AS BALTIKA

2004 ANNUAL REPORT

Commercial name	AS Baltika
Commercial Registry No	10144415
Address	Veerenni 24,Tallinn 10135, Estonia
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E-mail	baltika@baltika.ee
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2004-31.12.2004
Main activities	clothing industry, retail and wholesale sales of clothes, provision of sewing services

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Brief Description of AS Baltika Group

The Baltika Group is an international clothing trade group, whose parent company is AS Baltika. The Group operates the retail chains of Monton, Baltman, CHR/Evermen and Baltika factory outlet stores with 78 stores and retail spaces in seven countries - Estonia, Latvia, Lithuania, Poland, the Ukraine, Russia and Sweden. The brands of the Baltika Group are marketed through its own retail chains as well as wholesalers, the main brands of which are Baltman, Evermen and Herold (overcoats) for men and CHR and Mascara (overcoats) for women. Men's and women's clothes under the brand name of Monton are sold only through the Monton retail chain.
The factory outlet store sells past seasons' clothes of different brands by collection.

The Baltika group is one of the leading specialised clothing trade companies in the Baltic region consisting of eight trade and three production subsidiaries.

As of 31.12.2004, the Group employed 1704 people, as of 31.12.2003: 1714 people.
The parent company is located and has been registered at Veerenni 24, Tallinn, Estonia.
The shares of AS Baltika are listed on the Tallinn Stock Exchange.

As of 31.12.2004, the Group consisted of the following subsidiaries and joint ventures:

	Location	Participation on 31.12.2004	Participation on 31.12.2003
AS Baltika (parent)	Estonia		
Subsidiaries			
OÜ Baltman	Estonia	100 %	100 %
Baltika Lietuva	Lithuania	100 %	100 %
Baltika Latvija	Latvia	75%	75 %
Baltika Sweden	Sweden	100 %	100 %
Baltika Ukraina	Ukraine	99 %	99 %
Baltika Poland	Poland	100 %	100 %
OY Baltinia AB	Finland	100 %	100 %
AS Elina STC	Estonia	50.10%	50.10 %
AS Virulane	Estonia	79.23%	79.23 %
Kompania "Baltman Rus" *	Russia	50.10%	-
Joint venture			
OÜ Baltika Tailor	Estonia	50%	-

* Baltman Rus has eight subsidiaries (Note 9).

MANAGEMENT REPORT OF AS BALTIKA GROUP FOR 2004

Results of Operations of AS Baltika for 2004

The 2004 consolidated net sales of AS Baltika were EUR 37.2 million and net profit was EUR 1.1 million. Net sales increased by 17% as compared to 2003 (net sales of 2003: EUR 31.8 million). AS Baltika had a loss of EUR 4.3 million in 2003.

1. Sales

Retail sales

In 2004, Baltika's retail sales were EUR 26.9 million, a 31% increase over 2003. Retail system growth contributed EUR 4.8 million and retail space efficiency growth EUR 1.6 million to the 6.3 million net sales growth. Retail sales made up 72% of total net sales (2003: 65%). At the end of 2004, Baltika had 78 stores and 11 688 m2 of sales space. Twelve new stores and 1 559 m2 of sales space were added during the year.

The largest market was the home market of Estonia where net sales totalled EUR 7.5 million (growth of 22%), constituting 28% of retail sales of the Baltika Group. It was followed by Lithuania with net sales of EEK 6.8 million (growth of 36%) as well the Ukraine with net sales of EUR 4.5 million (growth of 31%). The Latvian market with the sales growth of 42% to EUR 3.3 million was the fastest growing market in 2004. The company started its retail activities in Russia through the joint venture set up in April, and sales totalled EUR 2.0 million over the eight-month period. The reviewing of the retail spaces in Poland in 2004 resulted in major changes to the size of the retail spaces as well as the reviewing of lease agreement leading to a 10% decrease of sales spaces. The net sales in the Polish market were EUR 2.6 million, 17% less than in 2003.

In 2004, Baltika's bestselling brand was Monton, which made up 53% of total retail sales for the total of EUR 14.1 million and was 3% less than in 2003 due to the reduction of Monton sales spaces in the Polish market.
The fastest volume growth was achieved in CHR/Evermen and Baltman retail chains, where sales increased by 2.8 and 2.4 times, respectively. The sales of CHR/Evermen totalled EUR 7.6 million and the sales of Baltman totalled EUR 4.1 million in 2004.

Wholesale Sales

In 2004, the wholesale sales of own production totalled EUR 7.4 million and decreased by 6% as compared to the previous year. The sales decrease was mostly impacted by the sales at the retail chain taken over in Russia that partially offset the previous wholesale volume.

Subcontracted Sales

Subcontracted sales decreased by 16% as compared to 2003 and totalled EUR 2.7 million. In conjunction with the setting up of a joint venture OÜ Baltika Tailor formed on the basis of Baltika's production division, which is owned by AS Baltika (50%) and OY Turo Tailor AB (50%), the principle for consolidation of the joint venture changed as of 1 December 2004, according to which the joint venture's revenue and expenses are not consolidated in the financial statements of the Baltika Group. The financial results of the joint venture are recorded in the financial statements under the equity method.

2. Financial Results

In 2004, the net profit of AS Baltika was EUR 1.1 million. The largest net profit of EUR 0.7 million was earned in the fourth quarter.
In 2004, necessary know-how for inventory management and the central operation of the retail system was developed at the head office of the Baltika Group resulting in gross profit growth of 40% to EUR 17.2 million, good quality of inventories and the inventory turnover of 3.9. This was achieved through better managed markdown periods, effective management of sales margins, successful creation of production collections as well as the optimisation of retail operation and administrative expenses.

Improved methods for the evaluation of retail trade spaces and the closing or renovation of inefficient stores ensured higher efficiency of investments made into the retail system.

As a result of the restructuring process carried out in the Polish market, the market management fees decreased by EUR 0.2 million as compared to 2003.

In 2004, the number of employees was reduced by 91 people at the head office and the production units. During the year, severance pay amounted to EUR 0.1 million.

At the end of November 2004, the 50% participation in OÜ Baltika Tailor was sold, which contributed EUR 0.2 million to financial income.

3. Balance Sheet

As of 31.12.2004, the consolidated balance sheet total of Baltika was EUR 20.3 million, which decreased by EUR 0.8 million as compared to the beginning of the year. Despite the fact that the retail system continued to grow steadily, the inventories in the system decreased by EUR 0.3 million during the year, amounting to EUR 9.3 million. Aggressive sales of old inventories, especially in the first half of the year, improved the company's liquidity. Improved cash flows enabled the company to reduce supplier payables by EUR 1.5 million as compared to the beginning of the year. Borrowings decreased by EUR 1.2 million. As of the year-end, the ratio of borrowings to assets stood at 38% (2003: 42%).
In 2004, capital expenditures amounted to EUR 1.0 million, mostly related to the creation of new retail spaces and the development of IT systems supporting the retail system.

In 2004, the share capital was increased by EEK 1.345 million (134 500 shares with the nominal price of EUR 0.64 per share), based on the request of 134 500 holders of A-bonds to convert their bonds into Baltika's shares. The conversion price was EUR 1.6 per share. EUR 0.1 million was paid for the share premium. This concluded the first part of the 3-year option programme.

4. Retail System

The developments of retail trade and improvements to the management of the system in all Baltic retail markets continued in 2004, leading to a 31% increase of net sales in the total retail system and a 16% growth of sales spaces.
The Baltika Group has retail stores in six retail markets: Estonia, Latvia, Lithuania, Poland, the Ukraine and Russia.

Estonia

Several changes took place in the development of retail spaces during 2004. Most of them were related to the opening of the new Viru Keskus (Viru Centre) and Ülemiste Keskus (Ülemiste Centre). The opening of the Viru Keskus and BG's intention to open two stores in it led to the reviewing of the rationality of the shop-in-shop cooperation formula as a result of which it was replaced with the wholesale form of cooperation.
Two stores were closed, three stores were opened and the sizes of retail spaces at three stores were changed during the year. The Monton store in the Viru Keskus has the highest sales and gross profit of any store in Estonia, within the Baltika Group it is in the third place.

As of the year-end, the number of stores based on brands was as follows in Estonia.

	Number of stores
Monton	8
CHR/Evermen	8
Baltman	4
BFO (factory outlet stores)	3
Total	23 (2932 m2 of sales space)

The Estonian retail market continued to be the largest one in the system (28% of all retail revenue), with net sales totalling EUR 7.5 million in 2004 (growth of 22%).

Latvia

The Latvian market's fast growth continued in 2004. A new shopping centre Domina was opened in Riga, where BG assumed a strong position with the opening of three stores. Five new stores were opened and two stores were closed in Latvia.

Latvia was the fastest growing market in the total system in 2004. Net sales totalled EUR 3.3 million (growth of 42%), contributing 12% to the net sales of the total retail system.

As of the year-end, the number of stores based on brands was as follows in Latvia.

	Number of stores
Monton	4
CHR/Evermen	4
Baltman	2
Total	10 (1405 m2 of sales space)

The litigation started in 2003 for the right to use the trademark Evermen continued in the Republic of Latvia, where Baltika's wholesale partner SIA Baltik Stils submitted a complaint to the Board of Appeals of the Latvian Patent Board to repeal the registration of AS Baltika's trademark Evermen. On 25 November 2004, the Latvian Circuit Court made a negative ruling for AS Baltika that AS Baltika has appealed at the Latvian State Court. Until the final resolution in this matter, AS Baltika's rights to use this trademark are not restricted in the Republic of Latvia. Since 1 January 2005, AS Baltika has cut all its supplies of Evermen goods to the companies related to the person who started the litigation.

Lithuania

Based on net sales, the Lithuanian retail market is the second largest one in BG's retail system, contributing 26% or the total of EUR 6.8 million (growth of 36%) to the sales of the retail system. All developments to the retail spaces in 2004 were made in Vilnius where three new stores were opened and one was closed.

As of the year-end, the number of stores based on brands was as follows in Lithuania:

	Number of stores
Monton	7
CHR/Evermen	5
Baltman	3
BFO (factory outlet stores)	1
Total	16 (2505 m2 of sales space)

Poland

In BG's most problematic market, the process of improving and repositioning the market continued in 2004, based on the opportunities and resources. The goal was to reduce the expenses for the operation of the market, change the locations and sizes of retail trade spaces to ensure efficiency growth and accelerate the return on investment. Taking into account current unsatisfactory developments and weak management activities, the market manager was replaced in the second half of the year. All developments in the Polish market occurred in the second half of the year, one store was closed, spaces were reduced in three stores and two new stores were opened. One store that was opened was the factory outlet store (at the end of November) enabling to sell end of season inventories directly in the market.
Based on the changes in the total retail system, the sales spaces decreased by 10% and net sales by 17% in Poland. Poland contributed 10% or EUR 2.6 million to the system's net sales.
The market's management expenses decreased by EUR 0.2 million as compared to 2003. Marketing activities were also cut down, leading to the savings of EUR 0.1 million.

As of the year-end, the number of stores based on brands was as follows in Poland:

	Number of stores
Monton	8
BFO (factory outlet stores)	1
Total	9 (1851 m2 of sales space)

Ukraine

Two new stores were opened in the Ukraine in 2004, the main emphasis being on increasing efficiencies. There were not enough acceptable offers for leasing new spaces in the Ukraine. Net sales made up 17% of the total system's retail revenue, for the total of EUR 4.5 million (growth of 30%).
In the national contest "Choice of the Year" arranged in the Ukraine, Monton won the best prize in the category of women's clothes in 2004.

As of the year-end, the number of stores based on brands was as follows in the Ukraine.

	Number of stores
Monton	7
CHR/Evermen	4
BFO (factory outlet stores)	1
Total	12 (1865 m2 of sales space)

Russia

On 20.04.2004, Baltika acquired a 50.1% participation in the retail trade organisation OOO "Kompania "BALTMAN RUS" operating in the Russian market and coordinating the sales of Baltika's brands, leading to the operation and management of eight stores (4 in Moscow, 4 in St. Petersburg). The price of the transaction was EUR 922 955 (EEK 14.4 million).
The goal of the transaction was to enter the Russian retail market as foreseen in the strategy for 2002-2005, engaging its long-term wholesale trade partner in its retail system. According to the agreement, AS Baltika will also get an opportunity to acquire a participation in the retail company operating in the Siberia and Ural area and belonging to the same owners during 2005-2006.
All acquired stores operated under the BALTMAN name, the stores carry all Baltman's brands. Based on its past reputation and the existence of loyal clients, Baltika will continue its multi-brand sales in Russia. In December, the first full concept Monton store was opened in the shopping centre Mega 2 in Moscow and in conjunction with the termination of the lease agreement, one store was closed in St. Petersburg.
Eight-month retail sales totalled EUR 2.0 million in Russia.

