AS BALTIKA

Consolidated interim report for the fourth quarter of 2008

Commercial name	AS Baltika
Commercial registry number	10144415
Legal address	Veerenni 24,Tallinn 10135, Estonia
Phone	+372 630 2731
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E-mail	baltika@baltikagroup.com
Web page	www.baltikagroup.com
Main activities	Retail and wholesale of clothes
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2008- 31.12.2008

CONTENTS

BRIEF DESCRIPTION OF BALTIKA GROUP

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer operating in the Baltic States, Central and Eastern Europe. The Baltika Group operates four retail concepts: Monton, Mosaic, Baltman and Ivo Nikkolo. The Group employs a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales. The Group also sells its collections wholesale.

The shares of AS Baltika are listed on the Tallinn Stock Exchange which belongs to the NASDAQ OMX Group.

At 31 December 2008, the Group employed 1,988 people (31 December 2007: 1,983).

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

The Group consists of the following companies:

	Location	**Activity**	**Holding at 31.12.2008**	**Holding at 31.12.2007**
Parent company				
AS Baltika	Estonia			
Subsidiaries				
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvija	Latvia	Retail	75%	75%
UAB Baltika Lietuva	Lithuania	Retail	100%	100%
Baltika Ukraina Ltd	Ukraine	Retail	99%	99%
OOO Kompania “Baltman Rus”	Russia	Retail	100%	100%
Baltika Poland Sp.z.o.o.	Poland	Retail	100%	100%
Baltika Retail Czech Republic s.r.o.	Czech Republic	Retail	100%	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%
AS Virulane	Estonia	Production	93.33%	82.66%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

MANAGEMENT REPORT

Unaudited consolidated financial results, Q4 and 2008

In 2008, consolidated sales revenue of Baltika Group grew by 3.7% while retail revenues improved by 7.3%. The period's gross margin was 53.1% against 55.3% in 2007. The Group ended 2008 with a net loss of 18.9 million kroons (1.2 million euros). The loss was triggered by the consequences of the economic downturn and currency devaluations.

Consolidated sales revenue for the fourth quarter totalled 306.8 million kroons (19.6 million euros) and remained stable compared with a year ago. Q4 2008 gross margin was 48.3% (Q4 2007: 58.1%). Consolidated net loss for the fourth quarter amounted to 40.4 million kroons (2.6 million euros).

REVENUE

Revenue by business segment

EEK million	**Q4 2008**	**Q4 2007**	**+/-**	**2008**	**2007**	**+/-**
Retail	288.4	284.6	1.3%	1,058.9	987.3	7.3%
Wholesale	17.6	22.0	-19.9%	133.2	144.7	-7.9%
Subcontracting	0	0.3	-100%	0	14.4	-100%
Other	0.8	0.6	37.9%	2.2	5.1	-57%
Total	**306.8**	**307.4**	**-0.2%**	**1,194.3**	**1,151.5**	**3.7%**

EUR 1 = EEK 15.6466

RETAIL

Baltika's retail revenue for 2008 was 1,058.9 million kroons (67.7 million euros), a 7.3% improvement on the prior year. Excluding the effect of foreign exchange differences, retail revenue grew by 9.0%. Comparable store revenues rose by 2%. Faster growth increased the proportion of retail revenue in the Group's revenue mix to 89% compared with 86% in 2007.

The Group's retail network continued expanding, although at a somewhat slower pace than in the two preceding years. The annual average sales area grew by 11% (2007: 50% and 2006: 30%). The period's focus was on streamlining the store portfolio and enhancing the stores' sales efficiency. Although in the second and third quarters efficiency improved, the average annual sales efficiency (sales per square metre) decreased by 3%. This was caused by two dominant trends that weakened the Group's performance in 2008. On the one hand, emerging economic recession and contracting consumption triggered a downturn in the Group's Baltic sales. On the other hand, the currencies of the Group's Eastern European markets, Russia and Ukraine, weakened against the Estonian kroon. Even though both the Ukrainian and Russian operations posted strong sales growth, including exceptional improvement in comparable store sales, the positive trend was undermined by the devaluation of the Ukrainian and Russian currencies.

Retail sales for the fourth quarter totalled 288.4 million kroons (18.4 million euros), a 1.3% improvement on the fourth quarter of 2007. Excluding the effect of foreign exchange differences, Q4 2008 retail revenue grew by 3.3%.

STORES AND SALES AREA

At the year-end, Baltika had 134 stores in seven countries and a total sales area of 27,068 square metres. During the year, 17 stores were opened, 11 were closed and five were relocated or enlarged. The net growth of the retail system was six stores and approximately 2,800 square metres, an 11% increase in the sales space operated by Baltika Group.

In terms of markets, the largest number of stores was opened in Ukraine and Lithuania where five and four new stores were launched, respectively. Three stores were opened in Russia and two in Poland. One store was opened in Estonia, Latvia and the Czech Republic each. Store closings took place in all the markets except the Czech Republic.

Stores by market

	31.12.2008	31.12.2007
Lithuania	33	30
Estonia	30	30
Ukraine	24	22
Russia	23	24
Latvia	16	16
Poland	6	5
Czech Republic	2	1
Total stores	**134**	**128**
Total sales area, sqm	**27,068**	**24,290**

The largest number of stores was opened under the Monton brand – altogether 11 stores. At the end of 2008, Baltika's retail network included 55 Monton, 53 Mosaic, 15 Baltman, 8 Ivo Nikkolo and 3 factory outlet stores.

In the fourth quarter, Baltika opened ten stores and closed one. Among others, Baltika opened four stores in Panorama, the newest shopping and entertainment centre in the capital of Lithuania as a result of which Lithuania became Baltika's biggest market in terms of the number of stores.

MARKETS

The global financial crisis and its worldwide economic implications have not left Baltika's markets unscathed. In 2008 economic growth in the Baltics continued decelerating – while the Lithuanian economy was still able to sustain growth (+3.2%), the Estonian and Latvian economies contracted by 3.6% and 3.3% respectively (according to preliminary estimates). The Group's other large markets Ukraine and Russia remained in the black, growing by 2.1% and 5.6% respectively (according to preliminary estimates).

The Baltic countries accounted for 59% of the Group's retail revenue (2007: 63%), the Eastern European markets Russia and Ukraine for 36% (2007: 34%) and the Central European markets for 5% (2007: 3%).

Lithuania became Baltika's largest retail market in 2008, dethroning the reigning leader Estonia. As expected, the fastest growth in 2008 was posted by the Czech Republic where the Group entered in the fourth quarter of 2007. The biggest growth was achieved in Ukraine and Russia. In local currencies the growth figures were even larger than in Estonian kroons: 26% for Ukraine and 17% for Russia.

Retail sales by market

EEK million	**2008**	**2007**	**+/-**	**Percentage, 2008**
Lithuania	243.1	231.9	5%	23%
Estonia	238.6	247.7	-4%	22%
Russia	196.1	173.7	13%	19%
Ukraine	179.7	156.8	15%	17%
Latvia	149.7	144.7	3%	14%
Poland	34.5	29.8	16%	3%
Czech Republic	17.2	2.7	537%	2%
Total	**1,058.9**	**987.3**	**7%**	**100%**

EUR 1 = EEK 15.6466

Although Baltika did not penetrate any new markets in 2008, it entered new cities in the existing ones: Kaliningrad in Russia, Narva in Estonia, Wroclaw in Poland and Ostrava in the Czech Republic.

Baltika is not planning to expand to any new retail markets in 2009 either. However, the Group is carefully analysing subsequent expansion opportunities. According to a report by the international real estate development and consulting firm Cushman & Wakefield, in 2008 new trading space in Europe grew by a record 15 million square metres, the largest addition since 1965 when the firm began conducting its surveys. Still, in 2009 the effects of the global financial crisis will spread to the real economies of most European countries, triggering a suspension in ongoing development projects and a deferral of many planned developments into the indefinite future. Above all, leading real estate developers are attempting to complete launched projects in cities that have higher purchasing power and are less vulnerable to the crisis.

One of Baltika's priorities for 2009 is to improve the efficiency of its store portfolio – in a changing economic environment it is essential to measure the performance of the stores and promptly respond to changes in customer numbers and preferences. Although the economic situation in Baltika's main markets is volatile and there is a lot of uncertainty about future developments, it is clear that shopping centres with a clear concept, a strong tenant mix and an excellent location have the best potential. These are also the centres where Baltika would like its brands to be represented.

BRANDS

In terms of brands, the largest revenue contributor is Monton that accounted for 55% of the Group's retail sales for 2008. Other major brands Mosaic and Baltman generated 33% and 7% of retail revenue respectively while Ivo Nikkolo that was acquired in September 2006 contributed 4%. The remainder was earned at factory outlets.

Monton

In 2008 retail revenue from Monton totalled 581 million kroons (37.2 million euros), a 7% increase compared with the previous year. The brand's retail portfolio was augmented with 11 new stores. Six stores were closed and at the year-end there were 55 Monton stores, reflecting a net growth of five stores.

At Monton, the keynotes of the year were people and processes – all positions were reviewed to determine the consistency of duties and competencies with assigned responsibilities as well as the desired outcomes. Effective streamlining allowed upgrading the efficiency and quality of the product development process. Major improvements were made also to the purchasing and distribution processes. As a result, more attention is paid to the distinguishing features of each retail market, the range of product sizes has been extended, inventories are more easily replenished and the stores of smaller regions are better supplied.

For Monton, the year was exciting and innovative, spinning off new ideas and projects also for the future. The highlight of the summer was the Beijing Olympic Games where both the Estonian and Latvian Olympic delegations wore ceremonial and recreational outfits created by Monton. In October Monton stores launched *Monton Fusion*, a special ladieswear collection created by Anu Samarüütel-Long, a fashion designer with an international background and training. In Lithuania the brand gained recognition with the project "Think green, think fashion" that promoted ecological thinking in partnership with the local Moteris magazine. Textile bags with the slogan became a real sales hit. In Russia, another Monton newsletter was published. The issue describes current and coming trends and discusses fashion with the local celebrities. In Estonia, for the second consecutive year, cooperation continued with the Tallinn Black Nights Film Festival. In the framework of the project, a special festival shirt was created and a fashion films programme presented to fashion lovers.

