 mil (EUR 0,48 mil), whereas in the same period last year, it was negative EEK -14,46 mil (EUR -0,92 mil). 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

The concern employed dated by end of June average 1738 employees, from that 402 in retail, 1086 in manufacturing and in foreign countries totally 274 employees.

The main ratios of AS Baltika Group as of 30.06.2003 were:

	30.06.2003	31.03.2003	31.06.2002
Increase in turnover % quarter	1,0	-9,4	44,4
Increase in turnover % from beginning of the year	-4,6	-9,4	25,8
Share of retail sales in net turnover %	65	59	49
Number of shops	68	68	60
Retail premises managed (m ²)	9 953	10 101	8 649
Markets managed through own retail organisations	6	6	6
Operating profit to net sales %	-8,9	-10,5	6,1
Net profit to net turnover %	-10,8	-12,6	4,1
Return on equity ROE (net profit/average equity capital of 12 months) %	-16,6	-9,7	11,2
Return on assets (net profit/average cost of assets of 12 months) %	-7,1	-4,1	5,4

Ülle Järv
The Member of the Management Board

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Balance sheet

`000 EEK	Note	30.06.2003	Group 30.06.2002	31.12.2002
ASSETS				
Current assets				
Cash and bank		9 451	11 280	10 010
Shares and other securities	1	291	476	542
Customer receivables	2	39 959	57 415	47 609
Other receivables and prepaid expenses		14 612	14 328	19 456
Inventories	3	163 323	166 391	175 857
Total current assets		227 636	249 890	253 474
Non-current assets				
Long-term investments		6 005	2 454	6 160
Tangible fixed assets	4	93 788	94 302	108 382
Intangible fixed assets	4	13 043	4 643	4 921
Total non-current assets		112 836	101 399	119 463
TOTAL ASSETS		340 472	351 289	372 937
LIABILITIES AND OWNER'S EQUITY				
Current liabilities				
Debt obligations	5,6	78 017	59 120	90 633
Customer prepayments for goods and services		134	141	149
Accounts payable		26 539	45 654	33 708
Other tax liabilities		8 834	7 811	8 086
Accrued expenses		7 593	8 220	7 769
Total current liabilities		121 117	120 946	140 345
Non-current liabilities				
Long-term debt	5	64 749	74 199	55 469
Provisions		141	0	141
Total non-current liabilities		64 890	74 199	55 610
TOTAL LIABILITIES		186 007	195 145	195 955
Minority interest		6 578	6 629	7 049
OWNER'S EQUITY	7	147 887	149 515	169 933
Share capital (par value)		54 600	48 000	54 444
Unregistered share capital		395	0	0
Share premium		42 490	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		(23 421)	9 580	6 798
TOTAL LIABILITIES AND OWNER'S EQUITY		340 472	351 289	372 937

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Balance sheet

`000 EUR	Note	30.06.2003	Group 30.06.2002	31.12.2002
ASSETS				
Current assets				
Cash and bank		604	721	640
Shares and other securities	1	19	30	35
Customer receivables	2	2 554	3 669	3 043
Other receivables and prepaid expenses		934	916	1 243
Inventories	3	10 438	10 634	11 239
Total current assets		14 549	15 971	16 200
Non-current assets				
Long-term investments		384	157	394
Tangible fixed assets	4	5 994	6 027	6 927
Intangible fixed assets	4	834	297	315
Total non-current assets		7 212	6 481	7 635
TOTAL ASSETS		21 760	22 451	23 835
LIABILITIES AND OWNER'S EQUITY				
Current liabilities				
Debt obligations	5,6	4 986	3 778	5 792
Customer prepayments for goods and services		9	9	10
Accounts payable		1 696	2 918	2 154
Other tax liabilities		565	499	517
Accrued expenses		485	525	497
Total current liabilities		7 741	7 730	8 970
Non-current liabilities				
Long-term debt	5	4 138	4 742	3 545
Provisions		9	0	9
Total non-current liabilities		4 147	4 742	3 554
TOTAL LIABILITIES		11 888	12 472	12 524
Minority interest		420	424	451
OWNER'S EQUITY	7	9 452	9 556	10 861
Share capital (par value)		3 490	3 068	3 480
Unregistered share capital		25	0	0
Share premium		2 716	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		(1 497)	612	434
TOTAL LIABILITIES AND OWNER'S EQUITY		21 760	22 451	23 835