As of the year-end, the number of stores based on brands was as follows in Russia:

	Number of stores
Monton	1
CHR/Evermen	1
Baltman	6
Total	8 (1110 m2 of sales space)

Sweden

Based on BG's strategic decision regarding retail trade, retail trade operation was terminated in Sweden in 2004 and the only store located there was closed. Baltika's products continue to be sold through its wholesale partners.

5. Production

The production companies of the Baltika Group (OÜ Baltika Tailor – previous production division of AS Baltika, AS Elina STC, AS Virulane) form a significant part of the Baltika Group's vertical business model. Of the 794 000 products manufactured at the production companies of the Group, the Group's own production was 512 000 products or 64%.

The heightened requirements for BG's production division to continue increasing the product's price margin created a need in 2004 for the mapping of the condition of the Group's own production and the preparation of the new strategic plan.

The development plan for own production developed during the year foresees:

- specialisation of own production in the manufacturing of BG's traditional high quality "tailoring products";
- the matching of production capacities with actual sales needs of women's and men's clothes;
- investments in production which facilitate flexible filling of orders;
- major reduction of subcontracted production and
- better cost control, to ensure the competitiveness of own production.

As a separate project, AS Baltika's production division was reorganised: the proportion of subcontracted production of 60% did not fit BG's strategic goal of "exiting subcontracting". The purpose of simplifying the Group's management structures was also organisational separation (separation from the head office).

The solution was attained in two stages:

On 1 October, OÜ Baltika Tailor was set up on the basis of the production division and on 29 November, a production joint venture was set up with the leading Nordic men's suits manufacturer OY Turo Tailor AB with the 50:50 participation.

Turo Tailor paid EUR 250 000 to BG for the acquisition of its interest. The parties have agreed upon capital expenditure volumes until 2009, relocation to the new factory in 2007 and ensuring BG with orders as well as transfer of the manufacturing of jackets to AS Virulane in accordance with the specialisation programme of BG's production companies in the summer of 2005.

As of 31.12.2004, BG's production companies employed 988 people (reduction of 74 employees during the year, as of 31.12.2003 the number of employees was 1062).

6. Organisation, Management and Personnel

In 2004, the main goal for further development of the organisation of the Baltika Group is the improvement of the vertically integrated Fashion and Retail trade management structures and the development and learning of the required know-how.

In the first half of the year, the focus was on the reorganisation of market centres and this for two reasons:

1) The model for the management of the retail system that was changed in the process of implementing BG's strategy required more centralised management decision-making as compared to previous years. The centralisation of inventory management and several functions of the retail trade operation at the head office enabled to decrease these activities as well as to simplify them in the markets.

2) Unsatisfactory results of some markets in 2003.

As a result of the changes implemented during the year, the managers of most markets were replaced, cooperation between the head office and the markets was clarified and the management structures of the markets were simplified and became cheaper. A challenge for the management structures was the integration of the first stage of the Russian joint venture into BG. The financial results of working together for eight months in 2004 and the quality of implemented changes as well as the understanding of some peculiarities of the Russian market provide reasonable assurance of the developments in this market of great potential.

An important decision for the final development of BG's group structure was the separation of Baltika's production division (production division of men's suits, trousers and jackets) into an independent company OÜ Baltika Tailor. As a result of this separation, all BG's production units are comparable profit centres, enabling better management and measurement of further specialisation as well as increasing quality and efficiencies.

The subdivisions set up at the end of 2003 – the brand teams of Monton, CHR/Evermen and the teams of retail markets – ensured a 100% focus on the profitability of brands and markets in the financial year.

In 2004, the management and financial reporting system attained the planned level, leading to further improvement of the quality of management decisions for all management levels as well as different time periods (season, month, week, day).

The following changes took place in BG's management bodies during the year:
In conjunction with the reorganisation of AS Baltika's production division, the position of Director of the BG's production division was terminated and James Hayhow was removed from the Management Board of AS Baltika with the resolution of the Supervisory Board from 7 July 2004. The Management Board continued with four members.
With the resolution of the Extraordinary Meeting of Shareholders on 7 December 2004, the articles of association of the company were amended by allowing three to five members to the Supervisory Board instead of the former three members. At the same meeting, Director of SG AM Private Equity, Claire Chabrier was elected (the fourth) member of the Supervisory Board.

With regard to the personnel policy, BG continued with the amendments directed at BG retail organisation's active growth in 2004.
As of the year-end, the Group employed 1704 people (2003: 1714), including 574 (2003: 491) in retail, 988 (2003: 1062) in production and 144 at the head office (2003: 161). A total of 435 employees worked abroad (2003: 316).

In 2004, the remuneration to the members of the Management Board and the Supervisory Board amounted to EUR 0.23 million (2003: EUR 0.17 million).

Within the framework of the executive motivation programme, 200 000 D-bonds were issued in December. The holders of these bonds can convert their bonds into Baltika's shares between 1 July and 30 September 2006 under the condition that Baltika's share price is at least EUR 2.88. The issue price of the shares was EUR 1.85.

The main financial data of the Group as of 31.12.2004 were as follows:

	31.12.2004	31.12.2003
Annual sales growth %	17	2,3
Ratio of retail sales to total sales %	72	65
Number of stores	78	66
Retail trade spaces belonging to BG (m2)	11 668	10 109
Markets managed through own retail organisations	6	6
Operating margin (operating profit/net sales) %	3,2	-10,3
Net margin (net profit/net sales) %	2,9	-13,6
Return on equity ROE (net profit/average 12 month equity) %	14,6	-45,7
Return on total assets (net profit/average 12 month cost of assets) %	5,1	-18,7

7. Plans for 2005

The main goal for 2005 is to validate the success of the strategy chosen in 2002 – to become the leading fashion clothing trade company in Central and Eastern Europe as well as the success of the selected business model – vertically integrated retail sales, development of collections and production/procurement.
In 2005, the increase of productivity will be achieved through:

- sales growth of at least 20% in the retail system
- increased efficiencies of retail sales (sales per square meter)
- better gross margin (as compared to 2004) and
- well managed operating expenses.

In 2005, we plan to open at least 12 new stores (increasing the total number of stores to at least 90).
In 2005, wholesale sales may decrease up to 10% (as compared to 2004) in conjunction with the transition of some wholesale volumes to its own retail system.
In conjunction with the 50% participation in OÜ Baltika Tailor, the sales and expenses of subcontracted sales will significantly decrease in BG's consolidated results, including subcontracted sales equivalently by EUR 2.7 million.

In 2005, capital expenditures are planned in the EUR 0.6-1.0 million range.

By the autumn of 2005, BG's management will have worked out the goals and strategy for the years 2006-2008

Meelis Milder
Chairman of the Management Board

2004 FINANCIAL STATEMENTS

Management Board's Confirmation of the Financial Statements

The Management Board confirms the correctness and completeness of AS Baltika and the consolidation group's 2004 financial statements as presented on pages 11– 45.

The Management Board confirms that:

1. the accounting policies, accounting methods and measurement bases are in compliance with International Financial Reporting Standards (IFRS);
2. the financial statements give a true and fair view of the financial position, the results of the operations and the cash flows of the parent and the group:
3. the parent and all group companies are going concerns.

Meelis Milder
Chairman of the Management Board

Ülle Järv
Member of the Management Board

Boriss Loifenfeld
Member of the Management Board

Maire Milder
Member of the Management Board

In Tallinn, 22 March 2005

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AS Baltika 2004 Annual Report (in EUR thousand).

Balance Sheet

	Note	Parent		Group	
		31.12.2004	31.12.2003	31.12.2004	31.12.2003
ASSETS					
Current assets					
Cash and bank	2	174	302	800	820
Short-term investments	3	39	24	39	24
Trade receivables	4	1 440	2 685	1 758	2 922
Other receivables and prepaid expenses	5,6	6 109	4 344	637	869
Prepaid income tax	6	0	0	3	14
Inventories	7	4 250	5 391	9 297	9 614
Total current assets		**12 012**	**12 746**	**12 532**	**14 264**
Non-current assets					
Investments in subsidiaries	9	2 567	3 452	0	0
Investments in joint ventures	10	70	0	70	0
Investment properties	11	479	0	479	0
Deferred income tax receivable	12	0	0	278	148
Other non-current assets	8	56	20	181	197
Property, plant and equipment	13	1 357	2 063	4 942	5 561
Intangible assets	14	1 691	781	1 788	881
Total non-current assets		**6 220**	**6 315**	**7 739**	**6 787**
TOTAL ASSETS		**18 232**	**19 061**	**20 271**	**21 051**
LIABILITIES AND EQUITY					
Current liabilities					
Borrowings	16	4 597	4 256	4 762	4 431
Supplier payables	17	2 026	3 410	1 991	3 447
Income tax liability	6	0	0	12	0
Other tax liabilities	6	189	304	797	680
Accrued expenses	19	259	323	672	668
Other short-term liabilities	19	47	7	59	20
Total current liabilities		**7 116**	**8 299**	**8 294**	**9 247**
Non-current liabilities					
Long-term borrowings	16	2 523	3 857	2 936	4 444
Total non-current liabilities		2 523	3 857	2 936	4 444
TOTAL LIABILITIES		**9 639**	**12 156**	**11 230**	**13 691**
EQUITY	20	8 593	6 905	9 042	7 360
Share capital at par value		3 601	3 515	3 601	3 515
Share premium		2 845	2 716	2 845	2 716
Mandatory legal reserve		307	307	307	307
Other reserves		1 405	1 156	1 405	1 156
Retained earnings		(1 055)	3 256	(1 055)	3 256
Net profit for financial year		1 067	(4 311)	1 067	(4 311)
Unrealised foreign exchange differences		423	267	423	267
Minority interest		0	0	449	455
TOTAL LIABILITIES AND EQUITY		**18 232**	**19 061**	**20 271**	**21 051**

The Notes to the financial statements presented on pages 16-45 form an integral part of the Annual Report

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AS Baltika 2004 Annual Report (in EUR thousand).

Income Statement

	Note	Parent 2004	Parent 2003	Group 2004	Group 2003
Revenue					
Net sales	21	**24 479**	**22 284**	**37 189**	**31 767**
Other operating income	22	358	68	108	39
Total revenue		**24 837**	**22 352**	**37 297**	**31 806**
Expenses					
Goods, raw materials and services		(13 681)	(14 452)	(12 484)	(13 680)
Change in inventories		(849)	(135)	(749)	(42)
Operating expenses	24	(3 140)	(3 063)	(10 379)	(8 755)
Personnel expenses	25	(4 782)	(5 144)	(10 763)	(10 497)
Depreciation and amortisation	13,14	(605)	(659)	(1 396)	(1 394)
Other operating expenses	23	(174)	83)	(324)	(1 109)
Total expenses		**(23 231)**	**(23 536)**	**(36 096)**	**(35 478)**
Operating profit/(loss)		**1 607**	**(1 184)**	**1 201**	**(3 673)**
Net profit/(loss) under the equity method		(396)	(2 708)	(46)	0
Other financial income and expenses	26	(144)	(419)	(259)	(596)
Profit/(loss) before corporate income tax		**1 067**	**(4 311)**	**896**	**(4 269)**
Income tax expense	27	0	0	61	(30)
Net profit/(loss)		**1 067**	**(4 311)**	**956**	**(4 299)**
Share of net profit belonging to minority interest		0	0	(111)	12
Share of net profit belonging to parent		**1 067**	**(4 311)**	**1 067**	**(4 311)**
Basic earnings/(loss) per share	28	**0,19**	**(0,79)**	**0,19**	**(0,79)**
Diluted earnings/(loss) per share	28	**0,19**	**(0,79)**	**0,19**	**(0,79)**

The Notes to the financial statements presented on pages 16-45 form an integral part of the Annual Report

AS Baltika 2004 Annual Report (in EUR thousand).

