



AS BALTIKA

Consolidated interim report for the first quarter of 2006

Commercial name	AS Baltika
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Main activities	Retail and wholesale of clothes
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2006 - 31.12.2006

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BRIEF DESCRIPTION OF BALTIKA GROUP

The Baltika Group is an international clothing group, whose parent company is AS Baltika. The Group operates the retail chains of Monton, Mosaic, Baltman and Baltika factory outlet stores in six countries – Estonia, Latvia, Lithuania, Poland, Ukraine and Russia. The products of the Baltika Group are also marketed through wholesalers.

The shares of AS Baltika are listed on Tallinn Stock Exchange.

As of 31 March 2006, the Group employed 1,705 people.

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

The Group consists of the following companies:

	Location	Participation on 31.03.2006	Participation on 31.03.2005
Parent company			
AS BALTIKA	Estonia		
Subsidiaries			
OÜ Baltman	Estonia	100%	100%
Baltika Lietuva	Lithuania	100%	100%
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	62.50%	50.10%
AS Virulane	Estonia	79.23%	79.23%
OOO Kompania „Baltman Rus“	Russia	50.10%	50.10%
OÜ Baltika TP	Estonia	100%	-
Joint venture			
OÜ Baltika Tailor	Estonia	50%	50%

In the first quarter of 2006, Baltika acquired an additional stake of 12.4% of the share capital of its subsidiary AS Elina STC and as a result, Baltika's ownership in AS Elina STC increased to 62.5%.

MANAGEMENT REPORT**Consolidated financial results, I quarter 2006**

Baltika Group's 1Q 2006 net profit grew by 36.8% yoy to EEK 14.2 million (EUR 0.9mln) and the respective net margin stood at 7.7%. The Group's sales totalled EEK 185.2 million (EUR 11.8mln), up 23.3% compared with the first quarter of last year. Both retail sales and wholesale posted a growth of approximately 25% yoy. The Group's gross and operating margins were 53.9% and 7.8%, respectively (48.8% and 5.5% in 1Q 2005). Operating profit expanded by 75.9% in the first quarter and amounted to EEK 14.4 million (EUR 0.9mln).

SALES**Sales breakdown by segment**

EEK mln	1Q 2006	1Q 2005	+/-
Retail sales	139.2	111.7	24.7%
Wholesale	42.8	34.1	25.4%
Subcontracting	0	0.6	-100.0%
Other sales	3.2	3.9	-17.9%
Total	185.2	150.2	23.3%

1 EUR = 15.6466 EEK

RETAIL SALES

In the first quarter of 2006, retail sales of Baltika amounted to EEK 139.2mln/EUR 8.9mln (+24.7% yoy). The average retail space of the Group grew 13% yoy and sales efficiency (sales/m²) was up 11% yoy. The combination of these two figures triggered a 24.7% growth in the Group's retail sales in 1Q 2006. Like-for-like sales (sales on comparable areas) increased by 18% yoy.

The first quarter of the year is characterised by the end of season clearance sale in January and the beginning of the new season, which were both successful for Baltika. At the same time, the sales in January and February were partially depressed by extremely cold and snowy weather in all of the Baltika's markets.

In the first quarter, Baltika changed the name of one of its concepts - CHR/Evermen became Mosaic. The name change was carried out in order to simplify the brand's name and thus enhance the concept's international competitiveness, especially in large markets such as Russia and Ukraine where brand awareness is currently limited due to the small number of stores. The change has been successful – the new name was received well by clients and feedback from the markets has been positive.

In the first quarter of this year, Baltika also launched a new product category, lingerie, under the Monton brand. The launch was a success, especially what concerns to women's lingerie, as the generated sales revenue was higher than expected. In May, Monton will launch another new product group, the beach and swimwear range.

In terms of brands, the sales of Monton accounted for 52% of the total retail sales in 1Q 2006 and amounted to EEK 72 million (EUR 4.6mln), up 24% on last year's figure. The sales of Mosaic grew 57% yoy to EEK 45 million (EUR 2.9mln) and the sales of Baltman increased 17% yoy to EEK 14 million (EUR 0.9mln).

In 1Q 2006, the Group's largest retail market by sales was Estonia with EEK 37mln/EUR 2.4mln (+27% yoy), closely followed by Lithuania with EEK 35mln/EUR 2.2mln (+33%). Ukraine posted the fastest sales growth of 35% yoy in 1Q with sales totalling EEK 25 million (EUR 1.6mln). Retail sales in Latvia amounted to EEK 18mln/EUR 1.2mln (+26%) and in Russia EEK 15mln/EUR 0.9mln (+17%). Baltika's smallest market Poland (representing 6% of retail sales) experienced a decrease in sales of 12% yoy to EEK 9 million (EUR 0.6mln).

SHOPS AND SALES AREA

As of the end of March, Baltika Group operated 90 stores in six countries, with total sales area of 13,423 square metres. A year ago, Baltika's retail system comprised 76 stores with total sales area of 11,471 square metres.

Number of shops by country

	31.03.2006	31.03.2005
Estonia	24	23
Latvia	10	10
Lithuania	23	16
Ukraine	15	11
Russia	11	8
Poland	7	8
Total shops	90	76
Total retail space, m²	13,423	11,471

In the first quarter, Baltika opened five new stores: three Monton stores and one of both Mosaic and Baltman. Additionally, three multibrand stores located in Russia and selling several brands together were converted into Mosaic stores; one shop in Poland was closed. The new openings took place in Ukraine (Odessa and Donetsk) and Russia (St. Petersburg). Four more store openings are scheduled during the remaining first half of the year, taking the number of new stores opened in 1H 2006 to nine.

WHOLESALE

The first quarter is traditionally a strong wholesale period and thus, the share of wholesale sales in Baltika's total sales increased to 23% in the reporting quarter. In the first three months of the year, wholesale sales of Baltika's brands totalled EEK 42.8 million (EUR 2.7mln) expanding by 25.4% compared with the previous year.

EARNINGS AND MARGINS

Despite many new openings at the end of last year (9 new stores opened in 4Q 2005) as well as continuing expansion at the beginning of this year, Baltika was able to improve the Group's profitability in 1Q 2006 in comparison with the first quarter of last year. Overall, the results were supported by solid growth of retail sales, better sales efficiency and improved inventory management.

In the first three months, the Group's gross profit margin expanded to 53.9% from last year's corresponding figure of 48.8%. First quarter gross profit increased by 36.1% to EEK 99.8 million (EUR 6.4mln).

The fast growth in distribution costs in 1Q (+28.3% yoy) is due to the expansion of the retail system. Administrative and general expenses grow (+17.0%) mainly as a result of strengthening the management operations in the head office. The Group's first quarter operating profit totalled EEK 14.4 million (EUR 0.9mln), posting a growth of 75.9% versus the last year. Operating margin rose to 7.8% in the review period from 5.5% in 1Q 2005.

The Group's net financial expenses amounted to EEK -1.3 million (EUR -86 thousand) in 1Q 2006. Interest expenses in the same period totalled EEK 1.0 million (EUR 64 thousand), down 33.4% over the year. This is mainly due to a substantial decrease in total debt level of the Group.

Net profit of the Group after taxes and minority shareholding amounted to EEK 14.2 million (EUR 0.9mln) and grew by 36.8% yoy. Net profit margin enhanced to 7.7% from 6.9% a year ago.

BALANCE SHEET

The total assets of Baltika Group amounted to EEK 410.7 million (EUR 26.3mln) on 31 March 2006. This corresponds to an increase of 27.7% over the year and 8.9% over the first quarter.

As of the end of 1Q, the Group's total inventories stood at EEK 149.9 million (EUR 9.6mln), increasing by EEK 7.3 million (EUR 0.5mln) or 5.1% yoy. The Group's inventory turnover ratio (net sales/average inventories) is continuing to grow – within the last three months the ratio has increased from 4.92 to 5.16. A year ago inventory turnover ratio stood at 4.05.

Stemming from the credit terms with wholesale partners, accounts receivables increased by EEK 29.8 million (EUR 1.9mln) over the year, reaching EEK 71.1 million (EUR 4.5mln) by the end of the first quarter of 2006. Traditionally, Baltika has a higher accounts receivable balance during the strong wholesale periods such as the first and third quarters. Thus, higher volume of wholesale in comparison with last year is also contributing to the balance of accounts receivables. Accounts payable expanded by EEK 16.3 million (EUR 1.0mln) on an annual basis to EEK 43.4 million (EUR 2.8mln). In the first three months of this year, accounts payable declined by EEK 1.4 million (EUR 91 thousand).

