AS BALTIKA

ANNUAL ACCOUNTS FOR 1999

The beginning 1 January 1999 and the end 31 December 1999 of the financial year.

Name:	AS Baltika
Registration number:	10144415
Address:	Veerenni 24, Tallinn10135, Estonia
Telephone:	(372) 6 302 700, (372) 6 302 731
Fax:	(372) 6 302 814
E-mail	baltika@baltika.ee
Industry:	manufacturing, wholesale and retail of menswear and womenswear, rendering of sewing services
Auditor:	PricewaterhouseCoopers
Supervisory Board:	MilesW.Burger …………………………
	Joakim J.Helenius …………………………
	Reet Saks …………………………
Management Board:	Meelis Milder …………………………
	James Hayhow …………………………
	Ülle Järv ……………………………..

In Tallinn, 8 March 2000

AS BALTIKA GROUP
MANAGEMENT REPORT 1999

1. General financial results

At the end of 1998 and during the first half of 1999, the main markets of Baltika were still under the influence of economic recession/standstill. Forecasts of rapid stabilisation of economic development and continuation of an upward trend gave way to more cautious and pessimistic prognoses. In reality, the year as a whole may be regarded as a year of living through the recession/standstill, and only the year's end brought about confirming signs of economic recovery.

The evolved economic environment dictated the goals of AS Baltika's activities for 1999:

- increasing the liquidity ratio
- cutting operating expenses
- reduction of staff
- more efficient managing of client risks, in order to facilitate survival of the crisis
- further development of the retail sale conception
- increasing flexibility both in production and product development
- more precise definition of target markets
- projects for penetrating "big markets", with the purpose of ensuring continuous development of the enterprise from the year 2000 onwards.

The consolidated net sales of AS Baltika in the year 1999 was 288.9 million kroons, which is 3.1% (8.6 million kroons) more than in the previous year. Net profit in 1999 was 1.8 million kroons (of which 1.2 million kroons from Baltika group), which is 0.4 million kroons more than in 1998. Net profit of the group decreased by 0.7 million kroons. In addition to unfavourable economic conditions, the formation of the 1999 consolidated net profit of AS Baltika was influenced by a number of extraordinary factors:

- rapid realisation of goods stored since autumn 1998 because of the crisis in Russia (impact on profit: –2.9 million kroons)
- realisation of old stocks (impact on profit: –2.0 million kroons)
- cost of entering the Polish market (1.5 million kroons); the related profitability can be estimated in the coming periods
- application of unusually large discounts in the shops of the subsidiary AS Baltman in the first quarter of 1999 with the purpose of reducing stocks (impact on profit: –1.5 million kroons)
- profit from the sale of a real estate of a Lithuanian subsidiary (impact on profit: 3.0 million kroons)
- increasing of provisions for doubtful accounts receivable (impact on profit: –1.5 million kroons)
- enforcement of the new Income Tax Law (impact on profit: 0.7 million kroons).

As of 31.12.1998, the market value of the shares of AS Baltika was 66.7 million kroons, owner's equity amounted to 114.7 million kroons, and share capital was 48.0 million kroons.

	1999	**1998**
operating margin	2.6 %	3.3 %
net margin	0.4 %	0.7 %
earnings per share	0.25	0.41
return on equity	1.0 %	1.7 %

At the end of 1999, the share of AS Baltika was worth 13.90 kroons, having gained 46.3% in value within the year. In comparison, the TALSE index rose by 38.3% within the same period.

2. Major economic activities in 1999

Trade

- Application of a new marketing principle, "Baltman - different choices", by Baltman shops (September).
- Investments in new shops in Kristiine Centre in Tallinn (April) and in Kaunas (December)

Marketing

- Export development programme for the Polish market, foundation of the subsidiary Baltika Poland sp.z.o.o. (May-December).
- Trademark and product development in Christine Collection - launching of CHR (August).

Production

- Improvement of technologies related to cutting and preparation for production, by the use of appliances and software of the Investronica company (April-December).

Management

- The general meeting of shareholders elected a new Supervisory Board with the following composition: Miles W. Burger (Chairman), Joakim J. Helenius and Reet Saks (members).
- In connection with the reorganisation of the management structure, changes were made in the Management Board – members Avo Reiska and Tõnis Kotkas resigned (31.07.1999), and James Hayhow (Production Director of Baltika) was elected new member (01.08.1999).
- Maire Milder was elected Managing Director (May) and member of the Management Board (December) of the subsidiary Baltman.
- The management (30 people) participated in Goldratt International Satellite Training (March-April).
- Silvia Palu was elected Managing Director and President of the associated company AS Elina STC (January).

3. Production activities

In 1999, AS Baltika produced 753,800 textile articles - 78,200 articles or 9.4% less than in 1998. AS Baltika's brand products amounted to 298,100 articles, constituting 39.5% of the total output. The proportion of outsourced production services was 34.1% of the total output, of which 17,400 articles were produced by the Russian clothes factory "Slavjanka" and 174,400 articles by the associated company AS Elina STC. In AS Virulane, own production in 1999 amounted to 18,400 articles (in 1998 - 38,300 articles) and production by subcontractors to 103,300 articles (in 1998 - 95,000 articles).

4. Marketing

The consolidated net sales of AS Baltika in the year 1999 was 288.9 million kroons, which is 8.6 million kroons or 3.1% more than in 1998 (the net sales in 1998 was 280.3 million kroons). Sales on export markets constituted 64.5% (186.4 million kroons) of the net sales. A more prudent sales policy on the Russian market, adopted in connection with the Russian crisis, had a negative impact on sales, which were down by 18.2 million kroons on that market in comparison with the previous year. Sales of products produced by subcontractors increased by 11.4 million kroons (the corresponding sales figures were 73.7 million kroons for 1999 and 62.3 million kroons for 1998). The share of products produced by subcontractors was 25.5% of the net sales.