In 2009 Monton will focus on implementing a faster and more flexible product development process, improving margins by tighter cooperation with the supply base and designing a development plan for the brand.

Mosaic

The repositioning and collection development efforts made in 2007 yielded excellent Mosaic sales in 2008 in all retail markets – Estonia, Latvia, Lithuania, Ukraine and Russia. In 2008, retail revenue from Mosaic grew by 13% to 353 million kroons (22.5 million euros). The growth is all the more notable because it was mainly generated by existing stores and continued even when the Baltic markets were hit by the consequences of the global economic crisis.

For Mosaic, 2008 was a year of achieving new quality. Only four new stores were opened, the most important one complete with a new retail concept in the Panorama Centre in Vilnius, Lithuania. Thanks to the brand's rapid development over the past few years it became necessary to create a suitable shopping environment that would correspond to the customer's needs and expectations. The new store environment allows visually discerning the collections aimed at men, women and children, creating a relaxed and convenient atmosphere.

A significant accomplishment for Mosaic was the commencement of the wholesale of its ladieswear collection to one of the leading European fashion department store chains Peek&Cloppenburg. To start with, the Mosaic collection will be offered in five countries and 13 department stores. The first orders were dispatched in November but a larger assortment was made available at the Peek&Cloppenburg department stores in January 2009. The year was one of qualitative improvement also for the Mosaic childrenswear collection launched in 2007: the product range was extended and both sales and profit figures improved.

In 2009 Mosaic will pursue its signature style – a collection aimed at the needs of the target customer should ensure both sales and profit growth. Another priority for 2009 is enhancing relations with suppliers. In connection with expansion to the wholesale markets of Western Europe, extra attention has to be paid to the products' conformity with the relevant EU certificates.

Baltman

Baltman is Baltika's oldest brand that aims to offer men a wide range of quality business attire along with personal service. Since 2008 the focus of the brand has been on Baltika's home market, i.e. the three Baltic countries Estonia, Latvia and Lithuania.

In 2008 Baltman continued adjusting its suits to different types of figure and extending the range for the younger customer. The well-received *Travel* and *Klimeo* lines that are distinguished by their innovative fabric and finishing were significantly expanded.

The period's retail revenue from Baltman amounted to 74 million kroons (4.7 million euros), a 19% decrease compared with 2007. The decline in sales is attributable to the fact that Baltman is an upmarket Baltic-based menswear brand that was hit hardest by the onset of the recession. In addition, the number of Baltman stores decreased by one to 15 at the year-end.

Ivo Nikkolo

In 2008 the youngest member of Baltika's brand portfolio expanded to Latvia and is now represented in all three Baltic countries. Thanks to the international clout of its collection, retail revenue from Ivo Nikkolo grew by 53% to 39 million kroons (2.5 million euros), rendering Ivo Nikkolo the Group's fastest-growing brand in the face of adverse economic conditions across the Baltics.

In the reporting period, Baltika opened two new Ivo Nikkolo stores – one in Vilnius and one in Riga – increasing the total number of Ivo Nikkolo stores to eight. The first Ivo Nikkolo store opened in the Latvian capital Riga in autumn 2008 was well received by the customers. Since establishing a presence in the Lithuanian market in 2007, the brand has also gained loyal customers among the Lithuanian businesswomen. Strong results indicate that the Ivo Nikkolo brand has found its focus – meticulous investment in quality and fit translate into strong sales figures.

In 2008 Ivo Nikkolo enhanced its premium image by offering designer jewellery in partnership with recognised Estonian jewellers. In the framework of the charity project "Estonian Women for Ivo Nikkolo" the First Lady of the Republic of Estonia, Evelin Ilves, designed a dress for Ivo Nikkolo.

In 2009 when the brand celebrates its 15th anniversary it will focus on sustaining expansion in the Baltics.

WHOLESALE

Wholesale of Baltika's collections accounted for 11% of the Group's consolidated revenue for 2008, generating 133.2 million kroons (8.5 million euros), a 7.9% decrease compared with the previous year. The decline in wholesale revenue was planned, stemming from the application of more conservative sales policies in Russia. The main wholesale markets were the Baltic countries, Russia and Finland.

In the wholesale business, cooperation with the Western European partners is a strategic priority. A significant milestone in this area was the wholesale contract signed with one of the leading European department store chains Peek&Cloppenburg. Peek&Cloppenburg owns over 80 department stores in Germany and more than 100 department stores throughout Europe. Peek&Cloppenburg will carry the Mosaic ladieswear collection whose design was considered suitable for the product mix of the quality fashion department store. The year 2009 will be a trial period during which the sales success of the collection and product and supply quality will be carefully monitored. During the trial period the Mosaic collection will be offered in five countries and 13 department stores.

The fourth quarter is traditionally slow in the wholesale business. Fourth quarter wholesale revenue amounted to 17.6 million kroons (1.1 million euros), accounting for only 6% of total revenue. Compared with the fourth quarter of 2007, wholesale revenue shrank by 19.9%.

EARNINGS AND MARGINS

In 2008 the Group remained focused on improving the efficiency of its retail system. This was accompanied by streamlining the store portfolio. Fewer new stores were opened and the sales area grew by 11%. An increase in sales efficiency was achieved in the second and third quarters. The rise was supported by positive developments in the Eastern European markets where the gradual start-up of new stores was combined with strong growth in comparable store sales. Although the Baltics exerted counter-pressure – the economic recession and decline in consumer spending that emerged in the second half of 2007 escalated in 2008, the Group ended the second and third quarters in a profit.

However, in the fourth quarter the local currencies of Russia and Ukraine that contribute 36% of the Group's retail revenue were steeply devalued. According to the daily exchange rates of the Estonian Central Bank, in the fourth quarter the Ukrainian hryvnia and the Russian rouble weakened against the Estonian kroon by 34% and 12% respectively. The developments had an adverse impact on both the Group's sales and its assets and liabilities. In annual terms, the Group's average sales efficiency (sales per square metre) decreased by 3% and the year ended in a loss, triggered by the consequences of the economic downturn and currency devaluations. Exchange losses on recognising the impairment of assets and liabilities totalled 18.8 million kroons (1.2 million euros). In addition, movements in exchange rates affected consolidated revenue and gross profit through negative translation differences of 14.0 million kroons (0.9 million euros). Owing to a decline in sales, year-end inventories were written down by 5.0 million kroons (0.3 million euros). In addition, due to increased business risks in the Russian market, euro-denominated receivables from a wholesale partner were written down by 4.4 million kroons (0.3 million euros).

The Group's gross margin for 2008 was 53.1% (2007: 55.3%) and consolidated gross profit amounted to 633.8 million kroons (40.5 million euros) remaining almost stable compared with a year ago. Gross profit for the fourth quarter decreased by 17.1% yoy and gross margin was 48.3% (Q4 2007: 58.1%).

Administrative and general expenses for the year decreased by 17.1% yoy. Distribution costs grew by 12.6% on account of expansion in retail space.

Baltika's operating loss for the fourth quarter was 34.3 million kroons (2.2 million euros) and operating loss for the full year was 5.7 million kroons (0.4 million euros). In 2007 the Group earned operating profit of 64.6 million kroons (4.1 million euros).

Operating loss for 2008 includes gain of 17.8 million kroons (1.1 million euros) on fair value adjustments to investment property, recognised in other operating income. In the fourth quarter, gain on the revaluation of investment property amounted to 6.5 million kroons (0.4 million euros). The figure comprises a write-down of 4.5 million kroons (0.3 million euros) recognised for land classified as investment property and a write-up of 11.0 million kroons (0.7 million euros) recognised for an office building under construction. In 2007 gains on the sale of non-current assets and the revaluation of investment property totalled 24.3 million kroons (1.6 million euros).

The Group's financial expenses for 2008 were 14.6 million kroons (0.9 million euros), a 26.9% increase yoy. The largest financial expense item was interest expense (11.4 million kroons/0.7 million euros) that grew by 25.8% yoy. The growth in financial expenses is also attributable to a rise in foreign exchange losses.

Baltika ended the fourth quarter with a net loss of 40.4 million kroons (2.6 million euros). Net loss for the full year was 18.9 million kroons (1.2 million euros). In 2007 Baltika earned a net profit of 40.8 million kroons (2.6 million euros).

BALANCE SHEET

At 31 December 2008, Baltika's consolidated assets amounted to 781 million kroons (49.9 million euros), a 19% increase yoy.

Trade receivables decreased by 22 million kroons (1.4 million euros) yoy to 49 million kroons (3.1 million euros). The decline results from a decrease in wholesale operations.

At the year-end, inventories totalled 288 million kroons (18.4 million euros), up 68 million kroons (4.3 million euros) or 31% yoy. Inventory balances increased due to growth in sales space, larger purchases of the spring/summer merchandise and higher year-end levels of the autumn/winter merchandise. In connection with the rise in inventories, trade payables grew by 77 million kroons (4.9 million euros) to 152 million kroons (9.7 million euros). The Group has also been able to agree longer settlement terms with suppliers.

The Group's year-end borrowings totalled 272 million kroons (17.4 million euros), including bank loans of 262 million kroons (16.8 million euros) and finance lease liabilities of 10 million kroons (0.6 million euros). Compared with the previous year-end, the Group's debt burden has increased by 88 million kroons (5.6 million euros). Borrowings have grown mainly on account of the construction of a new office building that is being financed with a bank loan. At the end of 2008, construction-related borrowings totalled 70 million kroons (4.5 million euros).

The construction loan has increased the Group's net debt (interest-bearing liabilities less cash and bank balances), which at 31 December 2008 stood at 264 million kroons (16.9 million euros). The net debt to equity ratio was 88.2% (31 December 2007: 45.1%).

In 2008, Baltika's equity decreased by 40 million kroons (2.6 million euros) to 299 million kroons (19.1 million euros). This was caused by the loss incurred, unfavourable movements in exchange rates, and a decrease in minority interest.

INVESTMENT

In 2008, the Group's investments totalled 148.5 million kroons (9.5 million euros). The corresponding figure for 2007 was 102.9 million kroons (6.6 million euros).