At the end of the review period, the Group's borrowings amounted to EEK 104.1 million (EUR 6.7mln), including bank loans of EEK 74.0 million (EUR 4.7mln). Over the year, the Group's debt level has decreased significantly by EEK 18.6 million (EUR 1.2mln). As a result, by the end of 1Q 2006 the net debt to equity ratio of Baltika has decreased to 40.2% from 77.7% a year ago. At the same time, the Group's borrowings have increased by EEK 11.3 million (EUR 0.7mln) compared with the end of 2005 – mainly due of the usage of the bank's overdraft, which is used to finance the purchases of the new season's products and the investments into retail system. During the first three months of 2006, the Group has made loan repayment in the amount of EEK 2.3 million (EUR 147 thousand).

In 1Q 2006, Baltika refinanced the bonds that had to be redeemed on 17 March 2006. Baltika issued unsecured bonds in the amount of EEK 20.0 million (EUR 1.28mln). A total of 2,000 bonds were issued with a nominal value of EEK 10,000 (EUR 639) and price of EEK 9,603.81 (EUR 613.80) per bond. The bonds do not carry coupon interest, instead the difference between the nominal value and issue price yields an interest of 4.08% per annum. Part of the proceeds from the issue was used for financing investments into the company's core activities.

ENLARGEMENT OF THE SHARE CAPITAL

In the first quarter of 2006, the share capital of Baltika increased by EEK 1,920,000 (EUR 122,710) as a result of converting C-bonds into shares. The company issued 192,000 new shares with a nominal value of EEK 10.00 (EUR 0.64) per share. The total issue price of the shares was EEK 37.57 (EUR 2.40) per share including a premium of EEK 27.57 (EUR 1.76) per share.

The new amount of the share capital after the increase is EEK 60,149,500 (EUR 3,844,254) and the number of shares is 6,014,950. The share premium in the transaction was EEK 5,293,440 (EUR 338,312).

INVESTMENTS

The Group's investments in the first quarter of 2006 totalled EEK 18.9 million (EUR 1.2mln). Investments in the retail system amounted to EEK 10.9 million (EUR 0.7mln). EEK 6.4 million (EUR 0.4mln) was invested in the new logistics centre, EEK 0.9 million (EUR 58 thousand) in IT and EEK 0.7 million (EUR 45 thousand) in production and other fixed assets. In 1Q 2005, the Group's investments amounted to EEK 2.1 million (EUR 0.13mln).

PERSONNEL

As of 31.03.2006, Baltika Group employed 1,705 people, including 885 in production and 662 in retail; 515 people worked outside Estonia. At the same time last year, the number of employees stood at 1,684, including 981 in production and 559 in retail. The average number of personnel in the first three months of 2006 was 1,693 (1,691 in 1Q 2005).

In the first quarter of 2006, the Baltika Group's wages and salaries amounted to EEK 31.4 million (EUR 2.0mln). The remuneration paid to the members of the Management Board and Supervisory Board totalled EEK 1.65 million (EUR 105 thousand).

INCREASING OWNERSHIP IN A SUBSIDIARY

In a transaction on 30 January 2006, Baltika acquired an additional stake of 12.4% of the share capital of its subsidiary AS Elina STC. As a result, Baltika's ownership in AS Elina STC increased to 62.5%. The price of the transaction was EEK 350 thousand (EUR 22 thousand). The transaction was concluded upon the decision of the previous shareholder, Uni-Line Hans Molander AB, to dispose of its ownership. The core business of AS Elina STC is apparel manufacturing.

KEY FIGURES OF THE GROUP (1Q 2006)

	31.03.2006	31.03.2005	+/-
Net sales (EEK mln)	185.2	150.2	23.3%
Retail sales (EEK mln)	139.2	111.7	24.7%
Share of retail sales in net sales	75%	74%	
Number of directly managed stores	90	76	18.4%
Retail space (m ²)	13,423	11,471	17.0%
Number of employees (end of period)	1,705	1,684	1.2%
Gross margin, %	53.9%	48.8%	
Operating margin, %	7.8%	5.5%	
Net margin, %	7.7%	6.9%	
Inventory turnover	5.16	4.05	27.4%
Return on equity	41.6%	21.7%	
Return on assets	22.1%	8.2%	

Formulas for key ratios

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

Operating margin = Operating profit/Net sales

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

Inventory turnover = Net sales/Average inventories*

ROE (Return on equity) = Net profit (attributable to parent)/Average equity*

ROA (Return on assets) = Net profit (attributable to parent)/Average total assets*

*Based on 12-month average

1 EUR = 15.6466 EEK

Ülle Järv

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FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the first quarter of 2006 as presented on pages 8-34.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;
3. all group companies are going concerns.



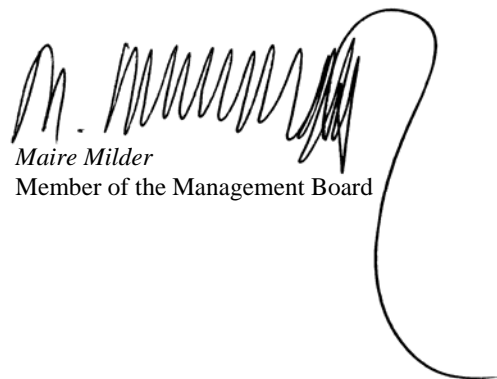
Meelis Milder
Chairman of the Management Board



Ülle Järv
Member of the Management Board



Boriss Loifenfeld
Member of the Management Board



Maire Milder
Member of the Management Board

30 May 2006

CONSOLIDATED BALANCE SHEET

(unaudited, in EEK thousand)

	Note	31.03.2006	31.03.2005	31.12.2005
ASSETS				
Current assets				
Cash and bank	3	7,221	6,350	25,961
Financial assets at fair value through profit or loss	4	1,574	1,100	1,808
Trade receivables	5	71,080	41,239	39,566
Other receivables and prepaid expenses	6	16,224	11,168	14,992
Inventories	7	149,851	142,534	144,459
Total current assets		245,950	202,391	226,786
Non-current assets				
Investments in joint ventures		0	2,052	234
Investment property		27,193	7,500	27,193
Deferred income tax receivable		3,598	4,349	3,598
Other non-current assets		6,779	2,936	4,708
Property, plant and equipment	8	101,434	74,826	88,089
Intangible assets	9	25,770	27,617	26,491
Total non-current assets		164,774	119,280	150,313
TOTAL ASSETS		410,724	321,671	377,099
EQUITY AND LIABILITIES				
Current liabilities				
Borrowings	10,11	41,464	76,734	30,278
Supplier payables		43,358	27,036	44,782
Corporate income tax liability		403	384	932
Other tax liabilities		10,765	9,774	16,631
Accrued expenses		14,972	13,402	13,505
Other short-term payables		171	160	466
Total current liabilities		111,133	127,490	106,594
Non-current liabilities				
Long-term borrowings	10	62,652	45,944	62,553
Total non-current liabilities		62,652	45,944	62,553
TOTAL LIABILITIES		173,785	173,434	169,147
EQUITY				
Share capital at par value		58,230	56,340	58,230
Unregistered share capital		1,920	0	0
Share premium		54,984	44,508	49,690
Reserves		9,532	26,783	9,532
Retained earnings		85,739	193	13,077
Net profit for the period		14,208	10,383	72,664
Currency translation differences		4,076	5,697	4,131
Total equity attributable to majority shareholder		228,689	143,904	207,324
Minority interest		8,250	4,333	628
TOTAL EQUITY	12	236,939	148,237	207,952
TOTAL LIABILITIES AND EQUITY		410,724	321,671	377,099

CONSOLIDATED BALANCE SHEET

(unaudited, in EUR thousand)

	Note	31.03.2006	31.03.2005	31.12.2005
ASSETS				
Current assets				
Cash and bank	3	462	406	1,659
Financial assets at fair value through profit or loss	4	101	70	116
Trade receivables	5	4,543	2,636	2,529
Other receivables and prepaid expenses	6	1,037	714	958
Inventories	7	9,577	9,110	9,233
Total current assets		15,720	12,936	14,495
Non-current assets				
Investments in joint ventures		0	131	15
Investment property		1,738	479	1,738
Deferred income tax receivable		230	278	230
Other non-current assets		433	188	301
Property, plant and equipment	8	6,483	4,782	5,630
Intangible assets	9	1,647	1,765	1,693
Total non-current assets		10,531	7,623	9,607
TOTAL ASSETS		26,251	20,559	24,102
EQUITY AND LIABILITIES				
Current liabilities				
Borrowings	10,11	2,650	4,904	1,935
Supplier payables		2,771	1,728	2,862
Corporate income tax liability		26	25	60
Other tax liabilities		688	625	1,063
Accrued expenses		957	857	863
Other short-term payables		11	10	30
Total current liabilities		7,103	8,148	6,813
Non-current liabilities				
Long-term borrowings	10	4,004	2,936	3,998
Total non-current liabilities		4,004	2,936	3,998
TOTAL LIABILITIES		11,107	11,084	10,811
EQUITY				
Share capital at par value		3,722	3,601	3,722
Unregistered share capital		123	0	0
Share premium		3,514	2,845	3,176
Reserves		609	1,712	609
Retained earnings		5,480	12	836
Net profit for the period		908	664	4,644
Currency translation differences		261	364	264
Total equity attributable to majority shareholder		14,617	9,198	13,251
Minority interest		527	277	40
TOTAL EQUITY	12	15,144	9,475	13,291
TOTAL LIABILITIES AND EQUITY		26,251	20,559	24,102

