



AS BALTIKA GROUP

ANNUAL REPORT 2001

(Translation of the Estonian original)

Legal name	AS Baltika
Commercial Registry No.	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
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E-mail	baltika@baltika.ee
Auditor	AS PricewaterhouseCoopers
Reporting period	01.01.2001-31.12.2001
Main fields of activity	manufacturing of menswear and womenswear, retail and wholesale, sewing services

Management report of AS Baltika Group 2001

The main target of Baltika Group (BG) in 2001 was the utilization of the strategy conformed for the years 2000-2001. There were four main targets to aim:

1. To reform the BG organizational structure (reformation of the manufacturing company into retail organization with it's own manufacturing unit).
2. To develop the BG retail concept (new structure of stores' brands together with the practical solutions).
3. To adjust the product collections to new sales collections (retail and wholesale collections) and develop retail collections for preference.
4. To develop the logistic systems (data systems, warehouse systems).

In 2001 new retail outlets were opened, at the end of 2001 BG was operating on 55 retail outlets (at the end of 2000 the number was 35, so the growth has been 1,6 times), total floor size is 6 823 square meters (at the end of 2000 it was 3 585 square meters, the growth has been 1,9 times).

General results

In the year 2001 the consolidated turnover of AS Baltika was 414,4 million kroons (26,5 mln EUR), which is 22% more than in 2000 (turnover 340,8 mln kroons/ 21,78 mln EUR). The growth was 73,6 mln kroons (4,72 mln EUR). The proportion of the retail turnover (of own stores) of BG turnover raised 5% (to 37%, that makes 153 mln kroons (9,8 mln EUR)). Wholesale turnover amounted to 184 mln kroons (11,8 mln EUR) and the subcontracting turnover to 75 mln kroons (4,8 mln EUR). Changes compared to 2000 were respectively in wholesale turnover +34 mln kroons (+2,2 mln EUR) and in subcontracting turnover - 5 mln kroons (-0,3 mln EUR).

The turnover of BG own production raised 31% in the year 2001 (by 78,9 mln kroons/ 5 mln EUR) and formed 81,4% (75,7% in 2000) of net turnover. Numbers respectively: in 2001: 336,8 mln kroons (21,5 mln EUR) and in 2000: 257,9 mln kroons (16,5 mln EUR). The value of products sold to foreign countries formed 293,1 mln kroons (18,7 mln EUR) in the year 2001 and 224,5 mln kroons (14,4 mln EUR) in the year 2000. The volume of export raised 31% (68,6 mln kroons/ 4,4 mln EUR). The predicted turnover (443 mln kroons/ 28,3 mln EUR) wasn't achieved (real sales was 6% smaller) because of smaller sales in third quarter in 2001 and because the opening of two new stores was suspended to the beginning of 2002.

In the year 2001 the consolidated net profit of AS Baltika was 15,7 million kroons (1,0 mln EUR). The growth in 2001 was 1,4 mln kroons, that is 10%. Net profit in 2000 was 14,3 mln kroons (0,9 mln EUR). The biggest effect on the net profit was taken by one-time research expense (effect on net profit 6,9 mln kroons/ 0,4 mln EUR), which will ensure the growth of sales and better efficiency in the following years.

Balance sheet total as at 31.12.2001 was 297,4 mln kroons (19 mln EUR), the growth compared to last year's result was 64,2 mln kroons (4,1 mln EUR). The value of inventories has grown because the size and number of stores has grown (the growth of inventories: 25,6 mln kroons/ 1,6

mln EUR). The value of fixed assets has grown (by 28,7 mln kroons/ 1,8 mln EUR) because new investments into manufacturing-, retail business- and IT- projects were made. Also long-term liabilities have grown (by 62,4 mln kroons/ 4 mln EUR) – the loan taken for financing investments and larger inventory reserves. The owners' equity formed 139,9 mln kroons (8,9 mln EUR), share capital formed 48 mln kroons (3,1 mln EUR).

The market value of shares was 151,2 mln kroons at 31.12.2001. The closing price of the share was 31,5 kroons at 31.12.2001 (the growth has been 5%).

Ratios:

	2001	2000
Sales growth	22.0%	18.0%
Percentage of retail turnover out of whole turnover	37.0%	32.0%
Profit margin	5.6%	5.7%
Net profit margin	4.0%	4.8%
Profit per share	3.29%	2.98%
Return on equity	11.3%	11.2%

Relevant facts of 2001

- April: A new cooperating agreement “shop in shop” was contracted with Tallinna Kaubamaja.
In stockholders' meeting (April the 6-th) the decision was made to exert the share option for management for 3 years in the total amount of 576 000 shares. Dividends were paid 0,75 kroons per share.
- May: A contract with US consultant firm RPA Inc. with the purpose to develop new retail concept.
- June: Negotiations started with franchise partner SIA Care to establish a retail joint venture in Latvia
- August: A new market director was employed in Poland.
- September: A new management structure was created in BG.
10 years passed since the privatization-agreement of AS Baltika.
Subsidiary AS Virulane celebrated its 50-th anniversary.
Construction works started to build a new factory in Ahtme.
- October: In the territory of the company in Tallinn a new logistics center and warehouse were built.
RPA finished the development of a new retail concept.

