



***AS BALTIKA***

***consolidated interim report for the fourth quarter of 2004***

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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 fourth 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 27 are correct and complete:

.....  
*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, on February 23th, 2005

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## **Letter of explanation to interim report**

### General results

The unaudited consolidated net sales of AS Baltika were 581.9 million EEK ( 37.2 million EUR) and the net profit was 16.7 million EEK (1.1 million EUR). Compared to 2003, the net sales increased by 17% (net sales 497 million EEK; 318 million EUR, respectively). AS Baltika ended the year 2003 with a loss of 67.4 million EEK (4.3 million EUR).

### Sales

#### Retail sales

The retail sales revenue for Baltika in 2004 was 420.3 million EEK (26.9 million EUR), which is an increase of 31% compared to the year 2003. The total increase in sales revenue was 99.2 million EEK (6.4 million EUR), of which 74.8 million EEK (4.8 million EUR) and 24.4 million EEK (1.6 million EUR) accounted for retail system growth and retail sales area efficiency growth, respectively. Retail sales income accounted for 72% of total sales income (65% in 2003). As of the end of 2004, Baltika had 78 outlets and 11,668 m<sup>2</sup> of sales premises. Twelve new outlets and 1559 m<sup>2</sup> of sales premises were added during the year.

Sales were the largest in the domestic Estonian market, totalling 117 million EEK (7.5 million EUR) (growth 22%) and forming 28% of the retail sales of the entire Baltika Grupp, followed by Lithuania and the Ukraine with sales of 106.9 million EEK (6.8 million EUR, growth 36%) and 71 million EEK (4.5 million EUR, growth 31%), respectively. Growth was the greatest in 2004 in the Latvian market – sales increased by 42% and sales income totalled 52.26 million EEK (3.3 million EUR). Retail operations began in Russia through the joint venture launched in May, and the eight months' sales result was 31 million EEK (2.0 million EUR). Major changes in the size of retail premises and in lease contracts were made in the Polish market in 2004 as a result of reviewing the retail premises, which were reduced by 10%. The sales income from the Polish market was 40.3 million EEK (2.6 million EUR), which is 17% less than in 2003.

The best-sold brand of Baltika in 2004 was Monton, which accounted for 53% of retail sales and totalled 221.1 million EEK (14.1 million EUR), being 3.2% less than in 2003 owing to the reduced Monton sales area in the Polish market.

Volume growth was the greatest in the CHR/Evermen and Baltman retail chains, where sales increased 2,8 and 2,4 times, respectively. The sales incomes of CHR/Evermen and Baltman in 2004 were 118.5 million EEK (7.6 million EUR) and 63.72 million EEK (4.1 million EUR), respectively.

#### Wholesale

Wholesale of own products totalled 115.6 million EEK (7.4 million EUR) in 2004, having decreased by 5.8% compared to the previous year. The reduction in sales was mainly due to the results of the retail chain taken over in Russia, which replaced the former wholesale sales in part.

#### Subcontracting sales

Subcontracting sales volumes decreased by 16% compared to the year 2003 and totalled 42.7 million EEK (2.7 million EUR). In connection with the establishment of the joint venture OÜ Baltika Tailor, based on the production division of Baltika in November 2004, of which 50% is owned by Baltika and 50% by OY Turo Tailor AB, the consolidation principle of the joint venture will change from 2005 and the joint venture's income and expenses will no longer be consolidated in the financial statements of Baltika Group.

#### Financial results

The net profit of AS Baltika in 2004 was 16.7 million EEK (1.1 million EUR). Most of net profit, 11.4 million EEK (0.7 million EUR), was earned in the fourth quarter.

In 2004, new skills of inventory management and central operation of the retail system were developed in the Baltika Group head office; the result was a 40% rise in gross profit to 269.7 million EEK (17.2 million EUR), a good inventory quality, and the inventory turnover of 3,9. This was achieved through a better

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management of discount periods and sales margins, the creation of successful product collections and optimisation of retail operation and administration costs.

Improved methods of assessing new retail areas and the closure or restructuring of less efficient shops resulted in a higher efficiency of retail system investments.

After the rehabilitation process carried out in the Polish market, market management costs decreased by 2.4 million EEK (0.2 million EUR) compared to the year 2003.

The staff of the head office and production units was reduced by 91 persons. 1.8 million EEK (0.1 million EUR) of redundancy benefits were paid during year.

In December 2004, sale of the 50% holding in OÜ Baltika Tailor generated a financial income of 3.9 million EEK (0.2 million EUR).

#### Balance sheet

The consolidated balance sheet total of Baltika was 317.7 million EEK (20.3 million EUR) as of 31.12.2004; the decrease compared to the beginning of the year was 12.1 million EEK (0.8 million EUR). Although the retail system was constantly growing, inventories in the system decreased by 4.9 million EEK (0.3 million EUR) over the year, totalling 145.6 million EEK (9.3 million EUR). The aggressive sale of old inventories, especially in the first half of the year, improved the company's liquidity. Improved cash flows allowed for reducing accounts payable by 23.2 million EEK (1.5 million EUR) compared to the beginning of the year. Debt obligations decreased by 18.4 million EEK (1.2 million EUR). The debt obligations to assets ratio was 38% at the end of the year (42% in 2003).

A total of 13.8 million EEK (0.9 million EUR) was invested in fixed assets in 2004, mainly in relation to new retail areas and development of the IT systems supporting retail system monitoring.

#### Personnel

The group employed 1704 persons as of 31.12.2004, including 574 in retail sale, 988 in production and 144 in the head office. 435 people worked outside Estonia. The retail staff increased by 83 persons and the head office and production staff decreased by a total of 91 persons during the year.

#### About the plans for 2005

AS Baltika expects its retail system to grow by at least 20% this year; a minimum of 12 new retail areas are planned to be opened in four retail markets: Estonia, Lithuania, the Ukraine and Russia.

The main ratios of the group as of 31.12.2004 were:

	31.12.2004	31.12.2003
Sales growth % in the quarter	17	2,3
Percentage of retail sales in net sales	72	65
Number of shops	78	66
Retail selling area (m <sup>2</sup> )	11,668	10,109
Markets managed via own retail trade organizations	6	6
Operating income / net sales, %	3,3	-10,3
Net profit / net sales, %	2,9	-13,6
Net profit / 12 months' average owner's equity	14,6	-42,7
Net sales / 12 months' average inventories	5,1	-17,5