CONSOLIDATED INCOME STATEMENT
 (unaudited, in EEK thousand)

	Note	1Q 2006	1Q 2005	2005
Net sales	14	185,198	150,217	680,906
Cost of goods sold	15	85,401	76,899	329,827
Gross profit		99,797	73,318	351,079
Distribution costs	16	-61,774	-48,145	-207,704
Administrative and general expenses	17	-22,502	-19,229	-85,232
Other operating income	18	568	3,949	19,817
Other operating expenses	19	-1,642	-1,681	-3,053
Operating profit		14,447	8,212	74,907
Financial income (expenses)		-1,349	-64	-3,947
Share of gains (losses) from joint ventures		-234	957	-861
Gains (losses) from other investments		-234	497	1,205
Interest expenses		-994	-1,493	-5,415
Foreign exchange gains (losses)		230	-45	645
Other financial income (expenses)		-117	20	479
Profit before corporate income tax		13,098	8,148	70,960
Corporate income tax		-461	-370	-4,280
Net profit		12,637	7,778	66,680
Net loss attributable to minority shareholders		-1,571	-2,605	-5,984
Net profit attributable to parent company		14,208	10,383	72,664
Basic earnings per share, EEK	20	2.42	1.84	12.62
Diluted earnings per share, EEK	20	2.34	1.84	12.11

CONSOLIDATED INCOME STATEMENT
(unaudited, in EUR thousand)

	Note	1Q 2006	1Q 2005	2005
Net sales	14	11,836	9,601	43,518
Cost of goods sold	15	5,458	4,915	21,080
Gross profit		6,378	4,686	22,438
Distribution costs	16	-3,948	-3,077	-13,275
Administrative and general expenses	17	-1,438	-1,229	-5,447
Other operating income	18	36	252	1,267
Other operating expenses	19	-105	-107	-195
Operating profit		923	525	4,788
Financial income (expenses)		-86	-4	-252
Share of gains (losses) from joint ventures		-15	61	-55
Gains (losses) from other investments		-15	32	77
Interest expenses		-64	-95	-346
Foreign exchange gains (losses)		15	-3	41
Other financial income (expenses)		-7	1	31
Profit before corporate income tax		837	521	4,536
Corporate income tax		-29	-24	-274
Net profit		808	497	4,262
Net loss attributable to minority shareholders		-100	-166	-382
Net profit attributable to parent company		908	664	4,644
Basic earnings per share, EUR	20	0.15	0.12	0.81
Diluted earnings per share, EUR	20	0.15	0.12	0.77

CONSOLIDATED CASH FLOW STATEMENT

(unaudited, in EEK thousand)

	Note	3m 2006	3m 2005
Operating activities			
Operating profit		14,447	8,212
Adjustments:			
Depreciation, amortisation and impairment of property, plant and equipment, intangibles	8,9	6,472	5,290
Profit (loss) from sale of property, plant and equipment		-17	46
Changes in working capital:			
Change in balance of receivables		-25,551	-16,131
Change in balance of inventories	7	-5,392	2,926
Change in supplier payables		-5,856	-4,616
Interest paid		-2,037	-2,845
Income tax paid		-1,026	-197
Total cash flow from operating activities		-18,960	-7,315
Investing activities			
Purchase of property, plant and equipment, intangibles	8,9	-19,096	-2,573
Including under the operating lease terms		0	12
Proceeds from disposal of property, plant and equipment		17	63
Investments in subsidiaries		-353	0
Interest received		39	24
Repayments of loans granted		64	0
Total cash flow from investing activities		-19,329	-2,474
Financing activities			
Repayments of borrowings	10	-2,325	-5,373
Loans received	10	13,031	9,304
Finance lease and instalment payments made		-56	-262
Receipts from contributions into share capital		7,021	0
Redemption of bonds	11	-17,500	0
Proceeds from emission of bonds	11	19,148	0
Total cash flow from financing activities		19,319	3,669
Effect of exchange rate changes on cash balance		230	-45
Total cash flows		-18,740	-6,165
Cash and cash equivalents at the beginning of the period		25,961	12,515
Cash and cash equivalents at the end of the period		7,221	6,350
Change in cash and cash equivalents		-18,740	-6,165

CONSOLIDATED CASH FLOW STATEMENT

(unaudited, in EUR thousand)

	Note	3m 2006	3m 2005
Operating activities			
Operating profit		923	525
Adjustments:			
Depreciation, amortisation and impairment of property, plant and equipment, intangibles	8,9	414	338
Profit (loss) from sale of property, plant and equipment		-1	3
Changes in working capital:			
Change in balance of receivables		-1,633	-1,031
Change in balance of inventories	7	-345	187
Change in supplier payables		-374	-295
Interest paid		-130	-182
Income tax paid		-66	-13
Total cash flow from operating activities		-1,212	-468
Investing activities			
Purchase of property, plant and equipment, intangibles	8,9	-1,219	-164
Including under the operating lease terms		0	1
Proceeds from disposal of property, plant and equipment		1	4
Investments in subsidiaries		-23	0
Interest received		2	2
Repayments of loans granted		4	0
Total cash flow from investing activities		-1,235	-157
Financing activities			
Repayments of borrowings	10	-149	-343
Loans received	10	833	594
Finance lease and instalment payments made		-4	-17
Receipts from contributions into share capital		449	0
Redemption of bonds	11	-1,118	0
Proceeds from emission of bonds	11	1,224	0
Total cash flow from financing activities		1,235	234
Effect of exchange rate changes on cash balance		15	-3
Total cash flows		-1,197	-394
Cash and cash equivalents at the beginning of the period		1,659	800
Cash and cash equivalents at the end of the period		462	406
Change in cash and cash equivalents		-1,197	-394

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, in EEK thousand)

	Share capital	Unregistered share capital	Share premium	Reserves	Retained earnings	Currency translation differences	Total equity attributable to majority shareholders	Minority interest	Total
Balance as of 31.12.2004	56,340	0	44,508	26,783	193	6,622	134,446	7,024	141,470
Currency translation differences	0	0	0	0	0	-925	-925	-87	-1,012
Net profit for financial period	0	0	0	0	10,383	0	10,383	-2,604	7,779
Balance as of 31.03.2005	56,340	0	44,508	26,783	10,576	5,697	143,904	4,333	148,237
Equity-settled share-based payment transactions	0	0	629	0	0	0	629	0	629
Dividends paid	0	0	0	0	-4,367	0	-4,367	0	-4,367
Transfers to statutory reserve capital	0	0	0	834	-834	0	0	0	0
Increase of share capital	1,890	0	4,553	0	0	0	6,443	0	6,443
Allocations to retained earnings	0	0	0	-	18,085	18,085	0	0	0
Currency translation differences	0	0	0	0	0	-1,566	-1,566	-325	-1,891
Net profit for financial period	0	0	0	0	62,281	0	62,281	-3,380	58,901
Balance as of 31.12.2005	58,230	0	49,690	9,532	85,741	4,131	207,324	628	207,952
Increase of share capital	0	1,920	5,294	0	0	0	7,214	0	7,214
Changes in minority interest	0	0	0	0	0	0	0	9,186	9,186
Currency translation differences	0	0	0	0	0	-55	-55	7	-48
Net profit for financial period	0	0	0	0	14,208	0	14,208	-1,571	12,637
Balance as of 31.03.2006	58,230	1,920	54,984	9,532	99,947	4,076	228,689	8,250	236,939

