



## ***AS BALTIKA***

### ***Consolidated interim report for the third quarter of 2005***

Commercial name	AS Baltika
Commercial registry number	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
Fax	+372 630 2814
E-mail	baltika@baltika.ee
Auditor	AS PricewaterhouseCoopers
Accounting year	01.01.2005 - 31.12.2005
Core business	Clothing retail and wholesale

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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

Tallinn, 1 November 2005

## MANAGEMENT REPORT

### Consolidated financial results, 9 months 2005

Baltika Group's net profit in the third quarter amounted to EEK 18.2 million (EUR 1.2mln) and the 3Q net margin rose to 10.1%. In 3Q of last year, the Group's net profit totalled EEK 3.6 million (EUR 232 thousand). Baltika's third quarter sales increased 12.9% yoy while retail sales posted a growth of almost 20% and wholesale increased 17.0% compared with the corresponding period of last year. The sales totalled EEK 180.1 million (EUR 11.5mln). The Group's gross margin in 3Q was at 49.3% (43.0% in 3Q 2004). Operating margin reached 10.7% taking operating profit to EEK 19.2 million (EUR 1.2mln) from last year's level of EEK 6.3 million (EUR 401 thousand).

Cumulative nine month sales of Baltika Group totalled EEK 490.6 million (EUR 31.4mln), up 14.4% yoy. Retail sales grew 28.7% and wholesale remained almost at the same level (+0.6% yoy) compared with the same period last year. The Group's gross and operating margins in the first nine months of 2005 increased to 50.9% and 9.4%, respectively (45.0% and 2.6% in 9m 2004). Nine-month net profit expanded to EEK 46.3 million (EUR 3.0mln) from EEK 5.4 million (EUR 0.3mln) in 9m 2004.

#### SALES

Sales breakdown by segment

EEK million	3Q 2005	3Q 2004	Change	9m 2005	9m 2004	Change
Retail sales	128.3	107.4	19.5%	380.6	295.7	28.7%
Wholesale	48.8	41.7	17.0%	99.6	98.9	0.6%
Subcontracting	0.02	10.0	-99.8%	0.6	33.2	-98.3%
Other sales	3.0	0.4	572.7%	9.8	1.1	837.7%
<b>Total</b>	<b>180.1</b>	<b>159.5</b>	<b>12.9%</b>	<b>490.6</b>	<b>428.9</b>	<b>14.4%</b>

1 EUR = 15.6466 EEK

Due to the establishment of a joint venture on the basis of Baltika's production unit Baltika Tailor OÜ in November 2004, the consolidated sales results do not include subcontracting figures starting from December 2004. Thus, in comparable terms, net sales of the first nine months of this year grew by 21.7% yoy. Comparable net sales of 3Q 2005 expanded by 18.8% yoy.

On the back of the strong sales results of this year Baltika raised the minimum sales target for 2005 from EEK 620 million to EEK 640 million.

#### RETAIL SALES

In the first nine months of 2005, retail sales of Baltika expanded by 28.7% yoy and reached EEK 380.6 million (EUR 24.3mln). The average retail space grew 8% yoy in the first nine months while sales efficiency (sales/m<sup>2</sup>) increased 19% yoy. Like-for-like sales (sales on comparable areas) increased 19% yoy in 9m and 20% in 3Q 2005.

The key words to characterise the third quarter in retail are the end of season clearance sale in July and August and the beginning of the new season. Baltika successfully combined the summer clearance sale in July with the start of the sale of the new season's products. August continued with very strong retail sales growth as a result of the well timed launch of the new season's collections in full. September sales, however, were impacted by exceptionally warm weather all over Baltika's markets and thus the sales of overcoats and heavy knitwear did not achieve their usual level. Altogether, 3Q retail sales registered a growth of 19.5% vis-à-vis the same period of last year.

Overall, our sales this year are positively impacted by higher store traffic in Baltika stores if compared with the previous year. We notice strengthening brand awareness in our markets and maturing of our brands, especially of our newest brand Monton that was launched in the fall of 2002. The share of retail sales in total sales revenues has increased to 78% in the first nine months of 2005 compared to 69% in the same period last year.

In terms of store concepts, the sales of Baltika's fast fashion brand Monton accounted for 54% of the total retail sales in 9m 2005 and amounted to EEK 206 million (EUR 13.2mln), up 24% on last year's figure. The sales of CHR/Evermen grew 50% yoy amounting to EEK 102 million (EUR 6.5mln) and the sales of Baltman increased 28% yoy to EEK 40 million (EUR 2.6mln).

All the retail markets posted double digit sales growth in the nine-month period except for the smallest market Poland (representing 8% of retail sales) that maintained the last year's sales level. Latvia posted the fastest sales growth of 43% yoy to EEK 51 million (EUR 3.3mln). The largest retail markets by sales were Estonia with EEK 106 million/EUR 6.8mln (+28% yoy), followed by Lithuania (EEK 89mln/EUR 5.7mln, +18%) and Ukraine (EEK 68mln/EUR 4.3mln, +32%). Baltika's newest retail market Russia, launched in May 2004, generated retail sales of EEK 38 million (EUR 2.4mln) in the first nine months of 2005. As the retail sales started in May 2004, Russia's nine month figures are not comparable, however, third quarter sales posted a growth of 14% yoy in Russia.

#### SHOPS AND SALES AREA

As of the end of September, Baltika Group operated 79 shops in six countries, with a total area of 11,702 m<sup>2</sup>. At the end of 3Q last year, Baltika's retail system comprised of 76 shops with a total area of 10,920 m<sup>2</sup>.

Number of shops by country

	30.09.2005	30.09.2004
Estonia	23	23
Latvia	10	9
Lithuania	19	16
Ukraine	12	12
Russia	7	8
Poland	8	8
<b>Total shops</b>	<b>79</b>	<b>76</b>
<b>Total m<sup>2</sup></b>	<b>11,702</b>	<b>10,920</b>

In the third quarter Baltika opened three new stores, one Monton and two CHR/Evermen stores. All these openings took place in Lithuania – two in the city of Panevezys in a brand new shopping centre Babilonas and one in Vilnius in the Mandarynas shopping centre. As the opening of the Tartu Kaubamaja shopping centre (in Tartu, Estonia) was postponed by two weeks, Baltika's new stores in the respective centre will be also opened in October instead of September i.e. in 4Q instead of 3Q. All in all, Baltika is proceeding in line with the earlier announced plans to enlarge its retail system by 10-12 new stores in the second half of 2005.

#### WHOLESALE

As in the second half of the year July, August and September are traditionally strong wholesale months, the share of wholesale sales in Baltika's total sales increased to 27% in the third quarter. In the nine-month period, the share of wholesale sales of own products made up 20% compared with the year ago figure of 23%.

In the first nine months of 2005, the wholesale sales totalled EEK 99.6 million (EUR 6.4mln), being almost flat in comparison with the same period last year (+0.6% yoy). Nine-month comparisons versus the previous year are impacted by the acquisition of a 50.1% holding in the Russian retail company in April 2004 as a result of which part of Baltika's Russian wholesale sales are recorded as retail sales starting from May 2004.

The annual comparison of the third quarter alone shows a strong growth of 17.0% in wholesale sales. As the changes in Russia took place in May last year, the third quarter figures are fully comparable.

#### EARNINGS AND MARGINS

Baltika Group has achieved solid profitability improvements across the board this year. In the first nine months, the Group's gross profit margin expanded to 50.9% from last year's corresponding figure of 45.0%. Nine-month gross profit increased by 29.3% to EEK 249.8 million (EUR 16.0mln).

In the third quarter, Baltika's gross margin stood at 49.3% which is considerably better than in the third quarter of last year (43.0%) but lower than in the second quarter of this year (54.8%). Lower gross margin in 3Q compared with 2Q is expected as the third quarter includes lower margin end of season clearance sale. In addition, 3Q is a strong wholesale period and the gross margin of wholesale trade is lower than that of retail

operations. Overall, the results were driven by growth of the retail system and improved sales efficiency. More exact price policy, higher first price margins and improved inventory management contributed to the gross profitability.