Cash Flow Statement
(indirect method)

		Parent		Group	
Operating activities	**Notes**	**2004**	**2003**	**2004**	**2003**
Operating profit		1 607	-1 184	1 201	-3 673
Adjustment for depreciation	13,14	605	659	1 396	1 394
Profit from sale of non-current assets	22,23	-13	-2	-16	134
Non-monetary expenses		376	0	0	0
Change in receivables*	4,5	-1 642	-263	598	1 309
Change in inventories	7	1 141	580	317	1 147
Change in supplier payables	17,19	-1 511	1 371	-1 279	1 641
Interest paid	19,26	-300	-297	-335	-348
Income tax paid	6,27	0	0	-46	-6
Cash flow from operating activities		**261**	**865**	**1 836**	**1 599**
Investing activities					
Purchase of property, plant and equipment	13,14	-402	-385	-996	-795
Incl. under operating lease terms	13,15	4	0	8	30
Proceeds from disposals of property, plant and equipment	13	244	13	105	24
Acquisition of joint venture	10	-65	0	-65	0
Acquisition of subsidiaries	9	0	0	25	0
Interest received	5,26	2	14	4	7
Dividends received		0	1	0	1
Proceeds from securities and units sold		0	19	0	19
Proceeds from sale of subsidiary	10	250	0	250	0
Loans granted	8,29	-42	0	-42	0
Proceeds from repayment of loans granted	8,29	460	1	9	1
Cash flow from investing activities		**450**	**-338**	**-702**	**-714**
Financing activities					
Repayments of borrowings	16	-1 031	-432	-1 168	-569
Loans received	16	0	2 126	0	2 126
Operating lease and instalment payments made	15	-4	0	-97	-103
Dividends paid to minority shareholders		0	0	0	-7
Receipts from contributions to share capital	20	206	84	206	84
Redemption of commercial papers		0	-3 196	0	-3 196
Proceeds from sale of commercial papers		0	1 093	0	1 093
Proceeds from sale of convertible bonds	18	4	12	4	12
Paid for redeemed convertible bonds	18	-4	-1	-4	-1
Cash flow from financing activities		**-828**	**-313**	**-1 058**	**-560**
Effect of exchange rate changes on cash balance	26	-12	-8	-95	-145
Total cash flow		**-128**	**206**	**-20**	**180**
Opening balance of cash and cash equivalents	2	**302**	**96**	**820**	**640**
Closing balance of cash and cash equivalents	2	**174**	**302**	**800**	**820**

*The change in the balance of receivables includes non-monetary payments made for the acquisition of subsidiaries and allowances of receivables from subsidiaries.

The Notes to the financial statements presented on pages 16-45 form an integral part of the Annual Report

AS Baltika 2004 Annual Report (in EUR thousand).

Statement of Changes in Equity

	Share capital	Share premium	Reserves (Note 20)	Retained earnings	Net profit/ (loss) for financial year	Unrealised foreign exchange differences	Minority interest	Total
Balance as of 31.12.2002.	**3 480**	**2 663**	**1 463**	**2 821**	**434**	**0**	**451**	**11 311**
Appropriation of 2002 net profit	0	0	0	434	(434)	0	0	**0**
Contributions to share capital (Note 20)	35	53	0	0	0	0	0	**88**
Dividend paid	0	0	0	0	(4 311)	0	12	**(4 299)**
Net loss for financial year	0	0	0	0	0	0	(8)	**(8)**
Unrealised foreign exchange differences	0	0	0	0	0	267	0	**267**
Balance as of 31.12.2003	**3 515**	**2 716**	**1 463**	**3 256**	**(4 311)**	**267**	**455**	**7 360**
Covering of 2002 net loss	0	0	0	(4 311)	4 311	0	0	**0**
Contributions to share capital (Note 20)	86	129	0	0	0	0	0	**215**
Revaluation reserve of investment property (Note 11)	0	0	249	0	0	0	0	**249**
Minority interest of acquired subsidiary (Note 9)	0	0	0	0	0	0	64	**64**
Net profit for financial year	0	0	0	0	1 067	0	(111)	**956**
Unrealised foreign exchange differences	0	0	0	0	0	156	41	**197**
Balance as of 31.12.2004	**3 601**	**2 845**	**1 712**	**(1 055)**	**1 067**	**423**	**449**	**9 042**

More detailed information on share capital and its changes is provided in Notes 18 and 20.

The Notes to the financial statements presented on pages 16-45 form an integral part of the Annual Report

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Accounting Policies and Accounting Methods Used in the Preparation of the Financial Statements

The 2004 financial statements of the parent and the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), under the historical cost convention except for the circumstances that have been described in the following accounting policies and where a different principle is required by a certain IFRS standard.
All information in the financial statements is presented in thousands of Euros, unless another currency is referred to separately.

Comparability
The financial statements have been prepared in accordance with the consistency and comparability principles, the nature of the changes in methods and their effect is explained in the respective Notes. When the presentation of items of financial statements or their classification method has been amended, then also the comparative information of previous periods has been reclassified.

Amendments to the Presentation and Accounting Policies

Earlier Application of Standards
The following International Financial Reporting Standards (IFRS / IAS) have been early adopted to these financial statements
IAS 1 (changed 2003) Presentation of Financial Statements
IAS 2 (changed 2003) Inventories
IAS 16 (changed 2003) Property, Plant and Equipment
IAS 21 (changed 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (changed 2003) Related Party Disclosures
IFRS 3 (issued 2004) Business Combinations
IAS 36 (changed 2004) Impairment of Assets
IAS 38 (changed 2004) Intangible Assets

In conjunction with the adoption of the new standards, where necessary, amendments have been made to the accounting policies.

IAS 1,2,16,24 have not had a significant impact on the Group's accounting policies. In summary:
IAS 1 impacted the accounting for the minority interest in the balance sheet as well as other changes in the presentation of the financial statements.
The changes of IAS 2,16,24 impacted the disclosures in the Notes to the financial statements.

Application of IAS 21
According to the previous accounting method, the monetary assets and liabilities of foreign subsidiaries were recorded based on the exchange rates on the balance sheet date, other assets and liabilities based were recorded based on the exchange rate on the acquisition date and realised exchange rate differences were taken to profit or loss. As a result of the application of the new accounting policy – the measurement of all assets and liabilities of the foreign subsidiaries based on the exchange rate on the balance sheet date, the loss for 2003 increased by EUR 0.3 million. The residual value of non-current assets decreased by EUR 0.2 million, inventories increased by EUR 0.2 million. Exchange rate differences in the amount of EUR 0.3 million were additionally recorded under the Group’s equity. In the income statement, the cost of goods sold decreased by EUR 0.6 million and depreciation decreased by EUR 0.02 million. Miscellaneous expenses increased as a result of exchange rate differences by EUR 0.8 million and financial expenses increased by EUR 0.1 million.

As a result of the early adoption of IAS 36, IAS 38 and IFRS 3, the accounting for the Group’s goodwill changed, instead of the earlier amortisation of goodwill an impairment test is performed on each balance sheet date. In 2004, the Group's net profit increased by EUR 31.1 thousand in conjunction with the taking of goodwill and negative goodwill that had arisen in business combinations set up before 31.03.2004 to financial income (expenses) in preparing the financial statements.

Principles of Consolidation, Accounting for Business Combinations and Subsidiaries
A subsidiary is an entity whose more than half of the voting power is owned by the Group and whose operating and financial policies are otherwise controlled by the Group. All subsidiaries have been consolidated in the Group's financial statements.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of a subsidiary. According to the purchase method, the assets and liabilities of the acquired subsidiary are measured at their fair values. The difference between the cost of acquisition and the fair value of the net assets of the acquired subsidiary is recorded as goodwill.

Intragroup balances and intragroup transactions and the resulting unrealised profits and losses have been eliminated in full in the consolidated financial statements.
The consolidated financial statements include the consolidated financial information of AS Baltika and its subsidiaries OÜ Baltman, AS Virulane, AS Elina STC, Baltika Lietuva, Baltika Latvija, Baltika Sweden, Baltika Poland, Baltika Ukraina, OY Baltinia and Baltman Rus. Where necessary, the accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. The consolidated financial statements have earlier been prepared for subsidiaries with fellow subsidiaries that have been used for the consolidation of the Group.

Investments in subsidiaries are accounted for in the parent's balance sheet using the equity method. Under this method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of the profits or losses of the investee after the date of the acquisition and also to recognise the amortisation of goodwill arising on the acquisition.

When the Group's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the investment is reported at nil value and the need for a write-down of the parent's receivables from its subsidiaries is further evaluated. Profit/(loss) from the equity method is recorded in financial income/(expenses).

Joint Ventures
A joint venture is based on a contractual agreement according to which two parties carry out their jointly controlled economic activities. Joint venture's activities are accounted for under the equity method in the balance sheet of a venturer, according to which the interest in a jointly controlled entity is initially recognised at cost and subsequently adjusted with the changes that have occurred in the venturer's interest in the net assets of the jointly controlled entity after the acquisition. In the income statement, the venturer accounts for its interest in the operating results, financial income and financial expenses in the jointly controlled entity.

Functional and Presentation Currency
Functional currency which is the main currency of the entity's business operations is used to account for foreign subsidiaries.
The consolidated financial statements have been prepared in Estonian kroons, which is the functional and presentation currency of the parent.

For subsidiaries whose functional currency differs from their presentation currency, the weighted average exchange rate is used for the translation of the income statement and cash flows into Estonian kroons. Assets and liabilities denominated in a foreign currency are translated into Estonian kroons based on the foreign currency exchange rate prevailing on 31 December. Foreign currency exchange rates used in accounting are based on the exchange rate of the Bank of Estonia. Foreign exchange rate differences arising from the translation of the net investment in foreign entities are taken to equity.

Foreign Currency Transactions
All transactions of AS Baltika and the Group are recorded in Estonian kroons. Receivables and liabilities denominated in a foreign currency have been translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing on the balance sheet date. During the year, foreign currency transactions have been recorded in Estonian kroons based on the foreign currency exchange rates of the Bank of

Estonia prevailing on the transaction date. Profits and losses from foreign currency transactions are recognised in the income statement as income or expenses for that period.

Cash and Cash Equivalents
For the purposes of the cash flow statement, cash and cash equivalents are cash on hand as well as short-term deposits and bank account balances (except for overdraft).

Cash Flow Statement
The cash flow statement is prepared using the indirect method, according to which operating cash flow is determined by adjusting the operating profit by eliminating non-monetary transactions and changes in the balances of current assets and current liabilities related to operating activities.

Short-term Investments
Trading investments and investments with a fixed maturity within 12 months from the balance sheet date are classified as short-term investments and are included in current assets. Short-term investments are initially recognised at cost on the transaction date and subsequently measured at their fair value: in the case of shares listed on the stock exchange at the purchase price of the listed shares of the Tallinn Stock Exchange as of the balance sheet date, in the case of other securities at the purchase price on the transaction date. Unrealised gains and losses arising on the revaluation of shares are recorded in the income statement line Financial income (expenses).

Trade Receivables
Trade receivables are carried at original invoice amount on the date when the receivable arose (transaction date) and in amortised cost thereafter. When it is probable that the Group is unable to collect all amounts due according to the original terms of receivables, an allowance is provided for the impairment of these receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the market rate of interest for similar borrowers.

Inventories
Inventories are initially recognised at cost. The FIFO method is used for the accounting for the cost of inventories. Inventories are measured in the balance sheet at the lower of acquisition cost or net realisable value. If necessary, a provision is set up for obsolete and slow moving inventories whose net realisable value is below their cost.

Finished goods and work-in-progress are recorded at the cost price which consists of direct and indirect production expenditures, without which the inventories would not be in the current condition and quantity.

Investment Property
Real estate properties (land, buildings) that the entity holds for the purpose of earnings rental income and that are not used in it its operating activities are recorded under investment property. An investment property is initially recognised at its cost. It is subsequently measured at its fair value which is based on the market value determined annually by external valuers. Changes in fair value are recorded under the income statement items Miscellaneous expenses/Other operating income. The equity reserve set up for the initial recognition of the investment property to fair value is recognised in the income statement when the investment property is sold

Long-term Financial Investments
Long-term investments which include long-term receivables are initially recognised at cost on the transaction date and subsequently measured at amortised cost in the balance sheet. If long-term financial assets have become impaired, they are written down to their recoverable amount.

Property, Plant and Equipment
Property, plant and equipment are non-current assets used in the operating activities of the entity with the useful life of over one year.