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

	Share capital	Unregistered share capital	Share premium	Reserves	Retained earnings	Currency translation differences	Total equity attributable to majority shareholders	Minority interest	Total
Balance as of 31.12.2004	3,601	0	2,845	1,712	12	423	8,593	450	9,043
Currency translation differences	0	0	0	0	0	-59	-59	-8	-66
Net profit for financial period	0	0	0	0	664	0	664	-166	497
Balance as of 31.03.2005	3,601	0	2,845	1,712	676	364	9,197	277	9,474
Equity-settled share-based payment transactions	0	0	40	0	0	0	40	0	40
Dividends paid	0	0	0	0	-279	0	-279	0	-279
Transfers to statutory reserve capital	0	0	0	53	-53	0	0	0	0
Increase of share capital	121	0	291	0	0	0	412	0	412
Allocations to retained earnings	0	0	0	-1,156	1,156	0	0	0	0
Currency translation differences	0	0	0	0	0	-100	-100	-21	-121
Net profit for financial period	0	0	0	0	3,980	0	3,980	-216	3,764
Balance as of 31.12.2005	3,722	0	3,176	609	5,480	264	13,251	40	13,291
Increase of share capital	0	123	338	0	0	0	461	0	461
Changes in minority interest	0	0	0	0	0	0	0	587	587
Currency translation differences	0	0	0	0	0	-3	-3	0	-3
Net profit for financial period	0	0	0	0	908	0	908	-100	808
Balance as of 31.03.2006	3,722	123	3,514	609	6,388	261	14,617	527	15,144

NOTES TO CONSOLIDATED INTERIM REPORT

NOTE 1 Accounting policies and accounting methods used in the preparation of the interim report

The Group's consolidated interim report for the first quarter of 2006 has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The interim report has been prepared in accordance with the principal accounting policies applied in the preparation of the consolidated financial statements of 2005. The financial statements have been prepared under the historical cost convention, as modified by the revaluations of investment property and financial instruments at fair value through profit or loss, which are presented at fair value as disclosed in the accounting policies presented in the 2005 Annual Report.

All information in the financial statements is presented in thousands of Estonian kroons and thousands of euros, unless otherwise stated. The Estonian kroon is pegged to the euro at the rate of 1 EUR = 15.6466 EEK.

This interim report has not been audited or otherwise reviewed by auditors.

Comparability

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

NOTE 2 Financial risks

In its daily activities, the Group is exposed to different types of risks whose management is an important and integral part of the business activities of AS Baltika. The organisation's ability to identify, measure and control different risks is a key variable for the Group's profitability. The Group's management defines risk as a potential negative deviation from the expected financial results. The main risk factors are market, credit, operations and liquidity risks.

The basis for risk management at the Group are the requirements set by the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, adherence to generally accepted accounting principles, as well as the organisation's internal regulations and risk policies. Overall risk management includes identification, measurement and control of risks. The management of the parent company plays a major role in managing risks and approving risk procedures, but the Supervisory Board of the Group's parent company also plays an important role.

The management of the Group's parent company considers market risk which also includes foreign exchange risk as the most serious risk at the Group.

Market risk

Baltika's operations are mostly affected by the cyclical nature of economies in target markets and changes in competitive positions, as well as risks related to specific markets (especially non-European Union markets: Russia and Ukraine).

To hedge risks, the Group attempts to increase the flexibility of its operations: the sales volumes and the activities of competitors are also being monitored and if necessary, the Group will make adjustments in price levels, marketing activities and collections offered. In addition to central gathering and assessment of information, an important role in analysing and planning actions is played by the marketing organisation in each target market enabling to obtain fast and direct feedback on market developments on the one hand and adequately consider local condition on the other hand.

As improvement of flexibility plays an important role in increasing the Company's competitiveness, continuous efforts are being made to shorten the cycles of business processes and minimise potential deviations. This also helps to improve the relative level and structure of inventories and the fashion collections' meeting of consumer expectations.

Foreign exchange risk

Exports constitute 74% of the sales of AS Baltika Group. The Group's major currencies for exports are LTL (Lithuanian lita), LVL (Latvian lat), UAH (Ukrainian hryvnia), PLN (Polish zloty), RUR (Russian rouble), EUR (Euro). The majority of raw materials used in production is imported. The major currencies for imports are EUR (euro) and USD (US dollar). Trading with the countries belonging to the European Monetary Union is handled only in euros.

As the Group primarily sells its goods in euros, then as a retail company, the prices of goods in the markets are fixed in a local currency and consequently, foreign currency risk directly affects the Company's revenue through the pricing of goods at the stores in those markets. A change in the economic environment and relative appreciation/depreciation of a local currency may greatly affect the purchasing power of customers in the market of the respective segment.

The weakening of the US dollar against the euro poses liquidity risk, which affects the Group's collectible amounts from the countries most affected by the changes in the dollar's exchange rate (Ukraine, Russia, Poland). On the other hand, the weakening of the dollar has a positive impact on importing from the countries with which accounts are settled in dollars.

In the first quarter of 2006, the Group's results were impacted by the changes of average foreign currency exchange rates against the Estonian kroon in those countries where AS Baltika has subsidiaries: Polish zloty -1.9%, Ukrainian hryvnia -2.6% and Russian rouble +1.3%. In the first quarter of 2005, changes of average foreign currency exchange rates against the Estonian kroon were as follows: Ukrainian hryvnia +5.6%, Latvian lat +0.3% and Russian rouble +4.6%.

No separate instruments were used for hedging foreign currency risks in 2006. The Company mostly uses the euro to settle the accounts with its subsidiaries located in foreign markets; with the Polish subsidiary, accounts are settled in zlotys and with the Russian subsidiary, accounts are settled in roubles.

If feasible, foreign currencies collected are used for the settling of liabilities measured in the same currency. For foreign currency profits and losses, please refer to Note 18 and 19.

Credit and liquidity risks

Credit risk is a potential loss that would occur by the balance sheet date if the contract parties did not meet their obligations. The Group is exposed to credit risk to the extent of solvency of its business partner in Russia. There are no collaterals for receivables in the balance sheet. Credit risks arising from the Group's seasonal production and sales cycle are not permanent. As of the balance sheet date, the maximum credit risk is 71.1 million kroons (4.5 million euros), including credit risk of the Russian wholesale partner of 33.7 million kroons (2.2 million euros). Russia's credit risk is related to one customer, with whom Baltika has concluded franchise and wholesale agreements and in partnership with whom Baltika founded a subsidiary Baltman Rus in 2004 for establishing retail operations in Russia (Baltika's ownership 50.1%). In April 2006, Baltika acquired full ownership in Baltman Rus (Note 22).

A group account is in use for more flexible management of liquid assets, enabling the Group companies to use the Group resources up to the limit established by AS Baltika (Note 10).

Interest rate risk

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

Operating risks

The most important operating risk arises from the Company's inability to make collections which would meet customer expectations and the goods that cannot be sold when expected and as budgeted. Another important risk is that the Company's information technology system is unable to ensure sufficiently fast and accurate transmission of information for decision-making purposes.

To ensure good collections, Baltika employs a strong team of designers who monitor and are always aware of fashion trends by using internationally acclaimed channels. Such a structure, procedures and information systems have been set up at the Group which help daily monitoring of sales and the balance of inventories and using it in

subsequent activities. In order to upgrade information systems, the plan for 2006 calls for the transition to the integrated system encompassing several areas of operations. In order to avoid supply problems, cooperation with the world's leading procurement intermediaries as well as fabric manufacturers has been expanded.

The unavoidable risk factor in selling clothes is the weather. Collections are created and sales volumes as well as time is planned under the assumption that regular weather conditions prevail in the target market – in case weather conditions differ significantly from normal conditions, the actual sales results may significantly differ from the budget.

NOTE 3 Cash and bank

	EEK '000		EUR '000	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Cash in hand	1,188	1,896	76	121
Cash at bank	6,008	11,267	384	720
Short-term deposits	25	12,798	2	818
Total	7,221	25,961	462	1,659

As of the end of March 2006, overnight deposits had been deposited by the parent company in the amount of 25 thousand kroons (2 thousand euros), with the interest rate of 2.15%. No other overnight deposits existed. As of the end of 2005, overnight deposits had been deposited by the parent company in the amount of 12,798 thousand kroons (818 thousand euros) with the interest rate of 2.05% for EEK, 1.55% for EUR and 4.00% for USD.

NOTE 4 Financial assets at fair value through profit or loss

	EEK '000		EUR '000	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Shares of Tallinna Kaubamaja	1,574	1,808	101	116

The shares are listed on Tallinn Stock Exchange and are actively traded, thus the basis for the fair value assessment is the closing price quoted on Tallinn Stock Exchange. The increase in the investment is related solely to the rise in the fair value and no additional shares have been acquired during the period.

NOTE 5 Trade receivables

	EEK '000		EUR '000	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Accounts receivable	72,401	39,579	4,627	2,530
Allowance for doubtful receivables	-1,321	-13	-84	-1
Total	71,080	39,566	4,543	2,529

Trade receivables include the parent's receivable from the joint venture in the amount of 1,450 thousand kroons (93 thousand euros); 31 December 2005: 1,627 thousand kroons (104 thousand euros) (Note 21).