Ülle Järv

The Member of the Management Board

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Balance sheet

EEK thousand	Note	31.12.2004	31.12.2003 proforma	31.12.2003
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and bank		12 515	12 836	12 836
Held for trading investments	1	603	377	377
Customer receivables	2	27 501	45 727	45 727
Other receivables and prepaid expenses		10 536	13 601	13 601
Prepayment of income tax		49	221	221
Inventories	3	145 460	150 424	147 846
<b>Total current assets</b>		<b>196 664</b>	<b>223 186</b>	<b>220 608</b>
<b>Non-current assets</b>				
Investments in joint venture		1 095	5 394	5 394
Investment property		7 500	0	0
Deferred income tax		4 349	0	0
Other long-term assets		2 264	0	0
Tangible fixed assets	4	77 325	87 017	89 741
Intangible assets	4	27 983	13 779	13 851
<b>Total non-current assets</b>		<b>120 516</b>	<b>106 190</b>	<b>108 986</b>
<b>TOTAL ASSETS</b>		<b>317 180</b>	<b>329 376</b>	<b>329 594</b>
<b>LIABILITIES AND OWNER'S EQUITY</b>				
<b>Current liabilities</b>				
Debt obligations	5,6	74 504	69 336	69 336
Customer prepayments		204	260	260
Trade payables		30 722	53 939	53 939
Income tax payables		193	0	0
Other tax liabilities		12 476	10 634	10 634
Accrued expenses		11 667	10 515	10 515
<b>Total current liabilities</b>		<b>129 766</b>	<b>144 684</b>	<b>144 684</b>
<b>Non-current liabilities</b>				
Long-term debt		45 923	69 482	69 482
Other long-term payables		21	45	32
<b>Total non-current liabilities</b>		<b>45 944</b>	<b>69 527</b>	<b>69 514</b>
<b>TOTAL LIABILITIES</b>		<b>175 710</b>	<b>214 211</b>	<b>214 198</b>
<b>OWNER'S EQUITY</b>				
	7	<b>141 470</b>	<b>115 165</b>	<b>115 396</b>
Share capital (par value)		56 340	54 994	54 994
Share premium		44 508	42 490	42 490
Statutory legal reserv		4 800	4 800	4 800
Other reservs		21 983	18 085	18 085
Retained earnings		(16 508)	50 939	50 939
Net (loss) profit for the year		16 701	(67 447)	(67 447)
Foreign exchange differences		6 622	4 185	0
Minority interest		7 024	7 119	7 119
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<b>317 180</b>	<b>329 376</b>	<b>329 594</b>

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## Balance sheet

EUR thousand	Note	31.12.2004	31.12.2003 proforma	31.12.2003
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and bank		800	820	820
Held for trading investments	1	39	24	24
Customer receivables	2	1 758	2 922	2 922
Other receivables and prepaid expenses		673	869	869
Prepayment of income tax		3	14	14
Inventories	3	9 297	9 614	9 449
<b>Total current assets</b>		<b>12 569</b>	<b>14 264</b>	<b>14 099</b>
<b>Non-current assets</b>				
Investments in joint venture		70	345	345
Investment property		479	0	0
Deferred income tax		278	0	0
Other long-term assets		145	0	0
Tangible fixed assets	4	4 942	5 561	5 735
Intangible assets	4	1 788	881	885
<b>Total non-current assets</b>		<b>7 702</b>	<b>6 787</b>	<b>6 965</b>
<b>TOTAL ASSETS</b>		<b>20 271</b>	<b>21 051</b>	<b>21 065</b>
<b>LIABILITIES AND OWNER'S EQUITY</b>				
<b>Current liabilities</b>				
Debt obligations	5,6	4 762	4 431	4 431
Customer prepayments		13	17	17
Trade payables		1 963	3 447	3 447
Income tax payables		12	0	0
Other tax liabilities		797	680	680
Accrued expenses		746	672	672
<b>Total current liabilities</b>		<b>8 294</b>	<b>9 247</b>	<b>9 247</b>
<b>Non-current liabilities</b>				
Long-term debt		2 935	4 441	4 441
Other long-term payables		1	3	2
<b>Total non-current liabilities</b>		<b>2 936</b>	<b>4 444</b>	<b>4 443</b>
<b>TOTAL LIABILITIES</b>		<b>11 230</b>	<b>13 691</b>	<b>13 690</b>
<b>OWNER'S EQUITY</b>				
	7	<b>9 042</b>	<b>7 360</b>	<b>7 375</b>
Share capital (par value)		3 601	3 515	3 515
Share premium		2 845	2 716	2 716
Statutory legal reserv		307	307	307
Other reservs		1 405	1 156	1 156
Retained earnings		(1 055)	3 256	3 256
Net (loss) profit for the year		1 067	(4 311)	(4 028)
Foreign exchange differences		423	267	0
Minority interest		449	455	455
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<b>20 271</b>	<b>21 051</b>	<b>21 065</b>

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### Income statement

EEK thousand	Note	IV Q 2004	IV Q 2003 proforma	IV Q 2003	2004	2003 proforma	2003
<b>Revenue</b>							
Net sales	8	152 997	137 529	131 449	581 878	497 048	496 686
Other revenue		(1 184)	122	118	1 692	607	603
<b>Total revenue</b>		<b>151 813</b>	<b>137 651</b>	<b>131 567</b>	<b>583 570</b>	<b>497 655</b>	<b>497 289</b>
<b>Expenses</b>							
Materials, services		(48 533)	(66 559)	(74 647)	(195 326)	(214 053)	(224 112)
Change in inventories		1 568	2 465	2 465	(11 726)	(659)	(659)
Other operating expenses		(46 263)	(37 893)	(37 768)	(162 401)	(136 990)	(136 825)
Personnel expenses		(42 284)	(43 730)	(43 680)	(168 409)	(162 248)	(164 192)
Depreciation of fixed assets	4	(5 361)	(5 709)	(5 577)	(21 848)	(21 813)	(22 130)
Other expenses		(3 439)	(3 526)	(3 243)	(5 073)	(11 009)	(4 507)
<b>Total expenses</b>		<b>(144 312)</b>	<b>(154 952)</b>	<b>(162 450)</b>	<b>(564 783)</b>	<b>(548 772)</b>	<b>(552 425)</b>
<b>Operating profit (loss)</b>		<b>7 501</b>	<b>(17 301)</b>	<b>(30 883)</b>	<b>18 787</b>	<b>(51 117)</b>	<b>(55 136)</b>
Financial income		4 294	161	268	4 491	707	814
Financial expenses		(3 690)	(10 060)	(1 895)	(9 262)	(16 384)	(8 056)
<b>Profit/loss before taxes</b>		<b>8 105</b>	<b>(27 200)</b>	<b>(32 510)</b>	<b>14 016</b>	<b>(66 794)</b>	<b>(62 378)</b>
Income tax expense		1 148	(444)	(444)	947	(465)	(465)
<b>Profit/loss before minority interest</b>		<b>9 253</b>	<b>(27 644)</b>	<b>(32 954)</b>	<b>14 963</b>	<b>(67 259)</b>	<b>(62 843)</b>
Minority interest		(2 089)	(319)	(318)	(1 738)	188	188
<b>Net profit (loss)</b>		<b>11 342</b>	<b>(27 325)</b>	<b>(32 636)</b>	<b>16 701</b>	<b>(67 447)</b>	<b>(63 031)</b>
<b>Basic earnings per share (EEK)</b>	9	<b>2,03</b>	<b>(4,97)</b>	<b>(5,93)</b>	<b>3,01</b>	<b>(12,30)</b>	<b>(11,49)</b>
<b>Diluted earnings per share (EEK)</b>	9	<b>1,88</b>	<b>(4,97)</b>	<b>(5,93)</b>	<b>3,01</b>	<b>(12,30)</b>	<b>(11,49)</b>