Investments in the retail system and information technology amounted to 53.7 million kroons (3.4 million euros) and 10.1 million kroons (0.7 million euros) respectively while investments in manufacturing totalled 5.2 million kroons (0.3 million euros). Investments in real estate development (phase I of the Baltika Quarter) amounted to 79.5 million kroons (5.1 million euros).

PEOPLE

At the end of 2008 Baltika Group employed 1,988 (31 December 2007: 1,983) people, including 994 (986) in the retail system, 771 (773) in manufacturing and 223 (224) at the head office. During the year, the number of employees grew by five. The number of staff increased in the retail system; in manufacturing and at the head office the figures remained stable. The Group's annual average number of employees was 1,950 (2007: 1,982).

The Group's employee remuneration expenses for 2008 totalled 238.8 million kroons/15.3 million euros (2007: 200.1 million kroons/12.8 million euros). The remuneration of members of the supervisory council and management board amounted to 4.6 million kroons/0.3 million euros (2007: 4.8 million kroons/0.3 million euros).

SUMMARY OF CORPORATE STRATEGY FOR 2006-2008

The implementation of Baltika's strategy for 2006-2008 was expected to ensure swift and profitable growth for 2008. At the beginning of 2006 the following targets were set for 2008:

- a two-fold increase on the sales of 2005, i.e. revenue of 1.36 billion kroons (87 million euros);
- 160 stores;
- a gross margin of at least 52%;
- at least a 30% return on equity.

In the light of the economic climate of the last year of the strategy period, revenue growth was satisfactory – in 2008 Baltika's consolidated revenue reached 1.19 billion kroons (76 million euros). The same can be said about the sales area – although at the end of 2008 the Group had 134 stores, the retail space target was achieved thanks to the opening of stores with a larger format. The gross margin target was also achieved – the desired level was attained in 2006 (54.5%) and improved in 2007 (55.3%). The gross margin for 2008 was 53.1%.

In terms of the operating and net margins, however, the Group's profitability remained below target and hence the targeted return on equity was not achieved. This resulted from several inter-related factors. First, in Russia and Ukraine, where the Group expanded vigorously during the strategy period, the start-up periods of stores proved longer than expected. Secondly, profitability was adversely impacted by the onset of the economic slump in the Baltics and the weakening of national currencies in Eastern Europe. In 2006 the current developments in global economy could not be foreseen.

OUTLOOK FOR 2009

Although in the summer of 2008 Baltika began preparing for its next four-year strategy cycle (2009-2012), in the present economic environment it is more reasonable to continue on a year-at-a-time basis.

The keywords for 2009 will be adjustment and preparing for a new rise. In terms of half-years or seasons, this will mean that 2009/1 will be a season of determining new sales levels and corresponding sales and management expense and inventory levels. Since many of the preliminary plans for 2009/1 that were made in autumn 2008 have had to be significantly revised (for example, the initial sales plan has been reduced by approximately 20% and expenditures on new stores have been cut more than two-fold), the main targets will be lowering inventory levels, raising financing for purchases and reducing operating expenses in the light of the new sales forecast. The cost cutting programme foresees a more than 60-million kroon (3.8-million euro) cut in both management and operating expenses during the season. All business processes will be streamlined. Opening of new stores will continue at a smaller scale (14 openings have been planned). By the end of the season, the Group will have 137 stores and will be operating retail space of 29,000 square metres.

According to action plans, by 2009/2 the Group will have adjusted and its operation should be ordinary. No investments will be made in the growth of the retail system and operating expenses and inventory levels will correspond to sales levels that are lower than before. The target will be reinforcing the Group’s market positions by well-balanced collections, proactive sales offerings and a dedicated sales process.

As preparation of accurate long-term sales plans is currently extremely complicated, Baltika forecasts for 2009 revenue of 1,083-1,125 million kroons (69-72 million euros) including 990-1,020 million kroons (63-65 million euros) generated by the retail business and 90-100 million kroons (5.8-6.4 million euros) generated by the wholesale business. Until the end of 2009, the number of stores and the sales area should remain at the level of 2009/1.

As a single non-recurring project, in May 2009 a new office building will be completed as part of phase I of the Baltika Quarter. The new building and the old office building that will be vacated after Baltika’s relocation to new premises will have more than 11,000 square metres of office and trading space that can be let. The anchor tenant of the new building will be Baltika Group with its head office and brand stores (over 5,500 square metres). Expenditures on phase I of the Baltika Quarter will total around 145 million kroons (9.3 million euros).

REPORTING CALENDAR IN 2009

In 2009, the consolidated financial results of Baltika will be published on the following dates:

2008 audited annual report	March 31
2009 Q1 results	April 28
2009 Q2 results	July 29
2009 Q3 results	October 28

In addition, in the beginning of every month the sales results of the preceding month will be published.

KEY FIGURES OF THE GROUP (2008)

	31.12.2008	**31.12.2007**	**+/-**
Revenue (EEK million)	1,194.3	1,151.5	3.7%
Retail sales (EEK million)	1,058.9	987.3	7.3%
Share of retail sales in revenue	89%	86%	
Number of stores	134	128	4.7%
Sales area (sqm)	27,068	24,290	11.4%
Number of employees (end of period)	1,988	1,983	0.3%
Gross margin	53.1%	55.3%	
Operating margin	-0.5%	5.6%	
EBT margin	-1.7%	4.6%	
Net margin	-1.6%	3.5%	
Current ratio	1.3	1.6	-18.8%
Inventory turnover	4.55	5.30	-14.2%
Debt to equity ratio	91.1%	54.4%	
Return on equity	-5.7%	13.1%	
Return on assets	-2.6%	6.5%	

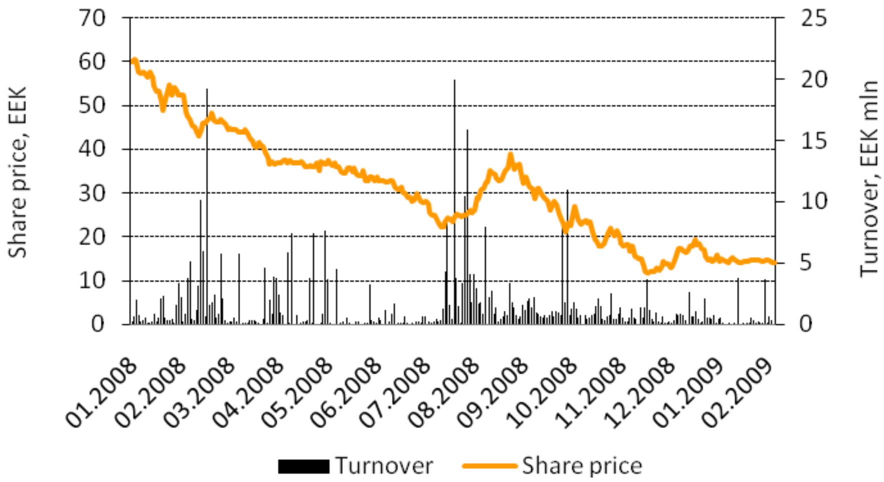
EUR 1 = EEK 15.6466

Definitions of key ratios

Gross margin = (Revenue-Cost of goods sold)/Revenue
Operating margin = Operating profit/Revenue
EBT margin = Profit before income tax/Revenue
Net margin = Net profit (attributable to parent)/Revenue
Current ratio = Current assets/Current liabilities
Inventory turnover = Revenue/Average inventories*
Debt to equity ratio = Interest-bearing liabilities/Equity
Return on equity (ROE) = Net profit (attributable to parent)/Average equity*
Return on assets (ROA) = Net profit (attributable to parent)/Average total assets*

*Based on 12-month average

SHARE PRICE AND TURNOVER



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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 fourth quarter of 2008 as presented on pages 13-39.

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
27 February 2009

Ülle Järv
Member of the management board
27 February 2009

Boriss Loifenfeld
Member of the management board
27 February 2009

Maire Milder
Member of the management board
27 February 2009

CONSOLIDATED BALANCE SHEET

(unaudited, in EEK thousand)

	Note	31.12.2008	31.12.2007
ASSETS			
Current assets			
Cash and bank	3	8,671	31,494
Trade and other receivables	4	98,369	113,563
Inventories	5	288,431	220,698
Non-current assets held for sale		0	500
Total current assets		**395,471**	**366,255**
Non-current assets			
Deferred income tax assets		5,547	5,897
Other non-current asset	6	6,103	11,448
Investment property	7	134,098	11,250
Property, plant and equipment	8	180,580	203,098
Intangible assets	9	59,604	58,409
Total non-current assets		**385,932**	**290,102**
TOTAL ASSETS		**781,403**	**656,357**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	10,11	104,025	100,167
Trade and other payables	12	207,888	129,364
Total current liabilities		**311,913**	**229,531**
Non-current liabilities			
Borrowings	10	168,388	84,319
Other liabilities	12	0	1,086
Deferred income tax liability		2,196	2,075
Total non-current liabilities		**170,584**	**87,480**
TOTAL LIABILITIES		**482,497**	**317,011**
EQUITY			
Share capital at par value		186,449	186,449
Reserves		26,133	26,133
Retained earnings		108,722	67,949
Net profit (loss) for the period		-18,947	40,773
Currency translation differences		-7,165	8,131
Total equity attributable to equity holders of the parent		**295,192**	**329,435**
Minority interest		3,714	9,911
TOTAL EQUITY	13	**298,906**	**339,346**
TOTAL LIABILITIES AND EQUITY		**781,403**	**656,357**

CONSOLIDATED BALANCE SHEET

(unaudited, in EUR thousand)

	Note	31.12.2008	31.12.2007
ASSETS			
Current assets			
Cash and bank	3	554	2,013
Trade and other receivables	4	6,287	7,258
Inventories	5	18,434	14,105
Non-current assets held for sale		0	32
Total current assets		**25,275**	**23,408**
Non-current assets			
Deferred income tax assets		355	377
Other non-current asset	6	390	732
Investment property	7	8,570	719
Property, plant and equipment	8	11,541	12,980
Intangible assets	9	3,809	3,733
Total non-current assets		**24,666**	**18,541**
TOTAL ASSETS		**49,941**	**41,949**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	10,11	6,648	6,402
Trade and other payables	12	13,286	8,268
Total current liabilities		**19,935**	**14,670**
Non-current liabilities			
Borrowings	10	10,762	5,389
Other liabilities	12	0	69
Deferred income tax liability		140	133
Total non-current liabilities		**10,902**	**5,591**
TOTAL LIABILITIES		**30,837**	**20,261**
EQUITY			
Share capital at par value		11,916	11,916
Reserves		1,670	1,670
Retained earnings		6,949	4,343
Net profit (loss) for the period		-1,211	2,606
Currency translation differences		-458	520
Total equity attributable to equity holders of the parent		**18,866**	**21,055**
Minority interest		237	633
TOTAL EQUITY	13	**19,104**	**21,688**
TOTAL LIABILITIES AND EQUITY		**49,941**	**41,949**