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Income statement

'000 EEK	Note	Group				2002
		2nd quarter 2003	2nd quarter 2002	6 months 2003	6 months 2002	
Revenue						
Net sales	8	108 407	107 296	220 970	231 602	485 440
Other revenue		141	872	253	5 902	6 023
Total revenue		108 548	108 168	221 223	237 504	491 463
Expenses						
Materials, raw materials and services		(44 028)	(43 232)	(85 393)	(101 942)	(179 500)
Change in inventories		3 614	10 338	(209)	15 653	1 621
Other operating expenses		(31 708)	(27 338)	(64 240)	(53 363)	(126 096)
Personnel expenses		(37 385)	(37 947)	(77 526)	(73 157)	(151 043)
Depreciation of fixed assets	4	(6 458)	(4 803)	(12 602)	(9 139)	(19 230)
Other expenses		(436)	(1 057)	(905)	(1 370)	(3 460)
Total expenses		(116 401)	(104 039)	(240 875)	(223 318)	(477 708)
Operating profit (loss)		(7 853)	4 129	(19 652)	14 186	13 755
Financial income		(259)	113	335	231	763
Financial expenses		(1 916)	(2 407)	(4 436)	(4 575)	(9 036)
Profit (loss) before taxes		(10 028)	1 835	(23 753)	9 842	5 482
Income tax expense		(21)	(265)	(21)	(265)	2 150
Profit (loss) before minority interest		(10 049)	1 570	(23 774)	9 577	7 632
Minority interest		(780)	(182)	(353)	(3)	834
Net profit (loss)		(9 269)	1 752	(23 421)	9 580	6 798
Basic earnings per share (EEK)	9	(1,69)	0,37	(4,28)	2,00	1,36
Diluted earnings per share (EEK)	9	(1,69)	0,36	(4,28)	1,97	1,34

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Income statement

`000 EUR	Note	Group				2002
		2nd quarter 2003	2nd quarter 2002	6 months 2003	6 months 2002	
Revenue						
Net sales	8	6 928	6 857	14 123	14 802	31 025
Other revenue		9	56	16	377	385
Total revenue		6 937	6 913	14 139	15 179	31 410
Expenses						
Materials, raw materials and services		(2 814)	(2 763)	(5 458)	(6 515)	(11 472)
Change in inventories		231	661	(13)	1 000	104
Other operating expenses		(2 027)	(1 747)	(4 106)	(3 411)	(8 059)
Personnel expenses		(2 389)	(2 425)	(4 955)	(4 676)	(9 653)
Depreciation of fixed assets	4	(413)	(307)	(805)	(584)	(1 229)
Other expenses		(28)	(68)	(58)	(88)	(221)
Total expenses		(7 439)	(6 649)	(15 395)	(14 273)	(30 531)
Operating profit (loss)		(502)	264	(1 256)	907	879
Financial income		(17)	7	21	15	49
Financial expenses		(122)	(154)	(284)	(292)	(578)
Profit (loss) before taxes		(641)	117	(1 518)	629	350
Income tax expense		(1)	(17)	(1)	(17)	137
Profit (loss) before minority interest		(642)	100	(1 519)	612	488
Minority interest		(50)	(12)	(23)	(0)	53
Net profit (loss)		(592)	112	(1 497)	612	434
Basic earnings per share (EUR)	9	(0,11)	0,02	(0,27)	0,13	0,09
Diluted earnings per share (EUR)	9	(0,11)	0,02	(0,27)	0,13	0,09