5. Personnel and management

In 1999, AS Baltika employed an average of 717 people (763 people in 1998). The average number of employees working for the group in 1999 was 1458 people.

The Supervisory Board of AS Baltika is composed of 3 elected persons: Miles W. Burger - Chairman; Joakim J. Helenius and Reet Saks - members.
The Management Board of AS Baltika consists of 3 members: Meelis Milder (Managing Director of AS Baltika) - Chairman; James Hayhow (Production Director of AS Baltika) and Ülle Järv (Chief Accountant of AS Baltika) - members. Members of the Management Board of AS Baltika are also the employees of the company, who received salaries in the amount of 1,082,600 kroons in 1999.

Members of the Supervisory Board and members of the Management Board (and persons related to them) own shares of AS Baltika as follows:

	quantity	%
Miles W. Burger	38 000	0.79
Meelis Milder	395 239	8.23
Ülle Järv	4 763	0.1

Meelis Milder
Chairman of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS OF
AS BALTIKA AS AT 31 DECEMBER 1999

Contents:

Representations by the Management Board and the Supervisory Board:

…………………………………	……………………………………
Miles W. Burger	*Meelis Milder*
Chairman of the Supervisory Board	Chairman of the Management Board
…………………………………	……………………………………
Joakim J. Helenius	*James Hayhow*
Member of the Supervisory Board	Member of the Management Board
………………………………..	……………………………………
Reet Saks	Ülle Järv
Member of the Supervisory Board	Member of the Management Board

In Tallinn, on 8 March 2000.

Balance sheet

	Note	31 December 1999	31 December 1998
ASSETS			
Current assets			
Cash and bank	1	16 588 082	5 697 022
Marketable securities	2	6 194 254	615 704
Customer receivables	3	36 258 672	48 204 340
Other receivables	4,5	7 838 195	6 179 296
Prepaid income tax	4,5	2 657 077	4 416 926
Inventory	6	95 765 349	113 074 764
Total current assets		**165 301 629**	**178 188 052**
Non-current assets			
Long-term financial investments	7	1 080 503	1 609 410
Tangible fixed assets	8,9	49 930 929	48 906 286
Land and buildings (at cost)		33 523 073	31 690 079
Plant and equipment (at cost)		56 288 755	53 177 763
Other equipment, tools, fittings (at cost)		20 879 575	17 029 099
Accumulated depreciation		(60 760 474)	(53 144 858)
Prepayments for tangible fixed assets		0	154 203
Intangible fixed assets	8	1 874 845	1 930 503
Total non-current assets		**52 886 277**	**52 446 199**
TOTAL ASSETS		**218 187 906**	**230 634 251**
LIABILITIES AND OWNERS' EQUITY			
Current liabilities			
Debt obligations	10	45 696 955	57 864 663
Customer prepayments for goods and services		156 978	84 756
Supplier payables		20 165 579	18 315 216
Income tax liability	5	191 489	0
Other tax liabilities	5	3 730 783	6 463 534
Accrued expenses	11	11 598 197	7 849 387
Total current liabilities		**81 539 981**	**90 577 556**
Long-term liabilities			
Long-term debt obligations	10	12 938 764	18 118 388
Provisions (provision for income tax)	12	0	734 479
Total long-term liabilities		**12 938 764**	**18 852 867**
TOTAL LIABILITIES		**94 478 745**	**109 430 423**
Minority interest	13	**8 987 949**	**7 963 274**
OWNERS' EQUITY	14	**114 721 212**	**113 240 554**
Share capital, nominal value		48 000 000	48 000 000
Share premium		24 038 896	23 979 630
Reserves		22 884 523	22 890 523
Retained earnings		19 151 242	17 191 568
Net profit for the financial year	22	1 193 097	1 945 379
Treasury stock		(546 546)	(766 546)
TOTAL LIABILITIES AND OWNERS' EQUITY		**218 187 906**	**230 634 251**

Accounting principles set out on pages 5-8 and notes to the financial statements set out on pages 8-20 are the integral parts of the financial statements.

Income statement	Note	1999	1998
Revenue			
Net sales	15	**288 925 801**	**280 330 316**
Other revenue	16	6 899 731	431 402
Total revenue		**295 825 532**	**280 761 718**
Expenses			
Materials, consumables, supplies		(108 829 118)	(135 674 360)
Change in inventories		(16 769 816)	14 357 971
Assets produced for own use		0	395 711
Other operating expenses	17,9	(47 365 587)	(53 871 678)
Personnel expenses	18	(101 950 911)	(84 351 534)
Wages and salaries		(76 654 820)	(63 474 337)
Social security and other costs		(25 296 091)	(20 877 197)
Depreciation of non-current assets	8	(10 681 897)	(8 765 217)
Other expenses	19	(2 767 984)	(3 658 568)
Total expenses		**(288 365 313)**	**(271 567 675)**
Operating profit		**7 460 219**	**9 194 043**
Financial income	20	**782 153**	**1 288 990**
Financial income from sale of investments		0	1 068 295
Other interest and financial income		782 153	220 695
Financial expenses	21	**(6 931 250)**	**(7 490 407)**
Losses from short-term securities		(0)	(1 238 475)
Interest expenses	10	(6 049 682)	(5 591 958)
Foreign exchange loss		(660 766)	(141 204)
Other financial expenses		(220 802)	(518 770)
Profit before taxes		**1 311 122**	**2 992 626**
Income tax	12	(233 262)	(937 512)
Deferred income tax	12	734 479	(670 171)
Net profit for the financial year		**1 812 339**	**1 384 943**
Minority interest	13	(619 242)	560 436
Net profit for the Group		**1 193 097**	**1 945 379**
Earnings per share	22	**0.25**	**0.41**

Accounting principles set out on pages 5-8 and notes to the financial statements set out on pages 8-20 are the integral parts of the financial statements.