The Group's nine-month operating profit totalled EEK 45.9 million (EUR 2.9mln). In the same period of previous year, operating profit amounted to EEK 11.3 million (EUR 721 thousand). Operating margin rose to 9.4% in the review period from 2.6% in 9m 2004.

The Group's net financial expenses were EEK -1.7 million (EUR -109 thousand) including interest expenses of EEK 4.0 million (EUR 258 thousand). Interest expenses declined by 20.6% over the year due to the decrease in total debt obligations and the reduced cost of borrowing as well as lower usage of the bank's overdraft.

Net profit of the Group after taxes and minority shareholding amounted to EEK 46.3 million (EUR 3.0mln) in the first nine months of 2005. In the same period last year, net profit stood at EEK 5.4 million (EUR 343 thousand). In the review period net profit margin enhanced to 9.4% from 1.2% a year ago. 3Q 2005 recorded net margin at 10.1% (2.3% in 3Q 2004).

#### BALANCE SHEET

On 30 September 2005, the total assets of Baltika Group amounted to EEK 337.4 million (EUR 21.6mln), up 6.4% in comparison with the end of last year.

As of the end of 3Q, the Group's total inventories stood at EEK 132.5 million (EUR 8.5mln), declining by EEK 13.0 million (EUR 0.8mln) during the first nine months of this year. The drop has mainly taken place in the inventories of finished goods and merchandise. Reduction in inventories indicates improved inventory management in the Group, which is also demonstrated by the enhanced inventory turnover ratio (net sales/average inventories) that has increased from 3.60 to 4.57 over the last year.

Stemming from the credit terms of wholesale sales, accounts receivables increased by EEK 24.4 million (EUR 1.6mln) since the end of the last year, reaching EEK 51.9 million (EUR 3.3mln). Traditionally, Baltika has a higher accounts receivable balance during the strong wholesale periods such as the first and third quarters. Accounts payable decreased by EEK 5.1 million (EUR 326 thousand) to EEK 26.1 million (EUR 1.7mln) in the first nine months of this year.

At the end of the review period, the Group's total interest bearing debt amounted to EEK 102.6 million (EUR 6.6mln), including bank loans of EEK 71.3 million (EUR 4.6mln). Since the end of 2004, the Group's borrowings from banks have decreased by EEK 29.4 million (EUR 1.9mln), around half of which represents repayment of loans and half comes from reduced usage of the bank's overdraft. The rest of debt comprises of convertible bonds and commercial papers (EEK 18.3mln/EUR 1.2mln) and lease liabilities (EEK 13.0mln/EUR 0.8mln).

In the third quarter, the Group's debt obligations grew by EEK 12.5 million (EUR 0.8mln) as a result of acquiring of building lease (see the section "Obtaining of building lease"). This sum was recorded under lease liabilities. On the assets side, the acquisition increased the balance of investment property and fixed assets.

As of the end of 3Q, the Group's total net debt amounted to EEK 89.0 million (EUR 5.7mln) and the net debt to equity ratio stood at 48.4%. This represents a significant reduction from the 2004 year end level of 75.9%.

#### INVESTMENTS

The Group's investments during the first nine months of the year totalled EEK 22.2 million (EUR 1.4mln). The largest investment (EEK 13.9mln/EUR 0.9mln) was the acquisition of building lease in Lasnamäe Industrial Park (see the section "Obtaining of building lease"). Investments into retail system amounted to EEK 3.7 million (EUR 0.2mln) in the first nine months.

#### OBTAINING OF BUILDING LEASE

In August, OÜ Baltika TP (100% owned by AS Baltika and established for carrying out of real estate developments) acquired building leases on two plots of land belonging to AS Lasnamäe Tööstuspark (Lasnamäe Industrial Park). As a result, Baltika TP leases 25,061 m<sup>2</sup> of land in the Lasnamäe Industrial Park with planning permission for industrial buildings. The cost of the building lease for the first three years is EEK 3.76 million (EUR 240 thousand). After three years, the owner of the building lease will have an option to purchase the land for EEK 11.28 million (EUR 721 thousand). According to the current plans, Baltika intends to move its central

warehouse to the Lasnamäe Industrial Park in 2006. The production premises that are located in the central district of Tallinn and belong to Baltika's joint venture OÜ Baltika Tailor should be relocated in 2007.

#### PERSONNEL

As of 30 September 2005, Baltika Group employed 1,626 people, including 905 in production and 568 in retail; 428 people worked outside Estonia. At the same time last year, the number of employees stood at 1,696, including 1,007 in production and 541 in retail.

#### EXIT OF A MAJOR SHAREHOLDER AND CHANGE IN THE SHAREHOLDERS' STRUCTURE

On September 28, Baltic Republics Fund sold its 34.56% ownership in AS Baltika (2,012,400 shares in total). The price of the transaction was EUR 6.86 (EEK 107.34) per share. OÜ BMIG, owned by the executives of Baltika, acquired 250,000 shares (4.29% of Baltika) from the placement. As a result, the ownership of OÜ BMIG in Baltika increased to 22.78% and it became the largest single shareholder of the company. The remaining 1,762,400 shares were sold to domestic and international institutional investors.

#### CHANGE IN INCOME STATEMENT FORMAT

From the beginning of 2005, Baltika uses a new income statement format. The need to change the format arose from the Group's strategy to transform from a production company to a retail enterprise. The new format of income statement allows for a better presentation of the financial position of Baltika as a retail group. The income statements of the previous financial year are restated to make them comparable with the new format. The new income statement format is in accordance with the IAS 1 requirements pertaining to mandatory entries and the presentation of financial statements.

#### KEY FIGURES OF THE GROUP (9 months 2005)

	30.09.2005	30.09.2004	Change, %
Sales (EEK mln)	490.6	428.9	14.4%
Retail sales (EEK mln)	380.6	295.7	28.7%
Share of retail sales in total sales	78%	69%	
Number of shops	79	76	3.9%
Retail sales area (m <sup>2</sup> )	11,702	10,920	7.2%
Gross margin, %	50.9%	45.0%	
Operating margin, %	9.4%	2.6%	
Net margin, %	9.4%	1.2%	
Inventory turnover	4.57	3.60	26.9%
Return on equity	39.2%	-23.3%	
Return on assets	18.1%	-8.1%	

#### Definitions of key indicators

Gross margin = (Net sales-COGS)/Net sales

Operating margin = Operating income/Net sales

Net margin = Net profit (attributable to parent)/Net sales

Inventory turnover\* = Net sales/Average inventories

Return on equity\* = Net profit /Average equity

Return on assets\* = Net profit /Average total assets

\*Based on 12-month average

1 EUR = 15.6466 EEK

Ülle Järv

Member of the Management Board

#### Further information:

Triin Palge

Head of investor relations

+372 630 2886

triin.palge@baltikagroup.com

**CONSOLIDATED BALANCE SHEET**

(unaudited, in EEK thousand)