No impairment losses have been recognised and no reversal of the impairment losses previously provided for has occurred during the first quarter of 2006. In 1Q 2005, reversal of the impairment losses previously provided for occurred in the amount of 2 thousand kroons (0.1 thousand euros).

A certain risk concentration exists regarding a wholesale partner in Russia, see Note 2 – Credit risk. The other receivables are not affected by credit risk concentration.

NOTE 6 Other receivables and prepaid expenses

	EEK '000		EUR '000	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Other current receivables	1,143	3,578	73	228
Tax prepayments and tax reclaims	7,488	5,189	478	332
Prepaid expenses	7,584	6,207	485	397
Interest receivables	9	18	1	1
Total	16,224	14,992	1,037	958

Prepaid expenses include prepaid rental payments, insurance payments, prepayment for information technology services, subscription costs of periodicals, etc.

Tax receivables

	EEK '000		EUR '000	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Value added tax	7,076	4,818	452	308
Prepaid income tax	358	323	23	21
Other taxes	54	48	3	3
Total	7,488	5,189	479	332

Tax liabilities

	EEK '000		EUR '000	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Personal income tax	1,835	2,601	117	166
Social security tax	4,078	5,686	261	363
Value added tax	4,322	7,958	276	509
Corporate income tax liability	403	932	25	60
Other taxes	530	386	35	25
Kokku	11,168	17,563	714	1,123

NOTE 7 Inventories

	EEK '000		EUR '000	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Raw materials and materials	46,383	65,630	2,964	4,195
Impairment of raw materials	-2,036	-2,534	-130	-162
Work-in-progress	1,109	1,600	71	102
Finished goods and goods purchased for resale	102,848	77,816	6,573	4,973
Impairment of finished goods and goods purchased for resale	-1,556	-1,556	-99	-99
Prepayments to suppliers	3,103	3,503	198	224
Total	149,851	144,459	9,577	9,233

As of the end of the reporting period, the inventories of the Group with the carrying amount of 5.9 million kroons/0.4 million euros (31 December 2005: 7.5 million kroons/0.5 million euros) were in the custody of third parties.

The amount of fabric carried at net realizable value was 5.84 million kroons/0.37 million euros as of 31 March 2006 (31 December 2005: 6.59 million kroons/0.42 million euros). The net realizable value of finished goods and goods for resale did not change in the reporting period. The impairment losses of raw materials in the Group amounted to 26 thousand kroons/1.7 thousand euros in 1Q 2006 (1Q 2005: 125 thousand kroons/8 thousand euros). No additional losses have been incurred from the realisation of previously impaired raw materials.

Due to improved planning for selling old inventories, the impairment allowance of finished goods and goods for resale has decreased by 524 thousand kroons/33 thousand euros in 1Q 2006 (1Q 2005: 266 thousand kroons/17 thousand euros).

NOTE 8 Property, plant and equipment

The Group's investments in property, plant and equipment totalled 18.6 million kroons (1.2 million euros) in the first quarter of 2006 and 1.8 million kroons (0.1 million euros) in the first quarter of 2005. Investments in the construction of a new logistics centre amounted to 6.4 million kroons (0.4 million euros). Investments in retail operations in all the markets totalled 10.9 million kroons/0.7 million euros (1Q 2005: 1.3 million kroons/83 thousand euros). In 1Q 2006, investments in the amount of 0.6 million kroons/40 thousand euros (1Q 2005: 190 thousand kroons/12 thousand euros) were made into production equipment, in the amount of 0.6 million kroons/40 thousand euros (1Q 2005: 113 thousand kroons/7 thousand euros) into information technology and 0.1 million kroons/6 thousand euros (1Q 2005: 168 thousand kroons/11 thousand euros) was invested in other equipment.

In 1Q 2006, non-current assets were sold with an acquisition cost of 255 thousand kroons/16.3 thousand euros (1Q 2005: 145 thousand kroons/9.3 thousand euros). Write-offs of non-current assets amounted to 4.0 million kroons (0.3 million euros) at acquisition cost (1Q 2005: 182 thousand kroons/12 thousand euros), including store furniture and capitalised construction costs with an acquisition cost of 3.8 million kroons (0.2 million euros).

Movement of property, plant and equipment at the Group

EEK '000	Land	Buildings, structures	Machinery, equipment	Other fixtures	Constr. in progress	Pre-payments	Total
Acquisition cost 31.12.2004	3,004	69,628	70,706	47,902	68	0	191,308
Accumulated depreciation 31.12.2004	0	-22,454	-62,353	-29,176	0	0	-113,983
Net book amount 31.12.2004	3,004	47,174	8,353	18,726	68	0	77,325
Additions	0	1,150	279	280	111	100	1,920
Disposals	0	0	0	-39	0	0	-39
Written off	0	-45	0	-24	0	0	-69
Reclassification	0	0	133	-133	0	0	0
Depreciation	0	-1,467	-1,310	-1,807	0	0	-4,584
Currency translation differences	0	84	21	168	0	0	273
Acquisition cost 31.03.2005	3,004	70,790	72,072	47,248	111	100	193,325
Accumulated depreciation 31.03.2005	0	-23,894	-64,596	-30,009	0	0	-118,499
Net book amount 31.03.2005	3,004	46,896	7,476	17,239	111	100	74,826
Acquisition cost 31.12.2005	10,973	74,005	71,321	51,440	2,009	3,305	213,053
Accumulated depreciation 31.12.2005	0	-27,516	-64,299	-33,149	0	0	-124,964
Net book amount 31.12.2005	10,973	46,489	7,022	18,291	2,009	3,305	88,089
Additions	0	2,987	925	6,117	7,905	732	18,666
Written off	0	-269	-43	-455	0	0	-767
Depreciation	0	-1,580	-1,017	-1,922	0	0	-4,519
Currency translation differences	0	-3	-7	0	-15	-10	-35
Acquisition cost 31.03.2006	10,973	75,109	71,892	56,176	9,899	4,027	228,076
Accumulated depreciation 31.03.2006	0	-27,485	-65,012	-34,145	0	0	-126,642
Net book amount 31.03.2006	10,973	47,624	6,880	22,031	9,899	4,027	101,434

EUR '000	Land	Buildings, structures	Machinery, equipment	Other fixtures	Constr. in progress	Pre-payments	Total
Acquisition cost 31.12.2004	192	4,450	4,519	3,062	4	0	12,227
Accumulated depreciation 31.12.2004	0	-1,435	-3,985	-1,865	0	0	-7,285
Net book amount 31.12.2004	192	3,015	534	1,197	4	0	4,942
Additions	0	73	18	18	7	6	123
Disposals	0	0	1	-2	0	0	-2
Written off	0	-3	0	-2	0	0	-4
Reclassification	0	0	9	-9	0	0	0
Depreciation	0	-94	-84	-115	0	0	-293
Currency translation differences	0	5	1	11	0	0	17
Acquisition cost 31.03.2005	192	4,524	4,606	3,020	7	6	12,355
Accumulated depreciation 31.03.2005	0	-1,527	-4,128	-1,918	0	0	-7,573
Net book amount 31.03.2005	192	2,997	478	1,102	7	6	4,782
Acquisition cost 31.12.2005	701	4,730	4,559	3,288	128	211	13,617
Accumulated depreciation 31.12.2005	0	-1,759	-4,109	-2,119	0	0	-7,987
Net book amount 31.12.2005	701	2,971	450	1,169	128	211	5,630
Additions	0	191	59	391	505	47	1,193
Written off	0	-17	-3	-29	0	0	-49
Depreciation	0	-101	-65	-123	0	0	-289
Currency translation differences	0	0	0	0	-1	-1	-2
Acquisition cost 31.03.2006	701	4,801	4,595	3,590	633	257	14,577
Accumulated depreciation 31.03.2006	0	-1,757	-4,155	-2,182	0	0	-8,094
Net book amount 31.03.2006	701	3,044	440	1,408	633	257	6,483

NOTE 9 Intangible assets**Movement of intangible assets at the Group**

EEK '000	Licences and software	Positive goodwill	Total
Acquisition cost 31.12.2004	20,070	13,924	33,994
Accumulated amortisation 31.12.2004	-6,011	0	-6,011
Net book amount 31.12.2004	14,059	13,924	27,983
Additions	367	0	367
Amortisation	-707	0	-707
Currency translation differences	1	-27	-26
Acquisition cost 31.03.2005	20,435	13,897	34,332
Accumulated amortisation 31.03.2005	-6,715	0	-6,715
Net book amount 31.03.2005	13,720	13,897	27,617
Acquisition cost 31.12.2005	21,125	14,129	35,254
Accumulated amortisation 31.12.2005	-8,763	0	-8,763
Net book amount 31.12.2005	12,362	14,129	26,491