An item of property, plant and equipment is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. An item of property, plant and equipment is subsequently measured at its cost less any accumulated depreciation and any accumulated impairment losses.

Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.

If an item of property, plant and equipment consists of identifiable components with different useful lives, these components are recorded as separate property, plant and equipment items and are depreciated over their estimated useful lives.

An item of property, plant and equipment is depreciated on the straight-line basis, over its estimated useful life. Land is not depreciated.

Profits and losses arising from the sale of non-current assets are recorded in the income statement under Other operating income and Miscellaneous expenses.

The following (annual) depreciation rates are used at the Group companies:

buildings, structures	2.5-9%
machinery and equipment	15-30%
other fixtures	15-40%

The cost of major repairs carried out on the rental spaces of stores is recorded as non-current assets and depreciated over the lease term, but not less than 20% per year. Expenditures related to the borrowings are not capitalised under non-current assets.

Intangible Assets

Software licenses and development costs are recorded in the balance sheet under intangible assets. Development costs are capitalised under intangible assets if the entity is capable of controlling the use of the asset, evaluate the income derived from the asset and there are technical and financial opportunities as well as practical solutions for the application of a new project. Development costs are charged to the income statement for the period.

An intangible asset is initially measured at cost, comprising of its purchase price and any directly attributable expenditures for preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. At the Group companies, amortisation is calculated on the straight-line basis, normally over a five-year period. Software taken into use at the parent in 2003 and covering the processes of the company's main activities that is amortised over a 10-year period is an exception.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net assets of the acquired subsidiary on the date of the acquisition. Goodwill arising on the acquisition of subsidiaries is recorded as an intangible asset in the consolidated financial statements and an impairment test is performed on each balance sheet date and where necessary, a provision is set up for the impairment of the asset. Negative goodwill is immediately recorded as income.
Goodwill arising on the acquisition of foreign subsidiaries is translated using the foreign exchange rate of the Bank of Estonia prevailing on the balance sheet date.

Accounting for Leases

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

The Company is the Lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated similarly to acquired assets over the shorter of the useful life of the asset or the lease term.

Payments made under operating leases are charged to the income statement line Miscellaneous expenses on the straight-line basis over the period of the lease.

The Company is the Lessor
Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term under the item Other operating income.

Corporate Income Tax in Estonia
According to the Income Tax Act, the annual profit earned by companies is not taxed and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liability arises. Instead of taxing the net profit, the distribution of retained earnings is subject to the income tax rate of 24/76 (until 31 December 2004, the income tax rate was 26/74) of the net dividend paid, from which the income tax paid before 1 January 2000 can be deducted using the respective coefficient. The corporate income tax arising on the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Deferred Income Tax
In accordance with the current Income Tax Act, no differences arise between the tax bases of assets and liabilities and their carrying values of the Group companies located in Estonia, as a result of which no deferred tax receivables or tax liabilities arise. In accordance with the local income tax laws, the net profit of companies located in Latvia, Lithuania, Ukraine and Russia that have been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax (the income tax rate is 15% in Latvia and Lithuania, 19% in Poland , 25% in the Ukraine and 24% in Russia).
Deferred income tax is calculated for all significant temporary differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. The main temporary differences arise from the depreciation and the tax loss carryforward. The deferred tax asset is recognised in the company's balance sheet if its future realisation is probable.

Provisions and Contingent Liabilities
Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources is required to settle the obligation, and a reliable estimate of the amount can be made. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows.

Minority Interest
Minority interest in the income statement reflects the share of the net profit attributable to the shareholders of non-group subsidiaries. Minority interest in the balance sheet reflects the share of equity attributable to the shareholders of non-group subsidiaries.

Revenue Recognition
Revenue on the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer and when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably. Revenue from the rendering of services is recorded upon the rendering of the service. If a service is rendered over a longer period of time, revenue from the rendering of a service is recorded using the stage of completion method.
Revenue arising on interest is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Interest income is recognised taking account the effective interest rate, except if the receipt of interest is uncertain. In such cases interest income is accounted for on a cash basis. Dividend income is recognised when the right to receive payment is established.
Revenue from the sale of goods is recognised in the income statement line Net sales, interest and dividend income in the line Financial income.

Segment Reporting
The primary business segment is the one by activity according to which retail trade is distinguished from other clothes manufacturing and wholesale trade, and the secondary segment is by geographic location according to the location of the sales network.
The segments' assets include all assets related to the segment and the segments' liabilities include all liabilities related to the segment. 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 segment's assets and liabilities do not include financial assets and financial liabilities and the segment's income and expenses do no include income and expenses arising from the above-mentioned assets and liabilities. For the purposes of segment reporting, the administrative building is recorded as an indivisible asset; long-term loans, dividends and interest liabilities are considered indivisible liabilities, and administrative expenses as indivisible expenses.
For the purposes of segment reporting, the retail segment includes goods and services sold in the Group's retail system; assets, liabilities, revenue and expenses of the subsidiaries engaged in retail trade and related to retail trade.
The segment production, wholesale sales and subcontracting includes goods sold to wholesalers, subcontracted services as well as other services not mentioned above but sold in the Group; assets, liabilities, revenue and expenses arising from clothes manufacturing, wholesale trade, subcontracting and other related services.

Financial Liabilities
Financial liabilities include loans, bonds and convertible bonds that are initially recognised at cost on the transaction date and subsequently measured at amortised cost using the effective interest rate. Borrowing costs are not capitalised separately, but are included in the value of a financial liability and considered in the calculation of the effective interest rate.

Mandatory Legal Reserve
In accordance with the Commercial Code, the statutory reserve capital is set up from annual net profit allocation. During each financial year, at least one-twentieth of the net profit is entered in the reserve capital, until the reserve capital reaches one-tenth of the share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Other Reserves
Other reserves are set up in accordance with the resolution of the General Meeting of Shareholders and they can be used to offset losses from prior period as well as to increase share capital. Payments shall not be made to shareholders from other reserves.

Earnings Per Share
Basic earnings per share are determined by dividing the net profit for the financial year by the period's weighted average number of shares issued. Diluted earnings per share are determined by dividing the net profit for the financial year by the weighted average number of shares taking also into consideration the number of potential shares.

Events After the Balance Sheet Date
Significant circumstances 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 that are related to the reporting period of transactions that occurred in earlier periods, are recorded in the financial statements.
Events after the balance sheet date that have not been taken into consideration while evaluating assets and liabilities but that have a significant impact on the results of the next financial year, have been disclosed in the Notes to the financial statements.

Fair Value Determination
The fair value of securities held for trading is based on the quoted market price on the balance sheet date.

The Group uses different methods for the determination of the fair value of non-tradable financial instruments, taking into account the market situation on the balance sheet date when making estimates. For long-term financial assets the quoted market prices or the broker quotes for similar instruments are used. For other financial instruments different methods may be used, such as the present value of the estimated discounted cash flows.

AS Baltika 2004 Annual Report (in EUR thousand).

For determining the fair value of short- term financial assets and financial liabilities with the maturity of less than a year, the nominal value less any potential discounts is taken into consideration when determining the fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market rate available to the Group for similar financial instruments.

Note 2 Cash and Bank

	Parent		Group	
	31.12.2004	**31.12.2003**	**31.12.2004**	**31.12.2003**
Bank accounts and cash on hand	49	64	501	325
Short-term deposits	125	239	299	495
	174	**302**	**800**	**820**

A group account is in use for more flexible management of liquid assets, enabling the Group companies to use the Group's resources up to the limit established by AS Baltika (Note 16).

As of the end of 2004, overnight deposits had been deposited at the Polish subsidiary in the amount of EUR 174 thousand (PLN 710 thousand), with the interest rate of 5% and at the parent in the amount of EUR 125 thousand with the interest rate of 1.9%.
As of the end of 2003, overnight deposits had been deposited at the Polish subsidiary in the amount of EUR 257 thousand (PLN 1 210 thousand), with the interest of 4.5% and at the parent in the amount of EUR 239 thousand with the interest of 2%.

Note 3 Short-term Investments

	Parent and Group	
	31.12.2004	**31.12.2003**
Shares of Tallinna Kaubamaja	39	24

Short-term investments are recorded at their fair value.

Note 4 Trade Receivables

	Parent		Group	
	31.12.2004	**31.12.2003**	**31.12.2004**	**31.12.2003**
Accounts receivable	1 440	2 756	1 762	2 999
Allowance for doubtful receivables	(0)	(71)	(5)	(76)
Total	**1 440**	**2 685**	**1 758**	**2 922**

Trade receivables include the parent’s receivable from the joint venture in the amount of EUR 159 thousand.

AS Baltika 2004 Annual Report (in EUR thousand).

Note 5 Other Receivables and Prepaid Expenses

	Parent		Group	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Receivables from subsidiaries	5 978	4 155	0	0
Other short-term receivables	28	26	169	82
Prepaid taxes and tax reclaims (Note 6)	80	130	222	625
Prepaid expenses	21	30	247	174
Interest receivables	2	2	2	2
Total	**6 109**	**4 344**	**640**	**883**

Additional information on prepaid and deferred taxes is provided in Note 6.
As of 31.12.2004, prepaid expenses include prepaid rental payments, insurance payments, prepayment for information technology services, subscription costs of periodicals, etc.

Receivables from subsidiaries	**31.12.2004**	**31.12.2003**
For goods		
Baltman OÜ	554	0
Baltika Lietuva	1 524	1 293
Baltika Sweden	3	18
Baltika Poland	819	742
Baltika Ukraina	1 143	1 292
Baltika Latvija	716	736
Baltinia OY	51	74
Subsidiaries of Baltman Rus (Note 9)	1 131	0
Total	**5 940**	**4 155**
For services		
Baltika Ukraina	18	0
Other receivable		
Stelsing	20	0
Total receivables from subsidiaries	**5 978**	**4 155**

The parent's receivables from subsidiaries have been written down by the amount of the negative equity of subsidiaries, EUR 1 908 thousand as of 31.12.2004 and EUR 2 245 as of 31.12.2003.

Note 6 Tax Receivables and Tax Liabilities

Tax Receivables (Prepayments)

	Parent		Group	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Value added tax	80	130	214	611
Prepaid income tax	0	0	3	14
Other taxes	0	0	5	0
Total (Note 5)	**80**	**130**	**222**	**625**

AS Baltika 2004 Annual Report (in EUR thousand).

Tax Liabilities

	Parent		Group	
	31.12.2004	**31.12.2003**	**31.12.2004**	**31.12.2003**
Personal income tax	69	117	156	200
Social security tax and unemployment tax	109	172	288	353
Value added tax	0	0	334	91
Corporate income tax liability	0	0	12	0
Other taxes	10	14	19	35
Total	**189**	**304**	**810**	**680**

The prepaid income tax in the amount of EUR 3 arose in the subsidiary Baltika Sweden and in the subsidiary of Baltman Rus - Klassika. The company's income tax liability in the amount of EUR 12 thousand arose in the subsidiary Baltina OY, the subsidiaries of Baltman Rus and Baltika Ukraina.

Additional information on corporate income tax is provided in Notes 12 and 27.

Note 7 Inventories of Goods and Production Supplies

	Parent		Group	
	31.12.2004	**31.12.2003**	**31.12.2004**	**31.12.2003**
Raw materials and materials	2 325	2 723	2 701	3 168
Write-down of inventories of materials	(69)	(63)	(92)	(85)
Work-in-progress	712	737	789	820
Finished goods	1 162	2 259	5 911	6 734
Write-down of inventories of finished goods	(17)	(327)	(154)	(1 089)
Prepayments to suppliers	136	62	141	65
Total	**4 250**	**5 391**	**9 297**	**9 614**

The write-down allowance of finished goods has decreased due to successful sales of old inventories during the reporting period. As the company's own retail system has been and will continue to be the main sales channel, there is no need for selling old inventories significantly below their acquisition cost. In 2004, the write-down of materials amounted to EUR 44 thousand at the Group and EUR 43 thousand at the parent (in 2003: EUR 83 thousand and EUR 65 thousand, respectively). In 2004, the write-down expense of finished goods decreased by EUR 935 thousand at the Group and EUR 310 thousand at the parent. In 2003, the write-down expense of finished goods was EUR 976 thousand at the Group and EUR 217 thousand at the parent.

The write-down of the Group's finished goods in 2003 also included the unrealised gains on the inventories at the subsidiaries. In 2004 the balance of inventory id reduced for unrealised gains.