	Note	30.09.2005	30.09.2004	31.12.2004
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		11,597	7,903	12,515
Held for trading investments	1	2,018	533	603
Customer receivables	2	51,887	38,707	27,501
Other receivables and prepaid expenses		9,206	14,193	10,012
Inventories	3	132,466	146,669	145,460
<b>Total current assets</b>		<b>207,174</b>	<b>208,005</b>	<b>196,091</b>
<b>Non-current assets</b>				
Investments in joint ventures		1,507	0	1,095
Investment property	4	13,456	0	7,500
Deferred income tax		4,349	4,876	4,349
Other non-current assets		4,459	3,523	2,837
Tangible fixed assets	5	79,627	80,031	77,325
Intangible assets	5	26,808	27,801	27,983
<b>Total non-current assets</b>		<b>130,206</b>	<b>116,231</b>	<b>121,089</b>
<b>TOTAL ASSETS</b>		<b>337,380</b>	<b>324,236</b>	<b>317,180</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Current liabilities</b>				
Debt obligations	6,7	29,557	59,677	74,504
Accounts payable		26,052	37,197	31,154
Tax liabilities		11,723	17,624	12,669
Accrued expenses		12,877	12,300	10,515
Other current liabilities		362	127	924
<b>Total current liabilities</b>		<b>80,571</b>	<b>126,925</b>	<b>129,766</b>
<b>Non-current liabilities</b>				
Long-term debt		73,059	70,193	45,944
<b>Total non-current liabilities</b>		<b>73,059</b>	<b>70,193</b>	<b>45,944</b>
<b>TOTAL LIABILITIES</b>		<b>153,630</b>	<b>197,118</b>	<b>175,710</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital (par value)		58,230	55,874	56,340
Share premium		49,061	43,810	44,508
Mandatory legal reserve		5,634	4,800	4,800
Other reserves		3,898	18,085	21,983
Retained earnings		13,076	-16,508	-16,508
Net profit for the period		46,330	5,359	16,701
Exchange rate differences		4,264	6,713	6,622
Minority interest		3,257	8,985	7,024
<b>TOTAL EQUITY</b>	8	<b>183,750</b>	<b>127,118</b>	<b>141,470</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>337,380</b>	<b>324,236</b>	<b>317,180</b>

**CONSOLIDATED BALANCE SHEET**

(unaudited, in EUR thousand)

	Note	30.09.2005	30.09.2004	31.12.2004
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		741	505	800
Held for trading investments	1	129	34	39
Customer receivables	2	3,316	2,474	1,758
Other receivables and prepaid expenses		588	907	640
Inventories	3	8,466	9,374	9,297
<b>Total current assets</b>		<b>13,241</b>	<b>13,294</b>	<b>12,532</b>
<b>Non-current assets</b>				
Investments in joint ventures		96	0	70
Investment property	4	860	0	479
Deferred income tax		278	312	278
Other non-current assets		285	225	181
Tangible fixed assets	5	5,089	5,115	4,942
Intangible assets	5	1,713	1,777	1,788
<b>Total non-current assets</b>		<b>8,322</b>	<b>7,429</b>	<b>7,739</b>
<b>TOTAL ASSETS</b>		<b>21,563</b>	<b>20,722</b>	<b>20,271</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Current liabilities</b>				
Debt obligations	6,7	1,889	3,814	4,762
Accounts payable		1,665	2,377	1,991
Tax liabilities		749	1,126	810
Accrued expenses		823	786	672
Other current liabilities		23	8	59
<b>Total current liabilities</b>		<b>5,149</b>	<b>8,112</b>	<b>8,294</b>
<b>Non-current liabilities</b>				
Long-term debt		4,669	4,486	2,936
<b>Total non-current liabilities</b>		<b>4,669</b>	<b>4,486</b>	<b>2,936</b>
<b>TOTAL LIABILITIES</b>		<b>9,819</b>	<b>12,598</b>	<b>11,230</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital (par value)		3,722	3,571	3,601
Share premium		3,136	2,800	2,845
Mandatory legal reserve		360	307	307
Other reserves		249	1,156	1,405
Retained earnings		836	-1,055	-1,055
Net profit for the period		2,961	343	1,067
Exchange rate differences		273	429	423
Minority interest		208	574	449
<b>TOTAL EQUITY</b>	8	<b>11,744</b>	<b>8,124</b>	<b>9,042</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>21,563</b>	<b>20,722</b>	<b>20,271</b>



**CONSOLIDATED INCOME STATEMENT**

(unaudited, in EEK thousand)

	Note	3Q 2005	3Q 2004	9m 2005	9m 2004	2004
Net sales	9	180,083	159,531	490,571	428,881	581,878
Cost of goods sold		91,369	90,905	240,759	235,712	303,429
<b>Gross profit</b>		<b>88,714</b>	<b>68,626</b>	<b>249,812</b>	<b>193,169</b>	<b>278,449</b>
Selling and marketing expenses		-51,070	-47,764	-147,831	-134,273	-185,126
Administrative expenses		-18,817	-14,798	-61,174	-48,852	-71,155
Other operating income		2,495	963	8,177	2,876	1,692
Other operating expenses		-2,094	-747	-3,090	-1,634	-5,073
<b>Operating profit</b>		<b>19,228</b>	<b>6,280</b>	<b>45,894</b>	<b>11,286</b>	<b>18,787</b>
<b>Financial income (expenses)</b>		<b>-665</b>	<b>-2,090</b>	<b>-1,699</b>	<b>-5,375</b>	<b>-4,771</b>
Financial income from investments in JV		-522	0	412	0	-714
Financial income from other investments		956	-15	1,415	156	3,309
Interest expenses		-1,249	-1,616	-4,039	-5,087	-6,683
Foreign exchange gain (loss)		126	-423	131	-342	-1,501
Other financial income (expenses)		24	-36	382	-102	818
<b>Profit before income tax</b>		<b>18,563</b>	<b>4,190</b>	<b>44,195</b>	<b>5,911</b>	<b>14,016</b>
Income tax		-539	-64	-1,251	-201	947
<b>Net profit</b>		<b>18,024</b>	<b>4,126</b>	<b>42,944</b>	<b>5,710</b>	<b>14,963</b>
Net profit attributable to minority interest		-146	491	-3,386	351	-1,738
<b>Net profit attributable to parent</b>		<b>18,170</b>	<b>3,635</b>	<b>46,330</b>	<b>5,359</b>	<b>16,701</b>
Basic earnings per share	10	3.12	0.65	8.09	0.97	3.01
Diluted earnings per share	10	2.96	0.61	7.55	0.97	3.01

**CONSOLIDATED INCOME STATEMENT**

(unaudited, in EUR thousand)

	Note	3Q 2005	3Q 2004	9m 2005	9m 2004	2004
Net sales	9	11,509	10,196	31,353	27,410	37,189
Cost of goods sold		5,840	5,810	15,387	15,065	19,393
<b>Gross profit</b>		<b>5,670</b>	<b>4,386</b>	<b>15,966</b>	<b>12,346</b>	<b>17,796</b>
Selling and marketing expenses		-3,264	-3,053	-9,448	-8,582	-11,832
Administrative expenses		-1,203	-946	-3,910	-3,122	-4,548
Other operating income		159	62	523	184	108
Other operating expenses		-134	-48	-197	-104	-324
<b>Operating profit</b>		<b>1,229</b>	<b>401</b>	<b>2,933</b>	<b>721</b>	<b>1,201</b>
<b>Financial income (expenses)</b>		<b>-43</b>	<b>-134</b>	<b>-109</b>	<b>-344</b>	<b>-305</b>
Financial income from investments in JV		-33	0	26	0	-46
Financial income from other investments		61	-1	90	10	211
Interest expenses		-80	-103	-258	-325	-427
Foreign exchange gain (loss)		8	-27	8	-22	-96
Other financial income (expenses)		2	-2	24	-7	52
<b>Profit before income tax</b>		<b>1,186</b>	<b>268</b>	<b>2,825</b>	<b>378</b>	<b>896</b>
Income tax		-34	-4	-80	-13	61
<b>Net profit</b>		<b>1,152</b>	<b>264</b>	<b>2,745</b>	<b>365</b>	<b>956</b>
Net profit attributable to minority interest		-9	31	-216	22	-111
<b>Net profit attributable to parent</b>		<b>1,161</b>	<b>232</b>	<b>2,961</b>	<b>343</b>	<b>1,067</b>
Basic earnings per share	10	0.20	0.04	0.52	0.06	0.19
Diluted earnings per share	10	0.19	0.04	0.48	0.06	0.19