November: The marketing partner of the new retail concept was elected – Finish agency PHS/TBWA.

December: 10 years passed since the opening of the first Baltman shop (In Pärnu, Estonia).

Utilizing the strategy conformed for the years 2000-2001:

The main target of the strategy was the reformation of the manufacturing company into a retail organization with it's own manufacturing unit within 2 years. The mission was to offer the best service (product with the logistics support) for preference to the retail clients (via the shops, via new type contracts “shop in shop” and to franchise partners) to accelerate the transition.

Fixed targets:

1. To expand the size and number of retail outlets managed by BG (in square meters) three times. Result: floor size at the end of 2001 was 6 823 square meters, the growth: 4,2 times.
2. To increase the retail sales. Result: together with franchise and “shop in shop” contracts the retail sales increased up to 218 mln kroons, the growth: 1,8 times.
3. To decrease the tied monetary resources (money tied up in inventories). Result: inventory turnover raised 11,2% (in 2000: 3,44; in 2001: 3,83).

In the middle of 2001 the following activities were started for preparing the implementation of the strategy for the years 2002-2004:

1. The completion of the retail concept. Results: a new retail concept was created, which will be executed in the fall and winter season 2002.
2. The expansion and strengthening of the retail organization of BG. Results: a new cooperation pattern “center-markets” was created; the structures of market organizations were described; new specialists were employed in the market organization in Poland; negotiations started with franchise partner in Latvia for establishing the market organization in Latvia in 2002.
3. The development of retail product collections. Results: since 2002 retail and wholesale collections are separated; product development is organized by following the rules of retail brands; new product classes; system of “fast fashion”.
4. The development of logistics systems. Results: inventory turnover raised 11,2%; implementation of the program of NOS (“never out of stock”) products; “shop in shop” contract with Tallinna Kaubamaja; implementation of the system for ensuring an optimal inventory balance so that a season's new fashion models are obtainable as well. New warehouse – logistics center was built, which substantially fastens the execution of the orders of the central warehouse.

In the year 2001 25,6 mln kroons were invested into the development of retail business.

Manufacturing

In the year 2001 the restructuring of the manufacturing division was continued to support the BG strategic goals, which are:

- To produce retail products, to insure high quality.
- To develop a flexible and quick ordering system and hold minimum balance of inventories.

In the year 2001 the specialization of manufacturing units continued. Construction works started to build a new factory in Ahtme (will be ready in April 2002). In the year 2001 16,5 mln kroons were invested into manufacturing (including 7,9 mln kroons into Ahtme factory).

Production output was 841 thousand products (subcontracting and own production), in 2000 respectively 829 thousand products. For the first time in 2001 own production in pieces (432 thousand products) exceeded subcontracting work (409 thousand products).

Organization

In the year 2001 the strengthening of the organization continued. Steps to be completed were the following:

1. Trade and marketing division was separated into two different divisions: division of retail business (to carry out the retail concept, coordinate the operating of inventories and retail operations) and division of markets.
2. The new management structure was created.
3. Three new positions were created: logistics and purchasing director, marketing director and retail operations director.

At the end of 2001 the number of employees in BG was 1585 (including 219 employees in retail business, 1203 employees in manufacturing business; 1462 employees in Estonia, 123 in foreign countries). The management board's fee was 2872 th kroons in 2001 and the supervisory board's fee was 144 th kroons.

To increase the motivation of the senior management the share option for management for 3 years in the total amount of 576 000 shares was announced. In the year 2001 one third of it (192 000 options) was exerted and divided between 23 key employees (by the decision of the supervisory board).

Plans for 2002

In spring 2002 the management of BG introduces the company's new strategic plan for the years 2002-2004. According to the plan BG will progress to become one of the leading fashion retail chain in Central- and Eastern Europe.

In the year 2002 the company plans investments up to 40 mln kroons. Investments include start-up costs of Ahtme factory (10 mln kroons), new and renovated retail outlets (20 mln kroons).

BG prognoses that in the year 2002 sales will grow faster than in 2001 (growth 22%).

Meelis Milder
Chairman of the management board

AS BALTIKA
CONSOLIDATED FINANCIAL STATEMENTS OF 2001

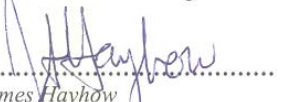
Contents of the Financial Statements:

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The Management Board confirms the correctness and completeness of financial statements of AS Baltika set out on pages 8 – 34.



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Meelis Milder
Chairman of the Management Board



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James Hayhow
Member of the Management Board