As of 31.12.2004, the inventories of the parent company with the carrying amount of EUR 648 thousand (31.12.2003: EUR 215 thousand) were in the custody of third parties, including EUR 51 thousand (31.12.2003: EUR 102 thousand) at non-group companies.

Information on pledged assets is provided in Note 16.

AS Baltika 2004 Annual Report (in EUR thousand).

Note 8 Long-Term Financial Investments

	Parent		Group	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Investments in subsidiaries (Note 9)	**2 567**	**3 452**	**0**	**0**
Investments in joint ventures (Note 10)	**70**	**0**	**0**	**0**
Other long-term financial assets				
Shares and units	0	0	0	0
Loan to manager of subsidiary (Note 29)	37	0	37	9
Long-term lease prepayment	20	20	145	188
Total other long-term financial assets	**56**	**20**	**181**	**197**

Note 9 Investments in Subsidiaries

			Participation		Investment in parent's balance sheet	
Subsidiary	**Location**	**Activity**	**31.12.2004**	**31.12.2003**	**31.12.2004**	**31.12.2003**
OÜ Baltman	Estonia	Retail	100%	100%	489	1 164
Elina STC AS	Estonia	Production	50,10%	50,10%	85	75
Virulane AS	Estonia	Production	79,23%	79,23%	1 511	1 375
Baltika Latvija	Latvia	Retail	75%	75%	0	0
Baltika Lietuva	Lithuania	Retail	100%	100%	0	0
Baltinia OY	Finland	Retail	100%	100%	5	4
Baltika Sweden	Sweden	Retail	100%	100%	1	10
Baltika Poland	Poland	Retail	100%	100%	476	824
Baltika Ukraina	Ukraine	Retail	99%	99%	0	0
Baltman Rus	Russia	Retail	50,10%	0%	0	0
Total					**2 567**	**3 452**

On 20 April 2004, AS Baltika purchased from its previous wholesale partner a 50.1% interest in a new subsidiary – OOO Kompania "Baltman Rus" located in Russia, whose core activity is the wholesale of AS Baltika's goods. The cost was paid for by offsetting trade debt in the amount of EUR 0.9 million, equalling the transaction price.

Baltman Rus has eight subsidiaries engaged in retail trade with the participation of 24%. The shareholders' agreement has been entered into between Baltman Rus and the other owner of these subsidiaries, according to which Baltman Rus controls the activities of the subsidiaries and hence the subsidiaries have been consolidated in the financial statements of Baltman Rus. The subsidiaries are Stelsing, Baltman Klassik, Moda Baltman in Moscow and Vektra, Olivia, Retail and Klassika in St. Petersburg.

The consolidated net sales of Baltman Rus were EUR 1 980 thousand in the period of May to December 2004 and the loss for the Group amounted to EUR 15 thousand.

Inventories located in the Russian market belong to the subsidiaries of Baltman Rus and the parent's (Baltika's) receivable for these inventories is from these subsidiaries of Baltman Rus (Note 5).

AS Baltika 2004 Annual Report (in EUR thousand).

Purchase Analysis 30.04.2004

	Carrying amount	Fair value	Participation at fair value (50.1%)
Cost			**923**
Cash	50	50	25
Other current assets	989	989	495
Non-current assets	63	63	32
Liabilities	(966)	(966)	(484)
Minority interest	(64)	(64)	(32)
Equity	**72**	**72**	**36**
Goodwill (Note 14)			**887**

The transaction was between independent parties under market conditions and it was accounted for under the purchase method. An impairment test is performed for goodwill that arose in the transaction on each balance sheet date and if necessary, a provision is set up.

The impairment test was performed by 31.12.2004 to determine the recoverable value of Baltman Rus using the present value of the future estimated operating cash flows for the next five years. The discount rate used was the interest rate of AS Baltika's overdraft rate of 4.2%. The test showed that the recoverable value exceeded the carrying amount.

Goodwill that arose on the acquisition was determined using the exchange rate of 0.02888 on the acquisition date. As of 31.12.2004, goodwill that arose on the acquisition was recalculated using the exchange rate of 0.02645 on the balance sheet date. The unrealised gain from exchange differences amounted to EUR 3 thousand (Note 14).

Note 10 Investments in Joint Ventures

Name of company	Location	Area of operation	Participation 31.12.2004	Participation 31.12.2003	Investment in balance sheet of Group's parent 31.12.2004	Investment in balance sheet of Group's parent 31.12.2003
OÜ Baltika Tailor	Estonia	Production	50%	0	70	0

A new subsidiary of AS Baltika, OÜ Baltika Tailor was registered in the Commercial Registry in August of the financial year, where to the production division of AS Baltika was transferred from 1 November. The goal for setting up the company as a separate legal entity was to ensure better production efficiencies. On 29 November, 50% of OÜ Baltika Tailor was sold to OY Turo Tailor AB and a joint venture for the production of men's suits, jackets and trousers was set up with the latter. The transaction price was EUR 250 000, that was paid for in cash. A gain in the amount of EUR 197 thousand was realised in the transaction (Note 26).

Starting from December, the revenue and expenses of the joint venture are not consolidated in the financial statements of Baltika Group. As a result, revenues, expenses, assets and liabilities of the joint venture are no further part of consolidated figures. In the financial statements for 2004 the income of EUR 2.6 million and expenses of EUR 2.7 million of the discontinued operation have been included up to the time of termination of consolidation of joint venture. At the time of termination of consolidation the assets of the joint venture were EUR 767 thousand and liabilities were EUR 639 thousand.
Starting from 1 December 2004, the results of the joint venture are accounted for under the equity method in Group's reporting.

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Note 11 Investment Properties

Changes occurred in investment properties in 2004:

Balance as of 31.12.2003.	**0**
Reclassification from non-current assets	230
Revaluation	249
Balance as of 31.12.2004.	**479**

The revaluation is recorded as a reserve under equity.

	2004
Rental income from investment properties	79
Administrative costs of investment properties	79
Net rental income from investment properties	**0**

In conjunction with the transfer of production to OÜ Baltika Tailor, a lease agreement for the usage of the production facility was entered into. As a result, the production facility that had been used for own purposes was turned into the leased out investment property. The investment property was revalued to fair value and the resulting increase in value was recorded as a reserve in equity. Upon revaluation of investment property, the valuation of an independent expert of the real estate was used as the basis for fair value determination.

The parent has no binding obligations to sell or develop investment properties.
The investment property has been pledged to secure the company's liabilities (Note 16).

Note 12 Deferred Income Tax

	2004				
	Poland	**Latvia**	**Lithuania**	**Ukraine**	**Total**
Deferred income tax liability					
On non-current assets	0	(16)	0	0	**(16)**
Deferred income tax receivable					
On non-current assets	29	0	2	2	33
On tax loss carryforwards	73	76	107	0	256
On pension liabilities	5	0	0	0	5
Deferred income tax receivable	**107**	**60**	**109**	**2**	**278**
Deferred income tax income (expense) (Note 27)	**107**	**40**	**51**	**(68)**	**130**

	2003				
	Poland	**Latvia**	**Lithuania**	**Ukraine**	**Total**
Deferred income tax liability					
on non-current assets	0	(19)	0	(7)	**(25)**
Deferred income tax liability:					
on non-current assets	0	0	0	0	**0**
on tax loss carryforwards	0	38	58	77	**173**
Deferred income tax receivable	**0**	**20**	**58**	**70**	**148**
Deferred income tax income (expense) (Note 27)	**(108)**	**1**	**1**	**77**	**(28)**

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In addition to the receivable carried in the balance sheet, off-balance sheet tax loss carryforwards in the amount of EUR 0.1. million have been recorded for Poland realisation of which according the management is improbable.

The realisation of the deferred income tax receivable from tax loss carryforwards is dependent on future taxable profits at subsidiaries that exceed the existing losses to be carried forward. An analysis of expected future profits was carried out when preparing the financial statements. According to the estimate, the realisation of tax loss carryforwards will take place in Lithuania over a three-year period beginning with 2005, in Latvia over a five-year period beginning with 2005 and in Poland over a four-year period beginning with 2006. The profit assumption is based on the attainment of the company's strategic goals.

Note 13 Property, Plant and Equipment

The Group's investments in property, plant and equipment totalled EUR 813 thousand in 2004. The largest investments, in the amount of EUR 682 were made into the retail trade. New retail spaces were opened in all markets. In the financial year, investments in the amount of EUR 60 thousand were made into production equipment, and in the amount of EUR 54 thousand into information technology.
Non-current assets in the amount of EUR 8 thousand were acquired under the finance lease terms (Note 15).
With the acquisition of subsidiaries, the Group's non-current assets increased mostly on account of store inventories in the amount of EUR 63 thousand (Note 9).
In 2004, non-current assets, mostly store inventories and transportation means were sold at the acquisition cost of EUR 206 thousand and the residual value of EUR 87 thousand at the Group.
Obsolete and unusable production and information technology equipment, store furniture and other non-current assets were written off at the acquisition cost of EUR 258 and the residual value of EUR 26 thousand.

In December, the leased production space was reclassified from non-current assets to investment property at the acquisition cost of EUR 472 thousand.

In 2003, the largest investments (EUR 0.5 million) were made into retail trade. Investments into production equipment totalled EUR 113 thousand, those into information technology totalled EUR 46 thousand and a passenger car was acquired under the finance lease terms with the cost of EUR 30 thousand.
In 2003, the largest portion of non-current assets written off (EUR 0.2 million) related to the write-off of non-current assets of the store located at the Wola shopping centre belonging the subsidiary in Poland
For the harmonisation of the policies of grouping the Group's non-current assets, non-current assets at two Group companies, AS Baltika and the Ukrainian subsidiary were reclassified in 2003.

Movement of Property, Plant and Equipment at the Group

	Land	Buildings and structures	Machinery and equipment	Other fixtures	Construction in progress	Prepayments	Total
Cost on 31.12.2002.	**192**	**4 649**	**4 671**	**2 675**	**400**	**4**	**12 590**
Accumulated depreciation on 31.12.2002	0	(992)	(3 615)	(1 110)	0	0	(5 717)
Residual value on 31.12.2002	**192**	**3 657**	**1 057**	**1 564**	**400**	**4**	**6 874**
Acquired during the period	0	167	188	271	56	14	**696**
Disposed of during the period	0	0	(7)	(6)	0	0	**(13)**
Written off during the period	0	0	0	(162)	0	0	**(162)**
Reclassification to intangible assets (Note 14)	0	0	0	0	(399)	0	**(399)**
Regrouping of non-current assets	0	(187)	2	185	0	0	**0**
Taken into use	0	56	4	0	(56)	(4)	**0**
Depreciation in 2003	0	(316)	(425)	(521)	0	0	**(1 262)**
Foreign exchange rate differences	0	(186)	(2)	16	0	0	**(172)**

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Cost on 31.12.2003	**192**	**4 608**	**4 502**	**2 681**	**0**	**14**	**11 998**
Accumulated depreciation on 31.12.2003	0	(1 417)	(3 686)	(1 334)	0	0	**(6 437)**
Residual value on 31.12.2003	**192**	**3 192**	**816**	**1 347**	**0**	**14**	**5 561**
Acquired during period	0	309	104	381	4	0	**799**
Investment made in subsidiary	0	0	21	42	0	0	**63**
Disposed of during period	0	(32)	(15)	(40)	0	0	**(87)**
Written off during period	0	(5)	(3)	(17)	0	0	**(26)**
Reclassification to investment property	0	(230)	0	0	0	0	**(230)**
Reclassification due to change in accounting policy	0	54	0	0	0	0	**54**
Taken into use	0	14	0	0	0	(14)	**0**
Depreciation in 2004	0	(329)	(386)	(524)	0	0	**(1 239)**
Foreign exchange rate differences	0	42	(2)	7	0	0	**47**
Cost on 31.12.2004.	**192**	**4 450**	**4 519**	**3 061**	**4**	**0**	**12 227**
Accumulated depreciation on 31.12.2004	0	(1 435)	(3 985)	(1 865)	0	0	**(7 285)**
Residual value on 31.12.2004	**192**	**3 015**	**534**	**1 197**	**4**	**0**	**4 942**

* In conjunction with the application of IFRS 3, negative goodwill was taken to revenue and the cost of non-current assets previously written down was adjusted according to the policy of negative goodwill.