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### Income Statement

EUR thousand	Note	IV Q 2004	IV Q 2003 proforma	IV Q 2003	2004	2003 proforma	2003
<b>Revenue</b>							
Net sales	8	9 778	8 790	8 401	37 189	31 767	31 744
Other revenue		(76)	8	8	108	39	39
<b>Total revenue</b>		<b>9 703</b>	<b>8 798</b>	<b>8 409</b>	<b>37 297</b>	<b>31 806</b>	<b>31 783</b>
<b>Expenses</b>							
Materials, services		(3 102)	(4 254)	(4 771)	(12 484)	(13 680)	(14 323)
Change in inventories		100	158	158	(749)	(42)	(42)
Other operating expenses		(2 957)	(2 422)	(2 414)	(10 379)	(8 755)	(8 745)
Personnel expenses		(2 702)	(2 795)	(2 792)	(10 763)	(10 497)	(10 494)
Depreciation of fixed assets	4	(343)	(365)	(356)	(1 396)	(1 394)	(1 414)
Other expenses		(220)	(225)	(207)	(324)	(704)	(288)
<b>Total expenses</b>		<b>(9 223)</b>	<b>(9 903)</b>	<b>(10 382)</b>	<b>(36 096)</b>	<b>(35 073)</b>	<b>(35 306)</b>
<b>Operating profit (loss)</b>		<b>479</b>	<b>(1 106)</b>	<b>(1 974)</b>	<b>1 201</b>	<b>(3 267)</b>	<b>(3 524)</b>
Financial income		274	10	17	287	45	52
Financial expenses		(236)	(643)	(121)	(592)	(1 047)	(515)
<b>Profit/loss before taxes</b>		<b>518</b>	<b>(1 738)</b>	<b>(2 078)</b>	<b>896</b>	<b>(4 269)</b>	<b>(3 987)</b>
Income tax expense		73	(28)	(28)	61	(30)	(30)
<b>Profit/loss before minority interest</b>		<b>591</b>	<b>(1 767)</b>	<b>(2 106)</b>	<b>956</b>	<b>(4 299)</b>	<b>(4 016)</b>
Minority interest		(134)	(20)	(20)	(111)	12	12
<b>Net profit (loss)</b>		<b>725</b>	<b>(1 746)</b>	<b>(2 086)</b>	<b>1 067</b>	<b>(4 311)</b>	<b>(4 028)</b>
<b>Basic earnings per share (EUR)</b>	9	<b>0,13</b>	<b>(0,32)</b>	<b>(0,38)</b>	<b>0,19</b>	<b>(0,79)</b>	<b>(0,73)</b>
<b>Diluted earnings per share (EUR)</b>	9	<b>0,12</b>	<b>(0,32)</b>	<b>(0,38)</b>	<b>0,19</b>	<b>(0,79)</b>	<b>(0,73)</b>



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**Cash flow statement  
(indirect method)**

**EEK thousand**

<b>Operating activities</b>	<b>Note</b>	<b>2004</b>	<b>2003 proforma</b>
Operating profit (loss)		18 787	(51 117)
Adjustment for depreciation	4	21 848	21 813
Profit from the sale of fixed assets		(258)	2 102
Change in receivables		7 187	7 903
Change in inventories	3	4 964	23 762
Change in payables		(20 007)	25 690
Interests paid		(5 237)	(5 446)
Income tax paid		(571)	(95)
<b>Cash flow from operating activities</b>		<b>26 713</b>	<b>24 612</b>
<b>Investing activities</b>			
Acquisition of tangible and intangible assets incl. acquisition on conditions of capital lease	4	(15 048)	(13 923)
Sale of fixed assets		1 614	373
Acquired participation in joint venture		1 020	0
Interests received		53	114
Dividends received		0	11
Sale of marketable securities		0	290
Sale of participation in subsidiary		3 912	0
Loans granted		(652)	0
Repayments of loans granted		11	118
<b>Cash flow from investing activities</b>		<b>(8 972)</b>	<b>(13 124)</b>
<b>Financing activities</b>			
Repayment of loans	5	(18 271)	(8 896)
Loans received	5	0	33 258
Finance lease and installments payments		(1 524)	(1 614)
Dividends paid		0	(117)
Receipts from contributions into share capital		3 228	1 320
Redeeming of commercial bonds		0	(50 000)
Proceeds from sale of commercial bonds		0	17 104
Proceeds from sale of convertible bonds		70	192
Payments of repurchased convertible bonds		(63)	(14)
<b>Cash flow from financing activities</b>		<b>(16 560)</b>	<b>(8 767)</b>
Changes in foreign currency exchange rate		(1 502)	(105)
<b>Total cash flows</b>		<b>(321)</b>	<b>2 826</b>
<b>Opening cash and equivalents balance</b>		<b>12 836</b>	<b>10 010</b>
<b>Closing cash and equivalents balance</b>		<b>12 515</b>	<b>12 836</b>

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**Cash flow statement  
(indirect method)**

**EUR thousand**

<b>Operating activities</b>	<b>Note</b>	<b>2004</b>	<b>2003 proforma</b>
Operating profit (loss)		1 201	(3 267)
Adjustment for depreciation	4	1 396	1 394
Profit from the sale of fixed assets		(16)	134
Change in receivables		459	505
Change in inventories	3	317	1 519
Change in payables		(1 279)	1 642
Interests paid		(335)	(348)
Income tax paid		(36)	(6)
<b>Cash flow from operating activities</b>		<b>1 707</b>	<b>1 573</b>
<b>Investing activities</b>			
Acquisition of tangible and intangible assets incl. acquisition on conditions of capital lease	4	(962)	(890)
Sale of fixed assets		8	0
Acquired participation in subsidiary		103	24
Interests received		65	0
Dividends received		3	7
Sale of marketable securities		0	1
Sale of participation in subsidiary		0	19
Loans granted		250	0
Repayments of loans granted		(42)	0
<b>Cash flow from investing activities</b>		<b>(573)</b>	<b>(839)</b>
<b>Financing activities</b>			
Repayment of loans	5	(1 168)	(569)
Loans received	5	0	2 126
Finance lease and installments payments		(97)	(103)
Paid dividends		0	(7)
Receipts from contributions into share capital		206	84
Redeeming of commercial bonds		0	(3 196)
Proceeds from sale of commercial bonds		0	1 093
Proceeds from sale of convertible bonds		4	12
Payments of repurchased convertible bonds		(4)	(1)
<b>Cash flow from financing activities</b>		<b>(1 058)</b>	<b>(560)</b>
Changes in foreign currency exchange rate		(96)	7
<b>Total cash flows</b>		<b>(21)</b>	<b>181</b>
<b>Opening cash and equivalents balance</b>		<b>820</b>	<b>640</b>
<b>Closing cash and equivalents balance</b>		<b>800</b>	<b>820</b>

