



AS BALTIKA

consolidated interim report for the second quarter of 2004

Commercial name	AS Baltika
Commercial Registry No	10144415
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Auditor	AS PricewaterhouseCoopers
Reporting period	01.01.2004-31.12.2004
Main fields of activity	Manufacturing of menswear and women's wear, retail and wholesale and sewing services

AS Baltika consolidated interim report for the second quarter of 2004. In '000 EEK and in '000 EUR.

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

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

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

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

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

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

In Tallinn, on August 16th, 2004

AS Baltika consolidated interim report for the second quarter of 2004. In '000 EEK and in '000 EUR.

Letter of explanation to interim report

General results

The unaudited consolidated net sales of AS Baltika in the first six months of 2004 were EEK 269,4m (EUR 17,22m) and the net profit was EEK 1,72m (EUR 0,11m). Compared to the first half of 2003, the net sales increased by 21,2% (net sales EEK 222,38m, EUR 14,21m, respectively). AS Baltika ended the first half of 2003 with a loss of EEK 32,44m (EUR 2,07m).

The unaudited consolidated net sales of AS Baltika in the second quarter of 2004 were EEK 138,73m (EUR 8,87m) and the net profit was EEK 1,14m (EUR 0,07m). Compared to the same period of 2003, the net sales increased by 27,8% (net sales EEK 108,57m, EUR 6,94m, respectively). The second quarter of 2003 was ended with a loss of EEK 12,47m (EUR 0,8m).

Sales

Retail sales

Based on the sales of its three retail brands, the sales of AS Baltika retail system (Estonian, Latvian, Lithuanian, Polish, Ukrainian, Russian and Swedish markets) for the six months were EEK 188,3m (EUR 12,03m), exceeding the result of the same period of the previous year by 21% (retail sales EEK 146,13m, EUR 9,34m, respectively). Retail sales formed 70% of the total sales, compared to 66% in the same period of the previous year.

Sales growth was the largest in the Ukrainian (growth 55,8%), Latvian (growth 43,8%) and Lithuanian (growth 29,8%) markets, where sales totalled EEK 102,61m (EUR 6,56m).

On the domestic Estonian market the six months' sales increased by 23,1%, compared to the same period of previous year, amounting to EEK 55,33m (EUR 3,54m). The joint-venture of 8 shops in Russia launched in May, has been successful with sales was of EEK 7,46m (EUR 0,48m).

The overall sales efficiency of the retail system (sales/m²) increased by 6,1% compared to the first half of the previous year.

Monton was the most sold brand in the retail system in the first half of 2004, the six months' sales totalled EEK 107,44m (EUR 6,87m) and increased by 1,7% compared to the same period of the previous year. The volumes increased the most in the Baltman and CHR/Evermen retail chains, where the sales exceeded the sales of the same period of the previous year by EEK 30,37m (EUR 1,95m), totalling EEK 63,87m (EUR 4,08m). The results were the best on the Estonian, Latvia, Lithuanian, and Ukrainian markets. Monton, CHR/Evermen and Baltman accounted for 57%, 23,1% 9,9% of the sales of Baltika's own retail system, respectively.

Baltika Group had 87,800 regular customers at the end of June (growth during the quarter 22,3%), including 60,900 members of the Monton customer programme (growth 20%), 21700 CHR/Evermen regular customers (growth 27,7%), and 5,200 Baltman customers (growth 26,7%).

Baltika Group had 10 907 m² of selling area (78 own shops) in Estonia, Latvia, Lithuania, the Ukraine, Poland, Russia and Sweden at the end of June.

The selling area increased by 18 shops during six months (including 8 in Russia) and 6 shops were closed down.

Wholesale

The wholesale sales of Baltika's own production during the six months, of which CHR/Evermen and Baltman accounted for 80% and Monton 9,5%, totalled EEK 57,21m (EUR 3,66m), which exceeds the result of the same period of the previous year by EEK 7,51m (EUR 0,48m) (sales EEK 49,7m, EUR 3,18m, respectively).

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Sales of subcontracted production

The sales volumes of subcontracted production continue to go down, the volumes of the six months decreased by 7% compared to the previous year and totalled EEK 23,22 m (EUR 1,48 m), the sales during the same period of the previous year amounted to EEK 25m (EUR 1,6m). The decrease in the sales of subcontracted production is caused by a reduction in vacant capacities because of a continuous growth of own production volumes.

Financial results

The consolidated net profit of Baltika for the first six months of 2004 was EEK 1,72m (EUR 0,11m). The net profit for the second quarter was EEK 1,14 m (0,07m EUR).

While the first quarter result was mainly influenced by better managed discount periods, which yielded a greater retail income, on the one hand, and curbing of operation costs on the other hand, the factors that played a role in the second quarter also included a better inventory management and retail margin management and substantial sales growth in the retail system.

Lease and payroll costs increased in the second quarter in connection with the new retail chain in Russia, while comparable operating costs in the rest of the system remained on the same level as in the first quarter. Redundancy payments and leaving compensations to employees amounted to EEK 1,0m (EUR 0,06m) in the second quarter.

Balance sheet

The consolidated balance sheet total of Baltika was EEK 327,14m (EUR 20,91m) as of June 30th 2004; the decrease compared to the beginning of the year was EEK 2,23m (EUR 0,14m).

Accounts receivable decreased by EEK 25,45m (EUR 1,63m) compared to the beginning of the year, of which a claim of EEK 14,4m (EUR 0,92m) was used to acquire a 50,1 % holding in the Russian joint venture.

The inventories of goods in the system totalled EEK 164,3m (EUR 10,5m), having increased by EEK 13,9m (EUR 0,88m) compared to the beginning of the year in connection with the new Russian retail chain in the Baltika Group system. Comparable inventories (exclusive of Russia) remained on the same level as in the beginning of the year, while the inventories have decreased in the same system by EEK 9,5m (EUR 0,6m) when compared to the end of June 2003. Inventory turnover has increased from 2.78 to 3.52 over the year owing to a more precise inventory management system.