CASH FLOW STATEMENT 1999
(in thousand kroons)

	Note	1999	1998
Operating activities			
Operating profit		7 460	9 194
Adjustment for depreciation	8	10 682	8 765
Profit from sale of fixed assets	16	(3 256)	0
Foreign exchange difference	21	(661)	0
Other financial expenses	21	(18)	0
Change in receivables		12 701	6 073
Change in inventories		17 309	(16 324)
Change in payables		3 882	(5 393)
Total cash from operating activities		*48 099*	*2 315*
Interests paid		(6 070)	(5 591)
Income tax paid	12	(380)	0
Cash flow from operating activities		**41 649**	**(3 276)**
Investing activities			
Acquisition of tangible fixed assets	8	(13 530)	(14 070)
Incl. by instalments		3 058	0
Sale of fixed assets	8	4 348	329
Finance lease payments and instalments	9	(946)	0
Revenue from sales of investments		0	1 467
Acquisition of long-term investments	7	(7)	(5 778)
Interests received	20	280	487
Dividends received	20	106	32
Securities purchased		(9 032)	0
Securities and shares sold		3 751	0
Cash flow from investing activities		**(11 972)**	**(17 533)**
Financing activities			
Repayment of loans	10	(30 065)	(30 498)
Loans received	10	10 605	49 320
Loan collateral paid		0	(498)
Dividends paid		(4)	(2 619)
Bonds paid		0	(1)
Proceeds from treasury stock transactions		279	(1 083)
Proceeds from share options		0	3 145
Proceeds from payments into share capital		400	0
Cash flow from financing activities		**(18 785)**	**17 766**
Foreign exchange change		(1)	(18)
Total cash flows		**10 891**	**(3 061)**
Cash and cash equivalents at the beginning of the year	1	**5 697**	**8 758**
Cash and cash equivalents at the end of the year	1	**16 588**	**5 697**

Accounting principles set out on pages 5-8 and notes to the financial statements set out on pages 8-20 are the integral parts of the financial statements.

CHANGES OF OWNERS' EQUITY FOR THE YEAR ENDING 31 DECEMBER 1999

	Share capital	Share premium	Reserves	Treasury stock	Retained earnings	Exchange difference	Total
Balance as at 31 December 1997	48 000 000	23 884 523	22 890 523	(160 000)	19 484 578	39 897	114 139 521
Transactions with treasury stock	0	95107	0	(606 546)	0	0	(511 439)
Dividends	0	0	0	0	(2 314 410)	0	(2 314 410)
Net profit for the financial year	0	0	0	0	1 945 379	0	1 945 379
Exchange difference						(18 497)	(18 497)
Balance as at 31 December 1998	48 000 000	23 979 630	22 890 523	(766 546)	19 115 547	21 400	113 240 554
Change in reserves and retained earnings	0	0	(6000)	0	6 000	0	0
Transactions with treasury stock	0	59 266	0	220 000	0	0	279 266
Net profit for the financial year	0	0	0	0	1 193 097	0	1 193 097
Exchange difference	0	0	0	0	0	8 295	8 295
Balance as at 31 December 1999	48 000 000	24 038 896	22 884 523	(546 546)	20 314 644	29 695	114 721 212

Short characteristics of AS BALTIKA Group

The main field of activity of AS Baltika group is the manufacturing of menswear and womenswear, retail and wholesale and rendering of sewing services. In 1999 the number of the staff of the group was 1420. The parent company is located and registered in Veerenni 24, Tallinn, Estonia. AS Baltika is listed in the secondary list of the Tallinn Stock Exchange.

As at 31 December 1999 the group consists of the following companies:

	Location	Parent company share
AS Baltika (parent company)	Estonia	
AS Baltman	Estonia	100 %
Baltmano Prekiba (subsidiary of AS Baltman)	Lithuania	90 %
SIA Baltman (subsidiary of AS Baltman)	Latvia	100 %
Baltika Sweden AB	Sweden	100 %
AS Virulane	Estonia	55.15 %
Baltika Poland	Poland	100 %
AS Elina STC	Estonia	37.5 %

AS Baltika controls the financial activities of AS Elina STC, as a result AS Elina STC is considered as subsidiary. The share of AS Baltika in AS Elina STC decreased in 1999 from 50% to 37.5% due to the new shareholder joined.

Accounting methods and principles of preparing the financial statements

The financial statements of 1999 have been prepared on accrual basis in accordance with historical cost convention. The accounting records and the consolidated financial statements for year 1999 have been prepared in accordance with the International Accounting Standards (IAS). All numerical data in the financial statements are presented in Estonian kroons, if not indicated otherwise. Estonian kroon is pegged to the German mark at the rate of 1 DEM = 8 Estonian kroons. In 1999 no changes have been made in the accounting methods and principles applied by the company.

Accounting principles and methods

Consolidation principles

The parent company and subsidiaries are considered as one business entity for consolidation. Receivables and liabilities, sales and purchases, profits and losses incurred from the inter-group transactions are eliminated.
The consolidated financial statements of 1999 are based on the financial statements of AS Baltika, AS Baltman, Baltmano Prekyba, SIA Baltman, Baltika Sweden AB, Baltika Poland, AS Virulane and AS Elina STC. AS Virulane has been consolidated since November 1998, the income statement of 1998 has been consolidated since November 1998 and the balance sheet was fully consolidated. In 1999 the balance sheet an income statement of AS Virulane have been fully consolidated.