CONSOLIDATED INCOME STATEMENT
(unaudited, in EEK thousand)

	Note	Q4 2008	Q4 2007	2008	2007
Revenue	14,15	306,849	307,421	1,194,320	1,151,520
Cost of goods sold	16	-158,793	-128,816	-560,486	-514,839
Gross profit		**148,056**	**178,605**	**633,834**	**636,681**
Distribution costs	17	-161,562	-143,016	-588,648	-522,620
Administrative and general expenses	18	-13,284	-21,597	-50,506	-60,911
Other operating income	19	9,848	2,904	22,765	25,219
Other operating expenses	20	-17,351	-6,707	-23,109	-13,815
Operating profit (loss)		**-34,293**	**10,189**	**-5,664**	**64,554**
Financial income (expenses)		**-6,311**	**-3,587**	**-14,625**	**-11,523**
Interest expenses, net		-3,154	-2,579	-11,386	-9,049
Foreign exchange losses, net		-3,204	-1,000	-3,560	-2,389
Other financial income (expenses), net		47	-8	321	-85
Profit (loss) before income tax		**-40,604**	**6,602**	**-20,289**	**53,031**
Income tax		-770	-4,277	-1,178	-9,189
Net profit (loss)		**-41,374**	**2,325**	**-21,467**	**43,842**
Net profit (loss) attributable to equity holders of the parent company		**-40,382**	**1,643**	**-18,947**	**40,773**
Net profit (loss) attributable to minority shareholders		-992	682	-2,520	3,069
Basic earnings per share, EEK	21	-2.17	0.09	-1.02	2.19
Diluted earnings per share, EEK	21	-2.17	0.09	-1.02	2.19

CONSOLIDATED INCOME STATEMENT
(unaudited, in EUR thousand)

	Note	Q4 2008	Q4 2007	2008	2007
Revenue	14,15	19,611	19,648	76,331	73,596
Cost of goods sold	16	-10,149	-8,233	-35,822	-32,904
Gross profit		**9,463**	**11,415**	**40,509**	**40,691**
Distribution costs	17	-10,326	-9,140	-37,621	-33,402
Administrative and general expenses	18	-849	-1,380	-3,228	-3,893
Other operating income	19	629	186	1,455	1,612
Other operating expenses	20	-1,109	-429	-1,477	-883
Operating profit (loss)		**-2,192**	**651**	**-362**	**4,126**
Financial income (expenses)		**-403**	**-229**	**-935**	**-736**
Interest expenses, net		-202	-165	-728	-578
Foreign exchange losses, net		-205	-64	-228	-153
Other financial income (expenses), net		3	-1	21	-5
Profit (loss) before income tax		**-2,595**	**422**	**-1,297**	**3,389**
Income tax		-49	-273	-75	-587
Net profit (loss)		**-2,644**	**149**	**-1,372**	**2,802**
Net profit (loss) attributable to equity holders of the parent company		**-2,581**	**106**	**-1,211**	**2,606**
Net profit (loss) attributable to minority shareholders		-63	43	-161	196
Basic earnings per share, EUR	21	-0.14	0.01	-0.06	0.14
Diluted earnings per share, EUR	21	-0.14	0.01	-0.06	0.14

CONSOLIDATED CASH FLOW STATEMENT

(unaudited, in EEK thousand)

	Note	2008	2007
Operating activities			
Operating profit		-5,664	64,554
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	8,9	46,189	39,832
Loss (gain) from disposal of PPE and investment property		1,562	-13,799
Loss (gain) from revaluation of investment property	7	-17,750	-8,893
Other non-monetary expenses		1,525	7,080
Changes in working capital:			
Change in trade and other receivables	4	21,778	6,720
Change in inventories	5	-67,733	-19,996
Change in trade and other payables	12	82,013	-10,176
Interest paid		-11,715	-7,501
Income tax paid		-6,215	-4,089
Net cash generated from operating activities		**43,990**	**53,732**
Investing activities			
Acquisition of property, plant and equipment, intangibles, thereof	8,9	-148,517	-101,946
Under the finance lease terms		4,221	6,581
Within business combinations		0	4,647
Proceeds from disposal of property, plant and equipment		641	50,463
Investments in subsidiaries	22	-3,328	-5,699
Interest received		64	184
Net cash used in investing activities		**-146,919**	**-45,770**
Financing activities			
Received borrowings	10	119,379	50,628
Repayments of borrowings	10	-25,283	-25,712
Change in bank overdraft	10	22,663	15,524
Repayments of finance lease and other liabilities		-3,281	-9,216
Dividend paid		0	-14,910
Purchase of treasury shares		-2	0
Proceeds from issue of bonds		0	28,523
Redemption of bonds	11	-29,999	-31,500
Net cash generated from financing activities		**83,477**	**13,337**
Effect of exchange gains (losses) on cash and cash equivalents		-3,371	-2,389
Total cash flows		**-22,823**	**18,910**
Cash and cash equivalents at the beginning of the period	3	**31,494**	**12,584**
Cash and cash equivalents at the end of the period	3	**8,671**	**31,494**
Change in cash and cash equivalents		**-22,823**	**18,910**

CONSOLIDATED CASH FLOW STATEMENT
(unaudited, in EUR thousand)

	Note	2008	2007
Operating activities			
Operating profit		-362	4,126
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	8,9	2,952	2,546
Loss (gain) from disposal of PPE and investment property		100	-882
Loss (gain) from revaluation of investment property	7	-1,134	-568
Other non-monetary expenses		97	452
Changes in working capital:			
Change in trade and other receivables	4	1,392	429
Change in inventories	5	-4,329	-1,278
Change in trade and other payables	12	5,242	-650
Interest paid		-749	-479
Income tax paid		-397	-261
Net cash generated from operating activities		**2,811**	**3,434**
Investing activities			
Acquisition of property, plant and equipment, intangibles, thereof	8,9	-9,492	-6,516
Under the finance lease terms		270	421
Within business combinations		0	297
Proceeds from disposal of property, plant and equipment		41	3,225
Investments in subsidiaries	22	-213	-364
Interest received		4	12
Net cash used in investing activities		**-9,390**	**-2,924**
Financing activities			
Received borrowings	10	7,630	3,236
Repayments of borrowings	10	-1,616	-1,643
Change in bank overdraft	10	1,448	992
Repayments of finance lease and other liabilities		-210	-589
Dividend paid		0	-953
Purchase of treasury shares		-0.1	0
Proceeds from issue of bonds		0	1,823
Redemption of bonds	11	-1,917	-2,013
Net cash generated from financing activities		**5,335**	**852**
Effect of exchange gains (losses) on cash and cash equivalents		-215	-153
Total cash flows		**-1,459**	**1,209**
Cash and cash equivalents at the beginning of the period	3	**2,013**	**804**
Cash and cash equivalents at the end of the period	3	**554**	**2,013**
Change in cash and cash equivalents		**-1,459**	**1,209**

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

	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total attributable to parent	Minority interest	Total
Balance at 31.12.2006	**62,150**	**59,088**	**9,721**	**160,897**	**4,319**	**296,175**	**8,065**	**304,240**
Currency translation differences	0	0	0	0	3,812	3,812	14	3,826
Net income (expense) recognised directly in equity	0	0	0	0	3,812	3,812	14	3,826
Net profit for the period	0	0	0	40,773	0	40,773	3,069	43,842
Total recognised income (expense)	**0**	**0**	**0**	**40,773**	**3,812**	**44,585**	**3,083**	**47,668**
Dividend paid	0	0	0	-14,916	0	-14,916	0	-14,916
Transfers to statutory reserve	0	0	12,822	-12,822	0	0	0	0
Increase of share capital	124,299	-59,088	0	-65,211	0	0	0	0
Change in minority interest	0	0	0	0	0	0	-1,237	-1,237
Allocations to retained earnings	0	0	3,590	0	0	3,590	0	3,590
Balance at 30.09.2007	**186,449**	**0**	**26,133**	**108,722**	**8,131**	**329,435**	**9,911**	**339,346**
Balance at 31.12.2007	**186,449**	**0**	**26,133**	**108,722**	**8,131**	**329,435**	**9,911**	**339,346**
Currency translation differences	0	0	0	0	-15,296	-15,296	-349	-15,645
Net income (expense) recognised directly in equity	0	0	0	0	-15,296	-15,296	-349	-15,645
Net profit (loss) for the period	0	0	0	-18,947	0	-18,947	-2,520	-21,467
Total recognised income (expense)	**0**	**0**	**0**	**-18,947**	**-15,296**	**-34,243**	**-2,869**	**-37,112**
Change in minority interest	0	0	0	0	0	0	-3,328	-3,328
Balance at 31.12.2008	**186,449**	**0**	**26,133**	**89,775**	**-7,165**	**295,192**	**3,714**	**298,906**

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

	Share capital	Share pre-mium	Reser-ves	Re-tained ear-nings	Cur-rency transla-tion reserve	Total attribu-table to parent	Mino-rity interest	Total
Balance at 31.12.2006	**3,972**	**3,776**	**621**	**10,283**	**276**	**18,930**	**515**	**19,445**
Currency translation differences	0	0	0	0	244	244	1	244
Net income (expense) recognised directly in equity	0	0	0	0	244	244	1	244
Net profit for the period	0	0	0	2,606	0	2,606	196	2,802
Total recognised income (expense)	**0**	**0**	**0**	**2,606**	**244**	**2,850**	**197**	**3,047**
Dividend paid	0	0	0	-953	0	-953	0	-953
Transfers to statutory reserve	0	0	819	-819	0	0	0	0
Increase of share capital	7,944	-3,776	0	-4,168	0	0	0	0
Change in minority interest	0	0	0	0	0	0	-79	-79
Allocations to retained earnings	0	0	229	0	0	229	0	229
Balance at 30.09.2007	**11,916**	**0**	**1,670**	**6,948**	**520**	**21,055**	**633**	**21,688**
Balance at 31.12.2007	**11,916**	**0**	**1,670**	**6,949**	**520**	**21,056**	**633**	**21,689**
Currency translation differences	0	0	0	0	-978	-978	-22	-1,000
Net income (expense) recognised directly in equity	0	0	0	0	-978	-978	-22	-1,000
Net profit (loss) for the period	0	0	0	-1,211	0	-1,211	-161	-1,372
Total recognised income (expense)	**0**	**0**	**0**	**-1,211**	**-978**	**-2,190**	**-183**	**-2,373**
Change in minority interest	0	0	0	0	0	0	-213	-213
Balance at 31.12.2008	**11,916**	**0**	**1,670**	**5,738**	**-458**	**18,866**	**237**	**19,104**

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 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 2007. The financial statements have been prepared under the historical cost convention, as modified by the revaluations of investment property, which are presented at fair value as disclosed in the accounting policies presented in the 2007 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 EUR 1 = EEK 15.6466.