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**Statement of Changes in Shareholders' Equity (EEK thousand)**

	Share capital	Share premium	Reserves	Retained earnings	Profit/loss for the accounting period	Foreign exchange rate changes of consolidation	Minority interest	Total
<b>Balance per 31.12.2002</b>	<b>54 444</b>	<b>41 665</b>	<b>22 885</b>	<b>44 141</b>	<b>6 798</b>	<b>0</b>	<b>7 049</b>	<b>176 982</b>
Appropriation of 2002 profit	0	0	0	6 798	(6 798)	0		0
Contribution to share capital	550	825	0	0	0	0		1 375
Net profit (loss) for the accounting period	0	0	0	0	(67 447)	0	188	(67 259)
Foreign exchange rate changes of consolidation	0	0	0	0	0	4 185	(118)	4 067
<b>Balance per 31.12.2003</b>	<b>54 994</b>	<b>42 490</b>	<b>22 885</b>	<b>50 939</b>	<b>(67 447)</b>	<b>4 185</b>	<b>7 119</b>	<b>115 165</b>
Appropriation of 2003 loss	0	0	0	(67 447)	67 447	0	0	0
Contribution to share capital	1 346	2 018	0	0	0	0	0	3 364
Investment properties reevaluation reserve	0	0	3 898	0	0	0	0	3 898
Acquired minority participation in subsidiary	0	0	0	0	0	0	1 496	1 496
Net profit for the accounting period	0	0	0	0	16 701	0	(1 738)	14 963
Foreign exchange rate changes of consolidation	0	0	0	0	0	2 437	147	3 074
<b>Balance per 31.12.2004</b>	<b>56 340</b>	<b>44 508</b>	<b>26 783</b>	<b>(16 508)</b>	<b>16 701</b>	<b>6 622</b>	<b>7 024</b>	<b>141 470</b>

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**Statement of Changes in Shareholders' Equity (EUR thousand)**

	Share capital	Share premium	Reserves	Retained earnings	Profit/loss for the accounting period	Foreign exchange changes of consolidation	Minority interest	Total
<b>Balance per 31.12.2002</b>	<b>3 480</b>	<b>2 663</b>	<b>1 463</b>	<b>2 821</b>	<b>434</b>	<b>0</b>	<b>451</b>	<b>11 311</b>
Appropriation of 2002 profit	0	0	0	434	(434)	0	0	0
Contribution to share capital	35	53	0	0	0	0	0	88
Net profit for the accounting period	0	0	0	0	(4 311)	0	12	(4 299)
Foreign exchange rate changes of consolidation	0	0	0	0	0	267	(8)	260
<b>Balance per 31.12.2003</b>	<b>3 515</b>	<b>2 716</b>	<b>1 463</b>	<b>3 256</b>	<b>(4 311)</b>	<b>267</b>	<b>455</b>	<b>7 360</b>
Appropriation of 2003 loss	0	0	0	(4 311)	4 311	0	0	0
Contribution to share capital	86	129	0	0	0	0	0	215
Investment properties reevaluation reserve	0	0	249	0	0	0	0	249
Acquired minority participation in subsidiary	0	0	0	0	0	0	96	96
Net profit for the accounting period	0	0	0	0	1 067	0	(111)	956
Changes in foreign currency exchange rate	0	0	0	0	0	156	9	165
<b>Balance per 31.12.2004</b>	<b>3 601</b>	<b>2 845</b>	<b>1 712</b>	<b>(1 055)</b>	<b>1 067</b>	<b>423</b>	<b>449</b>	<b>9 042</b>

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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 76 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 31.12.2004, the group had 1,704 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.

In August AS Baltika's new subsidiary OÜ Baltika Tailor was registered into which AS Baltika's manufacturing department was transferred from November 1st. The main reason to create a new legally independent company was to increase manufacturing efficiency. In November 29th 50% of OÜ Baltika Tailor was sold to Finnish clothes manufacturer OY Turo Tailor AB and joint company was established to manufacture men's suits, jackets and trousers. Starting from December joint company's revenues and expenses are not consolidated into financial statements of Baltika Group.

As at 31.12.2004 the Group comprises the following companies:

	Country of location	Participation 31.12.2004	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%	-
OÜ Baltika Tailor	Estonia	50%	-

### 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 January 1<sup>st</sup> 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 January 1<sup>st</sup> 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

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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 according to the new methodology. The impact of the adjusted results of 2003 on the group's results was an additional net loss of 4.4 million EEK which is recorded under Group's financial expenditures.

According to the assessment of the management board, the 4th 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

	31.12.2004		31.12.2003	
	Quantity	Fair value	Quantity	Fair value
Shares of AS Tallinna Kaubamaja	5 160	603	5 160	377

'000 EUR

	31.12.2004		31.12.2003	
	Quantity	Fair value	Quantity	Fair value
Shares of AS Tallinna Kaubamaja	5 160	39	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	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Accounts receivable	27 576	46 922	1 763	2 999
Doubtful accounts	(75)	(1 195)	(5)	(76)
Total	27 501	45 727	1 758	2 922

Accounts receivable are carried at nominal value minus discounts.

In evaluating trade receivables, each receivable has been treated separately. During 2004 doubtful accounts were expensed in amount of 92 thousand EEK (5.9 thousand EUR). Doubtful accounts expensed in previous periods have been recovered in amount of 12 thousand EEK (0.8 thousand EUR).

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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 1 208 thousand EEK (77.2 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	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Raw materials (fabric, accessories, material on the way)	42 256	49 571	2 701	3 168
Write-down provision for inventories of material	(1 435)	(1 335)	(92)	(85)
Work in progress	12 338	12 837	789	820
Finished goods and purchased goods	92 493	105 366	5 857	6 734
Write-down provision for inventories of finished goods	(2 402)	(17 032)	(99)	(1 089)
Prepayments to suppliers	2 209	1 017	141	65
<b>Total</b>	<b>145 460</b>	<b>150 424</b>	<b>9 297</b>	<b>9 614</b>

### Note 4 Tangible and intangible assets

The Group's investments in tangible assets during 2004 amounted to 12 723 thousand EEK (813 thousand EUR). The biggest investments in amount of 10 675 thousand EEK (682 thousand EUR) were made in retail trade. New retail areas were opened in all markets. In production equipment were invested 942 thousand EEK (60 thousand EUR), in information technology 850 thousand EEK (54 thousand EUR). On financial lease conditions were acquired tangible assets in amount of 118 thousand EEK (7.5 thousand EUR).

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 2004 the Group sold fixed assets, mainly shops inventory, with an acquisition value of 3 224 thousand EEK (206 thousand EUR), with residual value 1 368 thousand EEK (87 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 4 037 thousand EEK (258 thousand EUR) and with a residual value of 403 thousand EEK (26 thousand EUR).

In fourth quarter production premises, which are rented, were reclassified into investment property with acquisition cost of 7 388 thousand EEK (472 thousand EUR).