.....
Boriss Loifenfeld
Member of the Management Board



.....
Ülle Järv
Member of the Management Board



.....
Maire Milder
Member of the Management Board

In Tallinn, on 6 March 2002

Balance sheet	Note	th. EEK		th. EUR	
		31.12.2001	31.12.2000	31.12.2001	31.12.2000
ASSETS					
Current assets					
Cash and bank		12 626	15 298	807	978
Marketable securities	1	574	431	37	28
Customer receivables	2	56 115	45 335	3 586	2 897
Other receivables	3,4	10 728	8 436	686	539
Prepaid income tax	4	74	786	5	50
Inventory	5	131 145	105 501	8 382	6 743
Total current assets		211 262	175 787	13 502	11 235
Non-current assets					
Long-term financial investments	6	2 600	817	166	52
Tangible fixed assets	7	78 390	54 746	5 010	3 499
Land and buildings (at cost)		47 610	35 044	3 043	2 240
Plant and equipment (at cost)		67 768	60 070	4 331	3 839
Other equipment, tools, fittings (at cost)		25 469	27 869	1 628	1 781
Accumulated depreciation		(74 796)	(68 565)	(4 780)	(4 382)
Prepayments for tangible fixed assets		2 692	256	172	16
Construction in progress		9 647	72	617	5
Intangible fixed assets	7	5 180	1 886	331	121
Total non-current assets		86 170	57 449	5 507	3 672
TOTAL ASSETS		297 432	233 236	19 009	14 906
LIABILITIES AND OWNERS' EQUITY					
Current liabilities					
Debt obligations	9,10	34 721	51 637	2 219	3 300
Customer prepayments for goods and services		154	732	10	47
Supplier payables		40 544	28 617	2 591	1 829
Other tax liabilities	4	5 081	6 167	325	394
Accrued expenses	11	6 641	7 622	424	487
Short-term provisions		0	120	0	8
Total current liabilities		87 141	94 895	5 569	6 065
Long-term liabilities					
Long-term debt obligations	9	63 723	1 344	4 073	86
Total long-term liabilities		63 723	1 344	4 073	86
TOTAL LIABILITIES		150 864	96 239	9 642	6 151
Minority interest		6 632	9 172	424	586
OWNERS' EQUITY	13	139 936	127 825	8 944	8 169
Share capital at nominal value		48 000	48 000	3 068	3 068
Share premium		24 910	24 910	1 592	1 592
Reserves		22 885	22 885	1 463	1 463
Retained earnings		28 430	17 768	1 817	1 136
Net profit for the financial year	21	15 711	14 262	1 004	912
TOTAL LIABILITIES AND OWNERS' EQUITY		297 432	233 236	19 009	14 906

Accounting principles set out on pages 12-15 and notes to the financial statements set out on pages 16-34 are the integral parts of the financial statements.

Income statement

	Note	th EEK 2001	2000	th EUR 2001	2000
Revenue					
Net sales	14	414 437	340 756	26 487	21 778
Other revenue	15	1 303	3 176	83	203
Total revenue		415 740	343 932	26 571	21 981
Expenses					
Materials, consumables, supplies and services		(166 506)	(142 559)	(10 642)	(9 111)
Change in inventories		2 649	2 097	169	134
Other operating expenses	16	(84 578)	(62 074)	(5 406)	(3 967)
Personnel expenses	17	(126 222)	(108 746)	(8 067)	(6 950)
Depreciation of non-current assets	7	(14 241)	(12 167)	(910)	(778)
Other expenses	18	(3 717)	(1 225)	(238)	(78)
Total expenses		(392 614)	(324 674)	(25 093)	(20 750)
Operating profit		23 126	19 258	1 478	1 231
Financial income	19	484	2 458	31	157
Financial expenses	20	(6 764)	(5 217)	(432)	(333)
Profit before taxes		16 846	16 499	1 077	1 054
Declared income tax	12	(185)	0	(12)	0
Net profit for the financial year		16 661	16 499	1 065	1 054
Minority interest		950	2 238	61	143
Net profit for the Group	21	15 711	14 261	1 004	911
Basic earnings per share	21	3,27	2,97	0,21	0,19
Diluted earnings per share	21	3,25	2,97	0,21	0,19

Accounting principles set out on pages 12 - 15 and notes to the financial statements set out on pages 16-34 are the integral parts of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(indirect method)

		th EEK		th EUR	
	Note	2001	2000	2001	2000
Operating activities					
Operating profit		23 126	19 258	1 478	1 231
Adjustment for depreciation	7	14 241	12 167	910	778
Profit from sale of fixed assets		133	(593)	9	(38)
Foreign exchange difference		0	(73)	0	(5)
Change in receivables		(17 679)	(9 926)	(1 130)	(634)
Change in inventories	5	(25 644)	(9 736)	(1 639)	(622)
Change in payables		9 805	6 684	627	427
Interests paid		(5 433)	(4 876)	(347)	(312)
Income tax paid		527	1 680	34	107
Cash flow from operating activities		(924)	14 585	(59)	932
Investing activities					
Acquisition of tangible fixed assets	7	(39 574)	(17 521)	(2 529)	(1 120)
Sales of fixed assets		1 045	1 542	67	99
Finance lease and installments payments		(943)	(384)	(60)	(25)
Acquisition of subsidiaries	24	(1 719)	(1 924)	(110)	(123)
Proceeds from sales of long term investments		0	2 046	0	131
Interests received		124	332	8	21
Dividends received		9	5	1	0
Securities purchased		0	(9 636)	0	(616)
Securities sold		0	15 686	0	1 003
Repayments of loans granted		75	385	5	25
Loans granted		(53)	(155)	(3)	(10)
Cash flow from investing activities		(41 036)	(9 624)	(2 623)	(615)
Financing activities					
Repayment of loans	9	(45 925)	(10 154)	(2 935)	(649)
Loans received	9	66 802	5 328	4 269	341
Proceeds from treasury stock transactions		0	1 418	0	91
Paid for treasury stock of subsidiary		(1 626)	(150)	(104)	(10)
Dividends paid	24	(3 894)	(2 693)	(249)	(172)
Proceeds from payments into share capital		5	0	0	0
Proceeds from issue of bonds	10	24 301	0	1 553	0
Proceeds from issue of convertible bonds	10	190	0	12	0
Cash flow from financing activities		39 853	(6 251)	2 547	(400)
Foreign exchange change		(565)	0	(36)	0
Total cash flows		(2 672)	(1 290)	(171)	(82)
Cash and cash equivalents at the beginning of the year		15 298	16 588	978	1 060
Cash and cash equivalents at the end of the year		12 626	15 298	807	978