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 risk management, which is an important and integral part of the business activities of the company. The company'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 (including currency risk, interest rate risk and price risk), credit, liquidity and operational 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 company'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. The supervisory council of the Group's Parent company supervises the management's risk management activities.

The management of the Group's Parent company considers market risk, including foreign exchange risk as the most significant risk for the Group.

Market risk

Foreign exchange risk

Sales in foreign currencies constitute 76% of the revenues of the Group and are denominated in LTL (Lithuanian lit), LVL (Latvian lat), UAH (Ukrainian hryvnia), PLN (Polish zloty), RUR (Russian rouble), CZK (Czech koruna) for the foreign subsidiaries of the Group and in EUR (euro) for the Parent company and the subsidiaries located in Estonia. The majority of raw materials used in production is acquired from countries located outside of European Union. The major currencies for purchases are EUR (euro) and USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled only in euros. Estonian kroon is pegged to the euro thus no foreign exchange gains (losses) arise on the transactions in euro. As the Group's main revenues arise from retail sales, the prices of goods in the markets are fixed in a local currency and consequently, changes in foreign currency exchange rates directly affect the Group's revenue through the pricing of goods at the stores in those markets. In addition, 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 and Poland). On the other hand, the weakening of the dollar has a positive impact on importing from the countries (China, Japan and Korea) with which accounts are settled in dollars.

The Group's results are open to fluctuations in foreign currency rates against Estonian kroon in those countries where AS Baltika has subsidiaries. The changes in average foreign currency rates against Estonian kroon in the reporting period were the following: Polish zloty +8.04% (2007: +2.96%), Ukrainian hryvnia -9.27% (2007: -8.10%), Russian rouble -3.78% (2007: -2.53%), Latvian lat -0.35% (2007: -0.55%) and Czech koruna +11.32% (2007: +2.08%). The Lithuanian lit and Estonian kroon are pegged to the euro. The change in average rate of US dollar in the reporting period was -6.52% (2007: -8.24%). The Group's foreign exchange risk has increased significantly as a result of the devaluation of the Ukrainian hryvnia and the Russian rouble in the fourth quarter of 2008 when they weakened against the Estonian kroon by 34% and 12% respectively.

Foreign exchange risk arises from cash and bank (Note 3), trade receivables (Note 4) and trade payables (Note 12).

The Group's non-current borrowings carrying floating interest rate were denominated in euros, therefore no currency risk is assumed.

No instruments were used to hedge foreign currency risks in 2008 and 2007. Based on the management's assessment, the effect of losses resulting from changes in foreign currencies does not exceed the risk tolerance determined by the Group. If feasible, foreign currencies collected are used for the settling of liabilities measured in the same currency.

Interest rate risk

As the Group's cash and cash equivalents carry fixed interest rate, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from non-current borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. The exposure to the fair value interest rate risk of the Group's borrowings is insignificant according to the management's estimate as the borrowings with fixed interest rate have short maturities, expiring within a year, or have no term (overdraft). Interest rate risk is primarily caused by the potential fluctuations of Euribor and the changing of the average interest rates of banks.

All non-current borrowings at 30 December 2008 and 31 December 2007 were subject to a floating interest rate based on Euribor, which is fixed every three or six months. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

The Group uses no hedging instruments to manage the risks arising from fluctuations in interest rates.

Price risk

The Group is not exposed to the price risk with respect to financial instruments as it does not hold any equity securities.

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Cash and cash equivalents

For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted for operations in the Baltic and Central European region as long-term counterparties. For Eastern Europe the "B" rating is considered acceptable. The Group has chosen banks with "A" rating to be the main partners for managing the cash and cash equivalents and financing the Group's operations in Estonia and overseas.

Trade receivables

The most significant credit risk concentration to the Group arises from the wholesale activities in Eastern Europe. For the wholesale customers, their financial position, past experience and other factors are taken into consideration as the basis for credit control. According to the Group's credit policy, no collaterals to secure the trade receivables are required from counterparties but instead, deliveries, outstanding credit amount and adherence to agreed dates are monitored continuously.

At the balance sheet date, the maximum exposure to credit risk from trade receivables (Note 4) amounted to 48,949 thousand kroons/3,128 thousand euros (31 December 2007: 71,148 thousand kroons/4,547 thousand euros), including balances with the Eastern European wholesale partners of 38,083 thousand kroons/2,434 thousand euros (31 December 2007: 61,051 thousand kroons/3,902 thousand euros).

Trade receivables past due six months and more were partially impaired thus the difference between the carrying value and recoverable amount was recognised as an impairment loss (Note 4).

Sales to retail customers are settled in cash or using major credit cards, thus no credit risk is involved except the risk arising from financial institutions selected as approved counterparties. Credit risks arising from the Group's seasonal production and sales cycle are temporary.

Liquidity risk

Liquidity risk is the potential loss that would occur from the limited or insufficient financial (cash) resources to meet the obligations arising from the Group's activities. Management monitors the sufficiency of cash and cash equivalents to settle the liabilities and finance the Group's strategic goals on a regular basis using rolling cash forecasts.

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, monitoring of receivables and purchase contracts. A Group current account/overdraft facility is in use for more flexible management of liquid assets, enabling Group companies to use the Group's resources up to the limit established by the Parent company.

Financial liabilities by maturity at 31 December 2008

EEK '000	**Carrying amount**	**1-12 months**	**1-5 years**	**Over 5 years**	**Total**
Bank borrowings (Note 10)	262,215	112,904	125,071	89,167	327,142
Finance lease liabilities (Note 10)	10,140	3,446	7,212	0	10,658
Trade payables (Note 12)	151,938	151,938	0	0	151,938
Other payables (Note 12)	55,638	55,638	0	0	55,638
Total	**479,931**	**323,926**	**132,283**	**89,167**	**545,376**

EUR '000	**Carrying amount**	**1-12 months**	**1-5 years**	**Over 5 years**	**Total**
Bank borrowings (Note 10)	16,759	7,216	7,993	5,699	20,908
Finance lease liabilities (Note 10)	648	220	461	0	681
Trade payables (Note 12)	9,711	9,711	0	0	9,711
Other payables (Note 12)	3,556	3,556	0	0	3,556
Total	**30,673**	**20,703**	**8,454**	**5,699**	**34,856**

Financial liabilities by maturity at 31 December 2007

EEK '000	**Carrying amount**	**1-12 months**	**1-5 years**	**Over 5 years**	**Total**
Bank borrowings (Note 10)	145,456	72,398	72,561	16,010	160,969
Finance lease liabilities (Note 10)	9,333	2,752	7,616	0	10,368
Bonds (Note 11)	29,697	30,000	0	0	30,000
Trade payables (Note 12)	72,345	72,345	0	0	72,345
Other payables (Note 12)	57,009	56,003	364	642	57,009
Total	**313,840**	**233,498**	**80,541**	**16,652**	**330,691**

EUR '000	Carrying amount	1-12 months	1-5 years	Over 5 years	Total
Bank borrowings (Note 10)	9,297	4,627	4,637	1,023	10,288
Finance lease liabilities (Note 10)	596	176	487	0	663
Bonds (Note 11)	1,898	1,917	0	0	1,917
Trade payables (Note 12)	4,624	4,624	0	0	4,624
Other payables (Note 12)	3,643	3,579	23	41	3,644
Total	**20,058**	**14,923**	**5,148**	**1,064**	**21,135**

Overdraft facilities are shown under bank borrowings payable within 1-3 months in the amount of maximum exposure available for the Group. For interest bearing borrowings carrying floating interest rate based on Euribor, the spot rate has been used.

Operational risk

The Group’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 manage the 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 makes 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 a market organisation in each target market enabling the Group to obtain fast and direct feedback on market developments on the one hand and adequately consider local conditions on the other.

As improvement of flexibility plays an important role in increasing the Group’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 consumer expectations.

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

To ensure good collections, the Group employs a strong team of designers who monitor and are 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 balance of inventories and using the information in subsequent activities. 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 timing of sales is planned under the assumption that regular weather conditions prevail in the target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may significantly differ from the budget.

Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with industry practice, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated balance sheet and net debt.