Movement of Property, Plant and Equipment at Parent

	Land	Buildings and structures	Machinery and equipment	Other fixtures	Construction in progress	Prepayments	Total
Cost on 31.12.2002.	**181**	**1 901**	**3 480**	**1 211**	**400**	**4**	**7 177**
Accumulated depreciation on 31.12.2002	0	(714)	(2 953)	(595)	0	0	**(4 262)**
Residual value on 31.12.2002	**181**	**1 187**	**527**	**616**	**400**	**4**	**2 915**
Acquired during period	0	4	74	49	0	0	**126**
Disposed of during period	0	0	(5)	0	0	0	**(5)**
Written off during period	0	0	0	(6)	0	0	**(6)**
Reclassification to property, plant and equipment (Note 14)	0	0	0	0	(400)	0	**(399)**
Regrouping of non-current assets	0	45	2	(47)	0	0	**0**
Taken into use	0	0	4	0	0	(4)	**0**
Depreciation in 2003	0	(109)	(241)	(219)	0	0	**(568)**
Cost on 31.12.2003.	**181**	**2 024**	**3 220**	**1 048**	**0**	**0**	**6 474**
Accumulated depreciation on 31.12.2003	0	(897)	(2 859)	(655)	0	0	**(4 411)**
Residual value on 31.12.2003	**181**	**1 127**	**362**	**393**	**0**	**0**	**2 063**
Acquired during period	0	79	30	119	0	0	**228**
Disposed of during period	0	(25)	0	(196)	0	0	**(221)**
Reclassification to investment property	0	(230)	0	0	0	0	(230)
Written off during period	0	0	(1)	(8)	0	0	**(9)**
Depreciation in 2004	0	(119)	(187)	(168)	0	0	**(474)**

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Cost on 31.12.2004	**181**	**1 565**	**3 112**	**585**	**0**	**0**	**5 443**
Accumulated depreciation on 31.12.2004	0	(733)	(2 907)	(446)	0	0	**(4 085)**
Residual value on 31.12.2004	**181**	**832**	**204**	**139**	**0**	**0**	**1 357**

Investments in the amount of EUR 0.2 million were made into retail trade as well as information technology and other non-current assets in the amount of EUR 0.03 million were acquired at the parent.

As of 31.12.2004 assets fully depreciated were in use at the parent at the acquisition cost of EUR 2 853 thousand and as of 31.12.2003 in the amount of EUR 2 489 thousand.

In the end of 2004 the company ordered an independent real estate valuation for the real estate in Veerenni 24 , of which part (with the carrying value of EUR 0.5 million) is recorded as investment property (Note 11) and part with the carrying value of EUR 0.1 million) as a property for own use under property, plant and equipment. According to an independent expert, the market value of the total real estate property was EUR 1.6 million.

Information on pledged assets is provided in Note 16.

Note 14 Intangible Assets

Movement of Intangible Assets at the Group

	Licenses and software	Prepayments for intangible assets	Positive goodwill	Negative goodwill	Total
Cost on 31.12.2002.	**428**	**63**	**149**	**(59)**	**582**
Accumulated amortisation on 31.12.2002	(185)	0	(114)	29	**(270)**
Residual value on 31.12.2002	**244**	**63**	**35**	**(29)**	**313**
Acquired during period	284	0	0	0	**284**
Taken into use	63	(63)	0	0	**0**
Reclassification from property, plant and equipment (Note 13)	399	0	0	0	**399**
Amortisation in 2003	(131)	0	(12)	29	**(114)**
Foreign exchange rate differences	(2)	0	0	0	**(2)**
Cost on 31.12.2003	**1 150**	**0**	**111**	**(59)**	**1 203**
Accumulated amortisation	(292)	0	(89)	59	**(322)**
Residual value on 31.12.2003	**858**	**0**	**23**	**0**	**881**
Acquired during period	197	0	0	0	**197**
Investment made into subsidiary (Note9)	0	0	887	0	**887**
Written off during period	(1)	0	(23)	0	**(23)**
Amortisation in 2004	(157)	0	0	0	**(157)**
Foreign exchange rate differences	1	0	3	0	**4**
Cost on 31.12.2004	**1 283**	**0**	**890**	**0**	**2 173**
Accumulated amortisation on 31.12.2004	(384)	0	0	0	**(384)**
Residual value on 31.12.2004	**899**	**0**	**890**	**0**	**1 788**

In 2004, the Group's investments into intangible assets totalled EUR 197 thousand, of which the right for the lease agreements of store space was purchased for EUR 120 thousand in the Ukrainian market and investments into software were made for EUR 77 thousand.
Replaced software with the cost of EUR 67 thousand and the residual value of EUR 1 thousand was written off.

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In conjunction with the application of IFRS 3, positive goodwill with insignificant residual value and acquired in the previous periods was expensed.

Movement of Intangible Assets at the Parent

	Licenses and software	Positive goodwill	Negative goodwill	Total
Cost on 31.12.2002	**387**	**149**	**(59)**	**477**
Accumulated amortisation on 31.12.2002	(179)	(114)	29	**(264)**
Residual value on 31.12.2002	**207**	**35**	**(29)**	**213**
Acquired during period	259	0	0	**259**
Reclassified from property, plant and equipment (Note 13)	399	0	0	**399**
Amortisation in 2003	(108)	(12)	29	**(90)**
Cost on 31.12.2003	**1 024**	**111**	**(59)**	**1 077**
Accumulated amortisation on 31.12.2003	(267)	(89)	59	**(296)**
Residual value on 31.12.2003	**758**	**23**	**0**	**781**
Acquired during period	174	887	0	**1 061**
Written off during period	(1)	(23)	0	**(23)**
Amortisation in 2004	(131)	0	0	**(131)**
Foreign exchange rate differences	0	3	0	**3**
Cost on 31.12.2004	**1 132**	**890**	**0**	**2 022**
Accumulated amortisation on 31.12.2004	(331)	0	0	**(331)**
Residual value on 31.12.2004	**801**	**890**	**0**	**1 691**

Note 15 Accounting for Leases

Operating Lease – the Company as the Lessee

The future minimum lease payments under non-cancellable operating leases are divided at the Group are as follows:

	Parent		**Group**	
	31.12.2004	**31.12.2003**	**31.12.2004**	**31.12.2003**
up to 1 year	23	39	2 389	2 722
1-5 years	0	18	3 240	4 233
over 5 years	0	12	474	506
	23	**69**	**6 103**	**7 462**

Operating lease expenses include the rental expenses for leasing the retail store spaces. The lease agreements for stores are not in most cases binding for long-term in Estonia, Latvia and Lithuania, most of the lease agreements can be terminated with a two to six month notice. In Poland and Ukraine, the lease agreements usually require finding a new lessee when cancelling the lease agreement.
Termless lease agreements are accounted to valid for 5 years. If the termination of the agreement requires a mutual agreement, lease payments are accounted for to be paid during the following 6-months period. If the termination of the agreement requires an advance notice, lease payments are expected to be paid during the advance notice period.

In 2004, operating lease payments in the amount of EUR 4 888 thousand were made at the Group and in 2003 EUR 3 602 thousand, respectively.

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Operating Lease – the Company as the Lessor

Operating lease income includes rental income for spaces.

The future minimum lease payments receivable from non-cancellable subleases of the Group:

	31.12.2004	**31.12.2003**
up to 1 year	9	11
1-5 years	0	0
over 5 years	0	0

In 2004, operating lease income in the amount of EUR 63 was received and in 2003, EUR 46 thousand at the Group.
In 2004, the parent's operating lease income totalled EUR 164 thousand and in 2003, EUR 122 thousand.
The matching expenses totalled EUR 13 thousand at the Group in 2004, and EUR 8 thousand in 2003; EUR 99 thousand at the parent in 2004 and EUR 77 thousand in 2003.
The parent has no non-cancellable lease agreements

Assets leased out under operating lease

	Parent	**Group**
Cost on 31.12.2002	**8**	**14**
Accumulated depreciation on 31.12.2002	(3)	(4)
Residual value on 31.12.2002	**5**	**11**
Depreciation in 2003	(1)	(1)
Cost on 31.12.2003	**8**	**14**
Accumulated depreciation on 31.12.2003	(3)	(4)
Residual value on 31.12.2003	**5**	**10**
Additionally rented out (carrying value)	1 014	1 014
Depreciation in 2004	(29)	(29)
Cost on 31.12.2004	**3 519**	**3 525**
Accumulated depreciation on 31.12.2004	2 529	2 530
Residual value on 31.12.2004	**990**	**994**

Finance Lease –the Company as the Lessee

	Equipment and fittings of the factory	Passenger cars	Total
Cost on 31.12.2003	**310**	**51**	**361**
Accumulated depreciation on 31.12.2003	(128)	(18)	(145)
Residual value on 31.12.2003	**182**	**33**	**215**
Acquisitions in 2004	0	8	8
Disposals in 2004	0	(18)	(18)
Depreciation in 2004	(38)	(14)	(52)
Cost on 31.12.2004	**310**	**30**	**340**
Accumulated depreciation on 31.12.2004	(165)	(21)	(187)
Residual value on 31.12.2004	**145**	**8**	**153**

The parent has leased assets under the finance lease terms with the cost of EUR 4 thousand and the residual value of EUR 0.3 thousand.

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Minimum lease payments in the Group:	31.12.2004	31.12.2003
Short-term – up to 1 year	29	88
Long-term 1-5 years	1	37
Total	**30**	**125**
Future interest expense of operating lease	**0**	**-6**
Present value of future minimum lease payments	**29**	**119**
Present value of future minimum lease payments:		
Short-term - up to 1 year (Note 13)	28	83
Long-term 1-5 years (Note 13)	1	36
Total	**29**	**119**

As of the 31.12.2004, the parent has no operating lease liabilities.

Note 16 Borrowings

	Parent		Group	
Short-term borrowings	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Future repayments of long-term bank loans	1 374	851	1 511	988
Short-term bank loans	1 994	2 258	1 994	2 214
Short-term operating lease liabilities (Note 15)	0	0	28	83
Convertible bonds (Note 18)	24	32	24	32
Commercial papers (Note 18)	1 205	1 114	1 205	1 114
Total	**4 597**	**4 256**	**4 762**	**4 431**

	Parent		Group	
Long-term borrowings	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Long-term bank loans	2 523	3 857	2 934	4 405
Long-term finance lease liabilities (Note 15)	0	0	1	36
Other non-current liabilities	0	0	1	3
Total	**2 523**	**3 857**	**2 936**	**4 444**

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Bank Loans of the Group on 31.12.2004

Creditor	Loan payable on 31.12.04	Short-term portion up to 1 year	Long-term portion 1-5 years	Interest
Nordea Pank	460	115	345	3 month EURIBOR +2.5%
Nordea Pank	400	266	133	6 month EURIBOR +2.5%
Hansapank	3 037	992	2 045	6 month EURIBOR +2.25%
Hansapank	703	703	0	4.5%
Hansapank	548	137	411	6 month EURIBOR +2.35%
Hansapank (overdraft)	1 291	1 291	0	4.2%
Total	**6 438**	**3 505**	**2 934**	

Bank Loans at the Group on 31.12.2003

Creditor	Loan payable on 31.12.2003	Short-term portion up to 1 year	Long-term portion 1-5 years	Interest
Nordea Pank	575	115	460	3 month EURIBOR +2.5%
Nordea Pank	599	240	360	6 month EURIBOR +2.5%
Hansapank	3 533	496	3 037	6 month EURIBOR +2.25%
Hansapank	703	703	0	4.5%
Hansapank	685	137	548	6 month EURIBOR +2.35%
Hansapank (overdraft) (Note 29)	1 511	1 511	0	4.5%
Total	**7 606**	**3 202**	**4 405**	

During the financial year, AS Baltika made loan payments in the amount of EUR 315 thousand to Nordea Pank and EUR 496 thousand to Hansapank. A short-term loan with the due date on 31.05.2004 was extended until 31.05.2005. In conjunction with the amendment of the loan agreement between Nordea Pank and AS Baltika, the loan in the amount of EUR 40 thousand changed from short-term to long-term.
AS Virulane has made loan payments to Hansapank in the amount of EUR 137 thousand.