Accounting principles set out on pages 12-15 and notes to the financial statements set out on pages 16-34 are the integral parts of the financial statements.

CHANGES IN OWNERS' EQUITY (th EEK)

	Share capital	Share premium	Reserves	Treasury stock	Retained earnings	Total
Balance as at 31.12.1999	48 000	24 039	22 885	(547)	20 344	114 721
Transactions with treasury stock	0	871	0	547	0	1 418
Change in reserves	0	0	0	0	14 262	14 262
Net profit for the financial year	0	0	0	0	(147)	(147)
Foreign exchange difference	0	0	0	0	(29)	(29)
Balance as at 31.12.2000	48 000	24 910	22 885	0	32 030	127 825
Net profit for the financial year	0	0	0	0	15 711	15 711
Dividends	0	0	0	0	(3 600)	(3 600)
Balance as at 31.12.2001	48 000	24 910	22 885	0	44 141	139 936

More detailed information about owners' equity and changes in owners' equity is provided in Note 13.

CHANGES IN OWNERS' EQUITY (th EUR)

	Share capital	Share premium	Reserves	Treasury stock	Retained earnings	Total
Balance as at 31.12.1999	3 068	1 536	1 463	(35)	1 300	7 332
Transactions with treasury stock	0	56	0	35	0	91
Change in reserves	0	0	0	0	912	912
Net profit for the financial year	0	0	0	0	(9)	(9)
Foreign exchange difference	0	0	0	0	(2)	(2)
Balance as at 31.12.2000	3 068	1 592	1 463	0	2 047	8 169
Net profit for the financial year	0	0	0	0	1 004	1 004
Dividends	0	0	0	0	(230)	(230)
Balance as at 31.12.2001	3 068	1 592	1 463	0	2 821	8 944

Accounting principles set out on pages 12-15 and notes to the financial statements set out on pages 16-34 are the integral parts of the financial statements.

Short characteristics of AS BALTIKA Group

The main fields of activity of AS Baltika Group are the manufacturing of menswear and womenswear, retail and wholesale and rendering of sewing services. Group produces the following trademarks: Baltman, Everman, Plus B and Herold for men; Christine, Respect and Mascara for women. In year 2001 the number of the staff of the Group was 1585. 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 2001 the Group consists of the following companies:

	Location:	Share as at 31.12.2001	Share as at 31.12.2000
AS Baltika (parent company)	Estonia		
AS Baltman	Estonia	100 %	100 %
Baltmano Prekiba	Lithuania	100 %	100 %
Baltika Sweden AB	Sweden	100 %	100 %
Baltika Ukraine	Ukraine	99 %	99 %
AS Virulane	Estonia	75.02 %	60.88 %
Baltika Poland	Poland	100 %	100 %
AS Elina STC	Estonia	50.1 %	37.5 %
OY Baltinia AB	Finland	100 %	100 %

Accounting methods and principles of preparing the financial statements

The financial statements of 2001 have been prepared on accrual basis in accordance with historical cost convention, if not indicated otherwise in the accounting principles of a specific asset (e.g. short-term securities are recorded at market value). The consolidated financial statements for the year 2001 have been prepared in accordance with the International Accounting Standards (IAS), directions of EU and generally accepted accounting principles. All numerical data in the financial statements are presented in thousands Estonian kroons and in thousands euros, if not indicated otherwise. Estonian kroon is pegged to the German mark at the rate of 1 DEM = 8 Estonian kroons and to euro at the rate of 1 EUR = 15,64664 Estonian kroons. In 2001 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.

Revenues, unrealised profits and losses incurred from the inter-group transactions are eliminated.

The consolidated financial statements of 2001 are based on the activities of AS Baltika, AS Baltman, AS Virulane, AS Elina STC, Baltmano Prekyba, Baltika Sweden, Baltika Poland, Baltika Ukraine and OY Baltinia AB.

Foreign subsidiaries are presented according to the valuation method of the foreign operations. Monetary assets and liabilities are recorded using the rate of balance sheet date, other assets and related expenses using the rate of acquisition date, transactions with equity at the rate of transaction date, revenues and expenditures at the period's average rate except the expenditures which are recorded using historical rate (depreciation of fixed assets). Currency rate differences are recorded in income statement.

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.

Marketable securities

Marketable securities are recorded at market value: quoted shares are recorded at the closing price of the Tallinn Stock Exchange on 31.12.2001; other securities at the sales prices on financial markets. Unrealised profits and losses from revaluation of shares are recorded in the income statement under financial income (expenses).