**CONSOLIDATED CASH FLOW STATEMENT**  
(unaudited, in EEK thousand)

	Note	9m 2005	9m 2004
<b>Operating activities</b>			
Operating profit		45,894	11,286
Depreciation	5	15,530	16,487
Profit (loss) from sale of fixed assets		197	-222
Change in receivables		-26,452	-8,393
Change in inventories	3	12,944	3,755
Change in payables		-4,635	-8,023
Interest paid		-4,706	-3,986
Income tax paid		-1,101	-18
<b>Cash flow from operating activities</b>		<b>37,671</b>	<b>10,886</b>
<b>Investing activities</b>			
Acquisition of tangible and intangible assets including capital lease	5,6	-23,049	-7,378
		14,275	118
Sale of fixed assets		375	533
Acquisition of subsidiaries		0	-40
Interest received		67	37
Loans granted		-1,505	-652
Repayment of loans granted		160	8
<b>Cash flow from investing activities</b>		<b>-9,677</b>	<b>-7,374</b>
<b>Financing activities</b>			
Repayment of loans	6	-29,401	-9,971
Loans received	6	0	926
Payments of finance lease and instalments		-1,768	-1,082
Dividends paid		-4,474	0
Receipts from contributions into share capital		6,254	2,112
Proceeds from sale of convertible bonds		352	50
Repurchase of convertible bonds		-6	-141
<b>Cash flow from financing activities</b>		<b>-29,043</b>	<b>-8,106</b>
Effect of foreign exchange rate changes		131	-339
<b>Total cash flows</b>		<b>-918</b>	<b>-4,933</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>12,515</b>	<b>12,836</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>11,597</b>	<b>7,903</b>

**CONSOLIDATED CASH FLOW STATEMENT**

(unaudited, in EUR thousand)

	Note	9m 2005	9m 2004
<b>Operating activities</b>			
Operating profit		2,933	721
Depreciation	5	993	1,054
Profit (loss) from sale of fixed assets		13	-14
Change in receivables		-1,691	-536
Change in inventories	3	827	240
Change in payables		-296	-513
Interest paid		-301	-255
Income tax paid		-70	-1
<b>Cash flow from operating activities</b>		<b>2,408</b>	<b>696</b>
<b>Investing activities</b>			
Acquisition of tangible and intangible assets including capital lease	5,6	-1,473	-472
		912	8
Sale of fixed assets		24	34
Acquisition of subsidiaries		0	-3
Interest received		4	2
Loans granted		-96	-42
Repayment of loans granted		10	1
<b>Cash flow from investing activities</b>		<b>-618</b>	<b>-471</b>
<b>Financing activities</b>			
Repayment of loans	6	-1,879	-637
Loans received	6	0	59
Payments of finance lease and instalments		-113	-69
Dividends paid		-286	0
Receipts from contributions into share capital		400	135
Proceeds from sale of convertible bonds		22	3
Repurchase of convertible bonds		0	-9
<b>Cash flow from financing activities</b>		<b>-1,856</b>	<b>-518</b>
Effect of foreign exchange rate changes		8	-22
<b>Total cash flows</b>		<b>-59</b>	<b>-315</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>800</b>	<b>820</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>741</b>	<b>505</b>

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(unaudited, in EEK thousand)

	Share capital	Share premium	Reserves	Retained earnings	Unrealised foreign exchange rate differences	Minority interest	Total
<b>Balance as of 31.12.2003</b>	<b>54,994</b>	<b>42,490</b>	<b>22,885</b>	<b>-16,508</b>	<b>4,185</b>	<b>7,119</b>	<b>115,165</b>
Contribution to share capital	880	1,320	0	0	0	0	2,200
Net profit for the accounting period	0	0	0	5,359	0	351	5,710
Unrealised foreign exchange rate differences	0	0	0	0	2,528	1,515	4,043
<b>Balance as of 30.09.2004</b>	<b>55,874</b>	<b>43,810</b>	<b>22,885</b>	<b>-11,149</b>	<b>6,713</b>	<b>8,985</b>	<b>127,118</b>
<b>Balance as of 31.12.2004</b>	<b>56,340</b>	<b>44,508</b>	<b>26,783</b>	<b>193</b>	<b>6,622</b>	<b>7,024</b>	<b>141,470</b>
Dividends paid	0	0	0	-4,367	0	0	-4,367
Appropriations to mandatory legal reserve	0	0	834	-834	0	0	0
Contribution to share capital	1,890	4,553	0	0	0	0	6,443
Appropriations to retained earnings	0	0	-18,085	18,085	0	0	0
Net profit for the accounting period	0	0	0	46,330	0	-3,386	42,944
Unrealised foreign exchange rate differences	0	0	0	0	-2,358	-381	-2,739
<b>Balance as of 30.09.2005</b>	<b>58,230</b>	<b>49,061</b>	<b>9,532</b>	<b>59,406</b>	<b>4,264</b>	<b>3,257</b>	<b>183,750</b>

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(unaudited, in EUR thousand)

	Share capital	Share premium	Reserves	Retained earnings	Unrealised foreign exchange rate differences	Minority interest	Total
<b>Balance as of 31.12.2003</b>	<b>3,515</b>	<b>2,716</b>	<b>1,463</b>	<b>-1,055</b>	<b>267</b>	<b>455</b>	<b>7,360</b>
Contribution to share capital	56	84	0	0	0	0	141
Net profit for the accounting period	0	0	0	343	0	22	365
Unrealised foreign exchange rate differences	0	0	0	0	162	97	258
<b>Balance as of 30.09.2004</b>	<b>3,571</b>	<b>2,800</b>	<b>1,463</b>	<b>-713</b>	<b>429</b>	<b>574</b>	<b>8,124</b>
<b>Balance as of 31.12.2004</b>	<b>3,601</b>	<b>2,845</b>	<b>1,712</b>	<b>12</b>	<b>423</b>	<b>449</b>	<b>9,042</b>
Dividends paid	0	0	0	-279	0	0	-279
Appropriations to mandatory legal reserve	0	0	53	-53	0	0	0
Contribution to share capital	121	291	0	0	0	0	412
Appropriations to retained earnings	0	0	-1,156	1,156	0	0	0
Net profit for the accounting period	0	0	0	2,961	0	-216	2,745
Unrealised foreign exchange rate differences	0	0	0	0	-151	-24	-175
<b>Balance as of 30.09.2005</b>	<b>3,722</b>	<b>3,136</b>	<b>609</b>	<b>3,797</b>	<b>273</b>	<b>208</b>	<b>11,744</b>

## Overview of Baltika Group

Baltika Group (BG) is an international clothing retailer with AS Baltika as a parent company. The group is operating the retail chains of Monton, Baltman, CHR/Evermen and Baltika Factory Outlet and is present in six countries – Estonia, Latvia, Lithuania, Poland, Ukraine and Russia. 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 own retail chain Monton. Factory outlets are used to sell the previous periods' stocks of all the brands.

AS Baltika is listed on the Tallinn Stock Exchange, which is part of OMX Exchanges.

As of 30.09.2005, the group had 1,626 employees.

The parent company is located and registered in Estonia at Veerenni 24, Tallinn.

The Group comprises of the following companies:

	Country	Participation 30.09.2005	Participation 31.12.2004
<b>Parent company</b>			
AS Baltika	Estonia		
<b>Subsidiaries</b>			
OÜ Baltman	Estonia	100%	100%
UAB Baltika Lietuva	Lithuania	100%	100%
SIA Baltika Latvija	Latvia	75%	75%
Baltika Sweden AB	Sweden	100%	100%
Baltika Ukraina Ltd	Ukraine	99%	99%
Baltika Poland Sp.z.o.o.	Poland	100%	100%
OY Baltinia AB	Finland	100%	100%
AS Elina STC	Estonia	50.10%	50.10%
AS Virulane	Estonia	79.23%	79.23%
OOO Kompania „Baltman Rus“	Russia	50.10%	50.10%
<b>Joint venture</b>			
OÜ Baltika Tailor	Estonia	50%	50%

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

This consolidated interim report has been prepared in accordance with the international accounting standard IAS 34 “Interim Financial Reporting” regarding condensed interim financial statements and in compliance with International Financial Reporting Standards. The same accounting principles are used as in the annual report for the year ended on 31.12.2004.