Compared to the beginning of the year, debts have decreased by EEK 6,43m (EUR 0,41m) and accounts payable have decreased by EEK 11,06m (EUR 0,71m).

As of 30 June 2004, Baltika Group employed 1734 people, including 1015 in production and 575 in retail sale; 416 people worked outside Estonia.

The main ratios of the group were:

	30 June 2004	30 June 2003
Sales growth % in the quarter	21,0	-4,6
Percentage of retail sales in net sales	70,0	66,0
Number of shops	78	68
Retail selling area (m ²)	10,907	9,953
Markets managed via own retail trade organizations	7	6
Operating income / net sales, %	1,86	-12,9
Net profit / net sales, %	0,6	-14,6
Net sales / 12 months' average inventories	3,52	2,78

Ülle Järv

The Member of the Management Board

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Balance sheet

EEK thousand	Note	30.06.2004	30.06.2003	30.06.2003	31.12.2003	31.12.2003
ASSETS						
Current assets			proforma		proforma	
Cash and bank		8 227	9 451	9 451	12 836	12 836
Held for trading investments	1	548	291	291	377	377
Customer receivables	2	20 252	39 959	39 959	45 727	45 727
Other receivables and prepaid expenses		14 621	14 612	14 612	13 822	13 822
Inventories	3	164 312	159 491	163 323	150 424	147 846
Total current assets		207 960	223 804	227 636	223 186	220 608
Non-current assets						
Other long-term assets		8 066	6 005	6 005	5 394	5 394
Tangible fixed assets	4	84 341	91 288	93 788	87 017	89 741
Intangible assets	4	26 775	12 987	13 043	13 779	13 851
Total non-current assets		119 182	114 678	112 836	106 190	108 986
TOTAL ASSETS		327 142	334 084	340 472	329 376	329 594
LIABILITIES AND OWNER'S EQUITY						
Current liabilities						
Debt obligations	5	62 903	78 017	78 017	69 336	69 336
Customer prepayments		129	134	134	260	260
Trade payables		42 882	26 539	26 539	53 939	53 939
Other tax liabilities		15 858	8 834	8 834	10 634	10 634
Accrued expenses		12 902	7 593	7 593	10 515	10 515
Total current liabilities		134 674	121 117	121 117	144 684	144 684
Non-current liabilities						
Long-term debt		70 144	64 749	64 749	69 482	69 482
Other long-term payables		47	137	141	45	32
Total non-current liabilities		70 191	64 886	64 890	69 527	69 514
TOTAL LIABILITIES		204 865	186 003	186 007	214 211	214 198
Minority interest		8 517	6 578	6 578	7 119	7 119
OWNER'S EQUITY	7	113 760	141 503	147 887	108 046	108 277
Share capital (par value)		54 994	54 600	54 600	54 994	54 994
Unregistered share capital		880	395	395	0	0
Share premium		43 811	42 490	42 490	42 490	42 490
Statutory legal reserv		22 885	22 885	22 885	22 885	22 885
Retained earnings		(16 508)	50 938	50 938	50 939	50 939
Net (loss) profit for the year		1 724	(32 439)	(23 421)	(67 447)	(63 031)
Foreign exchange differences		5 974	2 634	0	4 185	0
TOTAL LIABILITIES AND OWNER'S EQUITY		327 142	334 084	340 472	329 376	329 594

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Balance sheet

EUR thousand	Note	30.06.2004	30.06.2003	30.06.2003	31.12.2003	31.12.2003
ASSETS						
Current assets						
			proforma		proforma	
Cash and bank		526	604	604	820	820
Held for trading investments	1	35	19	19	24	24
Customer receivables	2	1 294	2 554	2 554	2 922	2 922
Other receivables and prepaid expenses		934	934	934	883	883
Inventories	3	10 501	10 193	10 438	9 614	9 449
Total current assets		13 291	14 304	14 549	14 264	14 099
Non-current assets						
Other long-term assets		516	384	384	345	345
Tangible fixed assets	4	5 390	5 834	5 994	5 561	5 735
Intangible assets	4	1 711	830	834	881	885
Total non-current assets		7 617	7 048	7 212	6 787	6 965
TOTAL ASSETS		20 908	21 352	21 760	21 051	21 065
LIABILITIES AND OWNER'S EQUITY						
Current liabilities						
Debt obligations	5	4 344	4 020	4 986	4 986	4 431
Customer prepayments		8	9	9	17	17
Trade payables		2 741	1 696	1 696	3 447	3 447
Other tax liabilities		1 014	565	565	680	680
Accrued expenses		825	485	485	672	672
Total current liabilities		8 607	7 741	7 741	9 247	9 247
Non-current liabilities						
Long-term debt		4 483	4 138	4 138	4 441	4 441
Other long-term payables		3	9	9	3	2
Total non-current liabilities		4 486	4 147	4 147	4 444	4 443
TOTAL LIABILITIES		13 093	11 888	11 888	13 691	13 690
Minority interest		544	420	420	455	455
OWNER'S EQUITY						
	7	7 271	9 044	9 452	6 905	6 920
Share capital (par value)		3 515	3 490	3 490	3 515	3 515
Unregistered share capital		56	25	25	0	0
Share premium		2 800	2 716	2 716	2 716	2 716
Statutory legal reserv		1 463	1 463	1 463	1 463	1 463
Retained earnings		(1 055)	3 256	0	0	3 256
Net (loss) profit for the year		110	(2 073)	(1497)	(4 311)	(4 028)
Foreign exchange differences		369	382	168	0	267
TOTAL LIABILITIES AND OWNER'S EQUITY		20 908	21 352	21 760	21 051	21 065