Long-term financial investments

Other long-term financial investments (excl. subsidiaries) are recorded in the balance sheet in the fair value.

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.

Goodwill

Goodwill reflects difference between purchase price paid for subsidiary and the fair value of the purchased net assets. Goodwill is amortized using the straight-line method over their useful lives, not exceeding a period of 5 years. The amortization of positive goodwill is indicated under “financial expenses” in the income statement. The negative goodwill is recorded under “financial income” in the income statement.

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 using the Bank of Estonia exchange rate on the date of transaction.

Non-current assets

In 2001 the principles of fixed assets accounting were equalized – the lowest value of fixed asset was settled in local currency (10 000 kroons) in subsidiaries and also the principles of depreciation accounting. Fixed assets at lower value than 10 000 kroons were written out from the balance sheet and costs were recorded in the income statement under “other expenses”. As the influence of this change was immaterial for consolidated results, changes were recorded in the accounting year.

Assets with a useful life over one year and the acquisition cost from 10 000 kroons are recorded as fixed assets. Assets with the acquisition cost under 10 000 kroons are expensed in full amount when acquired (except “plant and equipment” and “other equipment”).

Tangible fixed assets are recorded at acquisition cost. Non-current self-constructed assets are recorded at acquisition cost, which includes the actual production costs. Reconstruction expenses increase the acquisition cost of reconstructed non-current physical assets. Depreciation of non-current assets is based on the straight-line method, using the useful life of fixed assets.

Software licences and intangible assets arising from development are recorded as intangible assets. Development expenditures are capitalized under intangible assets when Group can control the usage of the asset, is able to measure benefits generated by the asset and all technical, has the financial and other resources to complete the asset. Intangible assets are amortized using the straight-line method over their useful lives, not exceeding a period of 5 years.

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 the income statement.

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

Buildings, premises	1,5-9%
Reconstruction of buildings	8-15%
Production equipment	18-30%
Cars	20%
Computer equipment	40%
Other machinery and equipment	30%
Office equipment	30%
Intangible assets	20%
Investments in stores	20-33%

Customer receivables

Accounts receivable are included in the balance sheet according to the probability of the receipt of the receivables assessed on an individual basis, considering the information available regarding the client's solvency. Doubtful receivables have been written down in the balance sheet to the amount that is probable to be received (write-down is recorded in the balance sheet on the line "Customer receivables" in negative value; in the notes on the separate line "Allowance for doubtful receivables" and in income statement on the line "Other operating expenses"); uncollectible receivables have been written off from the balance sheet.

Corporate income tax

According to Estonian Income Tax Law which took effect on 1 January 2000 dividends paid by the company to resident individuals and non-residents and also certain payments and expenses mentioned in Income Tax Law chapter no 10, are the subject to income tax (26/74 of net dividend paid).

Deferred tax is calculated according to the liability method on all temporary differences between the taxation values and net book values of assets and liabilities.

The company's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The amount of potential tax liability related to the distribution of dividends depends on whether and when the company pays out the dividends, and in which proportion the shares are owned by resident entities, resident natural persons and non-residents at that moment. The maximum possible tax liability, which would become payable if the retained earnings, would be fully paid out as dividends, is disclosed in Note 12.

Income tax from the payment of dividends is recorded as expense in the Income Statement at the moment of declaring the dividends.

Vacation pay accrual

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 personnel expenses in the income statement and as current liability in the balance sheet.

Net sales

Net sales of goods are recorded on accrual basis according to the realisation principle based on the supplying terms and include neither taxes nor commission fees. Net sales of services are recorded at the moment of accommodation. Interest income is recorded on accrual basis. Dividend income is recorded when the company claims the right of demand.

Segment reporting

All assets directly related to the segments are recorded as the assets of the segment and all liabilities directly related to the segments are recorded as the liabilities of the segments. Unallocated assets and liabilities are recorded as the assets and liabilities of the Group. The primary segments of the Group are operational segments (retail operations are separated from manufacturing, wholesale and other services); the secondary segments are geographical - by the locations of distribution network. Expenses not related to a specific segment are recorded as not allocated expenses of the Group.

Accounting for leases

IAS 17 has been followed in accounting for leases. The lease agreement is considered the financial lease, if all significant income and risks are transferred to the lessor. The assets leased based on the financial 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 as an operating lease and the payments made according to such agreements are expensed as rental cost when occurred in the income statement under "other operating expenses".

Cash and cash equivalents

Cash consists of cash in hand and on bank accounts and short-term deposits. The 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. Loan expenses are not capitalised.

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.

Earnings per share

Basic earnings per share is the amount that company can pay out to shareholders, based on the weighted average number of shares outstanding during the year. The diluted earnings per share is calculated taking into account the weighted average number of potential ordinary shares (considering the influence of convertible bonds).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

Marketable securities, short-term placements of monetary funds

EEK	31.12.2001			31.12.2000	
	Acquisition cost	Quantity	Book value	Quantity	Book value
Shares of Tallinna Kaubamaja	5 160	5 160	308 310	5 160	283 800
Hansabank AS	136 224	1 056	170 808	1 056	146 784
Briti Kaubamaja	95 000	95	95 000	0	0
Total	236 384		574 118		430 584

EUR	31.12.2001			31.12.2000	
	Acquisition cost	Quantity	Book value	Quantity	Book value
Shares of Tallinna Kaubamaja	330	5 160	19 705	5 160	18 138
Hansabank AS	8 706	1 056	10 917	1 056	9 381
Briti Kaubamaja	6 072	95	6 072	0	0
Total	15 108		36 693		27 519

Profit from dividends received in the amount of 8,9 th EEK (0,6 th EUR). Profit from reassessment of shares is recorded in the income statement in the "financial income" (note 20).