Inventories

Inventories are valued according to the weighted average cost method. Inventories in stock of stores are recorded at acquisition cost. As at the balance sheet date inventories are recorded at the lower of cost and net realisable value. Finished goods and work-in-progress are recorded at production cost which includes direct and indirect production related expenses.

Current investments

Current investments in shares and securities are recorded at market value.
Unrealised losses and profits are recorded in income statement at financial income and expenses.

Long-term financial assets

Other long-term financial assets (exc. subsidiaries) are recorded in the balance sheet at acquisition cost or at net realisable value in case of continuous diminution in value during longer period of time.

Goodwill

Goodwill is depreciated within 5 years. The depreciation of goodwill is indicated under "other expenses" in the income statement. The negative goodwill is recorded under revenue, when occurred.

Accounting for foreign currency transactions

All transactions of the group are recorded in Estonian kroons according to the exchange rate of the Bank of Estonia valid on the date of transaction. Receivables and payables denominated in foreign currencies are revalued using the Bank of Estonia exchange rate on the balance sheet date. During the financial year the foreign currency transactions are recorded in Estonian kroons.

Non-current assets

Assets with useful life over one year and the acquisition cost from 5000 kroons are recorded as fixed assets. Assets with the acquisition cost under 5000 kroons are expensed in full amount when acquired.
Tangible fixed assets are recorded at acquisition cost. Non-current self-constructed assets are recorded at acquisition cost, which includes the actual production costs. The acquisition cost of reconstructed non-current physical assets is increased by reconstruction expenses. Depreciation of non-current assets is based on the straight-line method, using the useful life of fixed assets.
Intangible fixed assets are recorded at acquisition cost and depreciated during five years based on the straight-line method.

Profits and losses received from the sale of non-current assets are recorded as other revenue and other expenses in income statement.

The group applies the following depreciation rates (rate per year):

Buildings, premises	1.5-9%
Production equipment	18-30 %
Other machinery and equipment	8- 15 %
Computer equipment	40 %
Tools	20 %
Office equipment	15%
Intangible fixed assets	20%

Receivables
Each receivable has been valued separately. Receivables recognised to be uncollectible have been written off. Allowance for doubtful accounts has been made.

Deferred income tax liability
Up to 1998 the deferred tax was calculated on all temporary differences between the taxation values and net book values of assets and liabilities. The major differences were due to the depreciation of fixed assets and deferred tax loss.

According to the new Income Tax Law that took effect on 1 January 2000, there are no more differences between the taxation and book values of assets and liabilities. Dividends paid by the company to resident individuals and non-residents are subject to income tax (26/74 net dividend on the amount paid). As a result of this the deferred tax liability as at 31.12.1998 has been charged to the income statement of 1999.

The company's potential tax liability related to non-restricted equity is not recorded in the balance sheet, that would be the case if dividends were paid out, because it is not possible to give reliable estimation of such liability. The amount of tax liability related to the actual payment of dividends by the company depends on whether and when the company actually pays out the dividends, and in which proportion the shares are owned by resident legal entities, resident individuals and non-residents. The maximum possible amount of tax liability which will be effective to the company in case dividends are paid to the category of shareholders who are subject to full income tax liability is set out in Appendix 12.

Vacation pay reserve
Vacation pay is recorded at the moment the liability occurred, i.e. when employee's right to vacation pay arises. The vacation pay earned is recorded as expenses in the income statement and as current liability in the balance sheet.

Net sales
Net sales are recorded on accrual bases according to the realisation principle proceeding from the supplying terms and includes neither taxes nor commission fees.

Accounting for leases
IAS 17 has been followed in accounting for leases. The lease agreement is considered the finance lease, if all significant income and risks are transferred to the lessor. The assets leased based on the finance lease agreement are capitalised in the present value of lease payments and depreciated based on their useful life or lease period. The rest of lease agreements are dealt with as operating lease and the payments made according to such agreements are expensed at the period for which the payments were made.

Cash and cash equivalents
Cash consists of cash in hand and on bank accounts and short-term deposits.
Cash flow statement has been prepared based on indirect method where the cash flows from operating activities are derived from adjusting the operating profit with the non-monetary transactions (e.g. depreciation).

Loan expenses
Loan expenses and interests paid on loans are expensed when occurred.

Research and product development costs
Research and product development costs are not capitalised.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1
Cash and bank

	31.12.1999	31.12.1998	Change (EEK)	Change (%)
Cash and bank	16 588 082	4 800 345	11 787 737	246%
Deposits	0	896 677	(896 677)	-100%
Total	**16 588 082**	**5 697 022**	**10 891 060**	191%

A group account has been taken into use for more flexible management of funds, and for decreasing interest expense and credit needs. The account enables the members of the group to utilise the group's funds within limits set by AS Baltika.

NOTE 2
Marketable securities and short-term investments

Marketable securities are recorded at market price: quoted shares are recorded at the closing price at the Tallinn Stock Exchange on 31.12.1999; other securities at the offered purchase prices on financial markets. Unrealised profits and losses from revaluation of shares are recorded in the income statement under financial income (expenses).

	31.12.1999	31.12.1998	Change (EEK)	Change (%)
Shares of Tallinna Kaubamaja (5160 shares, acquisition cost of 5160 kroons)	164 604	88 236	76 368	87%
Hansa Intressifond	3 011 591	0	3 011 591	100%
Merita Bank CB	2 991 225	0	2 991 225	100%
Securities portfolio	26 834	527 469	(500 635)	-95%
TOTAL:	**6 194 254**	**615 705**	**5 578 549**	**906%**

At 31.12.1999 the securities portfolio consisted of 17 250 Panavezio Statybos Trestas shares in the value of 26834 kroons (acquisition cost 41 213.70 kroons). The manager of the securities portfolio is Hansa Aktivate Juhtimise AS (Hansa Assets Management Ltd). In 1999 the liquidation of the portfolio was started.