Gearing ratios of the Group

	EEK '000		EUR '000	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Total borrowings (Note 10)	272,413	184,486	17,410	11,791
Cash and bank (Note 3)	-8,671	-31,494	-554	-2,013
Net debt	263,742	152,992	16,856	9,778
Total equity	298,906	339,346	19,104	21,688
Total capital	562,648	492,338	35,960	31,466
Gearing ratio	**47%**	**31%**	**47%**	**31%**

Fair value

The Group estimates that the fair values of the assets and liabilities denominated in the balance sheet at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated balance sheet at 30 December 2008 and 31 December 2007. As the Group's long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. Therefore, management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The carrying amount less an impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTE 3 Cash and bank

	EEK '000		EUR '000	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Cash in hand	2,241	3,425	143	219
Cash at bank	5,547	19,113	355	1,222
Short-term deposits	883	8,956	56	572
Total	**8,671**	**31,494**	**554**	**2,013**

Cash and bank by currency

	EEK '000		EUR '000	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
CZK (Czech koruna)	2,415	2,359	154	151
UAH (Ukrainian hryvnia)	1,401	2,777	90	177
LVL (Latvian lat)	1,375	2,347	88	150
EEK (Estonian kroon)	1,096	6,035	70	386
RUB (Russian rouble)	1,089	6,289	70	402
LTL (Lithuanian lit)	926	1,649	59	105
PLN (Polish zloty)	300	2,070	19	132
EUR (euro)	43	5,826	3	372
USD (US dollar)	26	2,142	2	137
Total	**8,671**	**31,494**	**554**	**2,013**

NOTE 4 Trade and other receivables

	EEK '000		EUR '000	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Trade receivables, net	48,949	71,148	3,128	4,547
Other prepaid expenses	24,406	22,808	1,560	1,458
Tax prepayments and tax reclaims, thereof	20,840	15,649	1,332	1,000
Value added tax	18,319	15,490	1,171	990
Prepaid income tax	136	97	9	6
Other taxes	2,385	62	152	4
Other current receivables	4,174	3,958	267	253
Total	**98,369**	**113,563**	**6,287**	**7,258**

Trade receivables

	EEK '000		EUR '000	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Trade receivables, gross	56,760	73,786	3,628	4,716
Allowance for impairment of trade receivables	-7,811	-2,638	-499	-169
Trade receivables, net	**48,949**	**71,148**	**3,128**	**4,547**

Trade receivables (net) by due date

	EEK '000		EUR '000	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Not due	39,383	57,416	2,517	3,670
Up to 1 month past due	7,882	585	504	37
1-3 months past due	1,679	689	107	44
3-6 months past due	5	30	0	2
Over 6 months past due	0	12,428	0	794
Total	**48,949**	**71,148**	**3,128**	**4,547**

Trade receivables (net) by denominating currency

	EEK '000		EUR '000	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
EEK (Estonian kroon)	40,134	4,400	2,565	281
EUR (euro)	4,236	55,687	271	3,559
UAH (Ukrainian hryvnia)	1,249	3,615	80	231
LVL (Latvian lat)	1,154	2,390	74	153
RUB (Russian rouble)	1,061	2,542	68	162
LTL (Lithuanian lit)	929	2,514	59	161
PLN (Polish zloty)	119	0	8	0
CZK (Czech koruna)	67	0	4	0
Total	**48,949**	**71,148**	**3,128**	**4,547**

NOTE 5 Inventories

	EEK '000		EUR '000	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Fabrics and accessories	48,384	47,695	3,092	3,047
Allowance for impairment of fabrics and accessories	-200	-200	-13	-13
Work-in-progress	4,758	4,419	304	282
Finished goods and goods purchased for resale	236,051	163,708	15,086	10,462
Allowance for impairment of finished goods and goods purchased for resale	-6,600	-1,600	-422	-102
Prepayments to suppliers	6,038	6,676	386	427
Total	**288,431**	**220,698**	**18,434**	**14,105**

NOTE 6 Other non-current assets

	EEK '000		EUR '000	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Non-current lease prepayments	6,103	11,448	390	732

NOTE 7 Investment property

	EEK '000	EUR '000
Balance at 31 December 2007	**11,250**	**719**
Reclassification from fixed assets	26,635	1,702
Additions	78,463	5,015
Revaluation	17,750	1,134
Balance at 31 December 2008	**134,098**	**8,570**

Investment property consists of 4,500 square metres of land and building under construction located at 24 Veerenni in Tallinn, Estonia.

NOTE 8 Property, plant and equipment

EEK '000	Land and construc-tion rights	Buildings and structures	Machinery and equipment	Other fixtures	Construc-tion in progress	Pre-pay-ments	Total
At 31 December 2006							
Acquisition cost	**10,973**	**116,708**	**78,982**	**94,154**	**1,605**	**1,552**	**303,974**
Accumulated depreciation	0	-31,667	-68,899	-36,960	0	0	-137,526
Net book amount	**10,973**	**85,041**	**10,083**	**57,194**	**1,605**	**1,552**	**166,448**
Additions	0	29,528	19,826	35,472	920	105	85,851
Acquired within business combinations	0	0	4,280	0	0	225	4,505
Disposals	-7,969	-32,973	-13	-6	-181	0	-41,142
Reclassifications from investment property	-891	-18	0	0	25,715	0	24,806
Reclassifications to non-current assets available for sale	0	-1,818	0	0	0	0	-1,818
Reclassification	0	8,643	-533	-6,528	-1,140	-442	0
Depreciation	0	-12,093	-5,365	-15,603	0	0	-33,061
Currency translation differences	0	-620	-180	-1,573	-40	-78	-2,491
At 31 December 2007							
Acquisition cost	**2,113**	**113,430**	**98,437**	**116,685**	**26,879**	**1,362**	**358,906**
Accumulated depreciation	0	-37,740	-70,339	-47,729	0	0	-155,808
Net book amount	**2,113**	**75,690**	**28,098**	**68,956**	**26,879**	**1,362**	**203,098**
Additions	0	25,375	13,216	18,606	2,623	0	59,820
Disposals	0	-105	-313	-1,557	-99	0	-2,074
Reclassifications to investment property	0	0	0	0	-25,567	0	-25,567
Reclassification	0	95	1,068	1,065	-1,140	-1,088	0
Depreciation	0	-14,687	-7,345	-19,295	0	0	-41,327
Currency translation differences	0	-5,169	-1,648	-6,118	-335	-100	-13,370

At 31 December 2008							
Acquisition cost	**2,113**	**123,096**	**106,998**	**117,239**	**2,361**	**174**	**351,981**
Accumulated depreciation	0	-41,897	-73,922	-55,582	0	0	-171,401
Net book amount	**2,113**	**81,199**	**33,076**	**61,657**	**2,361**	**174**	**180,580**

EUR '000	**Land and construc-tion rights**	**Buildings and structures**	**Machinery and equipment**	**Other fixtures**	**Construc -tion in progress**	**Pre-pay-ments**	**Total**
At 31 December 2006							
Acquisition cost	**701**	**7,459**	**5,049**	**6,018**	**103**	**99**	**19,427**
Accumulated depreciation	0	-2,024	-4,403	-2,362	0	0	-8,790
Net book amount	**701**	**5,435**	**645**	**3,655**	**103**	**99**	**10,638**
Additions	0	1,887	1,267	2,267	59	7	5,487
Acquired within business combinations	0	0	274	0	0	14	288
Disposals	-509	-2,107	-1	0	-12	0	-2,629
Reclassifications from investment property	0	0	0	0	1,643	0	1,643
Reclassifications to investment property	-57	-1	0	0	0	0	-58
Reclassifications to non-current assets available for sale	0	-116	0	0	0	0	-116
Reclassification	0	552	-34	-417	-73	-28	0
Depreciation	0	-773	-343	-997	0	0	-2,113
Currency translation differences	0	-40	-12	-101	-3	-5	-159
At 31 December 2007							
Acquisition cost	**135**	**7,249**	**6,291**	**7,458**	**1,718**	**87**	**22,938**
Accumulated depreciation	0	-2,412	-4,495	-3,050	0	0	-9,958
Net book amount	**135**	**4,837**	**1,796**	**4,407**	**1,718**	**87**	**12,980**
Additions	0	1,622	845	1,189	168	0	3,823
Disposals	0	-7	-20	-100	-6	0	-133
Reclassifications to investment property	0	0	0	0	-1,634	0	-1,634
Reclassification	0	6	68	68	-73	-70	0
Depreciation	0	-939	-469	-1,233	0	0	-2,641
Currency translation differences	0	-330	-105	-391	-21	-6	-854
At 31 December 2008							
Acquisition cost	**135**	**7,867**	**6,838**	**7,493**	**151**	**11**	**22,496**
Accumulated depreciation	0	-2,678	-4,724	-3,552	0	0	-10,955
Net book amount	**135**	**5,190**	**2,114**	**3,941**	**151**	**11**	**11,541**

NOTE 9 Intangible assets

EEK '000	Licenses, software and other	Trade-marks	Advances	Goodwill	Total
At 31 December 2006					
Acquisition cost	**31,114**	**10,060**	**1,450**	**20,423**	**63,047**
Accumulated amortisation	-13,928	-45	0	0	-13,973
Net book amount	**17,186**	**10,015**	**1,450**	**20,423**	**49,074**
Additions	11,448	0	0	0	11,448
Acquired within business combinations	141	0	0	5,555	5,696
Disposals	-261	0	0	0	-261
Reclassification	66	0	-66	0	0
Amortisation	-6,144	-626	0	0	-6,770
Currency translation differences	9	0	-43	-744	-778
At 31 December 2007					
Acquisition cost	**32,549**	**10,060**	**1,341**	**25,234**	**69,184**
Accumulated amortisation	-10,104	-671	0	0	-10,775
Net book amount	**22,445**	**9,389**	**1,341**	**25,234**	**58,409**
Additions	8,012	0	1,154	0	9,166
Disposals	-129	0	0	0	-129
Amortisation	-4,322	-503	0	0	-4,825
Currency translation differences	-98	0	-350	-2,569	-3,017
At 31 December 2008					
Acquisition cost	**40,245**	**10,060**	**2,145**	**22,665**	**75,115**
Accumulated amortisation	-14,337	-1,174	0	0	-15,511
Net book amount	**25,908**	**8,886**	**2,145**	**22,665**	**59,604**

EUR '000	Licenses, software and other	Trade-marks	Advances	Goodwill	Total
At 31 December 2006					
Acquisition cost	**1,989**	**643**	**93**	**1,305**	**4,029**
Accumulated amortisation	-890	-3	0	0	-893
Net book amount	**1,098**	**640**	**93**	**1,305**	**3,137**
Additions	732	0	0	0	732
Acquired within business combinations	9	0	0	355	364
Disposals	-17	0	0	0	-17
Reclassification	4	0	-4	0	0
Amortisation	-393	-40	0	0	-433
Currency translation differences	1	0	-3	-48	-50
At 31 December 2007					
Acquisition cost	**2,080**	**643**	**86**	**1,613**	**4,422**
Accumulated amortisation	-646	-43	0	0	-689
Net book amount	**1,435**	**600**	**86**	**1,613**	**3,733**