AS Baltika has a commercial pledge used as a collateral for the overdraft in the amount of EUR 4 453 thousand and a mortgage on the registered immovable at Veerenni tn. 24 in the amount of EUR 3 million.
Mortgages on registered immovables located at Kalda 10A, Rakvere in the amount of EUR 0.5 million and Õpetajate tn. 5 in the amount of EUR 0.8 million, a commercial pledge in the amount of EUR 0.9 million and a surety of AS Baltika are used as the loan collateral for AS Virulane.
The subsidiaries AS Virulane, AS Elina STC, OÜ Baltman and OÜ Baltika Tailor are included in the AS Baltika group account. The Group uses the overdraft limit of EUR 2 million through the group account. As of 31.12.2004, the parent company was the sole user of the group account. Users of the group account are solidarily responsible for the fulfilment arising from the group account agreement.
For interest expense, please refer to Note 26.

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Note 17 Supplier payables

	Parent		Group	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Payables to third party suppliers	1 544	2 810	1 991	3 447
Payables to subsidiaries				
AS Elina STC	181	150	0	0
OÜ Baltman	15	109	0	0
AS Virulane	285	341	0	0
Total payables to subsidiaries	482	600	0	0
Total payables to suppliers	**2 026**	**3 410**	**1 991**	**3 447**

Note 18 Debt Instruments

Convertible Bonds

According to the resolution of the General Meeting of Shareholders held on 6 April 2001, it was decided to issue 576 000 (192 000 per year) convertible bonds with the nominal value of EUR 0.06 to the management over the period of 2001-2003.
Three different types of convertible bonds were issued as follows:

	Issue date	Total value of issue	Bond conversion period	Bonds converted into shares	Redeemed bonds 31.12.04	Convertible bonds
A-bond	01.05.2001	12,3	01.05.2002-01.05.2004	12,1	0,0	0,2
B-bond	01.05.2002	12,3	01.05.2003-01.05.2005	0,0	(1,7)	12,3
C-bond	01.05.2003	12,3	01.05.2004-01.05.2006	0,0	0,0	12,3
Total		**36,8**		**12,1**	**(1,7)**	**24,7**

On 1 May 2004, convertible bonds became interest bearing bonds.

A-bonds were converted into shares by paying an additional EUR 1.53 per share.
B- and C-bonds are convertible into ordinary shares under the following terms:
B-bond into one ordinary share for an additional payment of EUR 2.13;
C-bond into one ordinary share for an additional payment of EUR 2.34.
In case the bonds are neither converted into ordinary shares nor redeemed during the conversion period, they will become interest bearing loans according to the agreement by both parties. Until then, no interest is calculated on bonds.

In 2004, 134 500 holders of A-bonds decided to subscribe for the shares. In accordance with the owners' request the Management Board of AS Baltika decided to increase the share capital of AS Baltika by EUR 85 961. After the increase of the share capital, the share capital of the company is EUR 3 600 750, consisting of 5 633 950 shares with the nominal value of EUR 0.64 (Notes 18 and 20). The share premium of transactions was EUR 128 942.
Expenditures related to the issue of shares in the amount of EUR 3.2 thousand are charged to the income statement line Operating expenses.

In accordance with the terms of the bonds, an employee who has left the company during the year has the obligation to sell back the bonds to the company. In 2004, 27 000 B-Bonds were repurchased.

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In 2003, 55 000 A-Bond holders decided to subscribe for the shares. In accordance with the shareholders' request, the Management Board decided to increase the share capital of AS Baltika by 55 000 shares. After the increase of the share capital, the share capital of the company was EUR 3 514 789, consisting of 5 499 450 ordinary shares with the nominal value of EUR 0.64 (Notes 18 and 20). The share premium of the transaction was EUR 52 727.

In 2003, 14 000 bonds were repurchased from the employees who had left the company, that were issued to new shareholders in 2004.

At the Extraordinary Meeting of Shareholders held on 7 December 2004, it was decided to issue 200 000 D-type convertible bonds with the nominal value of EUR 0.006 to the executives of the company.

	Issue date	**Total value of issue**	**Bond conversion period**	**Bonds converted into shares**	**Bonds redeemed by 31.12.2004**	**Convertible bonds as of 31.12.2004**
D-Bond	21.12.2004	**1.3**	01.07.2006-30.12.2006	0	0	1.3

The bonds are convertible into shares at the price of EUR 1.85, equalling the weighted average price of AS Baltika on the Tallinn Stock Exchange on the trading date preceding the adoption of the resolution.
The requirement for the conversion of bonds into shares is that the market price of AS Baltika's shares equals at least EUR 2.88 per share.

The aforementioned convertible bonds have been recorded as a financial liability in full, as the equity component is immaterial

Closed Issue of Bonds

	Quantity	Nominal EEK	Issue price	Balance as of 31.12.2004	Coupon interest rate %	Maturity date
Bonds	1 750	639	631	1 205	7,0	17.03.2006

On 26 September 2003, AS Baltika issued bonds via closed issue in the amount of EUR 1.12 million. The issue yielded EUR 1.09 million. The maturity date of bonds is on 17 March 2006. The coupon rate of bonds is 7.0% and the coupon payment dates are 17.03.2005 and 17.03.2006. The effective interest rate on the bonds is approximately 7.7%. The borrowing is unsecured.

Note 19 Accrued Expenses and Other Short-term Liabilities

	Parent		**Group**	
	31.12.2004	**31.12.2003**	**31.12.2004**	**31.12.2003**
Payables to employees (accrued wages and salaries, holiday reserve, bonus reserve, etc.)	256	305	670	651
Dividends payable	0	18	0	18
Interest payable	2	0	2	0
Customer prepayments	1	5	13	17
Other short-term payables	46	1	46	4
Total	**305**	**329**	**731**	**689**

Other short-term payables include the payable of the parent to the joint venture for the usage of the group account overdraft (Note 29).

AS Baltika 2004 Annual Report (in EUR thousand).

Note 20 Equity

Share Capital

	31.12.2004	31.12.2003
Share capital	**3 601**	**3 515**
Number of shares (pcs)	5 633 950	5 499 450
Nominal value of shares (EEK)	0,64	0,64
Statutory reserve capital	**307**	**307**
Other reserves	**1 405**	**1 156**
Revaluation reserve of investment property (Note 11)	249	0
Other voluntary reserves	1 156	1 156

Change in the Number of Shares

Number of shares on 31.12.2002	**5 444 450**
Issued 20.01.2003	15 500
Issued 16.05.2003	39 500
Number of shares on 31.12.2003	**5 499 450**
Issued 30.04.2004	88 000
Issued 12.11.2004	46 500
Number of shares on 31.12.2004	**5 633 950**

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

Based on the decision of 134 500 holders of A-bonds to subscribe for the shares, the Management Board agreed to increase the share capital of AS Baltika by EUR 85 961. After the increase of the share capital, the company's share capital is EUR 3 600 750, consisting of 5 633 950 shares with the nominal value of EUR 0.64. The share premium was EUR 128 942 (Note 18).
The issued shares grant the right to receive dividends beginning with 2004.

As the company had no retained earnings as of 31.12.2003, no dividends were paid to the shareholders.
The retained earnings of the company were EUR 12 thousand as of 31 December 2004.

Other reserves increased by the revaluation reserve of investment property of EUR 249 (Note 11).

Shareholders as of 31.12.2004

	Number of shares	Participation %
1. Baltic Republics Fund	2 012 400	35,72
2. OÜ BMIG	1 098 147	19,49
3. Members of the Management Board and persons related to them		
- Meelis Milder	115 617	2,05
- Boriss Loifenfeld	30 882	0,55
- Maire Milder	30 161	0,54
- Ülle Järv	3 458	0,06
4. Other minority shareholders	2 343 285	41,59

Taking into consideration the statutory legal requirement to transfer 1/20 of the net profit for the financial year into the statutory reserve capital, the company has no retained earnings as of 31.12.2004.

AS Baltika 2004 Annual Report (in EUR thousand).

Note 21 Segments

The retail segment includes subsidiaries engaged in retail trade as well as the factory outlet stores of AS Baltika and its production company AS Virulane. The production and wholesale trade segment includes the asses, liabilities, income and expenses of clothes manufacturing, wholesale trade and other related activities.

The assets and liabilities of the segment do not include financial assets and financial liabilities and revenue and expenses of the segment do not include the revenue and expenses arising from the above-mentioned assets and liabilities.

In the segment report, the unallocated assets of the Group include the administrative building, the unallocated liabilities include long-term loans, dividend and interest payable and unallocated operating expenses include administrative costs.

Other major non-monetary expenses are those arising from the write-down of inventories and doubtful receivables.

Group's Business Segment Report for 2004 – Primary Segment

	Retail trade	Production, wholesale trade and subcontracting	Intersegment transactions	TOTAL
Non-group sales	**26 862**	**10 327**		**37 189**
Intersegment sales	0	19 351	(19 351)	0
Total sales	**26 862**	**29 678**	**(19 351)**	**37 189**
Operating profit of segment	1 655	1 814	0	3 470
Unallocated operating expenses				(2 269)
Total operating profit				**1 201**
Other financial income/expenses				(305)
Corporate income tax				61
Profit before minority interest				956
Minority interest				(111)
Net profit				**1 067**
Assets	8 425	11 310	(15)	19 720
Unallocated assets of Group				552
Total assets				**20 271**
Liabilities	8 844	2 574	(7 899)	3 519
Unallocated liabilities of Group				7 711
Total liabilities				**11 230**
Acquisition of non-current assets	885	126	0	1 011
Depreciation in financial year	612	784	0	1 396
Other significant non-monetary expenses	935	65	0	1 000

AS Baltika 2004 Annual Report (in EUR thousand).

Group's Business Segment Report for 2003– Primary Segment

	Retail trade	Production, wholesale trade and subcontracting	Intersegment transactions	TOTAL
Non-group sales	**20 521**	**11 246**		**31 767**
Intersegment sales	0	15 550	(15 550)	0
Total sales	**20 521**	**26 796**	**(15 550)**	**31 767**
Segment's operating profit	(3 176)	1 520	0	(1 656)
Unallocated operating expenses				(2 017)
Total operating profit				**(3 673)**
Other financial income/expense				(1 002)
Corporate income tax				(30)
Profit before minority interest				(4 299)
Minority interest				12
Net profit				**(4 311)**
Assets	7 955	12 678	(109)	20 524
Unallocated assets of Group				527
Total assets				**21 051**
Liabilities	7 518	4 048	(6 765)	4 801
Unallocated liabilities of Group				8 890
Total liabilities				**13 691**
Acquisition of non-current assets in reporting period	669	375	0	1 044
Depreciation in financial year	681	713	0	1 394
Other major non-monetary expenses	976	56	0	1 031

Group's Geographic Segment Report (by Location of Clients) – Secondary Segment

	Net Sales		Non-current assets		Capital expenditure	
	2004	**2003**	**31.12.04**	**31.12.03**	**2004**	**2003**
Estonia	9 450	8 921	4 908	4 761	243	454
Latvia	4 206	3 335	237	229	119	91
Lithuania	6 961	5 150	494	533	168	234
Russia	4 911	2 549	198	0	166	0
Ukraine	4 535	3 552	359	283	215	53
Finland	2 103	2 536	0	24	0	30
Sweden	1 217	1 482	0	9	0	0
Great Britain	987	1 038	0	0	0	0
Poland	2 573	3 139	535	603	99	182
Norway	206	65	0	0	0	0
Czech Republic	35	0	0	0	0	0
other markets	6	0	0	0	0	0
Total	**37 189**	**31 767**	**6 730**	**6 442**	**1 011**	**1 044**

AS Baltika 2004 Annual Report (in EUR thousand).

Parent's Segment Reporting

As the main operating activities of the parent occurred in the segment of production, wholesale trade and subcontracting in 2003 and 2004, no separate primary segment report has been prepared for the parent. The secondary segment for the parent is the geographic segment.

Parent's Geographic Segment Report (by location of clients) - Secondary Segment

	Net Sales		Non-current assets		Capital expenditure	
	2004	2003	31.12.04	31.12.03	2004	2003
Estonia	7 404	6 698	2 782	2 805	139	399
Latvia	2 825	2 474	0	0	0	0
Lithuania	4 194	3 128	0	0	0	0
Russia	3 712	2 549	140	0	143	0
Ukraine	1 838	1 719	126	14	120	0
Finland	1 313	1 491	0	0	0	0
Sweden	977	1 292	0	2	0	0
Great Britain	831	1 037	0	0	0	0
Poland	1 257	1 897	0	22	0	0
Norway	88	0	0	0	0	0
Czech Republic	35	0	0	0	0	0
Other markets	5	0	0	0	0	0
Total	**24 479**	**22 284**	**3 048**	**2 843**	**402**	**399**

According to the management's estimate, the prices used in intersegment transactions do not materially differ from market prices.