The acquisition cost of the commercial paper of Merita Bank CB was 2 991 225 kroons (30 items with nominal value of 100 000 kroons) and redemption deadline on 21.01.2000. The average earning per 26714 shares of Hansa Intressifond (Hansa Interest Fund) is 4.08%, and the average period of holding an investment is three months.

NOTE 3
Customer receivables

	31.12.1999	31.12.1998	Change (EEK)	Change (%)
Accounts receivable	41 855 796	52 308 540	(10 452 744)	-20%
Allowance for doubtful accounts	(5 621 468)	(4 104 200)	(1 517 268)	37%
Total	**36 234 328**	**48 204 340**	**(11 970 012)**	**-25%**

Every receivable has been reviewed separately when assessing the value of receivables. Bad debts have been written off. In 1999 bad debt amounting to 0.4 million kroons was written off, and provisions for doubtful accounts were made amounting to 1.5 million kroons.

NOTE 4
Other receivables and prepaid expenses

	31.12.1999	31.12.1998	Change (EEK)	Change (%)
Other short-term receivables	1 787 676	688 678	1 098 998	160%
Prepaid / refundable taxes	6 746 073	7 750 600	(1 004 527)	-13%
Prepaid expenses	1 892 279	2 134 876	(242 597)	-11%
Interest receivables	69 244	22 068	47 176	214%
Total	**10 495 272**	**10 596 222**	**(100 950)**	**-1%**

See for further information about prepaid and refundable taxes in Note 5.
Prepaid expenses consist of rental prepayments, insurance prepayments, subscription costs of periodicals, etc. as at 31.12.1999.

NOTE 5
Tax receivables and liabilities (see also Note 12)

Tax receivables (prepayments)	31.12.1999	31.12.1998	Change (EEK)	Change (%)
Corporate income tax	2 657 077	2 918 642	(261 565)	-9%
Income tax on dividends	0	1 498 284	(1 498 284)	-100%
VAT	3 217 424	3 333 674	(116 250)	-3%
Personal income tax	574 884	0	574 884	100%
Social tax	294 965	0	294 965	100%
Income tax on fringe benefits	1 723	0	1 723	100%
Total	**6 746 073**	**7 750 600**	**(1 004 527)**	-13%

Tax liabilities	**31.12.1999**	**31.12.1998**	**Change (EEK)**	**Change (%)**
Corporate income tax	191 489	0	191 489	100%
Personal income tax	1 099 282	2 729 001	(1 629 719)	-60%
Social tax	1 682 789	3 722 171	(2 039 382)	-55%
Income tax on fringe benefits	27 668	12 362	15 306	100%
VAT	883 992	0	883 992	100%
Road tax	37 052	0	37 052	100%
TOTAL	**3 922 272**	**6 463 534**	**(2 541 262)**	-39%

NOTE 6
Inventories

	31.12.1999	**31.12.1998**	**Change (EEK)**	**Change (%)**
Raw materials	32 186 281	29 763 056	2 423 225	8%
Allowance for valuation of materials	(1 864 784)	(1 725 175)	(139 609)	8%
Work in progress	6 328 243	8 859 439	(2 531 196)	-29%
Finished goods; goods on sale	60 669 190	77 987 893	(17 318 703)	-22%
Allowance for valuation of finished goods	(2 025 100)	(2 513 377)	488 277	-19%
Prepayments to suppliers	471 622	702 928	(231 306)	-33%
Total:	**95 765 452**	**113 074 764**	**(17 309 312)**	-15%

The balance of finished goods includes inventory at net realisable value amounting to 7 003 thousand kroons.

NOTE 7
Long-term financial assets

	31.12.1999	**31.12.1998**	**Change (EEK)**	**Change (%)**
Shares	707 159	700 460	6 699	1%
Long-term receivables	373 344	742 950	(369 606)	-50%
Long-term accounts receivable	0	166 000	(166 000)	-100%
Total:	**1 080 503**	**1 609 410**	**(528 907)**	-33%

Shares

	Number	**Acquisition cost at 31.12.1999**	**Acquisition cost at 31.12.1998**
AS EE Investeeringud	335	524,000	524,000
Moskva Ärikeskus	3	36,750	36,750
AS Briti Kaubamaja	50	95,000	95,000
OY Baltinia	120	44,710	44,710
OÜ Temotent	1	6,700	0
TOTAL		**707,159**	**700,460**

Long-term receivables	**31.12.1999**	**31.12.1998**
Loan to a related party (see also Note 23)	373,344	342,950
Major Oak (for shares)	0	400,000
TOTAL	373,344	742,950

NOTE 8
Tangible fixed assets

Thousand kroons

	Land	Buildings, premises	Plant, equipment	Other equipment	Pre-payment	Total
Acquisition cost at 01.01.99	**237**	**31 453**	**53 178**	**17 029**	**154**	**102 051**
Acquired in 1999	2 833	105	5268	4 924	0	13 130
Sold in 1999	0	1 105	1581	1 088	0	3 774
Internal movement	0	0	0	0	(154)	-154
Written off in 1999	0	0	506	56	0	562
Foreign exchange difference	0	0	(70)	71	0	1
Acquisition cost at 31.12.99	**3 070**	**30 453**	**56 289**	**20 880**	**0**	**110 692**
Accumulated depr. 1 Jan 99	0	7 034	39 062	7 049	0	53 145
Depreciation of 1999	0	1 060	4 115	2 441	0	7 616
Total accumulated depreciation	**0**	**8 094**	**43 177**	**9 490**	**0**	**60 761**
Net book value at 31.12.99	**3 070**	**22 359**	**13 112**	**11 390**	**0**	**49 931**

In 1999 production equipment totalling at 4,623 th. kroons were acquired, construction expenses of shops were capitalised and shop furnishing was acquired for 3,401 th. kroons, computers amounting to 1,100 th. kroons, vehicles amounting to 304 th. kroons and other equipment for 630 th. kroons were acquired. Land in Veerenni St. 24, Tallinn was privatised at the cost of 2,833 th. kroons. Loans in the amount of 3,605 th. kroons and 2,048 th. kroons (see Note 10) were guaranteed by buildings in Rakvere as collateral (mortgage) with book value of 7,755 th. kroons.