Additions	280	0	280
Written off	-14	0	-14
Amortisation	-1,172	0	-1,172
Currency translation differences	-3	188	185
Acquisition cost 31.03.2006	21,378	14,317	35,695
Accumulated amortisation 31.03.2006	-9,925	0	-9,925
Net book amount 31.03.2006	11,453	14,317	25,770

EUR '000	Licences and software	Positive goodwill	Total
Acquisition cost 31.12.2004	1,283	890	2,173
Accumulated amortisation 31.12.2004	-384	0	-384
Net book amount 31.12.2004	899	890	1,788

Additions	23	0	23
Amortisation	-45	0	-45
Currency translation differences	0	-2	-2
Acquisition cost 31.03.2005	1,306	888	2,194
Accumulated amortisation 31.03.2005	-429	0	-429
Net book amount 31.03.2005	877	888	1,765

Acquisition cost 31.12.2005	1,350	903	2,253
Accumulated amortisation 31.12.2005	-560	0	-560
Net book amount 31.12.2005	790	903	1,693

Additions	18	0	18
Written off	-1	0	-1
Amortisation	-75	0	-75
Currency translation differences	0	12	12
Acquisition cost 31.03.2006	1,366	915	2,281
Accumulated amortisation 31.03.2006	-634	0	-634
Net book amount 31.03.2006	732	915	1,647

NOTE 10 Borrowings

	EEK '000		EUR '000	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Short-term borrowings				
Future repayments of long-term bank loans	9,118	11,443	583	731
Short-term bank loans	13,031	0	833	0
Short-term finance lease liabilities	142	194	9	12
Convertible bonds	20	212	1	14
Bonds	19,153	18,429	1,224	1,178
Total	41,464	30,278	2,650	1,935
Long-term borrowings				
Long-term bank loans	51,840	51,840	3,313	3,313
Long-term finance lease liabilities	10,812	10,713	691	685
Total	62,652	62,553	4,004	3,998

Bank loans of the Group on 31.03.2006

EEK '000	Loan payable on 31.03.2006	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	5,380	702	4,678	6m Euribor+2.5%
Nordea Pank	2,709	625	2,084	3m Euribor+2.5%
Hansapank	46,441	5,648	40,793	6m Euribor+1.5%
Hansapank	6,428	2,143	4,285	6m Euribor+2.35%
Hansabank (overdraft facility)	13,031	13,031	0	4.20%
Total	73,989	22,149	51,840	

EUR '000	Loan payable on 31.03.2006	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	344	45	299	6m Euribor+2.5%
Nordea Pank	173	40	133	3m Euribor+2.5%
Hansapank	2,968	361	2,607	6m Euribor+1.5%
Hansapank	411	137	274	6m Euribor+2.35%
Hansabank (overdraft facility)	833	833	0	4.20%
Total	4,729	1,416	3,313	

All bank loans as of 31 March 2006 are subject to a floating interest rate, which is dependent on the Euribor changed and fixed every six or three months. As the loans are subject to the floating interest rate and the interest margin is based on the Group's business risk, the management of the parent company estimates that all the loans have been taken under the market conditions with the market rate of interest, thus the fair value of the loans is close to the carrying value.

All bank loans are denominated in euros and the bank overdraft is denominated in Estonian kroons, thus no currency risk is assumed.

Bank loans of the Group on 31.12.2005

EEK '000	Loan payable on 31.12.2005	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	5,614	936	4,678	6m Euribor+2.5%
Nordea Pank	2,917	833	2,084	3m Euribor+2.5%
Hansapank	48,324	7,531	40,793	6m Euribor+1.5%
Hansapank	6,428	2,143	4,285	6m Euribor+2.35%
Total	63,283	11,443	51,840	

EUR '000	Loan payable on 31.12.2005	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	359	60	299	6m Euribor+2.5%
Nordea Pank	186	53	133	3m Euribor+2.5%
Hansapank	3,088	481	2,607	6m Euribor+1.5%
Hansapank	411	137	274	6m Euribor+2.35%
Total	4,044	731	3,313	

NOTE 11 Bonds**Convertible bonds**

As of 31.12.2005, there were C and D type of convertible bonds and as of 31.03.2006 D-bonds outstanding that were issued during the convertible bond program for the executives of Baltika:

	Issue date	Bond conversion period	Number of convertible bonds 31.12.2005	Number of convertible bonds 31.03.2006
C-bond	01.05.2003	01.05.2004-01.05.2006	192,000	0
D-bond	21.12.2004	01.07.2006-30.12.2006	200,000	200,000
Total			392,000	200,000

In the first quarter of 2006, C-bonds were converted into shares as a result of which 192,000 registered shares with a nominal value of 10.00 kroons (0.64 euros) per share were issued. C-bonds were issued with the nominal value of 1.0 kroons (0.06 euros) per bond and were convertible into ordinary shares for an additional payment of 36.57 kroons (2.34 euros) per share. Thus, the issue price per share was 37.57 kroons (2.40 euros) including a premium of 27.57 kroons (1.76 euros) per share. The issued shares are entitled to receive dividends starting from 2006.

After the conversion of C-bonds into shares, the share capital of the Company is 60,149,500 kroons (3,844,254 euros) consisting of 6,014,950 shares. The share premium of the share issue was 5,293,440 kroons (338,312 euros).

The nominal value of D-bonds is 0.10 kroons (0.006 euros) per bond and these are convertible into ordinary shares at the price of 28.95 kroons (1.85 euros), equalling the weighted average share price of AS Baltika on Tallinn Stock Exchange on the trading date preceding the adoption of the resolution (07.12.2004). The vesting condition for the conversion of bonds into shares is that the market price of AS Baltika's shares equals at least 45.00 kroons per share. The employee who has left the Company during the year has the obligation to sell back the bonds to the Company.

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

EEK '000	Issue date	Total nominal value of issue	Bond conversion period	Bonds converted into shares	Convertible bonds as of 31.03.2006
D-Bond	21.12.2004	20	01.07.2006-30.12.2006	0	20

EUR '000	Issue date	Total nominal value of issue	Bond conversion period	Bonds converted into shares	Convertible bonds as of 31.03.2006
D-Bond	21.12.2004	1.3	01.07.2006-30.12.2006	0	1.3

Closed issue of bonds

On 17 March 2006, AS Baltika issued unsecured bonds via a closed issue in the amount of 20.0 million kroons (1.28 million euros). The redemption date of the bonds is 16 March 2007. A total of 2,000 bonds were issued with a nominal value of 10,000 kroons (639 euros) and price of 9,603.81 kroons (613.80 euros) per bond. The bonds do not carry coupon interest, instead the difference between the nominal value and issue price yields an interest of 4.08% per annum.

The proceeds from the issue were used for the redemption of the previous bond issue on 17 March 2006 in the amount of 17.5 million kroons (1.1 million euros). The rest of proceeds will be used for financing investments into the Company's core activities.

	Quantity	Nominal (EEK)	Issue price (EEK)	Balance as of 31.03.2006 (EEK '000)	Coupon interest rate	Maturity
Bonds	2,000	10,000	9,597	19,153	4.08%	16.03.2007

	Quantity	Nominal (EUR)	Issue price (EUR)	Balance as of 31.03.2006 (EUR '000)	Coupon interest rate	Maturity
Bonds	2,000	639	613	1,224	4.080%	16.03.2007

NOTE 12 Equity**Share capital**

EEK '000	31.03.2006	31.12.2005
Share capital	58,230	58,230
Unregistered share capital	1,920	0
Number of shares	6,014,950	5,822,950
Nominal value of shares (EEK)	10.00	10.00
Statutory reserve	5,634	5,634
Revaluation reserve	3,898	3,898

EUR '000	31.03.2006	31.12.2005
Share capital	3,722	3,722
Unregistered share capital	123	0
Number of shares	6,014,950	5,822,950
Nominal value of shares (EUR)	0.64	0.64
Statutory reserve	360	360
Revaluation reserve	249	249

Change in the number of shares

	Issue	Number of shares
Number of shares on 31.12.2002		5,444,450
Issued 20.01.2003	Conversion of A-bonds	15,500
Issued 16.05.2003	Conversion of A-bonds	39,500
Number of shares on 31.12.2003		5,499,450
Issued 30.04.2004	Conversion of A-bonds	88,000
Issued 12.11.2004	Conversion of A-bonds	46,500
Number of shares on 31.12.2004		5,633,950
Issued 30.04.2005	Conversion of B-bonds	189,000
Number of shares on 31.12.2005		5,822,950
Issued 14.03.2006	Conversion of C-bonds	192,000
Number of shares on 31.03.2006		6,014,950

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

In the reporting period, the number of shares of AS Baltika was increased by 192,000 in connection with the conversion of C-bonds into shares (Note 11). The issue price per share was 37.57 kroons (2.40 euros) including a premium of 27.57 kroons (1.76 euros) per share. After the conversion of C-bonds into shares, the share capital of the Company is 60,149,500 kroons (3,844,254 euros) consisting of 6,014,950 shares. The share premium of the share issue was 5,293,440 kroons (338,312 euros). The issued shares are entitled to receive dividends starting from 2006.