### Tangible Fixed Assets movements in the Group in 2004

'000 EEK	Land	Buildings, facilities	Plant and equipment	Other fixtures	Unfinished building	Pre-payments	Total
<b>Acquisition cost 31.12.2002</b>	<b>3 004</b>	<b>72 737</b>	<b>73 090</b>	<b>41 850</b>	<b>6 251</b>	<b>63</b>	<b>196 995</b>
Accumulated depreciation 31.12.2002	0	(15 518)	(56 555)	(17 373)	0	0	(89 446)
<b>Residual value 31.12.2002</b>	<b>3 004</b>	<b>57 219</b>	<b>16 535</b>	<b>24 477</b>	<b>6 251</b>	<b>63</b>	<b>107 549</b>
Acquired during the period	0	2 620	2 938	4 236	875	224	10 893

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Sold during the period	0	0	(116)	(87)	0	0	(203)
Written off during the period	0	0	0	(2 533)	0	0	(2 533)
Reclassification into intangible assets	0	0	1	0	(6 251)	0	(6 250)
Reclassification	0	(2 045)	90	2 893	(875)	(63)	0
Depreciation 2003	0	(4 942)	(6 653)	(8 156)	0	0	(19 751)
Foreign exchange differences	0	(2 909)	(31)	252	0	0	(2 688)
<b>Acquisition cost 31.12.2003</b>	<b>3 004</b>	<b>72 107</b>	<b>70 444</b>	<b>41 954</b>	<b>0</b>	<b>224</b>	<b>187 733</b>
Accumulated depreciation 31.12.2003	0	(22 164)	(57 680)	(20 872)	0	0	(100 716)
<b>Residual value 31.12.2003</b>	<b>3 004</b>	<b>49 943</b>	<b>12 764</b>	<b>21 082</b>	<b>0</b>	<b>224</b>	<b>87 017</b>
Acquired during the period	0	5 058	1 629	5 968	68	0	12 723
Acquired participation in subsidiary	0	0	333	657	0	0	990
Sold during the period	0	(498)	(242)	(628)	0	0	(1 368)
Written off during the period	0	(79)	(54)	(270)	0	0	(403)
Reclassification	0	(2 716)	0	0	0	(224)	(2 940)
Depreciation 2004	0	(5 153)	(6 042)	(8 198)	0	0	(19 393)
Foreign exchange differences	0	619	(35)	115	0	0	699
<b>Acquisition cost 31.12.2004</b>	<b>3 004</b>	<b>69 628</b>	<b>70 706</b>	<b>47 902</b>	<b>68</b>	<b>0</b>	<b>191 308</b>
Accumulated depreciation 31.12.2004	0	(22 454)	(62 353)	(29 176)	0	0	(113 983)
<b>Residual value 31.12.2004</b>	<b>3 004</b>	<b>47 174</b>	<b>8 353</b>	<b>18 726</b>	<b>68</b>	<b>0</b>	<b>77 325</b>

'000 EUR

	Land	Buildings, facilities	Plant and equipment	Other fixtures	Unfinished building	Pre-payments	Total
<b>Acquisition cost 31.12.2002</b>	<b>192</b>	<b>4 649</b>	<b>4 671</b>	<b>2 675</b>	<b>400</b>	<b>4</b>	<b>12 590</b>
Accumulated depreciation 31.12.2002	0	(992)	(3 615)	(1 110)	0	0	(5 717)
<b>Residual value 31.12.2002</b>	<b>192</b>	<b>3 657</b>	<b>1 057</b>	<b>1 564</b>	<b>400</b>	<b>4</b>	<b>6 874</b>
Acquired during the period	0	167	188	271	56	14	696
Sold during the period	0	0	(7)	(6)	0	0	(13)
Written off during the period	0	0	0	(162)	0	0	(162)
Reclassification into intangible assets	0	0	0	0	(400)	0	(400)
Reclassification	0	(131)	6	185	(56)	(4)	0
Depreciation 2003	0	(316)	(425)	(521)	0	0	(1 262)
Foreign exchange differences	0	(186)	(2)	16	0	0	(172)
<b>Acquisition cost 31.12.2003</b>	<b>192</b>	<b>4 608</b>	<b>4 502</b>	<b>2 681</b>	<b>0</b>	<b>14</b>	<b>11 998</b>
Accumulated depreciation 31.12.2003	0	(1 417)	(3 686)	(1 334)	0	0	(6 437)
<b>Residual value 31.12.2003</b>	<b>192</b>	<b>3 192</b>	<b>816</b>	<b>1 347</b>	<b>0</b>	<b>14</b>	<b>5 561</b>
Acquired during the period	0	323	104	381	4	0	813
Acquired participation in	0	0	21	42		0	63



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subsidiary					0		
Sold during the period	0	(32)	(15)	(40)	0	0	(87)
Written off during the period	0	(5)	(3)	(17)	0	0	(26)
Reclassification	0	(174)	0	0	0	(14)	(188)
Depreciation 2004	0	(329)	(386)	(524)	0	0	(1 239)
Foreign exchange differences	0	40	(2)	7	0	0	45
<b>Acquisition cost 31.12.2004</b>	<b>192</b>	<b>4 450</b>	<b>4 519</b>	<b>3 061</b>	<b>4</b>	<b>0</b>	<b>12 227</b>
Accumulated depreciation 31.12.2004	0	(1 435)	(3 985)	(1 865)	0	0	7 285
<b>Residual value 31.12.2004</b>	<b>192</b>	<b>3 015</b>	<b>534</b>	<b>1 197</b>	<b>4</b>	<b>0</b>	<b>4 942</b>

See note 5 concerning pledged assets.

### Intangible Assets movements in the Group in 2004

The investments made to intangible assets in 2004 amounted to 3 090 thousand EEK (197 thousand EUR), from which in amount of 1 879 thousand EEK (120 thousand EUR) were acquired rights to shops rental contracts in Ukraine market and investments into new software were made in amount of 1 211 thousand EEK (77 thousand EUR).

Replaced software with an acquisition cost of 1 045 thousand EEK (67 thousand EUR) and with a residual value of 10 thousand EEK (0.6 thousand EUR) were written off.