From the beginning of 2005, Baltika introduced a new income statement format - income statement scheme no. 2. The income statements of the previous financial year are restated to make them comparable with the new format.

According to the assessment of the management board, the interim report of Baltika Group for the third quarter of 2005 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 of 1 EUR = 15.6466 EEK.

**NOTES TO CONSOLIDATED INTERIM REPORT****NOTE 1 Short-term shares and securities**

	EEK '000		EUR '000	
	30.09.2005	31.12.2004	30.09.2005	31.12.2004
Shares of AS Tallinna Kaubamaja	2,018	603	129	39

Short-term investments are initially recognised at acquisition cost on the transaction date and subsequently measured at their fair value - in the case of publicly listed shares at the market price of the shares as of the balance sheet date. Unrealised gains and losses arising from the revaluation of shares are recorded in the income statement under Financial income (expenses).

**NOTE 2 Accounts receivable**

	EEK '000		EUR '000	
	30.09.2005	31.12.2004	30.09.2005	31.12.2004
Accounts receivable	52,166	27,576	3,334	1,762
Allowance for doubtful receivables	-279	-75	-18	-5
<b>Total</b>	<b>51,887</b>	<b>27,501</b>	<b>3,316</b>	<b>1,758</b>

Trade receivables are recorded at original invoice amount on the date when the receivables arise (transaction date) and in amortised cost thereafter. If it is likely that the Group will be unable to collect all the amounts due according to the original terms of receivables, an allowance is provided for the impairment of these receivables.

In evaluating trade receivables, each receivable has been treated separately. During the reporting period, doubtful accounts were expensed in the amount of EEK 429 thousand (EUR 27.4 thousand), doubtful accounts expensed in previous periods have been recovered in the amount of EEK 24 thousand (EUR 1.5 thousand). During the first 9 months of 2004, doubtful accounts were expensed in the amount of EEK 34 thousand (EUR 2.2 thousand), doubtful accounts expensed in previous periods were recovered in the amount of EEK 12 thousand (EUR 0.8 thousand).

Accounts known to be uncollectible are written off the balance sheet. During the reporting period uncollectible receivables in the amount of EEK 72 thousand (EUR 4.6 thousand) were written off the balance sheet, the respective figure in the same period of 2004 was EEK 1,043 thousand (EUR 66.7 thousand).

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

**NOTE 3 Inventories of finished goods and materials**

	EEK '000		EUR '000	
	30.09.2005	31.12.2004	30.09.2005	31.12.2004
Raw materials and materials	44,269	53,401	2,829	3,413
Write-down of inventories of materials	-1,647	-1,435	-105	-92
Work-in-progress	861	1,193	55	76
Finished goods	87,205	92,493	5,573	5,911
Write-down of inventories of finished goods	-1,556	-2,402	-99	-154
Prepayments to suppliers	3,334	2,210	213	141
<b>Total</b>	<b>132,466</b>	<b>145,460</b>	<b>8,466</b>	<b>9,297</b>

In conjunction with the parent company's AS Baltika transfer into a wholesale and holding company at the end of 2004, the materials of the parent company, which are in the process of manufacturing at subcontractors, are shown in the balance sheet as inventories of raw materials. Work-in-progress is shown in the balance sheets of the Group's manufacturing companies AS Virulane and AS Elina STC.



In the reporting period, the write-down of materials in the Group amounted to EEK 1,115 thousand (EUR 71.3 thousand). The same figure in the first 9 months of 2004 totalled EEK 8 thousand (EUR 0.5 thousand). Due to the sale of materials, the write-down of materials decreased in the accounting period by EEK 902 thousand (EUR 57.6 thousand) and in the same period in 2004 by EEK 447 thousand (EUR 28.6 thousand). The write-down of inventories of finished goods decreased during the accounting period by EEK 845 thousand (EUR 54.0 thousand), in 2004 by EEK 11.4 million (EUR 0.7mln).

#### NOTE 4 Investment properties

Investment properties include real estate property that is not used in the company's core business and is owned with the purpose to earn rental income. Changes in investment properties in the first 9 months of 2005:

	EEK '000	EUR '000
<b>Balance as of 31.12.2004</b>	<b>7,500</b>	<b>479</b>
Acquired during the period	5,956	381
<b>Balance as of 30.09.2005</b>	<b>13,456</b>	<b>860</b>

In August 2005, OÜ Baltika TP, subsidiary of AS Baltika, acquired building leases on two plots of land (altogether 25,061 m<sup>2</sup>) in Lasnamäe Industrial Park. Baltika intends to build a new logistics centre to one of the plots and relocate production premises, that are located in the central district of Tallinn and belong to Baltika's joint venture OÜ Baltika Tailor, to another plot.

The cost of the building lease for the first three years of EEK 3,759 thousand (EUR 240 thousand) is paid in 2005. After three years, the owner of the building lease will have an option to purchase the land for EEK 11,277 thousand (EUR 721 thousand).

The property to be used for leased out production facility is recorded in the balance sheet under Investment property with a fair value of EEK 5,956 thousand (EUR 381 thousand). The investment made into the property, that will be used for the new logistics centre, is made for the company's own purposes and is therefore recorded under fixed assets in the group called "Land" at a fair value of EEK 7,969 thousand (EUR 509 thousand) (see Note 5). As it is favourable to use the pre-emptive right for purchasing the land, the agreement qualifies as a leasing transaction. Thus, the present value of the two-year payment of the building leases and the discounted value of the purchasing price of the land are recorded under lease liabilities in the balance sheet.

#### NOTE 5 Tangible and intangible assets

The Group's investments into tangible assets during the first 9 months of 2005 amounted to EEK 15.2 million (EUR 1.0mln). The biggest investment, in the amount of EEK 7,969 thousand (EUR 509 thousand), was the acquisition of building lease on a plot where a new logistics centre will be built (see Note 4). Investments into the retail system amounted to EEK 3.7 million (EUR 0.2mln), into machinery EEK 1.1 million (EUR 0.1mln), into information technology EEK 466 thousand (EUR 29.8 thousand) and into other tangible assets EEK 269 thousand (EUR 17.2 thousand). The Group's Lithuanian subsidiary acquired a car on capital lease conditions at the cost of EEK 350 thousand (EUR 22.4 thousand).

The group sold fixed assets during the first nine months of this year in an acquisition value of EEK 1.6 million (EUR 0.1mln). Due to the closing of some stores, the stores' inventory and reconstruction works were written off in an acquisition value of EEK 1.0 million (EUR 0.7mln).

#### Changes in fixed assets in 9 months 2005

EEK '000	Land	Buildings, structures	Machinery, equipment	Other fixtures	Constr. in progress	Pre- payments	Total
<b>Acquisition cost 31.12.04</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 31.12.04	0	-22,454	-62,353	-29,176	0	0	-113,983
<b>Residual value 31.12.04</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>
Additions	7,969	1,961	2,103	1,873	1,135	190	15,231
Disposals	0	0	-118	-56	0	0	-174
Write-offs	0	-180	0	-82	0	0	-262

Taken into use	0	0	0	0	-68	0	-68
Reclassification	0	0	132	-132	0	0	0
Depreciation	0	-4,296	-3,728	-5,351	0	0	-13,375
Foreign exchange rate differences	0	397	27	523	3	0	950
<b>Acquisition cost 30.09.05</b>	<b>10,973</b>	<b>71,799</b>	<b>72,238</b>	<b>49,018</b>	<b>1,138</b>	<b>190</b>	<b>205,356</b>
Accumulated depreciation 30.09.05	0	-26,743	-65,469	-33,517	0	0	-125,729
<b>Residual value 30.09.05</b>	<b>10,973</b>	<b>45,056</b>	<b>6,769</b>	<b>15,501</b>	<b>1,138</b>	<b>190</b>	<b>79,627</b>

EUR '000	Land	Buildings, structures	Machinery, equipment	Other fixtures	Constr. in progress	Pre-payments	Total
<b>Acquisition cost 31.12.04</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 31.12.04	0	-1,435	-3,985	-1,865	0	0	-7,285
<b>Residual value 31.12.04</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>
Additions	509	125	134	120	73	12	973
Disposals	0	0	-8	-4	0	0	-11
Write-offs	0	-12	0	-5	0	0	-17
Taken into use	0	0	0	0	-4	0	-4
Reclassification	0	0	8	-8	0	0	0
Depreciation	0	-275	-238	-342	0	0	-855
Foreign exchange rate differences	0	25	2	33	0	0	61
<b>Acquisition cost 30.09.05</b>	<b>701</b>	<b>4,589</b>	<b>4,617</b>	<b>3,133</b>	<b>73</b>	<b>12</b>	<b>13,125</b>
Accumulated depreciation 30.09.05	0	-1,709	-4,184	-2,142	0	0	-8,036
<b>Residual value 30.09.05</b>	<b>701</b>	<b>2,880</b>	<b>433</b>	<b>991</b>	<b>73</b>	<b>12</b>	<b>5,089</b>

See Note 6 concerning pledged assets.