NOTE 2

Customer receivables

	Th. EEK		Th. EUR	
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
Accounts receivable	58 546	46 087	3 742	2 945
Allowance for doubtful accounts	(2 431)	(752)	(155)	(48)
Total	56 115	45 335	3 586	2 897

Every receivable has been reviewed separately when assessing the value of receivables. In 2001 the allowance for doubtful debt was made amounting to 1 677 th. kroons (107,2 th EUR). Uncollectible receivables have been written off from the balance sheet. Uncollectible receivables, expensed in previous periods were written off the balance sheet in the amount of 895 th kroons (57,2 th EUR) in 2001. During 12 months 77 th. kroons (4,9 th EUR) of receivables written off in previous periods were collected.

In 2000 the allowance in amount of 930 th kroons (59 th EUR) for doubtful receivables was made, and doubtful receivables were written off the balance sheet in the amount of 5,1 million kroons.

NOTE 3

Other receivables and prepaid expenses

	Th. EEK		Th. EUR	
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
Receivables from shareholders	0	4	0	0
Other short-term receivables	700	1 881	45	120
Prepaid / refundable taxes	8 156	5 560	521	355
Prepaid expenses	1 910	1 737	122	111
Interest receivables	35	40	2	3
Total	10 801	9 218	690	589

For further information about prepaid and refundable taxes see Note 4. As at 31.12.2001 prepaid expenses consist of rental prepayments, insurance prepayments, subscription costs of periodicals, etc.

NOTE 4

Tax receivables and liabilities

Tax receivables (prepayments)

	Th. EEK		Th. EUR	
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
Corporate income tax	74	786	5	50
VAT	7 976	4 774	510	305
Personal income tax	7	0	0	0
Income tax on fringe benefits	99	0	6	0
Total	8 156	5 560	521	355

Tax liabilities

	Th. EEK		Th. EUR	
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
Personal income tax	1 872	1 777	120	114
Social tax	1 844	2 938	118	188
Income tax on fringe benefits	6	42	0	3
VAT	1 267	1 399	81	89
Other taxes	92	11	6	1
Total	5 081	6 167	325	394

NOTE 5

Inventories

	Th. EEK		Th. EUR	
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
Raw materials	44 049	36 706	2 815	2 346
Allowance for materials	(1 199)	(2 021)	(77)	(129)
Work in progress	11 681	7 509	747	480
Finished goods; goods on sale	77 249	65 230	4 937	4 169
Allowance for finished goods	(1 131)	(2 610)	(72)	(167)
Prepayments to suppliers	495	687	32	44
Total	131 145	105 501	8 382	6 743

The balance of finished goods as at 31.12.2001 includes inventory at net realizable value amounting to 9,4 million kroons (0,6 mln EUR) (from which finished goods form 7,6 million kroons (0,49 mln EUR) and materials 1,8 million kroons (0,11 mln EUR)). As at 31.12.2000 the balance of finished goods includes inventory at net realisable value amounting to 12,4 million kroons (0,79 mln EUR).

NOTE 6

Long-term financial assets

	Th. EEK		Th. EUR	
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
Shares	7	102	0,45	6,51
AS Briti Kaubamaja	0	95	0,00	6,07
OÜ Temotent	7	7	0,45	0,45
Long-term receivables	2593	715	165,62	45,67
Loan to the manager of subsidiary (see also Note 22)	133	126	8,49	12,52
Long-term rental prepayment	2460	519	157,12	33,15
Other long-term receivables		70		
Total	2600	817	166,06	52,18

NOTE 7

Tangible and intangible fixed assets

In 2001 production equipment totalling to 8,71 million kroons (0,6 mln EUR) was acquired, computer technology amounting to 1,21 million kroons (0,1 mln EUR) and other equipment amounting to 1,1 million kroons (0,1 mln EUR) was acquired.

On the territory of the main building in Veerenni Str 24 existing warehouse was reconstructed to a warehouse of finished goods for 3,8 million kroons (0,2 mln EUR), reconstructing work was also done in the main building. New stores were renovated and furnished in Estonia, Lithuania, Poland and Ukraine for 11,3 mln kroons (0,7 mln EUR). Construction works to build a new factory in Ahtme started in subsidiary Virulane. At the end of 2001 construction in progress amounted to 7,8 mln kroons (0,5 mln EUR) and prepayments amounted to 2,6 mln kroons (0,2 mln EUR).