'000 EEK

	Licences and software	Prepayment of intangible assets	Positive goodwill	Negative goodwill	Total
<b>Acquisition cost 31.12.2002</b>	<b>6 701</b>	<b>992</b>	<b>2 337</b>	<b>(919)</b>	<b>9 111</b>
Accumulated depreciation 31.12.2002	(2 888)	0	(1 790)	459	(4 219)
<b>Residual value 31.12.2002</b>	<b>3 813</b>	<b>992</b>	<b>547</b>	<b>(460)</b>	<b>4 892</b>
Acquired during the period	5 436	0	0	0	5 436
Written off during the period	6 250	(992)	0	0	5 258
Depreciation 2003	(2 051)	0	(191)	460	(1 782)
Foreign exchange differences	(25)	0	0	0	(25)
<b>Acquisition cost 31.12.2003</b>	<b>17 999</b>	<b>0</b>	<b>1 742</b>	<b>(919)</b>	<b>18 822</b>
Accumulated depreciation 31.12.2003	(4 576)	0	(1 386)	919	(5 043)
<b>Residual value 31.12.2003</b>	<b>13 423</b>	<b>0</b>	<b>356</b>	<b>0</b>	<b>13 779</b>
Acquired during the period	3 090	0	0	0	3 090
Acquired participation in subsidiary	0	0	13 877	0	13 877
Written off during the period	(10)	0	(165)	0	(175)
Depreciation 2004	(2 455)	0	(191)	0	(2 646)
Foreign exchange differences	11	0	47	0	58
<b>Acquisition cost 31.12.2004</b>	<b>20 070</b>	<b>0</b>	<b>13 924</b>	<b>0</b>	<b>33 994</b>
Accumulated depreciation 31.12.2004	(6011)	0	0	0	(6 011)
<b>Residual value 31.12.2004</b>	<b>14 059</b>	<b>0</b>	<b>13 924</b>	<b>0</b>	<b>27 983</b>

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'000 EUR

	Licences and software	Prepayment of intangible assets	Positive goodwill	Negative goodwill	Total
<b>Acquisition cost 31.12.2002</b>	<b>428</b>	<b>63</b>	<b>149</b>	<b>(59)</b>	<b>582</b>
Accumulated depreciation 31.12.2002	(185)	0	(114)	29	(270)
<b>Residual value 31.12.2002</b>	<b>244</b>	<b>63</b>	<b>35</b>	<b>(29)</b>	<b>313</b>
Acquired during the period	347	0	0	0	347
Written off during the period	399	(63)	0	0	336
Depreciation 2003	(131)	0	(12)	29	(114)
Foreign exchange differences	(2)	0	0	0	(2)
<b>Acquisition cost 31.12.2003</b>	<b>1 150</b>	<b>0</b>	<b>111</b>	<b>(59)</b>	<b>1 203</b>
Accumulated depreciation 31.12.2003	(292)	0	(89)	59	(322)
<b>Residual value 31.12.2003</b>	<b>858</b>	<b>0</b>	<b>23</b>	<b>0</b>	<b>881</b>
Acquired during the period	197	0	0	0	197
Acquired participation in subsidiary	0	0	887	0	887
Written off during the period	(1)	0	(11)	0	(11)
Depreciation 2004	(157)	0	(12)	0	(169)
Foreign exchange differences	1	0	3	0	4
<b>Acquisition cost 31.12.2004</b>	<b>1 283</b>	<b>0</b>	<b>890</b>	<b>0</b>	<b>2 173</b>
Accumulated depreciation 31.12.2004	(384)	0	0	0	(384)
<b>Residual value 31.12.2004</b>	<b>899</b>	<b>0</b>	<b>890</b>	<b>0</b>	<b>1 788</b>

#### Note 5 Debt obligations

Short-term debt	'000 EEK		'000 EUR	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Current portion of long-term debt	23 637	15 455	1 511	988
Short-term bank loans	31 200	34 638	1 994	2 214
Short-term lease liabilities	440	1 298	28	83
Convertible bonds	380	507	24	32
Commercial bonds	18 847	17 438	1 205	1 114
<b>Total</b>	<b>74 504</b>	<b>69 336</b>	<b>4 762</b>	<b>4 431</b>

  

Long-term debt	'000 EEK		'000 EUR	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Long-term bank loans	45 903	68 917	2 934	4 405
Long-term lease liabilities	20	565	1	36
<b>Total</b>	<b>45 923</b>	<b>69 482</b>	<b>2 935</b>	<b>4 441</b>

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**Bank loans ('000 EEK)**

<b>Creditor</b>	<b>Loan debt 31.12.04</b>	<b>Current portion up to 1 year</b>	<b>Long-term portion 1-5 years</b>	<b>Interest</b>
Nordea Bank	7 197	1 799	5 398	3 kuu Euribor+2,5%
Nordea Bank	6 251	4 167	2 084	6 kuu Euribor+2,5%
Hansabank	47 520	15 528	31 992	6 kuu EURIBOR + 2,25%
Hansabank	11 000	11 000	0	4,5%
Hansabank	8 571	2 143	6 428	6 kuu EURIBOR + 2,35%
Hansabank (overdraft facility)	20 200	20 200	0	4,2%
<b>Total</b>	<b>100 739</b>	<b>54 837</b>	<b>45 902</b>	

**Bank loans ('000 EUR)**

<b>Creditor</b>	<b>Loan debt 31.12.2004</b>	<b>Current portion up to 1 year</b>	<b>Long-term portion 1-5 years</b>	<b>Interest</b>
Nordea Bank	460	115	345	3 kuu Euribor+2,5%
Nordea Bank	400	266	133	6 kuu Euribor+2,5%
Hansabank	3 037	992	2 045	6 kuu EURIBOR + 2,25%
Hansabank	703	703	0	4,5%
Hansabank	548	137	411	6 kuu EURIBOR + 2,35%
Hansabank (overdraft facility)	1 291	1 291	0	4,2%
<b>Total</b>	<b>6 438</b>	<b>3 505</b>	<b>2 934</b>	

During 2004 has AS Baltika repaid loan to Nordea Bank 4 926 thousand EEK (315 thousand EUR), from which 1 492 thousand EEK (95 thousand EUR) was paid in reporting quarter. During 2004 Group's companies AS Baltika and AS Virulane made loan repayments to Hansabank 9 907 thousand EEK (633 thousand EUR), from which 3 370 thousand EEK (215 thousand EUR) was paid in reporting quarter.

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.

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AS Baltika has opened a Group account in Hansabank with an overdraft limit of 30 million EEK (1.9 million EUR). As of 31.12.2004, the overdraft facility had been used to the extent of 20.2 million EEK (1.3 million EUR).

The Group's interest expenses in 2004 amounted to 6 683 thousand EEK (427 thousand EUR); the respective amount in 2003 was 7 589 thousand EEK (485 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.

All together were three types of bonds issued as following:

'000 EEK

	Issue date	Issue price (value) (in '000 EEK)	Bond conversion period	Converted into shares (in '000 EEK)	Convertible bonds 31.12.2004 (in '000 EEK)	Redeemed 31.12.2004 (in '000 EEK)
A-bond	01.05.2001	192	01.05.2002- 01.05.2004	189,5	2,5	0
B-bond	01.05.2002	192	01.05.2003- 01.05.2005	0	192	(27)
C-bond	01.05.2003	192	01.05.2004- 01.05.2006	0	192	0)
<b>Total</b>		<b>576</b>		<b>189,5</b>	<b>386,5</b>	<b>(27)</b>

'000 EUR

	Issue date	Issue price (value) (in '000 EUR)	Bond conversion period	Converted into shares (in '000 EUR)	Convertible bonds 31.12.2004 (in '000 EUR)	Redeemed 31.12.2004 (in '000 EUR)
A-bond	01.05.2001	12,3	01.05.2002- 01.05.2004	12,1	0,2	0
B-bond	01.05.2002	12,3	01.05.2003- 01.05.2005	0	12,3	(1,7)
C-bond	01.05.2003	12,3	01.05.2004- 01.05.2006	0	12,3	0
<b>Total</b>		<b>36,8</b>		<b>12,1</b>	<b>24,7</b>	<b>(1,7)</b>

A-bonds were converted into ordinary shares for additional cash payment of 24 EEK (1,53 EUR) per share.