#### Changes in intangible assets in 9 months 2005

During the first nine months of 2005, investments into new software were made in the parent company and in the Latvian, Lithuanian and Ukrainian subsidiaries.

EEK '000	Licences and software	Prepayments	Positive goodwill	Total
<b>Acquisition cost 31.12.04</b>	<b>20,070</b>	<b>0</b>	<b>13,924</b>	<b>33,994</b>
Accumulated depreciation 31.12.04	-6,011	0	0	-6,011
<b>Residual value 31.12.04</b>	<b>14,059</b>	<b>0</b>	<b>13,924</b>	<b>27,983</b>
Additions	948	0	0	948
Taken into use	77	0	0	77
Amortisation	-2,155	0	0	-2,155
Foreign exchange rate differences	10	0	-55	-45
<b>Acquisition cost 30.09.05</b>	<b>21,105</b>	<b>0</b>	<b>13,869</b>	<b>34,974</b>
Accumulated depreciation 30.09.05	-8,166	0	0	-8,166
<b>Residual value 30.09.05</b>	<b>12,939</b>	<b>0</b>	<b>13,869</b>	<b>26,808</b>

EUR '000	Licences and software	Prepayments	Positive goodwill	Total
<b>Acquisition cost 31.12.04</b>	<b>1,283</b>	<b>0</b>	<b>890</b>	<b>2,173</b>
Accumulated depreciation 31.12.04	-384	0	0	-384
<b>Residual value 31.12.04</b>	<b>899</b>	<b>0</b>	<b>890</b>	<b>1,788</b>
Additions	61	0	0	61
Taken into use	5	0	0	5
Amortisation	-138	0	0	-138
Foreign exchange rate differences	1	0	-4	-3
<b>Acquisition cost 30.09.05</b>	<b>1,349</b>	<b>0</b>	<b>886</b>	<b>2,235</b>
Accumulated depreciation 30.09.05	-522	0	0	-522
<b>Residual value 30.09.05</b>	<b>827</b>	<b>0</b>	<b>886</b>	<b>1,713</b>

**NOTE 6 Debt obligations**

	EEK '000		EUR '000	
	30.09.2005	31.12.2004	30.09.2005	31.12.2004
<b>Short-term debt</b>				
Current portion of long-term bank loans	4,419	23,637	282	1,511
Short-term bank loans	4,301	31,200	275	1,994
Short-term lease liabilities	2,548	440	163	28
Convertible bonds	212	380	14	24
Commercial papers	18,077	18,847	1,155	1,205
<b>Total</b>	<b>29,557</b>	<b>74,504</b>	<b>1,889</b>	<b>4,762</b>
<b>Long-term debt</b>				
Long-term bank loans	62,618	45,903	4,002	2,934
Long-term lease liabilities	10,419	20	666	1
Other long-term liabilities	22	21	1	1
<b>Total</b>	<b>73,059</b>	<b>45,944</b>	<b>4,669</b>	<b>2,936</b>

**Bank loans**

EEK '000	Debt as of 30.09.2005	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	5,848	900	4,948	3m Euribor+2.5%
Nordea Pank	3,126	208	2,918	6m Euribor+2.5%
Hansapank	50,206	1,882	48,324	6m Euribor+1.5%
Hansapank	7,857	1,429	6,428	6m Euribor+2.35%
Hansabank (overdraft facility)	4,301	4,301	0	4.20%
<b>Total</b>	<b>71,338</b>	<b>8,720</b>	<b>62,618</b>	

EUR '000	Debt as of 30.09.2005	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	374	58	316	3m Euribor+2.5%
Nordea Pank	200	13	186	6m Euribor+2.5%
Hansapank	3,209	120	3,088	6m Euribor+1.5%
Hansapank	502	91	411	6m Euribor+2.35%
Hansabank (overdraft facility)	275	275	0	4.20%
<b>Total</b>	<b>4,559</b>	<b>557</b>	<b>4,002</b>	

In the second quarter of 2005, AS Baltika refinanced a short-term loan taken from Hansabank in 2003. The term of the loan was prolonged until 2012 and the interest rate was reduced.

In the third quarter of 2005, Nordea Bank extended the term of a short-term loan by three years and thus, the short-term loan in the amount of EEK 833 thousand (EUR 53.2 thousand) was classified as long-term.

During the reporting period, AS Baltika has made loan repayments of EEK 4,475 thousand (EUR 286 thousand) to Nordea Bank and EEK 8,314 thousand (EUR 531 thousand) to Hansabank. During the first nine months of 2004, loan repayments amounted to EEK 9,256 thousand (EUR 592 thousand). AS Virulane made loan repayments to Hansabank both in nine months of 2005 and 2004 in the amount of EEK 714 thousand (EUR 45.6 thousand).

The loans and overdraft of AS Baltika are secured by a commercial pledge of EEK 69.68 million (EUR 4.45mln) and a mortgage on the registered real estate at Veerenni 24 in the amount of EEK 40 million (EUR 2.6mln). The loan of AS Virulane is secured by mortgages on the registered real estate at Kalda 10A in Rakvere in the amount of EEK 7.4 million (EUR 0.5mln) and at Õpetajate 5 in Ahtme in the amount of EEK 12 million (EUR 0.8mln) plus the surety of AS Baltika.

AS Baltika has opened a group account in Hansabank with an overdraft limit of EEK 32 million (EUR 2.0mln). As of 30.09.2005 the overdraft facility had been used to the extent of EEK 4.3 million (EUR 0.3mln). As of 30.09.2004 the overdraft facility had been used to the extent of EEK 24.6 million (EUR 1.6mln).

The Group's interest expenses in the first nine months of 2005 amounted to EEK 4,039 thousand (EUR 258 thousand); the respective amount in 2004 was EEK 5,087 thousand (EUR 325 thousand). Interest expenses are recorded under Financial expenses.

## NOTE 7 Debt instruments

### Convertible bonds

The Annual General Meeting of Shareholders of 6 April 2001 decided to issue 576,000 convertible bonds in the period of 2001 to 2003 (192,000 bonds a year) with a nominal value of EEK 1.00 (EUR 0.06) per share. Three types of convertible bonds were issued:

- A-bonds were converted into ordinary shares for additional cash payment of EEK 24 (EUR 1.53) per share;
- B-bonds were converted into ordinary shares for additional cash payment of EEK 33.09 (EUR 2.11) per share;
- C-bonds are convertible into ordinary shares for additional cash payment of EEK 36.57 (EUR 2.34) per share.

If the bonds are neither converted into ordinary shares nor redeemed during the conversion period, they are exchanged into interest bearing loans according to the agreement by both parties. Until that date, no interest is paid on the bonds. In exchange for 5,500 bonds not converted into shares EEK 5.5 thousand (EUR 0.35 thousand) has been returned to former employees.