Tangible fixed assets (th EEK)

	Land	Buildings premises	Plant, equipment	Other equipment	Constr. in progress	Pre- payment	Total
Acquisition cost at 31.12.2000	3 043	32 001	60 070	27 868	72	256	123 310
Accumulated depreciation 31.12.2000	0	(9 155)	(46 413)	(12 996)	0	0	(68 564)
Net book value at 31.12.2000	3 043	22 846	13 657	14 872	72	256	54 746
Acquired in 2001	0	9 270	9 004	8 025	9 648	2 692	38 639
Sold in 2001	(39)	(11)	(74)	(278)	0	0	(402)
Written off in 2001	0	0	(428)	(261)	0	0	(689)
Taken into use	0	0	0	0	(72)	(256)	(328)
Depreciation of 2001	0	(2 766)	(6 882)	(3 846)	0	0	(13 494)
Exchange differences				68			68
Internal reclassification	0	3 393	1 072	(4 614)	0	0	(149)
Acquisition cost at 31.12.2001	3 004	44 606	67 768	25 469	9 648	2 692	153 187
Accumulated depreciation 31.12.2001	0	(11 874)	(51 419)	(11 503)	0	0	(74 796)
Net book value at 31.12.2001	3 004	32 732	16 349	13 966	9 648	2 692	78 391

Tangible fixed assets (th EUR)

	Land	Buildings premises	Plant, equipment	Other equipment	Constr. in progress	Pre- payment	Total
Acquisition cost at 31.12.2000	194	2 045	3 839	1 781	5	16	7 881
Accumulated depreciation 31.12.2000	0	(585)	(2 966)	(831)	0	0	(4 382)
Net book value at 31.12.2000	194	1 460	873	950	5	16	3 499
Acquired in 2001	0	592	575	513	617	172	2 469
Sold in 2001	(2)	(1)	(5)	(18)	0	0	(26)
Written off in 2001	0	0	(27)	(17)	0	0	(44)
Taken into use	0	0	0	0	(5)	(16)	(21)
Depreciation of 2001	0	(177)	(440)	(246)	0	0	(862)
Exchange differences	0	0	0	4	0	0	4
Internal reclassification	0	217	69	(295)	0	0	(10)
Acquisition cost at 31.12.2001	192	2 851	4 331	1 628	617	172	9 790
Accumulated depreciation 31.12.2001	0	759	3 286	735	0	0	4 780
Net book value at 31.12.2001	192	2 092	1 045	893	617	172	5 010

To unify the Group's non-current assets' accounting principles, during the reporting period tangible assets were reclassified in all subsidiaries. Due to the mentioned reclassifications 1 072 th kroons (68 th EUR) were reclassified from "other equipment" to "plant and equipment" and 3 393 th kroons (217 th EUR) to "buildings and premises". According to that reclassification also depreciation was reclassified - depreciation of "other equipment" was reduced by 1 136 th kroons (73 th EUR), depreciation of "plant and equipment" was increased by 331 th kroons (21 th EUR) and depreciation of "buildings and premises" was increased by 762 th kroons (49 th EUR).

Pledged assets in Note 9.

Intangible fixed assets (th EEK)

	Intangible fixed assets	Positive goodwill	Negative goodwill	Total
Acquisition cost at 31.12.2000	2 116	1 918	0	4 034
Accumulated depreciation at 31.12.2000	(1 060)	(1 088)	0	(2 148)
Net book value at 31.12.2000	1 056	830	0	1 886
Acquisitions in 2001	3 955	0	0	3 955
Goodwill acquisition	0	419	(351)	68
Written off in 2001	(38)	0		(38)
Internal reclassification	149	0	0	149
Depreciation of 2001	(741)	0	8	(733)
Depreciation of positive goodwill*	0	(450)		(450)
Depreciation of negative goodwill*	0	0	343	343
Acquisition cost at 31.12.2001	6 182	2 337	0	8 519
Accumulated depreciation at 31.12.2001	(1 801)	(1 538)	0	(3 339)
Net book value at 31.12.2001	4 381	799	0	5 180

Intangible fixed assets (th EUR)

	Intangible fixed assets	Positive goodwill	Negative goodwill	Total
Acquisition cost at 31.12.2000	135	123	0	258
Accumulated depreciation at 31.12.2000	(68)	(70)	0	(137)
Net book value at 31.12.2000	67	53	0	121
Acquisitions in 2001	253	0	0	253
Goodwill acquisition	0	27	(22)	5
Written off in 2001	(2)	0	0	(2)
Internal reclassification	10	0	0	10
Depreciation of 2001	(47)	0	1	(47)
Depreciation of positive goodwill*	0	(29)	0	(29)
Depreciation of negative goodwill*	0		22	22
Acquisition cost at 31.12.2001	395	149	0	544
Accumulated depreciation at 31.12.2001	(115)	(98)	0	(213)
Net book value at 31.12.2001	280	51	0	331

* - Recorded in the income statement respectively in lines "financial expense" and "financial income".

Due to the reclassifications of fixed 149 th kroons (10 th EUR) of software in subsidiary Baltmano Prekyba was reclassified from "other equipment" into "intangible assets". Respectively fixed assets depreciation was reclassified in the amount of 43 th kroons (2,7 th EUR). Acquired negative goodwill in the amount of 343 th kroons (21,92 th EUR) is recorded in the income statement in "financial income" because its effect is immaterial to the profit.