Additions	512	0	74	0	586
Disposals	-8	0	0	0	-8
Amortisation	-276	-32	0	0	-308
Currency translation differences	-6	0	-22	-164	-193
At 31 December 2008					
Acquisition cost	**2,572**	**643**	**137**	**1,449**	**4,801**
Accumulated amortisation	-916	-75	0	0	-991
Net book amount	**1,656**	**568**	**137**	**1,449**	**3,809**

NOTE 10 Borrowings

	EEK '000		EUR '000	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Current borrowings				
Current portion of non-current bank loans	20,840	20,733	1,332	1,325
Current bank loans	80,052	47,435	5,116	3,032
Current finance lease liabilities	3,075	2,302	197	147
Bonds	0	29,697	0	1,898
Other current liabilities	58	0	4	0
Total	**104,025**	**100,167**	**6,648**	**6,402**
Non-current borrowings				
Non-current bank loans	161,323	77,288	10,310	4,940
Non-current finance lease liabilities	7,065	7,031	452	449
Total	**168,388**	**84,319**	**10,762**	**5,389**

During the reporting period, the Group made loan repayments in the amount of 25,283 thousand kroons/1,616 thousand euros (2007: 27,517 thousand kroons/1,759 thousand euros). Interest expense for the reporting period amounted to 11,715 thousand kroons/749 thousand euros (2007: 4,180 thousand kroons/267 thousand euros). Interest expenses have been recognised net with the corresponding income under interest expenses in the income statement.

Bank loans of the Group at 31 December 2008

	Carrying amount		Average risk
	EEK '000	**EUR '000**	**premium**
Borrowings at floating interest rate (based on 1-month Euribor)	7,823	500	1.50%
Borrowings at floating interest rate (based on 3-month Euribor)	6,676	427	1.25%
Borrowings at floating interest rate (based on 6-month Euribor)	175,487	11,216	1.58%
Borrowings at floating interest rate (based on 1-month Libor)	400	26	1.60%
Borrowings at fixed interest rate (incl. overdraft)	71,829	4,591	6.20%
Total	**262,215**	**16,759**	

Bank loans of the Group at 31 December 2007

	Carrying amount		Average risk
	EEK '000	**EUR '000**	**premium**
Borrowings at floating interest rate (based on 3-month Euribor)	10,012	640	1.75%
Borrowings at floating interest rate (based on 6-month Euribor)	88,009	5,625	1.81%
Borrowings at fixed interest rate (overdraft and short-term loan)	47,435	3,032	6.05%
Total	**145,456**	**9,296**	

NOTE 11 Bonds

Closed issue of bonds

On 15 March 2007, AS Baltika issued 3,000 bonds with the nominal value of 10,000.00 kroons/639.12 euros and price of 9,517.51 kroons/608.28 euros per bond. The total amount of the closed bond issue was 30,000 thousand kroons/1,917 thousand euros. The redemption date of the bonds was 14 March 2008. The difference between the nominal value and issue price yields an interest of 5.00% per annum. The bonds were redeemed at the redemption date.

Convertible bonds

The annual general meeting of Baltika's shareholders which convened on 18 June 2008 declared the subscription for Series E bonds unsuccessful in connection with the withdrawal of the bond subscribers from the agreement and decided that any prepayments made in connection with the subscription should be returned. The general meeting also decided to change the resolution under the item number 6 on the agenda of the annual general meeting held on 21 May 2007 so that 62,000 Series F bonds will be issued on the terms and conditions added to the resolution.
F bonds were subscribed for during the period of 02.06.-13.06.2008 and the share subscription period for F bonds will be during the period of 01.06.-31.12.2009. Each bond entitles the holder to subscribe for three shares in the company. According to the convertible bonds conditions the share subscription price is the weighted average price of the traded shares of AS Baltika on the Tallinn Stock Exchange on the first day of the bond subscription period. The subscription price of Series F bonds was determined based on the share price of 2 June 2008 which was 33.16 kroons (2.12 euros).

NOTE 12 Trade and other payables

	EEK '000		**EUR '000**	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Trade payables	151,938	72,345	9,711	4,624
Tax liabilities, thereof	31,422	33,065	2,008	2,113
Personal income tax	5,997	5,156	383	330
Social security tax and unemployment insurance premium	12,295	10,576	786	676
Value added tax	11,722	12,319	749	787
Corporate income tax liability	0	3,985	0	255
Other taxes	1,408	1,029	90	66
Payables to employees and other accrued expenses	24,216	22,857	1,548	1,461
Customer prepayments	312	1,096	20	70
Other current payables	0	1	0	0
Other non-current liabilities	0	1,086	0	69
Total	**207,888**	**130,450**	**13,286**	**8,337**

Trade payables by denominating currency

	EEK '000		**EUR '000**	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
EEK (Estonian kroon)	51,793	17,808	3,310	1,138
EUR (euro)	44,820	20,385	2,864	1,303
USD (US dollar)	42,790	16,105	2,735	1,029
RUB (Russian rouble)	4,832	12,315	309	787
LTL (Lithuanian lit)	2,544	1,193	163	76
CZK (Czech koruna)	2,164	3,234	138	207
PLN (Polish zloty)	1,581	0	101	0
LVL (Latvian lat)	840	0	54	0
Other currencies	574	1,305	37	83
Total	**151,938**	**72,345**	**9,711**	**4,624**

NOTE 13 Equity

Share capital

EEK '000	31.12.2008	31.12.2007
Share capital	186,449	186,449
Number of shares	18,644,850	18,644,850
Nominal value of shares (EEK)	10.00	10.00
Statutory reserve	18,645	18,645
Revaluation surplus	7,488	7,488

EUR '000	31.12.2008	31.12.2007
Share capital	11,916	11,916
Number of shares	18,644,850	18,644,850
Nominal value of shares (EUR)	0.64	0.64
Statutory reserve	1,192	1,192
Revaluation surplus	478	478

Under the Articles of Association, the company’s minimum share capital is 100,000 thousand kroons/6,391 thousand euros and the maximum share capital is 400,000 thousand kroons/25,565 thousand euros. All shares have been paid for.

Change in the number of shares

	Issue	Number of shares
Number of shares at 31.12.2006		**6,214,950**
Issued at 11.06.2007	Bonus issue	12,429,900
Number of shares at 31.12.2007		**18,644,850**
Number of shares at 31.12.2008		**18,644,850**

Shareholders at 31 December 2008

	Number of shares	Holding
BMIG OÜ	4,750,033	25.48%
Svenska Handelsbanken Clients	1,912,000	10.25%
Central Securities Depository of Lithuania	1,538,974	8.25%
Members of management and supervisory boards and persons related to them		
Meelis Milder	730,336	3.92%
Maire Milder	316,083	1.70%
Boriss Loifenfeld	200,366	1.07%
Andres Erm	108,000	0.58%
Ülle Järv	55,370	0.30%
Andrew Paterson	11,000	0.06%
Other shareholders	9,022,688	48.39%
Total	**18,644,850**	**100.00%**

Shareholders at 31 December 2007

	Number of shares	Holding
BMIG OÜ	4,261,120	22.85%
Morgan Stanley + CO Incorporated Equity Client Account	1,545,000	8.29%
Svenska Handelsbanken Clients	1,160,500	6.22%
Members of management and supervisory boards and persons related to them		
Meelis Milder	741,549	3.98%
Maire Milder	316,083	1.70%
Boriss Loifenfeld	150,366	0.81%
Andres Erm	108,000	0.58%
Ülle Järv	57,570	0.31%
Other shareholders	10,304,662	55.27%
Total	**18,644,850**	**100.00%**

The shares of the Parent company are listed on the Tallinn Stock Exchange. The Parent company does not have a controlling shareholder or any shareholders jointly controlling the entity. The investment company OÜ BMIG is under the control of the management board members of the Parent company.

NOTE 14 Segments

Geographical segment by client's location – primary segment for the year 2008

EEK '000	Baltic region	Eastern European region	Central European region	Other regions	Elimi-nations	Total
External revenue	686,907	434,255	51,694	21,464	0	1,194,320
Inter-segment revenue	256,369	168,507	24,663	0	-449,539	0
Total revenue (Note 15)	**943,276**	**602,762**	**76,357**	**21,464**	**-449,539**	**1,194,320**
Segment operating profit (loss)	49,504	-1,422	-10,560	2,104	0	39,626
Unallocated operating income (expenses)						-45,290
Total operating profit						**-5,664**
Other financial income (expenses)						-14,625
Income tax						-1,178
Net profit before minority interest						-21,467
Minority interest						-2,520
Net profit						**-18,947**
Assets	411,482	318,086	57,472	236	-226,767	560,509
Group`s unallocated assets, thereof						220,894
Assets used in production						67,251
Assets used for administration						6,246
Other unallocated assets						147,397
Total assets						**781,403**
Liabilities	131,255	182,382	44,220	0	-286,934	70,923
Group`s unallocated liabilities, thereof						411,574
Liabilities related to production						123,285
Other unallocated liabilities						288,289
Total liabilities						**482,497**
Additions to PPE (Notes 8,9), thereof	**27,104**	**19,757**	**16,717**	**0**	**0**	**68,986**

Unallocated						5,408
Depreciation and amortisation (Notes 8,9), thereof	**22,391**	**15,200**	**3,483**	**0**	**0**	**46,152**
Unallocated						5,078