EEK '000	Issue date	Total issue value	Bond conversion period	Bonds converted into shares	Redeemed bonds	Convertible bonds 30.09.2005
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	189.0	3.0	0
C-Bond	01.05.2003	192	01.05.2004-01.05.2006	0	0	192
<b>Total</b>		<b>576</b>		<b>378.5</b>	<b>5.5</b>	<b>192</b>

EUR '000	Issue date	Total issue value	Bond conversion period	Bonds converted into shares	Redeemed bonds	Convertible bonds 30.09.2005
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	12.1	0.2	0
C-Bond	01.05.2003	12.3	01.05.2004- 01.05.2006	0	0	12.3
<b>Total</b>		<b>36.8</b>		<b>24.2</b>	<b>0.4</b>	<b>12.3</b>

At the Extraordinary Meeting of Shareholders held on 7 December 2004, it was decided to issue 200,000 D-type convertible bonds with a nominal value EEK 0.10 (EUR 0.006) per share to the executives of the company.

The bonds are convertible into shares at the price of EEK 28.95 (EUR 1.85) per share equalling the weighted average price of AS Baltika share on the Tallinn Stock Exchange on the trading date preceding the adoption of the resolution. The condition for the conversion of bonds into shares is that the market price of the shares of AS Baltika equals at least EEK 45.00 (EUR 2.88) per share.

EEK '000	Issue date	Total issue value	Bond conversion period	Bonds converted into shares	Convertible bonds 30.09.2005
D-Bond	21.12.2004	20	01.07.2006- 30.12.2006	0	20

EUR '000	Issue date	Total issue value	Bond conversion period	Bonds converted into shares	Convertible bonds 30.09.2005
D-Bond	21.12.2004	1.3	01.07.2006- 30.12.2006	0	1.3

#### Closed issue of bonds

On 26 September 2003, AS Baltika issued bonds in the amount of EEK 17.5 million (EUR 1.1mln). The maturity date of bonds is on 17 March 2006. The coupon rate of bonds is 7.0% and coupon payment dates are 17 March 2005 and 17 March 2006.

On 17 March 2005, coupon payments were made to the bond owners in the amount of EEK 1,804 thousand (EUR 115 thousand).

The effective interest rate on the bonds is approximately 7.7%. The borrowings are not secured.

	Quantity	Nominal (EEK)	Issue price (EEK)	Balance 30.09.2005 (EEK '000)	Coupon interest rate	Maturity date
Bonds	1,750	10,000	9,874	18,077	7.0%	17.03.2006

	Quantity	Nominal (EUR)	Issue price (EUR)	Balance 30.09.2005 (EUR '000)	Coupon interest rate	Maturity date
Bonds	1,750	639	631	1,155	7.0%	17.03.2006

**NOTE 8 Shareholders' equity****Share capital**

<b>EEK '000</b>	<b>30.09.2005</b>	<b>31.12.2004</b>
Share capital	58,230	56,340
Number of shares	5,822,950	5,633,950
Nominal value of a share (EEK)	10	10
Statutory reserve capital	5,634	4,800
Revaluation reserve of investment property	3,898	3,898
Other voluntary reserves	0	18,085

<b>EUR '000</b>	<b>30.09.2005</b>	<b>31.12.2004</b>
Share capital	3,722	3,601
Number of shares	5,822,950	5,633,950
Nominal value of a share (EEK)	0.64	0.64
Statutory reserve capital	360	307
Revaluation reserve of investment property	249	249
Other voluntary reserves	0	1,156

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

The retained earnings of the company as of 30.09.2005 amounted to EEK 59,406 thousand (EUR 3,797 thousand).

**NOTE 9 Segments****Business segment report by field of operation for 9 months 2005 – primary segment**

<b>EEK '000</b>	<b>Wholesale and other</b>			<b>Inter-segment transactions</b>	<b>TOTAL</b>
	<b>Retail</b>	<b>Production</b>			
Sales	380,616	109,399	556	0	490,571
Inter-segment sales	0	227,496	47,528	-275,024	0
Total sales	380,616	336,895	48,084	-275,024	490,571
Segment operating profit	58,300	42,400	0	0	100,700
Unallocated operating expenses					-54,806
Total operating profit					45,894
					0
Other financial income (expenses)					-1,699
Corporate income tax					-1,251
Profit before minority interest					42,944
Minority interest					-3,386
Net profit					46,330
Assets	121,047	141,768	66,908	-9,150	320,573
Unallocated assets of the Group					16,807
Total assets					337,380
Liabilities	126,274	38,879	8,527	-110,465	63,215
Unallocated liabilities of the Group					90,415
Total liabilities					153,630

Acquisition of fixed assets	5,733	7,913	1,390	0	15,036
Depreciation	8,558	4,827	2,145	0	15,530
Other significant non-monetary expenses	0	3,484	0	0	3,484

EUR '000				Inter-	TOTAL
	Retail	Wholesale and other	Production	segment transactions	
Sales	24,326	6,992	36	0	31,353
Inter-segment sales	0	14,540	3,038	-17,577	0
Total sales	24,326	21,532	3,073	-17,577	31,353
Segment operating profit	3,726	2,710	0	0	6,436
Unallocated operating expenses					-3,503
Total operating profit					2,933
					0
Other financial income (expenses)					-109
Corporate income tax					-80
Profit before minority interest					2,745
Minority interest					-216
Net profit					2,961
Assets	7,736	9,061	4,276	-585	20,488
Unallocated assets of the Group					1,074
Total assets					21,563
Liabilities	8,070	2,485	545	-7,060	4,040
Unallocated liabilities of the Group					5,779
Total liabilities					9,819
Acquisition of fixed assets	366	506	89	0	961
Depreciation	547	309	137	0	993
Other significant non-monetary expenses	0	223	0	0	223

#### Business segment report by field of operation for 9 months 2004 – primary segment

EEK '000				Inter-	TOTAL
	Retail	Wholesale and other	Production	segment transactions	
Sales	295,668	99,966	33,247	0	428,881
Inter-segment sales	0	196,826	40,274	-237,100	0
Total sales	295,668	296,792	73,521	-237,100	428,881
Segment operating profit	25,800	36,200	-4,900	0	57,100
Unallocated operating expenses					-45,814
Total operating profit					11,286
Other financial income (expenses)					-5,375
Corporate income tax					-201
Profit before minority interest					5,710
Minority interest					351
Net profit					5,359
Assets	120,039	124,850	77,220	-11,031	311,078

Unallocated assets of the Group					13,158
Total assets					324,236
Liabilities	141,667	48,203	8,481	-131,332	67,019
Unallocated liabilities of the Group					130,099
Total liabilities					197,118
Acquisition of fixed assets	6,904	650	798	0	8,352
Depreciation	8,652	5,714	2,121	0	16,487
Other significant non-monetary expenses	-5,527	-1,382	21	0	-6,888

EUR '000	Inter-segment				TOTAL
	Retail	Wholesale and other	Production	transactions	
Sales	18,897	6,389	2,125	0	27,410
Inter-segment sales	0	12,579	2,574	-15,153	0
Total sales	18,897	18,968	4,699	-15,153	27,410
Segment operating profit	1,649	2,314	-313	0	3,649
Unallocated operating expenses					-2,928
Total operating profit					721
Other financial income (expenses)					-344
Corporate income tax					-13
Profit before minority interest					365
Minority interest					22
Net profit					343
Assets	7,672	7,979	4,935	-705	19,882
Unallocated assets of the Group					841
Total assets					20,722
Liabilities	9,054	3,081	542	-8,394	4,283
Unallocated liabilities of the Group					8,315
Total liabilities					12,598
Acquisition of fixed assets	441	42	51	0	534
Depreciation	553	365	136	0	1,054
Other significant non-monetary expenses	-353	-88	1	0	-440

The Retail segment includes the subsidiaries related to retail trade and factory shops belonging to AS Baltika and AS Virulane. The Wholesale and other segment includes the assets, liabilities, revenues and expenses deriving from wholesale trade and other activities of AS Baltika. The Production segment includes the assets, liabilities, revenues and expenses of the manufacturing companies AS Virulane and AS Elina STC.