**Cash flow statement
(indirect method)**

`000 EEK

		Group	
	Note	I half-year 2003	I half-year 2002
Operating activities			
Operating profit (loss)		(19 652)	14 186
Adjustment for depreciation	4	12 602	9 139
Profit from the sale of fixed assets		(142)	(5 053)
Change in receivables		12 625	(2 883)
Change in inventories		12 534	(35 246)
Change in payables		(6 286)	9 287
Interests paid		(4 105)	(3 628)
Income tax paid		(7)	-265
Cash flow from operating activities		7 569	(14 463)
Investing activities			
Acquisition of tangible and intangible assets incl. acquisition on conditions of capital lease	4	(6 106)	(26 790)
Sale of fixed assets		253	3 654
Sale of right of pre-emption of real estate		0	5 752
Acquisition of subsidiaries		0	-41
Interests received		73	111
Dividends received		11	56
Sale of marketable securities	1	290	95
Repayments of loans granted		5	20
Other financial income/expenses		123	0
Cash flow from investing activities		(4 888)	(17 143)
Financing activities			
Repayment of loans	5	(4 879)	0
Loans received	5	1 452	27 071
Finance lease and instalments payments		(833)	(1 076)
Dividends paid		-117	0
Receipts from contributions into share capital		1320	0
Redemption of commercial papers		0	(25 000)
Received from sale of commercial papers		0	29 306
Received from sale of convertible bonds		192	192
Proceeds from repurchase of convertible bonds		(14)	0
Cash flow from financing activities		(2 879)	30 493
Foreign exchange change		(361)	(233)
Total cash flows		(559)	(1 346)
Opening cash and equivalents balance		10 010	12 626
Closing cash and equivalents balance		9 451	11 280

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**Cash flow statement
(indirect method)**

`000 EUR

		Group	
	Note	I half-year 2003	I half-year 2002
Operating activities			
Operating profit (loss)		(1 256)	907
Adjustment for depreciation	4	805	584
Profit from the sale of fixed assets		(9)	(323)
Change in receivables		807	(184)
Change in inventories		801	(2 253)
Change in payables		(402)	594
Interests paid		(262)	(232)
Income tax paid		(0)	(17)
Cash flow from operating activities		484	(924)
Investing activities			
Acquisition of tangible and intangible assets incl. acquisition on conditions of capital lease	4	(390)	(1 712)
Sale of fixed assets		16	234
Sale of right of pre-emption of real estate		0	368
Acquisition of subsidiaries		0	(3)
Interests received		5	7
Dividends received		1	4
Sale of marketable securities	1	19	6
Repayments of loans granted		0	1
Other financial income/expenses		8	0
Cash flow from investing activities		(312)	(1 096)
Financing activities			
Repayment of loans	5	(312)	0
Loans received	5	93	1 730
Finance lease and instalments payments		(53)	(69)
Dividends paid		(7)	0
Receipts from contributions into share capital		84	0
Redemption of commercial papers		0	(1 598)
Received from sale of commercial papers		0	1 873
Received from sale of convertible bonds		12	12
Proceeds from repurchase of convertible bonds		(1)	0
Cash flow from financing activities		(184)	1 949
Foreign exchange change		(23)	(15)
Total cash flows		(36)	(86)
Opening cash and equivalents balance		640	807
Closing cash and equivalents balance		604	721

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Statement in Changes in Equity (`000 EEK)

	Share capital	Un-registered share capital	Share premium	Reserves	Retained earnings	Profit/loss for the accounting period	Total
Balance per 31.12.2001	48 000	0	24 910	22 885	28 430	15 711	139 936
Appropriation of 2001 profit	0	0	0	0	15 711	(15 711)	0
Net profit for the accounting period	0	0	0	0	0	9 580	9 580
Contribution to share capital	0	0	0	0	0	0	0
Balance per 30.06.2002	48 000	0	24 910	22 885	44 141	9 580	149 516
Balance per 31.12.2002	54 444	0	41 665	22 885	44 141	6 798	169 933
Appropriation of 2002 profit	0	0	0	0	6 798	(6 798)	0
Contribution to share capital	155	0	233	0	0	0	388
Unregistered share capital	0	395	592	0	0	0	987
Net profit for the accounting period	0	0	0	0	0	(23 421)	(23 421)
Balance per 30.06.2003	54 600	395	42 490	22 885	50 938	(23 421)	147 887