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Income statement

EEK thousand	Note	II Q 2004	II Q 2003 proforma	II Q 2003	6 months 2004	6 months 2003 proforma	6 months 2003
Revenue							
Net sales	8	138 732	108 570	108 407	269 350	222 384	220 970
Other revenue		(422)	141	141	1 913	253	253
Total revenue		138 310	108 711	108 548	271 263	222 637	221 223
Expenses							
Materials, services		(56 722)	(42 781)	(44 028)	(97 543)	(83 741)	(85 393)
Change in inventories		9 498	3 614	3 614	3 684	(209)	(209)
Other operating expenses		(39112)	(31 713)	(31 708)	(74 632)	(64 273)	(64 240)
Personnel expenses		(43 408)	(37 393)	(37 385)	(85 814)	(77 533)	(77 526)
Depreciation of fixed assets	4	(5 565)	(6 239)	(6 458)	(11 065)	(12 280)	(12 602)
Other expenses		(28)	(5 209)	(436)	(887)	(13 227)	(905)
Total expenses		(135 837)	(119 721)	(116 401)	(266 257)	(251 263)	(240 875)
Operating profit (loss)		2 473	(11 010)	(7 853)	5 006	(28 626)	(19 652)
Financial income		89	193	(259)	283	335	335
Financial expenses		(1 727)	(1 956)	(1 916)	(3 567)	(4 480)	(4 436)
Profit/loss before taxes		835	(12 773)	(10 028)	1 722	(32 771)	(23 753)
Income tax expense		(138)	(21)	(21)	(138)	(21)	(21)
Profit/loss before minority interest		697	(12 794)	(10 049)	1 584	(32 792)	(23 774)
Minority interest		(441)	(329)	(780)	(140)	(353)	(353)
Net profit (loss)		1 138	(12 465)	(9 269)	1 724	(32 439)	(23 421)
Basic earnings per share (EEK)	9	0,21	(2,27)	(1,69)	0,31	(5,93)	(4,28)
Diluted earnings per share (EEK)	9	0,20	(2,27)	(1,69)	0,30	(5,93)	(4,28)

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Income Statement

EUR thousand	Note	II Q 2004	II Q 2003 proforma	II Q 2003	6 months 2004	6 months 2003 proforma	6 months 2003
Revenue							
Net sales	8	8 867	6 939	6 928	17 215	14 213	14 123
Other revenue		(27)	9	9	122	16	16
Total revenue		8 840	6 948	6 937	17 337	14 229	14 139
Expenses							
Materials, services		(3 625)	(2 734)	(2 814)	(6 234)	(5 352)	(5 458)
Change in inventories		607	231	231	235	(13)	(13)
Other operating expenses		(2500)	(2 027)	(2 027)	(4 770)	(4 108)	(4 106)
Personnel expenses		(2 774)	(2 390)	(2 389)	(5 485)	(4 955)	(4 955)
Depreciation of fixed assets	4	(356)	(399)	(413)	(707)	(785)	(805)
Other expenses		(34)	(333)	(28)	(57)	(845)	(58)
Total expenses		(8 682)	(7 652)	(7 439)	(17 017)	(16 059)	(15 395)
Operating profit (loss)		158	(704)	(502)	320	(1 830)	(1 256)
Financial income		6	12	(17)	18	21	21
Financial expenses		(110)	(125)	(122)	(228)	(286)	(284)
Profit/loss before taxes		53	(816)	(641)	110	(2 094)	(1 518)
Income tax expense		(9)	(1)	(1)	(9)	(1)	(1)
Profit/loss before minority interest		45	(818)	(642)	101	(2 096)	(1 519)
Minority interest		(28)	(21)	(50)	(9)	(23)	(23)
Net profit (loss)		73	(797)	(592)	110	(2 073)	(1 497)
Basic earnings per share (EUR)	9	0,01	(0,15)	(0,11)	0,02	(0,38)	(0,27)
Diluted earnings per share (EUR)	9	0,01	(0,15)	(0,11)	0,02	(0,38)	(0,27)

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**Cash flow statement
(indirect method)**

EEK thousand

Operating activities	Note	6 months 2004	6 months 2003 proforma
Operating profit (loss)		5 006	(28 626)
Adjustment for depreciation	4	11 065	12 280
Profit from the sale of fixed assets		(203)	(142)
Change in receivables		10 675	12 625
Change in inventories	3	(13 888)	16 366
Change in payables		(3 538)	(6 289)
Interests paid		(2 695)	(4 105)
Income tax paid		(13)	(7)
Impact of the adjustments in accounting methods		0	5 693
Cash flow from operating activities		6 409	7 795
Investing activities			
Acquisition of tangible and intangible assets incl. acquisition on conditions of capital lease	4	(6 449)	(6 164)
Sale of fixed assets		118	463
Interests received		414	253
Dividends received		19	73
Sale of marketable securities		0	11
Loans granted		0	290
Repayments of loans granted		(652)	0
Cash flow from investing activities		(6 545)	(5 069)
Financing activities			
Repayment of loans	5	(5 824)	(4 879)
Loans received	5	86	1 452
Finance lease and installments payments		(787)	(833)
Dividends paid to minority shareholders		0	(117)
Receipts from contributions into share capital		2 112	1 320
Proceeds from sale of convertible bonds		0	192
Payments of repurchased convertible bonds		(141)	(14)
Cash flow from financing activities		(4 554)	(2 879)
Changes in foreign currency exchange rate		81	(406)
Total cash flows		(4 609)	(559)
Opening cash and equivalents balance		12 836	10 010
Closing cash and equivalents balance		8 227	9 451

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**Cash flow statement
(indirect method)**

EUR thousand

Operating activities	Note	6 months 2004	6 months 2003 proforma
Operating profit (loss)		320	(1 830)
Adjustment for depreciation	4	707	785
Profit from the sale of fixed assets		(13)	(9)
Change in receivables		682	807
Change in inventories	3	(888)	1 046
Change in payables		(226)	(402)
Interests paid		(172)	(262)
Income tax paid		(1)	(0)
Impact of the adjustments in accounting methods		0	364
Cash flow from operating activities		410	498
Investing activities			
Acquisition of tangible and intangible assets incl. acquisition on conditions of capital lease	4	(412)	(394)
Sale of fixed assets		8	30
Interests received		26	16
Dividends received		1	5
Sale of marketable securities		0	1
Loans granted		0	19
Repayments of loans granted		(42)	0
Cash flow from investing activities		(418)	(324)
Financing activities			
Repayment of loans	5	(372)	(312)
Loans received	5	5	93
Finance lease and installments payments		(50)	(53)
Paid dividends		0	(7)
Receipts from contributions into share capital		135	84
Proceeds from sale of convertible bonds		0	12
Payments of repurchased convertible bonds		(9)	(1)
Cash flow from financing activities		(291)	(184)
Changes in foreign currency exchange rate		5	(26)
Total cash flows		(295)	(36)
Opening cash and equivalents balance		820	640
Closing cash and equivalents balance		526	604