NOTE 13 Segments**Geographical segment by client's location – primary segment**

As of 31 March 2006, the Company is active in the following markets:

- Estonia, Latvia, Lithuania, Russia, Ukraine, Poland – defined as separate geographical segments, as each market generates significantly different risks and returns and each market separately is significant enough to form a separate segment;
- other markets (Finland, etc.) – the Company's presence in other markets is small or less strategic and these markets separately do not form a segment for the segment reporting.

I quarter 2006

EEK '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Inter-segment transactions	TOTAL
Non-group sales	48,365	21,328	35,286	39,195	25,297	8,733	6,994	0	185,198
Inter-segment sales	0	15,306	28,801	5,356	23,921	5,483	0	-78,867	0
Total sales	48,365	36,634	64,087	44,551	49,218	14,216	6,994	-78,867	185,198
Operating profit of the segment	16,818	4,283	4,057	8,501	2,454	-2,327	3,163	0	36,949
Unallocated operating exp. and inc.									-22,502
Total operating profit									14,447
Other financial income (expenses)									-1,349
Corporate income tax									-461
Net profit before minority interest									12,637
Minority interest									-1,571
Net profit for the financial year									14,208
Assets	113,486	23,684	62,788	112,237	72,999	17,375	883	-97,519	305,933
Group's unallocated assets									104,791
Incl. assets used in production									91,045
assets used for administrative use									6,613
other unallocated assets									7,133
Total assets									410,724
Liabilities	30,981	19,540	44,707	24,999	37,996	8,109	0	-116,106	50,226
Group's unallocated liabilities									123,559
Incl. liab. related to production activity									38,209
other unallocated liabilities									85,350
Total liabilities									173,785
Property, plant and equipment acquired	8,009	228	2,176	3,557	4,926	50	0	0	18,946
Depreciation	2,958	306	1,045	329	467	586	0	0	5,691
Incl. depreciation of PPE	1,922	269	974	329	463	568	0	0	4,525
amort. of intangible assets	1,036	37	71	0	4	18	0	0	1,166

EUR '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Inter-segment transactions	TOTAL
Non-group sales	3,091	1,363	2,255	2,505	1,617	559	447	0	11,836
Inter-segment sales	0	978	1,841	342	1,529	350	0	-5,041	0
Total sales	3,091	2,341	4,096	2,847	3,146	909	447	-5,041	11,836
Operating profit of the segment	1,075	274	259	543	157	-149	202	0	2,361

Unallocated operating exp. and inc.									-1,438
Total operating profit									923
Other financial income (expenses)									-86
Corporate income tax									-29
Net profit before minority interest									808
Minority interest									-100
Net profit for the financial year									908
Assets	7,254	1,514	4,013	7,173	4,665	1,110	56	-6,232	19,553
Group`s unallocated assets									6,697
Incl. assets used in production									5,818
assets used for administrative use									423
other unallocated assets									456
Total assets									26,250
Liabilities	1,980	1,249	2,857	1,598	2,428	518	0	-7,420	3,210
Group`s unallocated liabilities									7,897
Incl. liab. related to production activity									2,442
other unallocated liabilities									5,455
Total liabilities									11,107
Property, plant and equipment acquired	512	15	139	227	315	3	0	0	1,211
Depreciation	189	20	67	21	30	37	0	0	364
Incl. depreciation of PPE	123	17	62	21	30	36	0	0	289
amort. of intangible assets	66	3	5	0	0	1	0	0	75

I quarter 2005

EEK '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Inter-segment transactions	TOTAL
Non-group sales	39,992	16,736	26,906	31,148	18,747	9,951	6,737	0	150,217
Inter-segment sales	0	12,387	21,814	6,603	10,300	6,690	1,404	-59,198	0
Total sales	39,992	29,123	48,720	37,751	29,047	16,641	8,141	-59,198	150,217
Operating profit of the segment	10,817	2,836	3,534	8,422	2,468	-1,809	1,173	0	27,441
Unallocated operating exp. and inc.									-19,229
Total operating profit									8,212
Other financial income (expenses)									-64
Corporate income tax									-370
Net profit before minority interest									7,778
Minority interest									-2,605
Net profit for the financial year									10,383
Assets	107,740	27,868	56,735	75,515	39,806	30,507	2,539	-91,760	248,950
Group`s unallocated assets									72,721
Incl. assets used in production									57,514
assets used for administrative use									7,038
other unallocated assets									8,169
Total assets									321,671
Liabilities	29,009	23,009	37,889	22,065	36,086	15,160	975	-124,169	40,024

Group`s unallocated liabilities									133,410
Incl. liab. related to production activity									28,146
other unallocated liabilities									105,264
Total liabilities									173,434

Property, plant and equipment acquired	1,133	17	888	87	144	18	0	0	2,287
Depreciation	3,004	320	693	148	386	740	0	0	5,291
Other material non-monetary exp.	-143	0	0	0	0	0	0	0	-143

EUR '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Inter-segment transactions	TOTAL
Non-group sales	2,556	1,070	1,720	1,991	1,198	636	430	0	9,601
Inter-segment sales	0	791	1,394	422	658	428	90	-3,783	0
Total sales	2,556	1,861	3,114	2,413	1,856	1,064	520	-3,783	9,601
Operating profit of the segment	691	181	226	538	158	-116	75	0	1,754
Unallocated operating exp. and inc.									-1,229
Total operating profit									525
Other financial income (expenses)									-4
Corporate income tax									-24
Net profit before minority interest									497
Minority interest									-166
Net profit for the financial year									664
Assets	6,886	1,781	3,626	4,826	2,544	1,950	162	-5,865	15,911
Group`s unallocated assets									4,648
Incl. assets used in production									3,676
assets used for administrative use									450
other unallocated assets									522
Total assets									20,559
Liabilities	1,854	1,471	2,422	1,410	2,306	969	62	-7,936	2,558
Group`s unallocated liabilities									8,526
Incl. liab. related to production activity									1,799
other unallocated liabilities									6,728
Total liabilities									11,084
Property, plant and equipment acquired	72	1	57	6	9	1	0	0	146
Depreciation	192	20	44	9	25	47	0	0	338
Other material non-monetary exp.	-9	0	0	0	0	0	0	0	-9

Allocated income and expenses are directly related to the segment – revenue from sales to customers, cost of sales, payroll and rental costs and other costs related to the market. Unallocated operating income and expenses are the general administrative expenses of the Group, such as the central management expenses, marketing expenses, information technology costs, etc.

The assets of the segment mainly consist of inventories and fixtures located at retail outlets, also other necessary working capital (e.g. cash). Additionally, the segment assets include the deferred income tax assets consolidated in the Group balance sheet arising from operating in certain markets. The liabilities of the segments are related to the payables of the retail outlets, mainly connected to rental agreements, payroll and taxes. Payables for the inventories are mostly to the parent company and have been eliminated in consolidation, thus they are not presented in the segment report.

The unallocated assets of the Group are the administrative building, office equipment used for general administration, other equipment and current assets related to general activities. Additionally, the Group's assets used in production have been presented as unallocated assets, as these assets service all geographical segments and there is no reasonable basis for dividing these assets among the markets. All assets related to production activity are located in Estonia.

The unallocated liabilities of the Group are mainly the borrowings related to the financing of the Group – loans and bonds. In addition to that also production-related liabilities have been classified as unallocated, such as accounts payable for raw materials and payroll liabilities of production personnel.

According to the parent company management's estimate, the inter-segment transactions have been carried out at arm's length and the conditions applied do not differ materially as compared to the transactions with third parties.

Business segment by area of operations – secondary segment

As of 31 March 2006, the Company operated in the following areas, generating significantly different risks and returns compared to each other and each activity is material enough to form a separate segment:

- retail and managing retail outlet chains in markets;
- wholesale and other services;
- production.

Other areas of operations (sewing as a subcontractor, renting of assets, etc.) are less strategic and less material as compared to the main activities and these activities do not form a separate segment.