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Statement in Changes in Equity (`000 EUR)

	Share capital	Un- registered share capital	Share premium	Reserves	Retained earnings	Profit/loss for the accounting period	Total
Balance per 31.12.2001	3 068	0	1 592	1 463	1 817	1 004	8 944
Appropriation of 2001 profit	0	0	0	0	1 004	(1 004)	0
Net profit for the accounting period	0	0	0	0	0	612	612
Contribution to share capital	0	0	0	0	0	0	0
Balance per 30.06.2002	3 068	0	1 592	1 463	2 821	612	9 556
Balance per 31.12.2002	3 480	0	2 663	1 463	2 821	434	10 861
Appropriation of 2002 profit	0	0	0	0	434	(434)	0
Contribution to share capital	10	0	15	0	0	0	25
Unregistered share capital	0	25	38	0	0	0	63
Net profit for the accounting period	0	0	0	0	0	(1 497)	(1 497)
Balance per 30.06.2003	3 490	25	2 716	1 463	3 256	(1 497)	9 452

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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 68 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 1677 in the first half-year 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 30.06.2003 the Group comprises the following companies:

	Country of location	Participation 30.06.2003	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 2nd 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.

NOTES TO THE CONSOLIDATED INTERIM REPORT

Note 1 Short-term shares and securities

`000 EEK

	30.06.2003		31.12.2002	
	Acquisition value	Quantity	Book value	Book value
Shares of AS Tallinna Kaubamaja	5	5 160	291	278
Shares of AS Hansapank	136	0	0	264
Total			291	542

`000 EUR

	30.06.2003		31.12.2002	
	Acquisition value	Quantity	Book value	Book value
Shares of AS Tallinna Kaubamaja	0	5 160	19	18
Shares of AS Hansapank	9	0	0	17
Total			19	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	
	30.06.2003	31.12.2002	30.06.2003	31.12.2002
Accounts receivable	41 268	48 912	2 637	3 126
Doubtful accounts	(1 309)	(1 303)	(84)	(83)
Total	39 959	47 609	2 554	3 043

In evaluating accounts receivables, each account has been treated separately. No doubtful accounts were written off during the accounting period. No debts expensed in previous periods were collected. Accounts known to be uncollectible are written off the balance sheet. Uncollectible debts were written off as costs in the amount of 29 thousand EEK (1,9 thousand EUR) 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".

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Note 3 Inventories

	`000 EEK		`000 EUR	
	30.06.2003	31.12.2002	30.06.2003	31.12.2002
Raw materials (fabric, accessories, material on the way)	39 130	45 996	2 501	2 940
Write-down provision for inventories of material	(213)	(354)	(14)	(23)
Work in progress	10 102	7 322	646	468
Finished goods and purchased goods (warehouses, stores)	79 536	89 662	5 083	2 493
Write-down provision for inventories of finished goods	(296)	(1 529)	(19)	(98)
Purchased goods	34 790	34 851	2 223	5 464
Write-down provision for inventories of purchased goods	(143)	(237)	(9)	(15)
Prepayments to suppliers	417	146	27	9
Total	163 323	175 856	10 438	11 239

Of the balance of inventories set out in the balance sheet as of 30.06.2003, inventories worth 5.6million EEK (0.4 million EUR) are presented in their net realisable value, including 5.3 million EEK (0.3 million EUR) of finished goods and 0.3 million EEK (0.02 million EUR) of materials.