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Statement of Changes in Shareholders' Equity (EEK thousand)

	Share capital	Unregistered share capital	Share premium	Reserves	Retained earnings	Profit/loss for the accounting period	Foreign exchange changes of consolidation	Total
Balance per 31.12.2002	54 444	0	41 665	22 885	44 141	6 798	0	169 933
Appropriation of 2002 profit	0	0	0	0	6 798	(6 798)	0	0
Contribution to share capital	155	0	233	0	0	0	0	388
Unregistered share capital	0	395	592	0	0	0	0	987
Net profit for the accounting period	0	0	0	0	0	(32 439)	2 634	(29 805)
Balance per 30.06.2003	54 600	395	42 490	22 885	50 938	(32 439)	2 634	141 503
Balance per 31.12.2003	54 994	0	42 490	22 885	50 939	(67 447)	4 185	108 046
Appropriation of 2003 loss	0	0	0	0	(67 447)	67 447	0	0
Share premium from contribution to unregistered share capital	0	0	1 321	0	0	0	0	1 321
Unregistered share capital	0	880	0	0	0	0	0	880
Net profit for the accounting period	0	0	0	0	0	1 724	0	1 724
Changes in foreign currency exchange rate	0	0	0	0	0	0	1 789	1 789
Balance per 30.06.2004	54 994	880	43 811	22 885	(16 508)	1 724	5 974	113 760

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Statement of Changes in Shareholders' Equity (EUR thousand)

	Share capital	Unregistered share capital	Share premium	Reserves	Retained earnings	Profit/loss for the accounting period	Foreign exchange changes of consolidation	Total
Balance per 31.12.2002	3 480	0	2 663	1 463	2 821	434	0	10 861
Appropriation of 2002 profit	0	0	0	0	434	(434)	0	0
Contribution to share capital	10	0	15	0	0	0	0	25
Unregistered share capital	0	25	38	0	0	0	0	63
Net profit for the accounting period	0	0	0	0	0	(2 073)	168	(1 905)
Balance per 30.06.2003	3 490	25	2 716	1 463	3 256	(2 073)	168	9 044
Balance per 31.12.2003	3 515	0	2 716	1 463	3 256	(4 311)	267	6 905
Appropriation of 2003 loss	0	0	0	0	(4 311)	4 311	0	0
Share premium from contribution to unregistered share capital	0	0	84	0	0	0	0	84
Unregistered share capital	0	56	0	0	0	0	0	56
Net profit for the accounting period	0	0	0	0	0	110	0	110
Changes in foreign currency exchange rate	0	0	0	0	0	0	114	114
Balance per 30.06.2004	3 515	56	2 800	1 463	(1 055)	110	382	7 271

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Short characteristics of AS Baltika group

Baltika Group is an international clothing trade company with AS Baltika as a parent company. The group operates Monton, Baltman, CHR/Evermen and Baltika Factory shop retail chains in 79 shops at 7 countries – Estonia, Latvia, Lithuania, Poland, the Ukraine, Russia and Sweden. BG's brands are marketed via its own retail chains and wholesalers, the main brands being Baltman, Evermen and Herold (overcoats) for men, and CHR and Mascara (overcoats) for women. Monton, the brand for both men and women, is marketed solely through BG's retail chain Monton.

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

As of 30.06.2004, the group had 1,734 employees.

The seat of the parent company is (and is registered) in Estonia at Veerenni 24 in Tallinn. AS Baltika is listed in Tallinn Stock Exchange.

In May 2004 AS Baltika acquired 50,1% participation in OOO Kompania "Baltman Rus" which operates Baltika Group's brands in Russian market. Company manages 8 shops, from which 4 are situated in Moscow and 4 in St.Peterburg.

As of 30.06.2004 the Group comprises the following companies:

	Country of location	Participation 30.06.2004	Participation 31.12.2003
AS Baltika (parent)	Estonia		
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%	-

Accounting principles and basis of the preparation of the consolidated interim report

This consolidated interim report has been prepared on the assumption of the international accounting standard IAS 34 "Interim Financial Reporting" regarding condensed interim financial statements and in compliance with International Financial Reporting Standards.

In December 2003, the International Accounting Standards Board adopted amendments to 14 IFRS standards, effective from 1 January 2005, but earlier implementation was recommended. As the assets of foreign subsidiaries have a large share in the Baltika group and exchange rate changes have made a material impact on the group's results, the IAS 21 (The Effects of Changes in Foreign Exchange Rates) amendments were implemented from 1 January 2004. The content of the amendment is that the exchange rates of the balance sheet date (for the balance sheet) and the period's average rates (for the income statement) are used when recalculating the reports of foreign subsidiaries into Estonian kroons, and exchange rate differences are shown on a separate line in the equity capital. According to earlier methodology, monetary assets and liabilities were accounted for according to the exchange rate of the balance sheet date, other assets and liabilities were based on the acquisition date rate, and the differences were indicated in the income statement. The changes in the balance sheet mainly concern the value of fixed assets and goods; the inclusion of foreign exchange differences in operating expenses instead of the cost of goods is the greatest change in the income statement. The reports for 2003 have also been re-done

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according to the new methodology. The impact of the adjusted results of the first quarter of 2003 on the group's results was an additional net loss of EEK 9,0m, whereas operating expenses increased by EEK 10,4m due to foreign exchange impacts.

According to the assessment of the management board, the 2nd quarter 2004 interim report of Baltika Group presents a true and fair view of the company's economic results in compliance with the going-concern assumption. This interim report has not been audited or otherwise reviewed by auditors.