EUR '000	**Baltic region**	**Eastern European region**	**Central European region**	**Other regions**	**Elimi-nations**	**Total**
External revenue	43,901	27,754	3,304	1,372	0	76,331
Inter-segment revenue	16,385	10,770	1,576	0	-28,731	0
Total revenue (Note 15)	**60,286**	**38,524**	**4,880**	**1,372**	**-28,731**	**76,331**
Segment operating profit (loss)	3,164	-91	-675	134	0	2,533
Unallocated operating income (expenses)						-2,895
Total operating profit						**-362**
Other financial income (expenses)						-935
Income tax						-75
Net profit before minority interest						-1,372
Minority interest						-161
Net profit						**-1,211**
Assets	26,298	20,329	3,673	15	-14,493	35,823
Group`s unallocated assets, thereof						14,118
Assets used in production						4,298
Assets used for administration						399
Other unallocated assets						9,420
Total assets						**49,941**
Liabilities	8,389	11,656	2,826	0	-18,338	4,533
Group`s unallocated liabilities, thereof						26,304
Liabilities related to production						7,879
Other unallocated liabilities						18,425
Total liabilities						**30,837**
Additions to PPE (Notes ,9), thereof	**1,732**	**1,263**	**1,068**	**0**	**0**	**4,063**
Unallocated						346
Depreciation and amortisation (Notes 8,9), thereof	**1,431**	**971**	**223**	**0**	**0**	**2,625**
Unallocated						325

Geographical segment by client's location – primary segment for the year 2007

EEK '000	Baltic region	Eastern European region	Central European region	Other regions	Elimi-nations	Total
External revenue	687,602	399,801	32,531	31,586	0	1,151,520
Inter-segment revenue	219,889	123,047	15,772	0	-358,708	0
Total revenue (Note 15)	**907,491**	**522,848**	**48,303**	**31,586**	**-358,708**	**1,151,520**
Segment operating profit (loss)	114,092	-1,038	-79	4,328	0	117,303
Unallocated operating income (expenses)						-52,749
Total operating profit						**64,554**
Other financial income (expenses)						-11,523
Income tax						-9,189
Net profit before minority interest						43,842
Minority interest						3,069
Net profit						**40,773**
Assets	356,108	336,266	25,652	35	-180,552	537,509
Group`s unallocated assets, thereof						118,848
Assets used in production						65,207
Assets used for administration						8,625
Other unallocated assets						45,016
Total assets						**656,357**
Liabilities	93,373	212,364	11,898	0	-252,618	65,017
Group`s unallocated liabilities, thereof						251,994
Liabilities related to production						60,818
Other unallocated liabilities						191,176
Total liabilities						**317,011**
Additions to PPE (Notes 8,9), thereof	**50,983**	**21,057**	**7,982**	**0**	**0**	**107,500**
Unallocated						27,478
Depreciation and amortisation (Notes 8,9), thereof	**21,166**	**12,998**	**1,592**	**0**	**0**	**39,831**
Unallocated						4,075

EUR '000	Baltic region	Eastern European region	Central European region	Other regions	Elimi-nations	Total
External revenue	43,946	25,552	2,079	2,019	0	73,596
Inter-segment revenue	14,053	7,864	1,008	0	-22,926	0
Total revenue (Note 15)	**57,999**	**33,416**	**3,087**	**2,019**	**-22,926**	**73,596**
Segment operating profit (loss)	7,292	-66	-5	277	0	7,497
Unallocated operating income (expenses)						-3,371
Total operating profit						**4,126**
Other financial income (expenses)						-736
Income tax						-587

Net profit before minority interest						2,802
Minority interest						196
Net profit						**2,606**
Assets	22,759	21,491	1,639	2	-11,539	34,353
Group`s unallocated assets, thereof						7,596
Assets used in production						4,167
Assets used for administration						551
Other unallocated assets						2,877
Total assets						**41,949**
Liabilities	5,968	13,573	760	0	-16,145	4,155
Group`s unallocated liabilities, thereof						16,105
Liabilities related to production						3,887
Other unallocated liabilities						12,218
Total liabilities						**20,261**
Additions to PPE (Notes 8,9), thereof	**3,258**	**1,346**	**510**	**0**	**0**	**5,114**
Unallocated						1,756
Depreciation and amortisation (Notes 8,9), thereof	**1,353**	**831**	**102**	**0**	**0**	**2,285**
Unallocated						260

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.

Financial information by area of operations

EEK '000	**Revenue**		**Assets**		**Additions to property, plant and equipment**	
	2008	**2007**	**31.12.2008**	**31.12.2007**	**2008**	**2007**
Retail	1,058,877	987,297	321,701	312,207	57,016	74,519
Wholesale	133,207	144,696	38,334	55,477	0	0
Production	0	14,396	67,251	65,207	5,196	23,010
Unallocated	2,111	5,088	213,887	184,444	6,562	8,823
Total	**1,194,195**	**1,151,477**	**641,173**	**617,335**	**68,774**	**106,352**

EUR '000	**Revenue**		**Assets**		**Additions to property, plant and equipment**	
	2008	**2007**	**31.12.2008**	**31.12.2007**	**2008**	**2007**
Retail	67,675	63,100	20,560	19,954	3,644	4,763
Wholesale	8,513	9,248	2,450	3,546	0	0
Production	0	920	4,298	4,167	332	1,471
Unallocated	135	325	13,670	11,787	419	562
Total	**76,323**	**73,593**	**40,978**	**39,455**	**4,395**	**6,796**

NOTE 15 Revenue

	EEK '000		EUR '000	
	2008	**2007**	**2008**	**2007**
Sale of goods	1,192,084	1,131,993	76,188	72,348
Sale of sewing services	0	14,396	0	920
Lease revenue	616	1,894	39	121
Other	1,620	3,237	104	207
Total	**1,194,320**	**1,151,520**	**76,331**	**73,596**

NOTE 16 Cost of goods sold

	EEK '000		EUR '000	
	2008	**2007**	**2008**	**2007**
Materials and supplies	446,820	424,048	28,557	27,102
Payroll costs in production	91,068	73,028	5,820	4,667
Operating lease expenses	10,746	4,019	687	257
Other production costs	9,449	9,850	604	630
Depreciation of assets used in production	4,535	3,451	290	221
Change in inventories	-2,132	443	-136	28
Total	**560,486**	**514,839**	**35,822**	**32,904**

NOTE 17 Distribution costs

	EEK '000		EUR '000	
	2008	**2007**	**2008**	**2007**
Operating lease expenses	217,381	202,338	13,893	12,932
Payroll costs	203,867	178,005	13,029	11,377
Depreciation and amortisation	39,751	31,206	2,541	1,994
Advertising expenses	38,737	32,341	2,476	2,067
Fuel, heating and electricity expenses	9,349	7,050	598	451
Municipal services and security expenses	8,911	7,340	570	469
Fees for card payments	8,024	6,953	513	444
Freight costs	6,477	5,254	414	336
Travel expenses	5,109	5,339	327	341
Communication expenses	3,777	3,567	241	228
Information technology expenses	3,595	3,051	230	195
Bank fees	2,548	3,028	163	194
Expenses for uniforms	2,240	2,089	143	134
Renovation expenses of retail outlets	1,896	3,098	121	198
Packaging expenses	1,874	1,450	120	93
Training expenses	1,857	3,205	119	205
Other sales expenses	33,255	27,306	2,125	1,745
Total	**588,648**	**522,620**	**37,621**	**33,402**

NOTE 18 Administrative and general expenses

	EEK '000		EUR '000	
	2008	**2007**	**2008**	**2007**
Payroll costs	25,065	25,630	1,602	1,638
Information technology expenses	5,023	4,992	321	319
Operating lease expenses	4,089	7,510	261	480
Depreciation and amortisation	1,903	5,348	122	342
Fuel, heating and electricity expenses	1,693	1,296	108	83
Bank fees	1,275	1,015	81	65
Sponsorship	1,213	1,064	78	68
Training expenses	884	922	56	59
Communication expenses	773	807	49	52
Municipal services and security expenses	583	1,707	37	109
Travel expenses	143	380	9	24
Other administrative expenses	7,862	10,240	502	654
Total	**50,506**	**60,911**	**3,228**	**3,893**

NOTE 19 Other operating income

	EEK '000		EUR '000	
	2008	**2007**	**2008**	**2007**
Gain from revaluations of investment property	17,750	15,362	1,134	982
Gain from sale of non-current assets	0	8,893	0	568
Other operating income	5,015	964	321	62
Total	**22,765**	**25,219**	**1,455**	**1,612**

NOTE 20 Other operating expenses

	EEK '000		EUR '000	
	2008	**2007**	**2008**	**2007**
Foreign exchange losses	12,534	9,945	801	636
Fines, penalties and tax interest	957	1,470	61	94
Representation costs	486	551	31	35
Loss from sale of non-current assets	120	0	8	0
Impairment of non-current assets available for sale	0	1,318	0	84
Other operating expenses	9,012	531	576	34
Total	**23,109**	**13,815**	**1,477**	**883**

NOTE 21 Earnings per share

Basic earnings per share

		2008	**2007**
Weighted average number of shares	pcs	18,644,850	18,644,850
Net profit attributable to equity holders of the parent	EEK '000	-18,947	40,773
	EUR '000	-1,211	2,606
Basic earnings per share	**EEK**	**-1.02**	**2.19**
	EUR	**-0.06**	**0.14**

Diluted earnings per share

		2008	2007
Weighted average number of shares	pcs	18,644,850	18,644,850
Net profit attributable to equity holders of the parent	EEK '000	-18,947	40,773
	EUR '000	-1,211	2,606
Diluted earnings per share	**EEK**	**-1.02**	**2.19**
	EUR	**-0.06**	**0.14**

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2008 was 32.74 kroons/2.09 euros (2007: 109.99 kroons/7.03 euros).

NOTE 22 Subsidiaries

Subsidiary	Location	Activity	Holding at 31.12.2008	Holding at 31.12.2007
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvia	Latvia	Retail	75%	75%
UAB Baltika Lietuva	Lithuania	Retail	100%	100%
Baltika Ukraina Ltd	Ukraine	Retail	99%	99%
OOO Kompania "Baltman Rus"	Russia	Retail	100%	100%
Baltika Poland Sp.z.o.o.	Poland	Retail	100%	100%
Baltika Retail Czech Republic s.r.o.	Czech Republic	Retail	100%	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%
AS Virulane	Estonia	Production	93.33%	82.66%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

Acquisition of an additional stake in AS Virulane

During the first quarter of 2008, AS Baltika acquired an additional stake of 10.67% of the share capital of its subsidiary AS Virulane. As a result, Baltika’s ownership in AS Virulane increased to 93.33% at 25 March 2008. The core business of AS Virulane is apparel manufacturing. The transaction does not have significant impact on the financial results of AS Baltika.