B- and C-bonds are convertible for shares as following:

B-bond into one ordinary share for additional cash payment 33.32 EEK (2.13 EUR);

C-bond into one ordinary share for additional cash payment 36.57 EEK (2.34 EUR).

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.

In 2004 134 500 A-bond owners requested to exchange bonds into shares. According to owners request AS Baltika management board decided to increase AS Baltika's share capital by 1 345 000 EEK (85 961 EUR). After the increase share capital is 56 339 500 EEK (3 600 750 EUR), which consist of 5 633 950 shares with a nominal value of 10 EEK (0.64 EUR). Share premium from the transaction was 2 017 500 EEK (128 942 EUR).

According to the bond conditions, an employee leaving the company within a year must sell the bonds back to the company. 27 000 B-bonds have been redeemed during the year 2004.

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07.december 2004 shareholders extraordinary meeting took place, which decided to issue 200 000 D-bonds in nominal value 0,10 EEK (0.006 EUR) to Company's top management.

'000 EEK

	<b>Issue date</b>	<b>Issue price (value) (in '000 EEK)</b>	<b>Bond conversion period</b>	<b>Converted into shares (in '000 EEK)</b>	<b>Convertible bonds 31.12.2004 (in '000 EEK)</b>	<b>Redeemed 31.12.2004 (in '000 EEK)</b>
D-bond	21.12.2004	20	01.07.2006- 30.12.2006	0	20	0

'000 EUR

	<b>Issue date</b>	<b>Issue price (value) (in '000 EUR)</b>	<b>Bond conversion period</b>	<b>Converted into shares (in '000 EUR)</b>	<b>Convertible bonds 31.12.2004 (in '000 EUR)</b>	<b>Redeemed 31.12.2004 (in '000 EUR)</b>
D-bond	21.12.2004	1,3	01.07.2006- 30.12.2006	0	1,3	0

Bonds will be exchanged into shares with price 28.95 EEK (1.85 EUR) which is the same as AS Baltika's shares weighted average market price in Tallinn Stock Exchange prior to day of decision.

The condition in which bonds are exchanged into shares is that AS Baltika's shares market price should be at least 45.00 EEK (2.88 EUR) per share.

#### Closed issue of bonds

	<b>Quantity</b>	<b>Nominal EEK</b>	<b>Issue price</b>	<b>Balance 31.12.2004</b>	<b>Coupon rate %</b>	<b>Maturity</b>
Bonds	1 750	10 000	9 873,69	18 847	7,0	17.03.2006

	<b>Quantity</b>	<b>Nominal EEK</b>	<b>Issue price</b>	<b>Balance 31.12.2004</b>	<b>Coupon rate %</b>	<b>Maturity</b>
Bonds	1 750	639	631,04	1 205	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 7,7%. The bonds are unsecured.

#### Note 7 Owner's equity

##### Share capital

	<b>31.12.2004</b>	<b>31.12.2003</b>
Share capital ('000 EEK)	56 340	54 995
Number of shares (pc)	5 633 950	5 499 450
Nominal value of shares (EEK)	10.00	10.00
Compulsory reserve ('000 EEK)	4 800	4 800
Voluntary reserve ('000 EEK)	21 983	18 085

	<b>31.12.2004</b>	<b>31.12.2003</b>
Share capital ('000 EUR)	3 601	3 515
Number of shares (pc)	5 633 950	5 499 450
Nominal value of shares (EUR)	0.64	0.64
Compulsory reserve ('000 EEK)	307	307
Voluntary reserve ('000 EEK)	1 405	1 156

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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.

In 2004 134 500 A-bond owners requested to exchange bonds into shares. According to owners request AS Baltika management board decided to increase AS Baltika's share capital by 1 345 000 EEK (85 961 EUR). After the increase the share capital is 56 339 500 EEK (3 600 750 EUR), which consist of 5 633 950 shares with a nominal value of 10 EEK (0.64 EUR). Share premium from the transaction was 2 017 500 EEK (128 942 EUR).

Emitted shares give right to claim dividends beginning at 2004.

As company didn't have undistributed profit in 31.12.2003, there was no dividend payments to shareholders in 2004.

Company's retained earnings in 31.12.2004 amounted to 193 thousand EEK (12 thousand EUR).

Voluntary reserve increased by revaluation reserve of investment property.

## Note 8 Segments

### Business Segment Report by areas of operation for 2004 - Primary

'000 EEK

	Retail trade	Production, wholesale and subcontracting	Intersegmental transactions	TOTAL
Extra-group sales	420 300	161 578	0	581 878
Intersegmental sales	0	303 213	(303 213)	0
Total sales	420 300	464 791	(303 213)	581 878
Operating profit of the segment	25 900	28 387	0	54 287
Unallocated expenses				(35 500)
Total operating profit				18 787
Other financial income (expenses)				(4 771)
Income tax				947
Profit before minority shareholding				14 963
Minority interest				(1 738)
Net profit				16 701
Assets	131 820	176 961	(233)	308 548
Unallocated assets of the group				8 632
Total assets				317 180
Liabilities	138 385	40 267	(123 599)	55 053
Unallocated liabilities of the group				120 657
Total liabilities				175 710
Acquisition of fixed assets in the accounting period	13 848	1 965		15 813
Depreciation and amortization in the accounting period	9 575	12 273		21 848
Other major non-monetary expenses	(14 630)	(1 021)		(15 651)

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**Business Segment Report by areas of operation for 2004 - Primary**

'000 EUR

	<b>Retail trade</b>	<b>Production, wholesale and subcontracting</b>	<b>Intersegmental transactions</b>	<b>TOTAL</b>
Extra-group sales	26 862	10 327	0	37 189
Intersegmental sales	0	19 379	(19 379)	0
Total sales	26 862	29 706	(19 379)	37 189
Operating profit of the segment	1 655	1 814	0	3 470
Unallocated expenses				(2 269)
Total operating profit				1 201
Other financial income (expenses)				(305)
Income tax				61
Profit before minority shareholding				956
Minority interest				(111)
Net profit				1 067
Assets	8 425	11 310	(15)	19 720
Unallocated assets of the group				552
Total assets				20 271
Liabilities	8 844	2 574	(7 899)	3 519
Unallocated liabilities of the group				7 711
Total liabilities				11 230
Acquisition of fixed assets in the accounting period	885	126		1 011
Depreciation and amortization in the accounting period	612	784		1 396
Other major non-monetary expenses	(935)	(65)		(1 000)

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**Business Segment Report by areas of operation 2003 - Primary**