This interim report has been prepared in thousands of Estonian kroons and thousands of euros unless another currency is specified. The Estonian kroon is pegged to the euro at the rate 1 EUR = 15.6466 EEK.

NOTES TO CONSOLIDATED INTERIM REPORT

Note 1 Short-term shares and securities

'000 EEK

	30.06.2004		31.12.2003	
	Quantity	Fair value	Quantity	Fair value
Shares of AS Tallinna Kaubamaja	5 160	548	5 160	377

'000 EUR

	30.06.2004		31.12.2003	
	Quantity	Fair value	Quantity	Fair value
Shares of AS Tallinna Kaubamaja	5 160	35	5 160	24

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

Note 2 Accounts receivable

	'000 EEK		'000 EUR	
	30.06.2004	31.12.2003	30.06.2004	31.12.2003
Accounts receivable	20 431	46 922	1 306	2 999
Doubtful accounts	(179)	(1 195)	(11)	(76)
Total	20 252	45 727	1 294	2 922

In the 2nd quarter accounts receivable have decreased by 14,4 million EEK (0,92 million EUR) as claims were used to acquire participation in OOO Kompania "Baltman Rus".

Accounts receivable are carried at nominal value minus discounts.

In evaluating trade receivables, each receivable has been treated separately. During the accounting quarter doubtful accounts were expensed in amount of 31 thousand EEK (2 thousand EUR). Doubtful accounts expensed in previous periods have not been recovered.

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Accounts known to be uncollectible are written off the balance sheet. During the accounting quarter there was uncollectible receivables in amount of 1 040 thousand EEK (66 thousand EUR).

The expense of doubtful and uncollectible accounts is recorded in the income statement under operating expenses; receivables that were expensed in previous periods but recovered are recorded under other operating income.

Note 3 Inventories of finished goods and materials

	'000 EEK		'000 EUR	
	30.06.2004	31.12.2003	30.06.2004	31.12.2003
Raw materials (fabric, accessories, material on the way)	38 112	49 571	2 436	3 168
Write-down provision for inventories of material	(988)	(1 335)	(63)	(85)
Work in progress	14 588	12 837	932	820
Finished goods and purchased goods (warehouses, stores)	122 505	105 366	7 829	6 734
Write-down provision for inventories of finished goods	(11 505)	(17 032)	(735)	(1 089)
Prepayments to suppliers	1 600	1 017	102	65
Total	164 312	150 424	10 501	9 614

In the 2nd quarter inventories increased due to acquired interest in business of OOO Kompania "Baltman Rus".

Note 4 Tangible and intangible assets

The group's investments in tangible assets during first half of 2004 amounted to 6 243 thousand EEK (399 thousand EUR), including 511 thousand EEK (33 thousand EUR) in production equipment, 5 322 thousand EEK (340 thousand EUR) in retail trade, and 302 thousand EEK (19 thousand EUR) in information technology. Tangible assets in the acquisition cost of 118 thousand EEK (7,5 thousand EUR) were acquired on financial lease conditions.

Due to acquired participation in OOO Kompania "Baltman Rus" groups assets in whole have increased mainly by shops inventory in amount of 991 thousand EEK (63 thousand EUR).

During the first half of 2004 the group sold fixed assets, mainly shops inventory, with an acquisition value of 1 491 thousand EEK (95 thousand EUR), with residual value 440 thousand EEK (28 thousand EUR).

The group wrote off fixed assets, mainly outdated production and IT equipment, shops inventory and other tangible assets, with an acquisition value of 679 thousand EEK (43 thousand EUR) and with a residual value of 146 thousand EEK (9 thousand EUR).

Tangible Fixed Assets movements in the Group in 6 months 2004

'000 EEK						
	Land	Buildings, facilities	Plant and equipment	Other fixtures	Pre-payments	Total
Acquisition cost 31.12.2003	3 004	72 107	70 444	41 954	224	187 733
Accumulated depreciation 31.12.2003	0	(22 164)	(57 680)	(20 872)	0	(100 716)
Residual value 31.12.2003	3 004	49 943	12 764	21 082	224	87 017
Acquired during the period	0	2 295	844	3 104	248	6 491
Acquired participation in subsidiary	0	0	301	690	0	991

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Sold during the period	0	0	0	(440)	0	(440)
Written off during the period	0	(34)	(2)	(110)	0	(146)
Reclassification	0	0	0	0	(224)	(224)
Depreciation 2004	0	(2482)	(3159)	(4227)	0	(9868)
Foreign exchange differences	0	234	15	271	0	520
Acquisition cost 30.06.2004	3 004	74 805	71 367	44 689	248	194 113
Accumulated depreciation 30.06.2004	0	24 849	60 604	24 319	0	109 772
Residual value 30.06.04	3 004	49 956	10 763	20 370	248	84 341

'000 EUR

	Land	Buildings, facilities	Plant and equipment	Other fixtures	Pre-payments	Total
Acquisition cost 31.12.2003	192	4 608	4 502	2 681	14	11 998
Accumulated depreciation 31.12.2003	0	(1 417)	(3 686)	(1 334)	0	(6 437)
Residual value 31.12.2003	192	3 192	816	1 347	14	5 561
Acquired during the period	0	147	54	198	16	415
Acquired participation in subsidiary	0	0	19	44	0	63
Sold during the period	0	0	0	(28)	0	(28)
Written off during the period	0	(2)	0	(7)	0	(9)
Reclassification	0	0	0	0	(14)	(14)
Depreciation 2004	0	(159)	(202)	(270)	0	(631)
Foreign exchange differences	0	15	1	17	0	33
Acquisition cost 30.06.2004	192	4 781	4 561	2 856	0	12 406
Accumulated depreciation 30.06.2004	0	1 588	3 873	1 554	0	7 016
Residual value 30.06.04	192	3 193	688	1 302	0	5 390

See note 5 concerning pledged assets.

Intangible Assets movements in the Group in 6 months 2004

The investments made in new software during first half of amounted to 400 thousand EEK (26 thousand EUR).

Intangible assets with an acquisition cost of 899 thousand EEK (57 thousand EUR) and with a residual value of 4 thousand EEK were written off.