Note 4 Tangible and Intangible Assets

The investments made in tangible fixed assets during the first half-year amounted to 3 218 thousand EEK (206 thousand EUR), of which investments in buildings were 343 thousand EEK (22 thousand EUR), in production equipment 1 438 thousand EEK (92 thousand EUR) and in trade 620 thousand EEK (40 thousand EUR). Other fixed assets were acquired for 817 thousand EEK (52 thousand EUR), including a motor car for 463 thousand EEK (30 thousand EUR), acquired on financial lease conditions.

Fixed assets were sold in the group during the accounting period in the acquisition cost of 1 262 thousand EEK (81 thousand EUR), with a residual value of 150 thousand EEK (10 thousand EUR).

Fixed assets no longer fit for use and with no residual value were written off in the acquisition cost of 270 thousand EEK (17 thousand EUR).

Tangible Fixed Assets movements in the Group in first half-year 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	343	2 033	842	169	383	3 771
Sold during the period	0	0	(77)	(73)	0	0	(150)
Written off during the period	0	0	0	(20)	0	0	(20)
Internal reclassification	0	(944)	0	944	(6 251)	0	(6 251)
Commissioned	0	0	0	0	0	(394)	(394)
Depreciation 2003	0	(2 944)	(3 342)	(5 264)	0	0	(11 550)

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Foreign exchange differences	0	0	0	3	0	0	3
Acquisition cost 30.06.03	3 004	73 149	73 918	42 883	169	52	193 175
Accumulated depreciation 30.06.03	0	18 635	58 758	21 993	0	0	99 386
Residual value 30.06.03	3 004	54 514	16 237	20 890	169	52	93 789

`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	22	130	54	11	24	241
Sold during the period	0	0	(5)	(5)	0	0	(10)
Written off during the period	0	0	0	(1)	0	0	(1)
Internal reclassification	0	(60)	0	60	(400)	0	(400)
Commissioned	0	0	0	0	0	(25)	(25)
Depreciation 2003	0	(188)	(214)	(336)	0	0	(738)
Foreign exchange differences	0	0	0	0	0	0	0
Acquisition cost 30.06.03	192	4 675	4 724	2 741	11	3	12 346
Accumulated depreciation 30.06.03	0	1 191	3 755	1 406	0	0	6 352
Residual value 30.06.03	192	3 484	969	1 335	11	3	5 994

See note 5 concerning pledged assets.

Intangible Assets movements in the Group in first quarter 2003

In June AS Baltika commissioned new software in the amount of 8 578 thousand EEK (548 thousand EUR), which is presented as intangible fixed assets in the balance sheet. Great share of the work to implement the software was done in 2002. already.

New software was implemented in some subsidiaries also.

`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	9 679	0	2 564	0	0	12 243
Sold during the period	(2)	0	0	0	0	(2)
Internal reclassification	0	0	6 251	0	0	6 251
Commissioned	0	(992)	(8 464)	0	0	(9 456)

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Depreciation 2003	(1 051)	0	0	0	0	(1 051)
Amortization of positive goodwill	0	0	0	(95)	0	(95)
Amortization of negative goodwill	0	0	0	0	230	230
Acquisition cost 30.06.03	16 411	0	351	2 337	(919)	18 180
Accumulated depreciation 30.06.03	(3 941)	0	0	(1 885)	689	(5 137)
Residual value 30.06.03	12 470	0	351	452	(230)	13 043

`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	619	0	164	0	0	782
Sold during the period	0	0	0	0	0	0
Internal reclassification	0	0	400	0	0	400
Commissioned	0	(63)	(541)	0	0	(604)
Depreciation 2003	(67)	0	0	0	0	(67)
Amortization of positive goodwill	0	0	0	(6)	0	(6)
Amortization of negative goodwill	0	0	0	0	15	15
Acquisition cost 31.03.03	1049	0	22	149	(59)	1 162
Accumulated depreciation 31.03.03	(252)	0	0	(120)	44	(328)
Residual value 31.03.03	797	0	22	29	(15)	834