<b>'000 EEK</b>	<b>Retail trade</b>	<b>Production, wholesale and subcontracting</b>	<b>Intersegmental transactions</b>	<b>TOTAL</b>
Extra-group sales	321 085	175 963		497 048
Intersegmental sales	0	243 309	(243 309)	0
Total sales	321 085	419 272	(243 309)	497 048
Operating profit of the segment	(51 382)	31 822	0	(19 560)
Unallocated expenses				(31 557)
Total operating profit				(51 117)
Other financial income (expenses)				(15 677)
Income tax				(465)
Profit before minority shareholding				(67 259)
Minority interest				188
Net profit				(67 447)
Assets	124 471	198 364	(1 703)	321 132
Unallocated assets of the group				8 244
Total assets				329 376
Liabilities	117 634	63 337	(105 855)	75 116
Unallocated liabilities of the group				139 095
Total liabilities				214 211
Acquisition of fixed assets in the accounting period	10 463	5 866		16 329
Depreciation and amortization in the accounting period	10 654	11 159		21 813
Other major non-monetary expenses	(15 266)	(873)		(16 139)

**Business Segment Report by areas of operation for 2003 - Primary**

<b>'000 EUR</b>	<b>Retail trade</b>	<b>Production, wholesale and subcontracting</b>	<b>Intersegmental transactions</b>	<b>TOTAL</b>
Extra-group sales	20 521	11 246		31 767
Intersegmental sales	0	15 550	(15 550)	0
Total sales	20 521	26 796	(15 550)	31 767
Operating profit of the segment	(3 284)	2 034	0	(1 250)
Unallocated expenses				(2 017)
Total operating profit				(3 267)



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Other financial income (expenses)				(1 002)
Income tax				(30)
Profit before minority shareholding				(4 299)
Minority interest				12
Net profit				(4 311)
Assets	7 955	12 678	(109)	20 524
Unallocated assets of the group				527
Total assets				21 051
Liabilities	7 518	4 048	(6 765)	4 801
Unallocated liabilities of the group				8 890
Total liabilities				13 691
Acquisition of fixed assets in the accounting period	669	375	0	1 044
Depreciation and amortization in the accounting period	681	713	0	1 394
Other major non-monetary expenses	(976)	(56)	0	(1 031)

The retail segment includes subsidiaries related to retail trade and factory shops belonging to AS Baltika and production company 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	
	2004	2003	31.12.04	31.12.03	2004	2003
Estonia	147 856	139 584	80 942	75 096	7 923	7 110
Latvia	65 809	52 181	3 703	3 586	1 868	1 424
Lithuania	108 912	80 579	7 724	8 339	2 631	3 654
Russia	76 838	39 879	918	0	357	0
The Ukraine	70 957	55 579	3 645	4 218	1 482	832
Finland	32 902	39 684	0	371	0	463
Sweden	19 036	23 196	0	100	0	0
England	15 440	16 234	0	0	0	0
Poland	40 251	49 113	8 376	9 086	1 552	2 846
Norway	3 231	1 019	0	0	0	0
Czech	547	0	0	0	0	0
Other markets	99	0	0	0	0	0
<b>Total</b>	<b>581 878</b>	<b>497 048</b>	<b>105 308</b>	<b>100 796</b>	<b>15 813</b>	<b>16 329</b>

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<u>'000 EUR</u>	Sales		Fixed assets		Capital expenditure	
	2004	2003	31.12.04	31.12.03	2004	2003
Estonia	9 450	8 921	5 173	4 800	506	454
Latvia	4 206	3 335	237	229	119	91
Lithuania	6 961	5 150	494	533	168	234
Russia	4 911	2 549	59	0	23	0
The Ukraine	4 535	3 552	233	270	95	53
Finland	2 103	2 536	0	24	0	30
Sweden	1 217	1 482	0	6	0	0
England	987	1 038	0	0	0	0
Poland	2 573	3 139	535	581	99	182
Norway	206	65	0	0	0	0
Czech	35	0	0	0	0	0
Other markets	6	0	0	0	0	0
<b>Total</b>	<b>37 189</b>	<b>31 767</b>	<b>6 730</b>	<b>6 442</b>	<b>1 011</b>	<b>1 044</b>

Fixed assets include both tangible or intangible fixed assets.

#### Note 9 Earnings per share

##### Basic earnings per share

		2004	2003
Weighted average number of shares	pc	5 541 721	5 483 992
Net profit/loss	'000 EEK	<b>16 701</b>	<b>(67 447)</b>
	'000 EUR	1 067	(4 311)
<b>Basic earnings per share</b>	<b>EEK</b>	<b>3,01</b>	<b>(12,30)</b>
	EUR	0,19	(0,79)

##### Diluted earnings per share

		2004	2003
Weighted average number of shares	pc	5 541 721	5 483 992
Net profit (loss)	'000 EEK	<b>16 701</b>	<b>(67 447)</b>
	'000 EUR	1 067	(4 311)
<b>Diluted earnings per share</b>	<b>EEK</b>	<b>3,01</b>	<b>(12,30)</b>
	EUR	0,19	(0,79)

406 500 convertible bonds issued in 2001-2004 within the framework of the executives' share option program do affect partly the calculations of the diluted earnings per share due to the higher average market price of A-bonds in fourth quarter in exchanging them into shares of AS Baltika. The average market price of the Baltika share in 2004 was 24.18 EEK (1.55 EUR), average market price in fourth quarter was 28.34 EEK (1.81 EUR).

The average market price of the Baltika share in 2003 was 34,60 EEK (2,21 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 and joint venture.

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OÜ BMIG which is controlled by the members of the management and supervisory board held 31.12.2004 19,49% of the shares of AS Baltika.

During 2004, goods in the amount of 2 417 thousand EEK (154 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 52 thousand EEK (3 thousand EUR).

In the same period of 2003 from OÜ Maisan goods were purchased in the amount of 4 624 thousand EEK (296 thousand EUR) and services were rendered in amount of 113 thousand EEK (7 thousand EUR).

In 2004, sewing services and goods in the amount of 13 068 thousand EEK (835 thousand EUR) were sold to and services in amount of 593 thousand EEK (38 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 16 332 thousand EEK (1 044 thousand EUR) and purchased for 776 thousand EEK (50 thousand EUR).

The director of the subsidiary Baltika Ukraina has been granted a loan in the amount of 574 thousand EEK (36.7 thousand EUR), due date is in June, 2007. As long as the current employment contract is effective, no interest is to be calculated on the loan.

During 2004 to council and management board members were paid membership fee and salary in amount of 3.6 million EEK (0.23 million EUR), in 2003 respectively 2.7 million EEK (0.17 million EUR).

Subsidiaries AS Virulane, AS Elina STC, OÜ Baltman and joint venture Baltika Tailor OÜ are part of the group account agreement of AS Baltika. The group account has an overdraft facility of 30 million EEK. As of 31.12.2004, 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	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Liabilities	7 536	9 387	482	600
Receivables	94 539	71 886	6 042	4 594

**Liabilities and Receivables of Parent Company to/from Joint Venture:**

	EEK thousand		EUR thousand	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Liabilities	714	0	46	0
Receivables	2 495	0	159	0