'000 EEK

	Licences and software	Positive goodwill	Negative goodwill	Total
Acquisition cost 31.12.2003	17 999	1 742	(919)	18 822
Accumulated depreciation 31.12.2003	(4 576)	(1 386)	919	(5 043)
Residual value 31.12.2003	13 423	356	0	13 779
Acquired during the period	400	0	0	400
Acquired participation in subsidiary	0	13 877	0	13 877

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Written off during the period	(4)	0	0	(4)
Depreciation 2004	(1 196)	(96)	0	(1 292)
Foreign exchange differences	15	0	0	15
Acquisition cost 30.06.2004	17 522	15 619	(919)	32 222
Accumulated depreciation 30.06.2004	(4 884)	(1 482)	919	(4 321)
Residual value 30.06.2004	12 638	14 137	0	26 775

'000 EUR

	Licences and software	Positive goodwill	Negative goodwill	Total
Acquisition cost 31.12.2003	1 150	111	(59)	1 203
Accumulated depreciation 31.12.2003	(292)	(89)	59	(322)
Residual value 31.12.2003	858	23	0	881
Acquired during the period	26	0	0	26
Acquired participation in subsidiary	0	887	0	887
Written off during the period	0	0	0	0
Depreciation 2004	(76)	(6)	0	(83)
Foreign exchange differences	1	0	0	1
Acquisition cost 30.06.2004	1 120	998	(59)	2 059
Accumulated depreciation 30.06.2004	312	(95)	59	276
Residual value 30.06.2004	808	904	0	1 711

Note 5 Debt obligations

Short-term debt	'000 EEK		'000 EUR	
	30.06.2004	31.12.2003	30.06.2004	31.12.2003
Current portion of long-term debt	9 008	15 455	576	988
Short-term bank loans	34 724	34 638	2 219	2 214
Short-term lease liabilities	589	1 298	38	83
Convertible bonds	366	507	23	32
Bonds	18 216	17 438	1 164	1 114
Total	62 903	69 336	4 020	4 431

Long-term debt	'000 EEK		'000 EUR	
	30.06.2004	31.12.2003	30.06.2004	31.12.2003
Long-term bank loans	69 540	68 917	4 444	4 405
Long-term lease liabilities	604	565	39	36
Total	70 144	69 482	4 483	4 441

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Bank loans ('000 EEK)

Creditor	Loan debt 30.06.04	Current portion up to 1 year	Long-term portion 1-5 years	Interest
Nordea Bank	8 097	900	7 197	3 months` Euribor+2,5%
Nordea Bank	8 335	2 084	6 251	6 months` Euribor+2,5%
Hansabank	51 402	3 882	47 520	6 months` EURIBOR + 2,25%
Hansabank	11 000	11 000		04,5%
Hansabank	10 714	2 143	8 571	6 months` EURIBOR + 2,35%
Hansabank (overdraft facility)	23 724	23 724		04,5%
Total	113 272	43 733	69 539	

Bank loans ('000 EUR)

Creditor	Loan debt 30.06.2004	Current portion up to 1 year	Long-term portion 1-5 years	Interest
Nordea Bank	517	58	460	3 months` Euribor+2,5%
Nordea Bank	533	133	400	6 months` Euribor+2,5%
Hansabank	3 285	248	3 037	6 months` EURIBOR + 2,25%
Hansabank	703	703		04,5%
Hansabank	685	137	548	6 months` EURIBOR + 2,35%
Hansabank (overdraft facility)	1 516	1 516		04,5%
Total	7 239	2 795	4 444	

During first half-year AS Baltika repaid loan to Nordea Bank 1 942 thousand EEK (124 thousand EUR), from which 1 042 thousand EEK (66 thousand EUR) was paid in the 2nd quarter. Due to change in loan contract between Nordea Bank and AS Baltika short-term loan in amount of 623 thousand EEK (40 thousand EUR) became long-term loan. During six months AS Baltika made loan repayments to Hansabank 3 882 thousand EEK (248 thousand EUR), from which 1 941 thousand EEK (124 thousand EUR) was paid in the 2nd quarter.

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The loans and overdraft of AS Baltika are secured by a commercial pledge of 69 680 thousand EEK (4 453 thousand EUR) and a mortgage on the registered immovable at Veerenni 24 in an amount of 40 million EEK (2,6 million EUR).

The loan of AS Virulane is secured by mortgages on the registered immovables at Kalda 10A in Rakvere and at Õpetajate 5 in Ahtme plus the surety of AS Baltika.

AS Baltika has opened a group account with Hansabank with an overdraft limit of 25 million EEK (1,6 million EUR). As of 30.06.2004, the overdraft facility had been used to the extent of 23,7 million EEK (1,5 million EUR).

The group's interest expenses during six months of 2004 amounted to 3 471 thousand EEK (222 thousand EUR); the respective amount for the same period of 2003 was 3 974 thousand EEK (254 thousand EUR). Interest expenses are recorded under financial expenses.

Note 6 Debt instruments

Convertible bonds

The general meeting of shareholders of 6 April 2001 decided to issue 576,000 convertible bonds over 2001–2003 (192,000 bonds a year) with a nominal value of EEK 1,00.

The bonds are convertible into ordinary shares as follows:

A-bond into one ordinary share for additional cash payment of 24 EEK;

B-bond into one ordinary share for additional cash payment 33,32 EEK;

C-bond into one ordinary share for additional cash payment 36,57.

If the bonds are neither converted into ordinary shares nor redeemed during the conversion period, they are exchanged into a loan, which will bear market interest rate. Until that date no interest is paid on the bonds.

According to A-bond owners request to exchange bonds into shares, AS Baltika management board decided on April 30th 2004 to increase share capital in amount of 880 000 EEK issuing 88 000 shares with a nominal value of 10 EEK. Share capital was increased by converting 88 000 A-bonds to shares after receiving bonds value and shares nominal value difference (24 EEK) in cash.

Increase of shares capital was registered in Commercial Register on July 15th 2004.