EEK '000	Net sales		Assets		Additions to property, plant and equipment	
	3m 2006	3m 2005	31.03.2006	31.12.2005	3m 2006	3m 2005
Retail	139,235	111,703	148,542	127,724	11,076	1,437
Wholesale and other	42,797	34,120	41	50	7,244	481
Production	13	543	82,617	79,055	626	369
Unallocated	3,153	3,851	179,524	170,270	0	0
Total	185,198	150,217	410,724	377,099	18,946	2,287

EUR '000	Net sales		Assets		Additions to property, plant and equipment	
	3m 2006	3m 2005	31.03.2006	31.12.2005	3m 2006	3m 2005
Retail	8,898	7,139	9,494	8,163	708	91
Wholesale and other	2,735	2,181	3	3	463	31
Production	1	35	5,280	5,053	40	24
Unallocated	202	246	11,473	10,882	0	0
Total	11,836	9,601	26,250	24,101	1,211	146

NOTE 14 Sales revenue

	EEK '000		EUR '000	
	3m 2006	3m 2005	3m 2006	3m 2005
Sale of goods	183,338	147,713	11,717	9,441
Sale of sewing services	13	544	1	35
Rental income	1,465	1,505	94	96
Other	382	455	24	29
Total	185,198	150,217	11,836	9,601

NOTE 15 Cost of goods sold

	EEK '000		EUR '000	
	3m 2006	3m 2005	3m 2006	3m 2005
Materials and supplies	70,407	59,521	4,500	3,804
Change in allowance for inventories	-498	2,354	-32	150
Other production costs	1,551	1,585	99	101
Payroll costs in production	9,338	8,195	597	524
Depreciation of assets used in production	642	722	41	46
Change in inventories	3,961	4,522	253	290
Total	85,401	76,899	5,458	4,915

NOTE 16 Distribution costs

	EEK '000		EUR '000	
	3m 2006	3m 2005	3m 2006	3m 2005
Rental expenses	24,290	19,655	1,552	1,256
Payroll expenses	19,362	15,041	1,237	961
Depreciation	3,282	2,919	210	187
Advertising expenses	4,501	2,738	288	175
Transportation expenses	2,509	1,370	160	88
Credit card expenses	944	761	60	49
Communication expenses	502	395	32	25
Information technology expenses	459	284	29	18
Accounting and auditing expenses	237	243	15	16
Renovation of retail outlets	85	78	5	5
Other selling expenses	5,603	4,661	360	297
Total	61,774	48,145	3,948	3,077

NOTE 17 Administrative expenses

	EEK '000		EUR '000	
	3m 2006	3m 2005	3m 2006	3m 2005
Payroll expenses	12,967	11,741	829	750
Depreciation	1,767	1,649	113	105
Business trips	833	470	53	30
Rental expenses	799	1,434	51	92
Information technology expenses	751	559	48	36
Sponsorship	442	25	28	2
Communication expenses	382	308	24	20
Bank fees	296	243	19	16
Other administrative expenses	4,265	2,800	273	178
Total	22,502	19,229	1,438	1,229

NOTE 18 Other operating income

	EEK '000		EUR '000	
	3m 2006	3m 2005	3m 2006	3m 2005
Foreign exchange gains	529	3,638	34	233
Profit from the sale of non-current assets	17	24	1	2
Other operating income	22	287	1	17
Total	568	3,949	36	252

NOTE 19 Other operating expenses

	EEK '000		EUR '000	
	3m 2006	3m 2005	3m 2006	3m 2005
Foreign exchange losses	701	1,104	45	71
Fines, penalties on late payment and interest expenses on tax	490	6	31	0
Representation costs	97	197	6	13
Other operating expenses	354	374	23	23
Total	1,642	1,681	105	107

NOTE 20 Earnings per share**Basic earnings per share**

		3m 2006	3m 2005
Weighted average number of shares	pc	5,861,350	5,633,950
Net profit	EEK '000	14,208	10,383
	EUR '000	908	664
Basic earnings per share	EEK	2.42	1.84
	EUR	0.15	0.12

Diluted earnings per share

		3m 2006	3m 2005
Weighted average number of shares	pc	6,065,793	5,633,950
Net profit	EEK '000	14,208	10,383
	EUR '000	908	664
Diluted earnings per share	EEK	2.34	1.84
	EUR	0.15	0.12

The weighted average additional dilutive ordinary shares are calculated separately for each type of convertible bond issued to senior managers outstanding during the period, assuming the conversion of all potential ordinary shares.

NOTE 21 Related parties

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the financial and management decisions of the other one in accordance with IAS 24 "Related Party Disclosures". Not only the legal form of the transactions and mutual relationships, but also their actual substance has been taken into consideration when defining related parties.

In compiling the interim report of AS Baltika, the following entities have been considered related parties:

- owners, that have either significant influence or control, generally implying an ownership interest of 20% or more;
- members of the management, the management board and the supervisory board;
- close relatives of the persons mentioned above;
- entities under the control of the members of the management board and the supervisory board;
- subsidiaries;
- joint ventures.

AS Baltika has purchased (sewing services, goods for resale, non-current assets) and sold its goods and rendered services (management services, other services) to the following related parties:

EEK '000	3m 2006		3m 2005	
	Purchases	Sales	Purchases	Sales
Purchases and sales of goods				
Subsidiaries	12,605	106,876	10,194	83,130
Joint venture	6	1,057	0	1,698
Total purchases and sales of goods	12,611	107,933	10,194	84,828
Purchases and sales of services				
Subsidiaries	6,942	433	7,413	730
Joint venture	7,411	1,724	8,851	1,817
Total purchases and sales of services	14,353	2,157	16,264	2,547

EUR '000	3m 2006		3m 2005	
	Purchases	Sales	Purchases	Sales
Purchases and sales of goods				
Subsidiaries	806	6,832	652	5,312
Joint venture	0	68	0	109
Total purchases and sales of goods	806	6,898	652	5,421
Purchases and sales of services				
Subsidiaries	444	28	474	47
Joint venture	474	110	566	116
Total purchases and sales of services	918	138	1,040	163

Balances with the related parties

	EEK '000		EUR '000	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Subsidiaries	113,711	86,875	7,267	5,552
Joint venture	1,450	1,724	93	110
Total current receivables	115,161	88,599	7,360	5,662
Subsidiaries	19,133	12,703	1,223	812
Joint venture	105	0	7	0
Total current liabilities	19,238	12,703	1,230	812
Subsidiaries	13,695	9,415	876	602
Joint venture	1,306	1,302	83	83
Total non-current receivables	15,001	10,717	959	685

A loan has been granted to the joint venture OÜ Baltika Tailor with a purpose of investing in production. The loan amount is 1,500 thousand kroons (96 thousand euros) and the loan's annual interest rate is 1%. In the balance sheet, the loan has been discounted at 4% and is carried at 1,302 thousand kroons (83 thousand euros). Interest calculated on the loan and not paid by the end of the reporting period amounts to 4 thousand kroons (0.3 thousand euros).

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

Convertible bonds

As of 31 March 2006, the members of the Management Board had been issued and subscribed for 100,000 D-bonds in the amount of 10 thousand kroons (0.6 thousand euros); as of 31 December 2005, respectively 227,953 C- and D-bonds, in the amount of 138 thousand kroons (9 thousand euros) (Note 11).

Loans to management members

	EEK '000		EUR '000	
	3m 2006	3m 2005	3m 2006	3m 2005
Balance at the beginning of period	352	574	22	37
Loans granted	0	0	0	0
Repayments of loans received	-64	0	-4	0
Foreign exchange rate differences	0	30	0	2
Balance at the end of period	288	604	18	39

In 2004, a loan was granted to the manager of Baltika's subsidiary Baltika Ukraina. The maturity date of the loan is 31.12.2006 and no interest is computed during the term of the employment contract.

NOTE 22 Events after the balance sheet date

According to the contract signed on 4 April 2006, AS Baltika acquired on 19 April 2006 an additional stake of 49.9% of the share capital of its subsidiary OOO Kompania "Baltman Rus" and became the sole owner of the subsidiary. At the time of the purchase the company operated a total of 11 shops that sell Baltika's brands in Moscow, St. Petersburg and Kazan. In 2005, the company's sales totalled 51.2 million kroons (3.3 million euros) and accounted for 7.5% of the net sales of Baltika Group.

The price of the transaction was 493 thousand euros (7.7 million kroons) and the payment was settled by cancelling the partner's indebtedness for goods in the transaction value. The holding was acquired from Baltika's wholesale partners who also operate shops that sell Baltika's brands in the Siberia and Ural region of Russia.

The transaction is not regarded as a transaction with a related party. OOO Kompania "Baltman Rus" does not have any loan obligations from outside the Group and is not engaged in any court or arbitral proceedings.