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

Short-term debt	`000 EEK		`000 EUR	
	30.06.2003	31.12.2002	30.06.2003	31.12.2002
Current portion of long-term debt	4 017	17 908	257	1 145
Short-term loans from banks	23 361	22 865	1 493	1 461
Short-term leasing liabilities	780	1 418	50	91
Convertible bonds	507	384	32	25
Commercial papers	49 352	48 058	3 154	3 071
Total	78 017	90 633	4 986	5 792

Long-term debt	`000 EEK		`000 EUR	
	30.06.2003	31.12.2002	30.06.2003	31.12.2002
Long-term loans from banks	62 887	53 874	4 019	3 443
Long-term leasing liabilities	1 862	1 595	119	102
Total	64 749	55 469	4 138	3 545

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Bank loans (EEK `000)

Creditor	Loan debt 30.06.03	Current portion up to 1 year	Long-term portion 1-5 years	Interest
Nordea Bank	11 251	1 874	9 377	3 months Euribor+2,5%
Hansapank	42 796	0	42 796	6 months` EURIBOR + 2,25%
Hansapank	12 857	2 143	10 714	6 months EURIBOR + 2,35%
Hansapank (overdraft facility)	23 361	23 361	0	5,25
Total	90 265	27 378	62 887	

Bank loans (EUR `000)

Creditor	Loan debt 3`0.06.03	Current portion up to 1 year	Long-term portion 1-5 years	Interest
Nordea Bank	719	120	599	3 months Euribor+2,5%
Hansabank	2 735	0	2 735	6 months` EURIBOR + 2,25%
Hansabank	822	137	685	6 months EURIBOR + 2,35%
Hansabank (overdraft facility)	1 493	1 493	0	5,25
Total	5 769	1 750	4 019	

During the accounting period AS Baltika paid Nordea Bank a short-term loan in the amount of 1 874 thousand EEK (120 thousand EUR) and Hansabank 3 004 thousand EEK (192 thousand EUR). In April the loan agreements with Hansbank were reviewed, as a result of which the interest rates of loans to AS Baltika and AS Virulane were reduced and terms of payments were changed. According to that, current portion of the loan in the amount of 9 012 thousand EEK (576 thousand EUR) was changed into long-term in the balance sheet.

AS Baltika has a group account in Hansapank with an overdraft facility of 35 million EEK (2.2 million EUR). As of 30.06.2003, the overdraft facility has been used to the extent of 23,4 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 in Baltika group in first half-year were 3 974 thousand EEK (254 thousand EUR), 4 056 thousand EEK (259 thousand EUR) in the same period of 2002. Interest expenses are classified as financial expenses.

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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 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; EUR 2.19) and in the case of C bonds from 1 January until 31 March 2003 (EEK 37.57; EUR 2.40). 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 first half-year was 14,000.

In the first quarter the management board, according to the wish of the holder of 15,500 A bonds to use the right to subscribe for shares, decided to increase the share capital for 15,500 shares.

In the second quarter the holder of 39,500 A bonds expressed his wish to use the right to subscribe for shares. The management board decided to increase the share capital for 39,500 shares.

After the increase in the share capital, the amount of the share capital is EEK 54,994,500 divided into 5,499,450 shares with a nominal value of EEK 10. The premium of the transaction was EEK 592,500 (EUR 37,868). The last increase of share capital has not been registered with the commercial register as of 30.06.2003 and is shown as Unregistered share capital in the balance sheet.

Distribution of the Convertible Bonds :

	30.06.2003			31.12.2002		
	Quantity	Sum in EEK	Sum in EUR	Quantity	Sum in EEK	Sum in EUR
Members of the Management						
Board	317 500	317 500	20 292	236 000	236 000	15 083
Other Management	185 500	185 500	11 856	134 500	134 500	8 596
Third parties	43 500	43 500	2 780	13 500	13 500	863
Repurchased by AS Baltika	14 000	14 000	895	0	0	0
Total	560 500	560 500	35 822	384 000	384 000	24 542

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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.

	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

	30.06.2003	31.12.2002
Share capital (EEK `000)	54 600	54 444
Number of shares (pc)	5 459 950	5 444 450
Nominal value of shares (EEK)	10.00	10.00

	30.06.2003	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.