	Issue date	Issue price (value) (in '000 EEK)	Bond conversion period	Converted into shares (in '000 EEK)	Redeemed Convertible bonds (in '000 EEK)	30.06.2004 (in '000 EEK)
A-bond	01.05.2001	192	01.05.2002- 01.05.2004	143	0	49
B-bond	01.05.2002	192	01.05.2003- 01.05.2005	0	3	189
C-bond	01.05.2003	192	01.05.2004- 01.05.2006	0	63,5	128,5
Total		576		143	66,5	366,5

According to the bond conditions, an employee leaving the company within a year must sell the bonds back to the company. 52 500 bonds have been redeemed in six months of 2004.

Closed issue of bonds

	Quantity	Nominal EEK	Issue price	Balance 30.06.2004	Coupon rate %	Maturity
Bonds	1 750	10 000	9 873,69	18 216	7,0	17.03.2006

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	Quantity	Nominal EEK	Issue price	Balance 30.06.2004	Coupon rate %	Maturity
Bonds	1 750	639	631,04	1 164	7,0	17.03.2006

On September 26th 2003, AS Baltika issued bonds in the amount of 17,5 million EEK (1,1million EUR). Maturity date of the bonds is 17 March 2006. Coupon rate is 7,0% and coupon payment dates March 17, 2005 and March 17, 2006. Effective interest rate is about 7,8%. The bonds are unsecured.

Note 7 Owner`s equity

Share capital

	30.06.2004	31.12.2003
Share capital ('000 EEK)	54 994	54 994
Number of shares (pc)	5 499 450	5 499 450
Nominal value of shares (EEK)	10.00	10.00
Unregistered share capital	880	0
	30.06.2004	31.12.2003
Share capital ('000 EUR)	3 515	3 515
Number of shares (pc)	5 499 450	5 499 450
Nominal value of shares (EUR)	0.64	0.64
Unregistered share capital	56	0

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 the issued shares have been paid for.

According to A-bond owners request to exchange bonds into shares, AS Baltika management board decided on 30 April 2004 to increase share capital in amount of 880 000 EEK (56 242 EUR) issuing 88 000 shares with a nominal value of 10 EEK (0,64 EUR).

Increased share capital is in total amount of 55 874 500 EEK (3 571 031 EUR). Share premium for the last emission is 15 EEK (0,96 EUR) per share.

Emitted shares give right to claim dividends beginning at 2004.

Increase of share capital was registered in Commercial Register on July 15th 2004.

Note 8 Segments

Business Segment Report by areas of operation for 6 months 2004 - Primary

'000 EEK

	Retail trade	Production, wholesale and subcontracting	Intersegmental transactions	TOTAL
Extra-group sales	188 300	81 050	0	269 350
Intersegmental sales	0	147 292	(147 292)	0
Total sales				
Operating profit of the segment	6 824	12 282	0	19 106
Unallocated expenses				(14 100)
Total operating profit				5 006
Other financial income (expenses)				(3 284)

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Income tax				(138)
Profit before minority shareholding				1 584
Minority interest				(140)
Net profit				1 724
Assets	124 147	191 288	(1 624)	313 811
Unallocated assets of the group				13 331
Total assets				327 142
Liabilities	126 393	57 257	(112 202)	71 448
Unallocated liabilities of the group				133 417
Total liabilities				204 865
Acquisition of fixed assets in the accounting period	6 313	1 321		7 634
Depreciation and amortization in the accounting period	4 731	6 334		11 065
Other major non-monetary expenses	(5 527)	(1 363)		(6 890)

Business Segment Report by areas of operation for 6 months 2004 - Primary

'000 EUR

	Retail trade	Production, wholesale and subcontracting	Intersegmental transactions	TOTAL
Extra-group sales	12 035	5 180		17 215
Intersegmental sales	0	9 414	(9 414)	0
Total sales	12 035	14 594	(9 414)	17 215
Operating profit of the segment	436	785	0	1 221
Unallocated expenses				(901)
Total operating profit				320
Other financial income (expenses)				(210)
Income tax				(9)
Profit before minority shareholding				101
Minority interest				(9)
Net profit				110
Assets	7 934	12 226	(104)	20 056
Unallocated assets of the group				852
Total assets				20 908
Liabilities	8 078	3 659	(7 171)	4 566
Unallocated liabilities of the group				8 527
Total liabilities				13 093
Acquisition of fixed assets in the	403	84		488

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accounting period			
Depreciation and amortization in the accounting period	302	405	707
Other major non-monetary expenses	(353)	(87)	(440)

Business Segment Report by areas of operation for 6 months 2003 - Primary

'000 EEK	Retail trade	Production, wholesale and subcontracting	Intersegmental transactions	TOTAL
Extra-group sales	146 030	76 354		222 384
Intersegmental sales	0	116 133	(116 133)	0
Total sales	146 030	192 487	(116 133)	222 384
Operating profit of the segment	(33 862)	17 308	0	(16 554)
Unallocated expenses				(12 072)
Total operating profit				(28 626)
Other financial income (expenses)				(4 145)
Income tax				(21)
Profit before minority shareholding				(32 792)
Minority interest				(353)
Net profit				(32 439)
Assets	127 061	200 535	(4 691)	329 905
Unallocated assets of the group				11 179
Total assets				334 084
Liabilities	106 449	35 796	(99 403)	42 842
Unallocated liabilities of the group				143 161
Total liabilities				186 003
Acquisition of fixed assets in the accounting period	2 157	10 741		12 898
Depreciation and amortization in the accounting period	6 626	5 654		12 280
Other major non-monetary expenses		(1 427)		(1427)

Business Segment Report by areas of operation for 6 months 2003 - Primary

'000 EUR	Retail trade	Production, wholesale and subcontracting	Intersegmental transactions	TOTAL
Extra-group sales	9 333	4 880		14 213
Intersegmental sales	0	7 422	(7 422)	0
Total sales	9 333	12 302	(7 422)	14 213

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Operating profit of the segment	(2 164)	1 106	0	(1 058)
Unallocated expenses				(772)
Total operating profit				(1 830)
Other financial income (expenses)				(265)
Income tax				(1)
Profit before minority shareholding				(2 096)
Minority interest				(23)
Net profit				(2 073)
Assets	8 121	12 816	(300)	20 637
Unallocated assets of the group				714
Total assets				21 352
Liabilities	6 803	2 288	(6 353)	2 738
Unallocated liabilities of the group				9 150
Total liabilities				11 888
Acquisition of fixed assets in the accounting period	138	686	0	824
Depreciation and amortization in the accounting period	423	361	0	785
Other major non-monetary expenses	0	(91)	0	(91)

The retail segment includes subsidiaries related to retail trade and factory shops belonging to production companies AS Baltika and AS Virulane. The production and wholesale segment includes production, wholesale, subcontracting and other associated operations.