The assets and liabilities of the 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.

Unallocated assets of the group include the administrative building, financial assets, corporate income tax receivables. Unallocated liabilities include long-term loans, and dividend and interest liabilities. Unallocated operating costs are administrative costs of the head office and the development and logistical expenses of both the retail and wholesale segment.

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



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

EEK '000	Net sales		Fixed assets		Capital expenditure	
	9m 2005	9m 2004	30.09.2005	31.12.2004	9m 2005	9m 2004
Estonia	139,163	106,347	84,293	80,942	12,104	2,434
Latvia	57,249	46,675	2,966	3,703	328	781
Lithuania	90,187	76,712	8,761	7,724	3,277	1,926
Russia	88,976	59,661	722	918	157	991
Ukraine	68,218	51,638	3,183	3,645	175	1,419
Finland	17,021	28,425	0	0	0	0
Sweden	0	14,842	0	0	0	0
UK	0	12,873	0	0	0	0
Poland	28,758	28,883	6,510	8,376	138	83
Other	999	2,825	0	0	0	0
<b>Total</b>	<b>490,571</b>	<b>428,881</b>	<b>106,435</b>	<b>105,308</b>	<b>16,179</b>	<b>7,634</b>

EUR '000	Net sales		Fixed assets		Capital expenditure	
	9m 2005	9m 2004	30.09.2005	31.12.2004	9m 2005	9m 2004
Estonia	8,894	6,797	5,387	5,173	774	156
Latvia	3,659	2,983	190	237	21	50
Lithuania	5,764	4,903	560	494	209	123
Russia	5,687	3,813	46	59	10	63
Ukraine	4,360	3,300	203	233	11	91
Finland	1,088	1,817	0	0	0	0
Sweden	0	949	0	0	0	0
UK	0	823	0	0	0	0
Poland	1,838	1,846	416	535	9	5
Other	64	181	0	0	0	0
<b>Total</b>	<b>31,353</b>	<b>27,410</b>	<b>6,802</b>	<b>6,730</b>	<b>1,034</b>	<b>488</b>

Fixed assets include both tangible and intangible assets.

**NOTE 10 Earnings per share**

<b>Basic earnings per share</b>		<b>9 months 2005</b>	<b>9 months 2004</b>
Weighted average number of shares	pc	5,728,450	5,523,894
Net profit	EEK '000	42,944	5,359
	EUR '000	2,745	343
<b>Basic earnings per share</b>	<b>EEK</b>	<b>8.09</b>	<b>0.97</b>
	<b>EUR</b>	<b>0.52</b>	<b>0.06</b>
<b>Diluted earnings per share</b>		<b>9 months 2005</b>	<b>9 months 2004</b>
Weighted average number of shares	pc	6,133,512	5,523,894
Net profit	EEK '000	42,944	5,359
	EUR '000	2,745	343
<b>Diluted earnings per share</b>	<b>EEK</b>	<b>7.55</b>	<b>0.97</b>
	<b>EUR</b>	<b>0.48</b>	<b>0.06</b>

The calculation of diluted earnings per share takes into account the convertible bonds that give the owners the right to convert the bonds into an equal number of Baltika's shares, issued to the management within the framework of the convertible bond program for executives, but not yet converted into shares.

The average market price of Baltika's shares in the first nine months of 2005 was EEK 64.81 (EUR 4.41) per share. The price of the convertible bonds was established at EEK 34.09 (EUR 2.18) in 2002, at EEK 37.57 (EUR 2.40) in 2003 and at EEK 28.95 (EUR 1.85) in 2004.

As the average market price of Baltika's shares in the first nine months of 2004 of EEK 24.26 (EUR 1.55) per share was lower than the price at which the holders of the convertible bonds could have converted the bonds into shares, the convertible bonds did not impact the calculation of diluted earnings per share in that period.

#### NOTE 11 Related parties

For the purpose of this interim report related parties include:

- a) owners;
- b) members of the management, the management board and the supervisory board;
- c) close relatives of the persons mentioned above;
- d) entities under the control of the members of the management board and the supervisory board;
- e) subsidiaries;
- f) joint ventures.

During the reporting period, the parent company AS Baltika has purchased sewing services and materials and has sold its goods and rendered services (management services, other services) to the following related parties:

EEK '000	9 months 2005		9 months 2004	
	Purchases	Sales	Purchases	Sales
<b>Purchases and sales of goods</b>				
Subsidiaries	27,436	225,631	24,704	192,639
Joint venture	16	3,589	0	0
Companies related to the members of the management and supervisory board	0	0	2,417	0
<b>Total purchases and sales of goods</b>	<b>27,452</b>	<b>229,220</b>	<b>27,121</b>	<b>192,639</b>
<b>Purchases and sales of services</b>				
Subsidiaries	20,842	1,099	18,857	900
Joint venture	21,044	5,310	0	0
Companies related to the members of the management and supervisory board	0	0	593	12,624
<b>Total purchases and sales of services</b>	<b>41,886</b>	<b>6,409</b>	<b>19,450</b>	<b>13,524</b>
EUR '000	9 months 2005		9 months 2004	
	Purchases	Sales	Purchases	Sales
<b>Purchases and sales of goods</b>				
Subsidiaries	1,753	14,420	1,579	12,312
Joint venture	1	229	0	0
Companies related to the members of the management and supervisory board	0	0	154	0
<b>Total purchases and sales of goods</b>	<b>1,755</b>	<b>14,650</b>	<b>1,733</b>	<b>12,312</b>
<b>Purchases and sales of services</b>				
Subsidiaries	1,332	70	1,205	58
Joint venture	1,345	339	0	0
Companies related to the members of the management and supervisory board	0	0	38	807
<b>Total purchases and sales of services</b>	<b>2,677</b>	<b>410</b>	<b>1,243</b>	<b>864</b>

In addition to the transactions with the parent company, transactions were also concluded within the Group - sewing services were sold and purchased in the amount of EEK 509 thousand (EUR 33 thousand), products in

the amount of EEK 32 thousand (EUR 2 thousand) and raw materials in the amount of EEK 6 thousand (EUR 0.4 thousand).

### Convertible bonds

As of 30.09.2005 the management board had been issued and subscribed for 227,953 C and D convertible bonds, in the amount of EEK 137,953 (EUR 8,817). As of 30.09.2004, accordingly 229,953 B and C convertible bonds, in the amount of EEK 229,953 (EUR 14,697).

### Loans

	EEK '000		EUR '000	
	9m 2005	9m 2004	9m 2005	9m 2004
<b>Loans to the members of management</b>				
Balance at the beginning of period	574	136	37	9
Loans granted	0	652	0	42
Repayment of loans granted	-160	0	-10	0
Foreign exchange rate differences	67	-17	4	-1
<b>Balance at the end of period</b>	<b>481</b>	<b>771</b>	<b>31</b>	<b>49</b>

In 2004, a loan was granted to the manager of Baltika's Ukrainian subsidiary. The maturity date of the loan is 15.03.2007 and no interest is computed during the validity of the employment contract. During the accounting period, loan repayments were received in the amount of EEK 160 thousand (EUR 10.2 thousand).

### Balances with related parties

	EEK '000		EUR '000	
	30.09.2005	31.12.2004	30.09.2005	31.12.2004
Subsidiaries	87,746	94,539	5,608	6,042
Joint venture	1,282	2,495	82	159
Companies related to the members of the management and supervisory board	0	1,288	0	82
<b>Total current receivables</b>	<b>89,028</b>	<b>98,322</b>	<b>5,690</b>	<b>6,284</b>
Subsidiaries	9,150	7,536	585	482
Joint venture	1,401	714	90	46
Companies related to the members of the management and supervisory board	0	0	0	0
<b>Total current liabilities</b>	<b>10,551</b>	<b>8,250</b>	<b>674</b>	<b>527</b>