In the first quarter the management board, according to the wish of the holder of 15,500 A bonds to use the right to subscribe for shares, decided to increase the share capital for 15,500 shares.

In the second quarter the holder of 39,500 A bonds expressed his wish to use the right to subscribe for shares. The management board decided to increase the share capital for 39,500 shares.

After the increase in the share capital, the amount of the share capital is EEK 54,994,500 (3 514 780 EUR) divided into 5,499,450 shares with a nominal value of EEK 10.

The last increase of share capital has not been registered with the commercial register as of 30.06.2003 and is shown as Unregistered share capital in the balance sheet .

Retained earnings

Per 30.06.2003, the retained earnings amounted to 27 517 thousand EEK (1 759 thousand EUR), per 30.06.2002 53 721 thousand EEK (3 433 thousand EUR).

The general meeting, held on May 22nd, decided not to divide the profit of 2002 and add it to retained earnings.

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Note 8 Segments

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

`000 EEK

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	144 616	76 354		220 970
Intersegmental sales	0	116 133	(116 133)	0
Total sales	144 616	192 487	(116 133)	220 970
Operating profit of the segment	(24 888)	17 308	0	(7 580)
Indivisible expenses				(12 072)
Total operating profit				(19 652)
Other financial income				335
Other financial expenses				(4 436)
Income tax				(21)
Profit before minority shareholding				(23 774)
Minority shareholding				(353)
Net profit				(23 421)
Assets	133 449	200 535	(4 691)	329 293
Indivisible assets of the group				11 179
Total assets				340 472
Liabilities	106 453	35 796	(99 403)	42 846
Indivisible liabilities of the group				143 161
Total liabilities				186 007
Acquisition of fixed assets in the accounting period	2 156	10 741		12 897
Depreciation in the accounting period	6 948	5 654		12 602
Other major non-monetary expenses		(1 427)		(1 427)

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

`000 EUR

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	9 243	4 880		14 123
Intersegmental sales	0	7 422	(7 422)	0
Total sales	9 243	12 302	(7 422)	14 123
Operating profit of the segment	(1 591)	1 106	0	(484)
Indivisible expenses				(772)

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Total operating profit				(1 256)
Other financial income				21
Other financial expenses				(284)
Income tax				(1)
Profit before minority shareholding				(1 519)
Minority shareholding				(23)
Net profit				(1 497)
Assets	8 529	12 816	(300)	21 046
Indivisible assets of the group				714
Total assets				21 760
Liabilities	6 804	2 288	(6 353)	2 738
Indivisible liabilities of the group				9 150
Total liabilities				11 888
Acquisition of fixed assets in the accounting period	138	686	0	824
Depreciation in the accounting period	444	361	0	805
Other major non-monetary expenses	0	(91)	0	(91)

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

`000 EEK

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	112 500	119 102		231 602
Intersegmental sales	0	104 214	(104 214)	0
Total sales	112 500	223 316	(104 214)	231 602
Operating profit of the segment	12 515	8 282	0	20 797
Indivisible expenses				(6 611)
Total operating profit				14 186
Other financial income				231
Other financial expenses				(4 575)
Income tax				(265)
Profit before minority shareholding				9 577
Minority shareholding				(3)
Net profit				9 580
Assets	114 479	232 357	(4 805)	342 031
Indivisible assets of the group				9 258
Total assets				351 289
Liabilities	109 800	48 837	(97 115)	61 522
Indivisible liabilities of the group				133 623
Total liabilities				195 145

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Acquisition of fixed assets in the accounting period	7 316	27 003	34 319
Depreciation in the accounting period	3 710	5 429	9 139
Other major non-monetary expenses			5 072