Intangible fixed assets

Thousand kroons

	Intangible fixed assets	Goodwill	Total
Acquisition cost at 01.01.1999	**1 389**	**1 417**	**2 806**
Acquisitions	554	0	554
Disposals	15	0	15
Acquisition cost at 31.12.1999	**1 928**	**1 417**	**3 345**
Accumulated amortisation at 01.01.1999	340	535	875
Change in accumulated amortisation in 1999	321	272	**593**
Total accumulated amortisation	**661**	**807**	**1 468**
Net book value at 31.12.1999	**1 267**	**610**	**1 877**

NOTE 9
Accounting for leases

Operating lease

Future period operating lease payments are divided as follows:

(th. kroons)	**31.12.1999**	**31.12.1998**
upto 1 year	9,500	9,356
1 to 5 years	33,924	35, 366
more than 5 years	3,520	5,632

Operating lease expenses include lease payments for selling premises and vehicles. Rental payments for selling premises are not long-term obligations; most of the rental contracts can be terminated at two months notice. In order to avoid rental prepayments Hansabank has provided a guarantee amounting to 105.4 th. kroons to two shops (in Rocca Al Mare Shopping Centre and Meka shopping centre) covering the rental payments for three months.
The total amount of operating lease payments made in 1999 was 2,514,866 kroons.

Lease payments receivable are divided as follows:

(th. kroons)	**31.12.1999**	**31.12.1998**
upto 1 year	600	565
1 to 5 year	2,097	2,145
more than 5 years	974	1,396

Income from operating lease includes rental payments for premises and equipment.
Lease payments received in 1999 totalled at 1,725,056 kroons.

Leased assets as at 31.12.1999 (th. kroons):

	Acq. cost	**Depr. in 1999**	**Acc. depreciation**	**Net book value**
Buildings	6,721	170	1,090	5,631
Equipment	98	0	98	0

Finance lease
In 1999 one asset item amounting to 225 thousand kroons was acquired under the terms of finance lease agreement; as at 31.12.1999 all finance lease payments have been fully made.

In 1999 land in Veerenni St. 24, Tallinn at the price of 2,833 thousand kroons was acquired under the agreement of payment by instalments. In 1999 721 thousand kroons of the total amount was paid. In 2000 384 thousand kroons are to be paid and 1,728 thousand kroons for the land is recorded under long-term liability.

NOTE 10
Debt obligations

	31.12.1999	**31.12.1998**	**Change (EEK)**	**Change (%)**
Short-term liability to Estonian Privatisation Agency	384 060	0	384 060	100%
Long-term liability to Estonian Privatisation Agency	2 173 271	0	2 173 271	100%
Short-term bank loans	39 405 000	52 249 464	(12 844 464)	-25%
Current period long-term debt repayment	5 907 895	5 615 199	292 696	5%
Long-term bank loans	10 765 493	17 673 388	(6 907 895)	-39%
Total bank loans	**58 635 719**	**75 538 051**	**(16 902 332)**	-22%

Loan balances as at 31.12.1999

Creditor	**Loan balance**	**Short-term amount**	**Long-term amount**	**Interest rate**	**Repayment deadline**
Merita Bank (commercial pledge)	14 625 000	4 500 000	10 125 000	LIBOR+3%	14.05.2001
Hansabank (commercial pledge)	35 800 000	35 800 000	0	8,5 %	30.10.2000
Hansabank (mortgage, commercial pledge)	3 605 000	3 605 000	0	9,75%	30.10.2000
Hansapank (mortgage)	2 048 388	1 407 895	640 493	DEM LIBOR +9%	20.05.2001
Total:	**56 078 388**	**45 312 895**	**10 765 493**		

Collateral of AS Baltika loan is commercial pledge of 67.7 million kroons, commercial pledge of AS Virulane amounts to 19.2 million kroons and the mortgage of AS Virulane to 5.0 million kroons.
In 1999 loan interests amounting to 6050 thousand kroons were paid.

NOTE 11
Accrued expenses

	31.12.1999	**31.12.1998**	**Change (EEK)**	**Change (%)**
Salary related expenses (salaries, vacation pay, bonuses, etc.)	10 755 490	6 764 231	3 991 259	100%
Dividends payable	277 072	280 732	(3 660)	-1%
Interest payable (accrued loan interest with payment deadline to come)	205 249	225 400	(20 151)	-9%
Other accrued expenses	360 386	579 024	(218 638)	-38%
Total accrued expenses	**11 598 197**	**7 849 387**	**3 748 810**	48%

NOTE 12
Income tax
Provision for deferred income tax

	1999	**1998**
Deferred income tax liability (asset) at the beginning of the period	0	(44,396)
Change from tax depreciation differences	0	323,589
Deferred income tax arising from losses carried forward from the sale of long-term investments	0	556,040
Deferred income tax arising from tax incentives on fixed assets additions	0	(100,754)
Deferred income tax liability at the end of the period	0	734,479

According to the new Income Tax Law that took effect on 1 January 2000, there are no more temporary differences between the taxation and book values of assets and liabilities. As a result, the provision for deferred income tax in amount of 734 479 kroons has been charged to the income statement of 1999.