Note 22 Other Operating Income

	Parent		Group	
	2004	2003	2004	2003
Proceeds from sale of non-current assets	23	8	41	15
Foreign exchange gains	101	0	0	0
Other operating income	234	60	67	24
Total	**358**	**68**	**108**	**39**

Note 23 Other Operating Expenses

	Parent		Group	
	2004	2003	2004	2003
Membership fees	5	5	8	8
Loss from sales and write-off of non-current assets	9	6	24	149
Fines, delays, tax interest	35	5	58	7
Representation costs	61	59	69	69
Foreign exchange loss	0	2	87	865
Other expenses	64	7	78	11
Total	**174**	**83**	**324**	**1 109**

AS Baltika 2004 Annual Report (in EUR thousand).

Note 24 Operating Expenses

	Parent		Group	
	2004	**2003**	**2004**	**2003**
Rental expense	250	298	4 888	3 602
Fuel and electricity	201	241	500	501
Transportation expenses	569	491	650	583
Business trip expenses	99	128	149	189
Advertising costs	348	588	859	1 184
Insurance	64	75	104	107
Utilities	29	26	104	75
Training	15	161	38	38
Security costs	34	1	147	124
Allowance for doubtful and irrecoverable receivables	37	15	6	25
Communication costs	154	45	286	286
Recruitment costs	8	103	20	7
Consulting fees	198	81	198	104
Agency fees	79	2	79	86
IT expenses	252	266	325	330
Credit card fees	4	2	194	189
State fees and customs duties	151	13	190	75
Maintenance fees	116	61	169	111
Bank services	54	58	154	113
Legal services and auditing	88	45	170	74
Other operating expenses	389	363	1 150	951
Total	**3 140**	**3 063**	**10 379**	**8 755**

The increase of rental expenses is attributable to the opening of new stores in different markets.
*Other operating expenses include the costs of office supplies, repair work, maintenance, etc.

The Group and the parent incurred research and development costs in the amount of EUR 3.7 thousand in 2004 and in the amount of EUR 5.1 thousand in 2003.

Note 25 Personnel Expenses

	Parent		Group	
	2004	**2003**	**2004**	**2003**
Wages and salaries	3 322	3 686	7 656	7 531
Social security and other taxes	1 160	1 274	2 512	2 466
Holiday pay liability and unpaid bonuses	300	184	595	501
Total	**4 782**	**5 144**	**10 763**	**10 497**

As of 31.12.2004, the Group had 1704 employees and as of 31.12.2003, it had 1714 employees.
No major fees have been paid relating to the termination of the employment contracts (Note 29).

AS Baltika 2004 Annual Report (in EUR thousand).

Note 26 Other Financial Income and Expenses

	Parent		Group	
	2004	**2003**	**2004**	**2003**
Interest income	1	15	4	8
Interest expense on loans and lease agreements	(393)	(435)	(427)	(485)
Dividends received	0	1	0	1
Foreign exchange gains (losses)	(12)	(8)	(96)	(144)
Profit on sale of subsidiary	197	0	197	0
Unrealised gain on investment	14	7	14	7
Other financial income (expense)	48	1	48	17
Total	**(144)**	**(419)**	**(259)**	**(596)**

Based on the earlier application of IFRS 3, goodwill and negative goodwill in the amount of EUR 31 thousand that arose in joint ventures set up before 31.03.2004 has been taken to other financial income (expense).

Note 27 Corporate Income Tax

Accounting for income tax in Group	**2004**	**2003**
Income tax expense	(70)	(2)
Deferred income tax gain (expense)	130	(28)
Total income tax gain (expense)	**61**	**(30)**

Income Tax by Countries for 2004

	Poland	Latvia	Lithuania	Ukraine	Finland	Estonia	Russia	Elimin.	Total
Profit (loss) before income tax	(688)	(45)	240	330	1	1 202	76	(220)	896
Income tax rate in 2004	19%	15%	15%	25%	29%	0%	15%;24%		
Theoretical income tax	131	7	(36)	(89)	(0)	0	(30)	0	(11)
Effect of non-taxable income	(6)	0	0	0	0	0	0	0	(6)
Effect of non-taxable expenses	113	(13)	20	283	0	0	4	0	66
Change in off-balance sheet deferred tax assets	(130)	46	67	(313)	0	0	0	0	(17)
Actual income tax expense (gain)	**0**	**0**	**0**	**(44)**	**0**	**0**	**(26)**	**0**	**(70)**
Deferred income tax expense (gain) (Note 12)	**107**	**40**	**51**	**(68)**	**0**	**0**	**0**	**0**	**130**

In the subsidiary Baltman Rus the profit is taxable at a rate of 24%, in most of its subsidiaries at a rate of 15%. Two subsidiaries of Baltman Rus are on a simplified taxation scheme, where the taxation of the company is based on the retail space square meters at a rate of 15%.

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Note 28 Earnings per Share

Basic earnings per share

		31.12.2004	31.12.2003
Weighted average number of shares (Note 20)	pcs	5 541 721	5 483 992
Net profit	EEK thousand	**1 067**	**(4 311)**
Basic earnings per share	**EEK**	**0,19**	**(0,79)**

Diluted earnings per share

		31.12.2004	31.12.2003
Weighted average number of shares (Note 20)	pcs	5 541 721	5 990 992
Net profit	EEK thousand	**1 067**	**(4 311)**
Diluted earnings per share	**EEK**	**0,19**	**(0,79)**

The shares issued within the framework of the share option programme for executive in 2001-2004 were not redeemed.
377 000 of convertible bonds did not impact the calculation of diluted net profit in 2004, as the average market price of shares of EUR 1.55 was lower than the price for which the holders of convertible bonds could have acquired the shares.
The average market price of Baltika's shares was EUR 2.21 in 2003. As the company had a loss in 2003, the diluted earnings did not differ from basic earnings.

Note 29 Related Parties

For the purpose of these financial statements, parties are considered to be related if one party has control or significant influence over the financial and management decisions of the other one in accordance with IAS 24 "Related Party Disclosure". Not only the legal form of the transactions and mutual relationships, but also their actual substance has been taken into consideration when defining related parties.
In compiling the Annual Report of AS Baltika, the following entities have been considered related parties:
a) owners (Note 20);
b) members of the management, the management board and the supervisory board;
c) close relatives of the persons mentioned above;
d) entities under the control of the members of the management board and the supervisory board;
e) subsidiaries (Note 9);
f) joint ventures (Note 10).
In 2004, AS Baltika has purchased (sewing services, goods for resale, non-current assets) and sold its goods and rendered services (sewing services, management services, other services) to the following related parties:

	2004		2003	
	Purchases	**Sales**	**Purchases**	**Sales**
Purchases and sales of goods				
Subsidiaries	887	15 704	1 527	12 593
Joint venture	0	24	0	0
Companies related to the members of the management board and the supervisory board	154	0	296	0
Total purchases and sales of goods	**1 042**	**15 728**	**1 822**	**12 593**
Total purchases and sales of services				
Subsidiaries	2 643	304	1 353	123
Joint venture	61	72	0	0
Companies related to the members of the management board and the supervisory board	38	839	50	1 051
Purchases and sales of services	**2 742**	**1 215**	**1 403**	**1 174**

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AS Baltika 2004 Annual Report (in EUR thousand).

In addition to the transactions with the parent company, transactions were also concluded with the Group companies – sewing services were sold and purchased in the amount of EUR 43 thousand and raw materials in the amount of EUR 0.3 thousand.

	2004	2003
Compensation for key managers		
Salaries, remuneration of the members of the supervisory board	230	173
Termination benefits	36	0
Post-employment compensation	1	1

As of 31.12.2004, the members of the Management Board had been issued and subscribed for 329 953 B, C and D convertible bonds, in the amount of EUR 15 336 (Note 18).

Loans		
Loans to the members of management		
Balance at beginning of year	9	9
Loans granted (Note 8)	37	0
Repayments of loans received	(9)	0
Balance at end of year (Note 8)	37	9

In 2004, a loan was granted to the manager of the Ukrainian subsidiary of Baltika. The maturity date of the loan is on 15.03.2007 and no interest is computed during the validity of the employment contract. A loan was repaid by the manager of Baltika's subsidiary Lietuva during the financial year.

Balances with the Related Parties:

	31.12.2004	31.12.2003
Subsidiaries (Note 5)	6 042	4 594
Joint ventures (Note 4)	159	0
Companies related to the members of the management board and the supervisory board	82	165
Total current receivables	**6 284**	**4 759**
Subsidiaries (Note 17)	482	600
Joint venture (Note 19)	46	0
Companies related to the member of the management board and the supervisory board	0	122
Total current liabilities	**527**	**722**

The company's management estimates that the prices used in related party transactions do not materially differ from the market prices.

Note 30 Financial Risks

Foreign Exchange Risk

Exports constitutes 75% of the sales of AS Baltika Group. The major selling currencies in the Group's retail markets are LTL (Lithuanian lita), LVL (Latvian lat), UAH (Ukrainian hryvnia), PLN (Polish zloty); the Group's other selling currencies are EUR (Euro), GBP (British pound) and USD (US dollar).
Most of the raw materials used in production are imported. The major buying currencies are EUR (euro) and USD (US dollar). Trading with the countries belonging to the European Monetary Union is carried out only in euros.
The Group's results were impacted by the decline of average foreign currency exchange rates against the

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Estonian kroon in those countries where AS Baltika has subsidiaries: Polish zloty +15.7%, Ukrainian hryvnia -7.2% and Latvian lat -3.6%, since May, Russian rouble -3%.
No separate instruments were used for the hedging of foreign currency risks in 2004. At the Polish subsidiary, the settlement was changed to zlotys in 2004.
When applicable, foreign currencies collected are used for the settlement of liabilities measured in the same currency.
For foreign currency profits and losses, please refer to Note 26.

Credit and Liquidity Risks
Credit risk is potential loss that would occur by the balance sheet date if the contract parties did not meet their obligations. The Group is exposed to credit risk to the extent that concerns the solvency of its business partner in Russia. No collaterals have been granted for receivables in the balance sheet. Credit risks arising from the Group's seasonal production and sales cycle are not of permanent nature. As of the balance sheet date, the maximum amount expressing credit risk is EUR 2.7 million, incl. credit risk of the Russian wholesale partner in the amount of EUR 1.0 million. Russia's credit risk is related to one client, with whom franchising and wholesale contracts have been concluded and with whom a subsidiary was set up for operation in Russia's European portion of territory in 2004.
The weakening of the USD against euro poses liquidity risk, which effects the Group's collectable amounts from the countries most affected by the changes in the dollar's exchange rate (Ukraine, Russia, Latvia). On the other hand, the weakening of the dollar had a positive impact on importing from the countries with whom the settlement is carried out in dollars.

Interest Risk
Interest rate risk is primarily caused by the potential fluctuations of EURIBOR and the changing of the average interest rates of banks.

Note 31 Guarantees Granted

As of 31.12.2004, the Group has guaranteed the future payments of bills of credit to the banks in the amount of EUR 73 thousand (2003: EUR 62 thousand) and the lease payments of the stores of subsidiaries in the amount of EUR 511 thousand (2003: EUR 291 thousand).

Note 32 Fair Value

As of 31.12.2004, the carrying amount of the company's financial assets and financial liabilities does not significantly differ from their fair value.

Note 33 Events After the Balance Sheet Date

There have been no significant events after the balance sheet date at the Group.

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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 2004 as set out on pages 11 to 45. These financial statements are translated into Euros from the original in Estonian kroons. These financial statements are the responsibility of the Parent Company's management board. 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 2004 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Tiit Raimla
Authorised auditor

Relika Mell
Authorised auditor

23 March 2005

Signatures of the Management Board and Supervisory Board to the 2004 Annual Report

The signing of AS BALTIKA 2004 Annual Report on 23 March 2004.

Chairman of the Management Board Meelis Milder	Chairman of the Supervisory Board Miles Warwick Burger
Member of the Management Board Ülle Järv	Member of the Supervisory Board Joakim J. Helenius
Member of the Management Board Maire Milder	Member of the Supervisory Board Reet Saks
Member of the Management Board Boriss Loifenfeld	Member of the Supervisory Board Claire Chabrier