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

`000 EUR

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	7 190	7 612	0	14 802
Intersegmental sales	0	6 660	(660)	0
Total sales	7 190	14 272	(660)	14 802
Operating profit of the segment	800	529	0	1 329
Indivisible expenses				(423)
Total operating profit				907
Other financial income				15
Other financial expenses				(292)
Income tax				(17)
Profit before minority shareholding				612
Minority shareholding				0
Net profit				612
Assets	7 317	14 850	(307)	21 860
Indivisible assets of the group				592
Total assets				22 451
Liabilities	7 017	3 121	(6 207)	3 932
Indivisible liabilities of the group				8 540
Total liabilities				12 472
Acquisition of fixed assets in the accounting period	468	1 726	0	2 193
Depreciation in the accounting period	237	347	0	584
Other major non-monetary expenses	0	0	0	324

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.

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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

<u>`000 EEK</u>	Sales		Fixed assets		Other assets	
	6 months 2003	6 months 2002	30.06.03	30.06.02	30.06.03	30.06.02
Estonia	62 651	64 579	79 205	82 617	148 988	186 208
Latvia	24 403	22 504	3 263	0	12 129	0
Lithuania	37 282	34 586	6 828	5 586	20 338	20 139
Russia	14 138	26 265	0	0	0	0
The Ukraine	23 096	28 137	5 108	5 229	26 037	25 916
Finland	16 744	24 198	417	0	2 526	379
Sweden	12 195	11 116	113	172	947	3 354
England	6 783	8 144	0	0	0	0
Poland	23 630	12 039	11 898	5 342	22 675	16 347
Other markets	48	34	0	0	0	0
Total	220 970	231 602	106 832	98 946	233 640	252 343

Sales and assets by Geographical segment – Secondary

<u>`000 EUR</u>	Sales		Fixed assets		Other assets	
	6 months 2003	6 months 2002	30.06.03	30.06.02	30.06.03	30.06.02
Estonia	4 004	4 127	5 062	5 280	9 522	11 901
Latvia	1 560	1 438	209	0	775	0
Lithuania	2 383	2 210	436	357	1 300	1 287
Russia	904	1 679	0	0	0	0
The Ukraine	1 476	1 798	326	334	1 664	1 656
Finland	1 070	1 547	27	0	161	24
Sweden	779	710	7	11	61	214
England	434	520	0	0	0	0
Poland	1 510	769	760	341	1 449	1 045
Other markets	3	2	0	0	0	0
Total	14 123	14 802	6 828	6 324	14 932	16 128

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

		30.06.03	30.06.02
Weighted average number of shares	pcs	5 468 533	4 800 000
Net profit/loss	`000 EEK	(23 421)	9 580

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	`000 EUR	(1 497)	612
Basic earnings per share	EEK	(4,28)	2,00
	EUR	(0,27)	0,13

Diluted earnings per share

		30.06.03	30.06.02
Weighted average number of shares	pcs	5 468 533	4 800 000
Net profit (loss)	`000 EEK	(23 421)	7 828
	`000 EUR	(1 497)	500
Diluted earnings per share	EEK	(4,28)	1,97
	EUR	(0,27)	0,13

In calculating the diluted earnings per share for 2002, 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 second quarter of 2003 was 33.78 EEK (2.16 EUR), in the second quarter 2002 36.83 EEK (2.35 EUR).

Note 10 Related parties

In the first half-year, goods for 1 885 thousand EEK (120 thousand EUR) were purchased from OÜ Maisan, a company controlled by the members of the Management Board.

During the first half-year 2003, sewing services in the amount of 6 810 thousand EEK (435 thousand EUR) were sold to and services in the amount of 318 thousand EEK (20 thousand EUR) were bought from The Major Oak Clothing Co that is controlled by a member of Supervisory Board.

In the first half-year 2002 sewing services were provided for 8 168 thousand EEK (522 thousand EUR) and bought for 581 thousand EEK (37 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).

Liabilities and Receivables of Parent Company to/from Subsidiaries:

	`000 EEK		`000 EUR	
	30.06.2003	31.12.2002	30.06.2003	31.12.2002
Liabilities	4 691	9 474	300	605
Receivables	99 403	109 636	6 353	7 007