Income tax

The income tax rate in 1999 was 26% on income subject to taxation.
Income tax paid on the group income of 1999 amounting to 233 262 kroons has been paid as prepayments.

If the company paid the entire amount of retained earnings as at 31.12.1999 out as dividends, no income tax liability would arise as income tax would be already paid on that part of income from 1994 to 1999. Retained earnings accumulated after 31.12.1999 are subject for income tax payable (26/74 of net dividend payments).

NOTE 13
Minority interest

Minority interest in income statement indicates the share of net profit for the financial year belonging to non-group shareholders of subsidiaries. Minority interest in the balance sheet indicates the share of equity belonging to non-group shareholders of subsidiaries.

NOTE 14
Equity

Share capital

The share capital of 48,000,000 kroons consists of 4,800,000 common shares with nominal value of 10 kroons per share. The statutory minimum amount of shares is 4 000 000 and maximum amount of shares is 16 000 000. Payments have been made for all shares issued. AS Baltika's shares are listed in the secondary list of Tallinn Stock Exchange

Complement of shareholders as at 31.12.1999:

	Number	Share %
1. Members of the Supervisory Board		
Burger Miles Warwick	38 000	0.7917
2. Members of the Management Board and people related to them		
Meelis Milder	395 239	8.2342
Ülle Järv	4 763	0.0992
3. Investor holding 5% or more interest		
Customers of the Bank of Bermuda	1 128 400	23.5083
Tõnis Kotkas	251 695	5.2436
Hansa Investment Fund	250 000	5.2083
4. Treasury stock	63 000	1.3125

Retained earnings

Retained earnings as at 31.12.1999 amounted to 20 344 339 kroons.
Dividends payable will be recorded in the balance sheet after the general meeting of shareholders will have adopted a resolution concerning the payment of dividends. Such resolution has not been adopted at the time of preparing the Annual Report.

Reserves

Reserves included in equity are constituted by mandatory transfers from the company's net profit of previous periods, as stipulated by the Commercial Code. The capital reserves of companies located in Estonia must not be less than 1/10 of the share capital. Reserves may be used for covering losses, if these cannot be covered from unrestricted equity.

NOTE 15
Segment information

Operational segment report – primary

(th. kroons)	**Textile industry**		**Rental and other services**		**TOTAL**	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**
Sales	283 237	273 391	5 689	6939	288 926	280 330
Operating profit in the segment	7 882	10 707	(422)	(1 513)	7 460	9194
Other financial income					782	1289
Other financial expenses					6 931	7 490
Income tax					233	938
Profit of the group					1 812	1 385
Minority interest					619	(560)
Net profit					1 193	1 945
Assets	191 403	222 883	20 039	0	211 442	222 883
Not allocated assets of the group					6 746	7 751
Total assets					218 188	230 634
Liabilities	31 914	26 241	7	8	31 921	26 249
Liabilities of the group					62 558	83 181
Total liabilities					94 479	109 430
Acquisition of fixed assets	13 618	13 684	66	-	13 684	14 049
Depreciation	10 678	8 599	170	166	10 848	8 765
Other significant non-monetary expenses	864	11 360	304	240	1 168	11 600

Geographical segment report - secondary

(th. kroons)

Division of net sales (based on locations of clients)	1 999	1 998
Estonia	102 574	90 254
Baltic countries (Latvia, Lithuania)	62 316	64 380
Eastern markets (Russia, Poland, etc)	9 463	27 625
Western markets (Scandinavia, etc.)	114 573	98 071
Total	**288 926**	**280 330**

The amount of profits earned abroad and assets equals with profits and assets of subsidiaries. The entire profit of the parent company is generated in Estonia and the assets are located in Estonia, as well. As profits generated abroad and assets located abroad are not material to the group position, these have not been presented separately.

NOTE 16
Other revenue

	1999	1998
Profit from sales of fixed assets	3 255 645	104 066
Foreign exchange gain	2 999 231	0
Other revenue	644 855	327 336
Total:	**6 899 731**	**431 402**

In 1999 the subsidiary Baltmano Prekyba sold a building in Kaunas resulting in profit for the transaction amounting to 3 million kroons.

NOTE 17
Operating expenses

	1999	1998
Rent	10 384 574	8 153 923
Fuel and energy	3 389 634	3 250 559
Transport expenses	3 950 358	5 000 948
Travelling expenses	2 370 608	2 131 310
Advertising	5 060 419	7 077 086
Insurance	914 155	932 264
Municipal services	766 277	514 228
Training expenses	586 370	576 436
Security expenses	1 144 055	992 335
Doubtful accounts and bad debts	2 466 387	11 572 144
Other expenses	16 332 750	13 670 445
TOTAL	**47 365 587**	**53 871 678**

NOTE 18
Personnel expenses

	1999	1998
Salaries	72 758 543	61 110 570
Social security tax	23 943 582	20 121 603
Reserves	5 248 786	3 119 361
Total	**101 950 911**	**84 351 534**

NOTE 19
Other expenses

	1999	**1998**
Membership fees	175 482	118 956
Losses from sales of fixed assets	34	94 504
Fines, penalties, tax interests	189 252	126 094
Representation expenses	664 158	576 621
Foreign exchange losses	0	1 931 000
Other expenses	1 739 058	811 393
Total	**2 767 984**	**3 658 568**

NOTE 20
Financial income

	1999	**1998**
Sold financial assets	0	1 068 295
Interest	227 285	170 112
Dividends received	106 230	50 583
Short-term securities	325 557	0
Other financial income	123 081	0
Total	**782 153**	**1 288 990**

NOTE 21
Financial expenses

	1999	**1998**
Interest expense on loans and leases	6 049 682	5 591 958
Foreign exchange loss	660 766	141 204
Short-term securities	0	1 238 475
Other financial expenses	220 802	518 770
Total	**6 931 250**	**7 490 407**

NOTE 22
Earnings per share

Earnings per share are calculated in accordance with the International Accounting Standard No 33 (IAS 33).