Assets and liabilities of segments do not include financial assets and liabilities, and the revenues and expenses of the segment do not include the revenues and expenses associated with these assets and liabilities.

In the segment report, administrative building is considered as an unallocated asset of the group; long-term loans and interest liabilities are considered as unallocated liabilities of the group; administrative costs of the centre are considered as unallocated costs of the group.

Allowances for inventories and doubtful receivables are recorded under non-monetary expenses.

Sales and assets by Geographical segment (location of clients) – secondary segment

'000 EEK	Sales		Fixed assets		Capital expenditure	
	6 months 2004	6 months 2003	30.06.04	31.12.03	30.06.04	31.12.03
Estonia	68 178	62 651	84 787	75 096	2 434	10 528
Latvia	29 340	24 407	3 602	3 586	781	412
Lithuania	48 506	37 282	8 620	8 339	1 926	1 241
Russia	34 262	14 138	883	0	991	0
The Ukraine	32 843	24 494	4 833	4 218	1 419	114
Finland	16 319	16 743	334	371	0	463
Sweden	11 442	12 194	83	100	0	0
England	8 706	6 782	0	0	0	0
Poland	19 374	23 645	7 974	9 086	83	140
Other markets	380	48	0	0	0	0
Total	269 350	222 384	111 116	100 796	7 634	12 898

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<u>'000 EUR</u>	<u>Sales</u>		<u>Fixed assets</u>		<u>Capital expenditure</u>	
	<u>6 months 2004</u>	<u>6 months 2003</u>	<u>30.06.04</u>	<u>31.12.03</u>	<u>30.06.04</u>	<u>31.12.03</u>
Estonia	4 357	4 004	5 419	4 800	156	673
Latvia	1 875	1 560	230	229	50	26
Lithuania	3 100	2 383	551	533	123	79
Russia	2 190	904	56	0	63	0
The Ukraine	2 099	1 565	309	270	91	7
Finland	1 043	1 070	21	24	0	30
Sweden	731	779	5	6	0	0
England	556	433	0	0	0	0
Poland	1 238	1 511	581	581	5	9
Other markets	24	3	0	0	0	0
Total	17 215	14 213	6 442	6 442	488	824

Fixed assets include either tangible or intangible fixed assets.

Note 9 Earnings per share

Basic earnings per share

		<u>6 months 2004</u>	<u>6 months 2003</u>
Weighted average number of shares	pc	5 499 450	5 468 533
Net profit/loss	'000 EEK	1 724	(32 439)
	'000 EUR	110	(2 073)
Basic earnings per share	EEK	0,31	(5,93)
	EUR	0,02	(0,38)

Diluted earnings per share

		<u>6 months 2004</u>	<u>6 months 2003</u>
Weighted average number of shares	pc	5 499 450	5 479 700
Net profit (loss)	'000 EEK	1 724	(32 439)
	'000 EUR	110	(2 073)
Diluted earnings per share	EEK	0,30	(5,93)
	EUR	0,02	(0,38)

In calculating the diluted earnings per share the 576 000 convertible bonds issued within the framework of the executives' share option program in 2001-2003, have been taken into account. The convertible bonds entitle their holders to exchange them for the same amount of shares of AS Baltika.

The average market price of the Baltika share in six months of 2004 was 23,88 EEK (1,53 EUR), the average in six months of 2003 was 35,73 EEK (2,28 EUR).

Note 10 Related parties

For the purpose of this financial statement related parties include shareholders, management or supervisory board members, top management, above mentioned groups family members, enterprises which are under control of management or supervisory board members, subsidiaries.

OÜ BMIG which is controlled by the members of the management and supervisory board holds 19,97% of the shares of AS Baltika.

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During six months of 2004, goods in the amount of 2 099 thousand EEK (134 thousand EUR) were purchased from OÜ Maisan, a company that is controlled by a member of the management board. The services were rendered in amount of 46 thousand EEK (3 thousand EUR).

In the same period of 2003 from OÜ Maisan goods were purchased in the amount of 1 885 thousand EEK (120 thousand EUR) and services were rendered in amount of 44 thousand EEK (3 thousand EUR).

In six months of 2004, sewing services and goods in the amount of 8 403 thousand EEK (537 thousand EUR) were sold to and services in amount of 544 thousand EEK (35 thousand EUR) were purchased from The Major Oak Clothing Co, a company that is controlled by a member of the supervisory board.

In the same period of 2003 services were rendered in amount of 6 810 thousand EEK (435 thousand EUR) and purchased for 318 thousand EEK (20 thousand EUR).

The director of the subsidiary Baltika Lietuva has been granted a loan in the amount of 136 thousand EEK (30 thousand LTL), due date is May 1, 2006. As long as the current employment contract is effective, no interest is to be calculated on the loan.

AS Virulane, AS Elina STC and OÜ Baltman are part of the group account agreement of AS Baltika. The group account has an overdraft facility of 25 million EEK. As of 30.06.2004, only the parent company was using the overdraft. The users of the group account are jointly responsible for fulfilling the terms of the group account agreement.

Liabilities and Receivables of Parent Company to/from Subsidiaries:

	EEK thousand		EUR thousand	
	30.06.2004	31.12.2003	30.06.2004	31.12.2003
Liabilities	8 653	9 387	553	600
Receivables	89 639	65 401	5 729	4 180