For issued shares the earnings per share has been calculated based on the weighted average number of shares outstanding during the year. Treasury stock has been excluded as not having a material impact. The company has no potential common shares and therefore earnings per share equal with diluted earnings per share.

	1999	**1998**
Number of shares	4,800,000	4,800,000
Net profit (kroons)	1,193,097	10,945,379
Earnings per share (kroons)	**0.25**	**0.41**
	(1 193 097/4 800 000)	(1 945 379/4 800 000)

NOTE 23
Related parties

Transactions with subsidiaries and associated companies

(th. kroons)

	1999	1998
Goods sold to subsidiaries	**44 802**	**41 773**
AS Baltman	23 961	35 867
Baltmano Prekyba	10 907	0
SIA Baltman	1 931	0
Baltika Sweden	6 345	5 906
Baltika Poland	1 547	0
AS Virulane	111	0
Rental income from subsidiaries	**2 128**	**2 146**
AS Baltman	2 128	2 128
Baltika Sweden	0	18
Goods purchased from subsidiaries	**2442**	**1 386**
AS Baltman	0	1 299
AS Elina	67	87
AS Virulane	2375	0
Purchased sewing service from group companies	**13785**	**5 909**
AS Virulane	57	151
AS Elina	13 728	5 758
TOTAL	**63 157**	**51 214**

According to the management estimates the transactions with related parties were carried out in market value. The internal sales is eliminated from the consolidated financial statements.

AS Baltika gave the loan of current assets in amount of 960 th. kroons to Baltika Poland. AS Virulane paid loan interests of 21.6 th. kroons to AS Baltika. AS Baltika paid commission fees of 293 th. kroons to AS Baltman.

The balance of the loan given to the manager of the subsidiary Baltmano Prekyba was 373 th. kroons as at 31 December 1999. In 1999 the salaries in amount of 2432 th. kroons were paid to the management of AS Baltika. No salary was paid to the members of the Supervisory Board.

NOTE 24
Financial risks

Foreign currency positions as at 31 December 1999

(in th. kroons)	USD	DEM	GBP	SEK	FIM	EUR	Other	Total
Assets								
Bank accounts	939	2201	0	794	154	0	0	4088
Customer receivables	1209	18057	7535	305	660	0	117	27883
Prepayments to suppliers	40	334	0	0	0	3	0	377
Other receivables	0	0	0	0	0	0	0	0
Total:	**2188**	**20592**	**7535**	**1099**	**814**	**3**	**117**	**32348**
Liabilities								
Supplier payables	775	7202	304	1247	256	858	2338	12980
Outstanding financial liabilities	0	50425	0	0	0	0	0	50425
Total:	**775**	**57627**	**304**	**1247**	**256**	**858**	**2338**	**63405**

Foreign currency positions as at 31 December 1998

(in th. kroons)	USD	DEM	GBP	SEK	FIM	Other	Total
Assets							
Bank accounts	416	0	0	749	1084	978	3227
Customer receivables	3180	23541	7206	2511	1194	2878	40510
Prepayments to suppliers	34	5	0	0	0	149	188
Other receivables	0	40	0	0	0	1585	1767
Total:	**3630**	**23586**	**7206**	**3402**	**2278**	**5590**	**45692**
Liabilities							
Supplier payables	2889	5859	1607	1884	429	3563	16231
Outstanding financial liabilities	0	50000	0	9940	0	0	59940
Total:	**2889**	**55859**	**1607**	**11824**	**429**	**3563**	**76171**

Foreign currency risk

Export makes total of 65% of the sales of the Group of AS Baltika. The major sales currencies are DEM, USD, GBP, SEK and FIM. All raw materials needed for the production are imported. The major purchase currencies are USD, DEM, ITL, FRF, FIM and SEK. Although the currency of purchase and sales agreements is not EUR, the receivables and payables are partly paid in EUR.

The group is relatively exposed to currency risks proceeding from the exchange rates. In 1999 the foreign exchange gains totalled at 4182 th. kroons and foreign exchange loss at 1173 th. kroons. The group has used neither forwards, options nor other monetary instruments for decreasing the currency risks, as the effect of decreasing the risks as to relatively minor sales is not material.

Credit and liquidity risk

The group is exposed to credit risks regarding the solvency of business partners in Russia and the Ukraine. In 1999 the risk was immaterial. Liquidity was positively influenced by the monetary resource received from the goods inventories sold of the previous seasons. The liquidity risks due to the group’s seasonal production and sales cycle are not of constant nature.

<u>Interest risk</u>

The interest rate risks are mainly connected with the potential fluctuation of DEM LIBOR and the changes in the banks' average interest rates.

NOTE 25
Off-balance sheet assets

The raw materials (fabric, lining etc.) in total amount of 2262 th. meters imported for fulfilling the orders by the sub-contractors are kept on consignment in the warehouses of AS Baltika.

NOTE 26
"Fair value"

The differences of the book value of the company's assets and liabilities from the market value are not material.

AUDITOR’S REPORT

(Translation of the Estonian original)

To the shareholders of AS Baltika

We have audited the consolidated financial statements of AS Baltika and its subsidiaries (the Group) for the year ended 31 December 1999 as set out on pages 1 to 20. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Group as at 31 December 1999 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

8 March 2000

Proposal for distribution of profit of AS Baltika

Retained earnings from previous years	18 529 245
Net profit for 1999	1 286 640
Total retained earnings	19 815 885
For distribution as dividends (0,50 EEK per share)	(2 400 000)
Remaining retained earnings	17 415 885

Management Board of AS Baltika
08.03.2000