NOTE 8

Accounting for leases

Operating lease

Future period operating lease payments are divided as follows:

	Th. EEK		Th. EUR	
	2001	2000	2001	2000
Up to 1 year	24 952	13 922	1 595	890
1 to 5 years	67 252	57 147	4 298	3 652
More than 5 years	3 944	6 424	252	411
	96 148	77 493	6 145	4 953

Operating lease expenses include lease payments for selling premises and vehicles. Rental contracts for selling premises are not restrictive for long periods; most of the rental contracts can be terminated at two months notice.

The total amount of operating lease payments made in 2001 was 24 668 th kroons (1 577 th EUR), in 2000: 13 401 th kroons (856 th EUR).

Lease payments receivable include rental income.

Lease payments receivable are divided as follows (the payments of open-end contracts are assessed as 5 years rental period payments).

	th. EEK	th. EUR
Up to 1 year	748	48
1 to 5 years	1 988	127
More than 5 years	0	0

Lease payments received in 2001 totalled at 1 392 th. kroons (89 th EUR), in 2000: 1 431 th. kroons (91 th EUR).

Leased out assets as at 31.12.2001 (th EEK):

	Acquisition cost	Acc. depreciation 01.01.2001	Depreciation of 2001	Net book value 31.12.2001
Buildings	267	70	12	197

Leased out assets as at 31.12.2001 (th EUR):

	Acquisition cost	Acc. Depreciation 01.01.2001	Depreciation of 2001	Net book value 31.12.2001
Buildings	17	4	1	13

NOTE 9

Debt obligations

Short-term debt obligations

	Th. EEK		Th. EUR	
	2001	2000	2001	2000
Liability to Estonian Privatization Agency	941	384	60	25
Current period long-term debt repayment	1 874	0	120	0
Short-term bank loans	6 639	51 253	424	3 276
Short-term lease liabilities	74	0	5	0
Convertible bonds	192	0	12	0
Yield to maturity bonds	25 000	0	1 598	0
Total	34 720	51 637	2 219	3 300

Short-term debt obligations

	Th. EEK		Th. EUR	
	2001	2000	2001	2000
Liability to Estonian Privatization Agency	0	1 344	0	86
Long-term bank loans	63 617	0	4 066	0
Long-term lease liabilities	106	0	7	0
Total	63 723	1 344	4 073	86

In 2001 interest payments amounted to 5 671 th. kroons (362,4 th EUR), in 2000 to 4 778 th. kroons (305,4 th EUR).

Bank loans (th EEK)

Creditor	Loan balance 31.12.2001	Short-term amount (to one year)	Long-term amount (1-5 years)	Interest rate	Repayment deadline
Merita Bank	15 000	1 874	13 126	3 kuu Euribor +2,5%	08.05.2006
Hansabank	45 800	0	45 800	7,4%	31.12.2004
Hansabank	4 691	0	4 691	6 kuu Euribor +3,25%	31.12.2008
Hansabank (credit line)	6 639	6 639	0	7,6%	30.10.2002
Total	72 130	8 513	63 617		

Bank loans (th EUR)

Creditor	Loan balance 31.12.2001	Short-term amount (to one year)	Long-term amount (1-5 years)	Interest rate	Repayment deadline
Merita Bank	959	120	839	3 kuu Euribor +2,5%	08.05.2006
Hansabank	2 927	0	2 927	7,4%	31.12.2004
Hansabank	300	0	300	6 kuu Euribor +3,25%	31.12.2008
Hansabank (credit line)	424	424	0	7,6%	30.10.2002
Total	4 610	544	4 066		

AS Baltika has the group account in Hansapank - overdraft limit is 25 million kroons (1,6 mln EUR). As at 31.12.2001 6,6 million kroons (0,4 mln EUR) of that limit was in use. In 2001 a short-term loan was repaid to Hansabank and a new long-term loan was contracted in the amount of 2 927 th EUR. Collateral of the loans is a commercial pledge of 67 680 th. kroons (4 326 th EUR), which is registered in the Registry for the Commercial Pledges and mortgage for real estate in Veerenni 24 in the amount of 40 mln kroons (2,5 mln EUR). Residual value of the pledged asset (in mortgage) is 29,7 mln kroons (1,9 mln EUR) at 31.12.2001.

Subsidiary Virulane contracted a long-term loan agreement for financing the construction of the new factory in Ahtme in the amount of 959 th EUR (the limit was not withdrawn in whole amount at the end of 2001). Collaterals of the loan are the mortgages in Kalda Street 10A in Rakvere and in Õpetajate Street 5 in Ahtme and also guarantee of Baltika.

Repayment deadline of the debt to Estonian Privatisation Agency is 28.12.2008, interest rate 10 %. AS Baltika is obliged to arrange the mortgage in the value of 3,9 mln kroons for Hansabank latest on the 28-th of February in 2002. The mortgage will be set for land when the loan to Estonian Privatization Agency is repaid. As at the moment of writing the annual report the loan has been repaid then the balance of liabilities to Estonian Privatization Agency (31.12.2001) is recorded as short-term liabilities.

NOTE 10

Bonds

Convertible bonds

On the 6-th of April 2001 the decision to issue 576 000 (192 000 in a year) convertible bonds (nominal value 1 kroon) in years 2001-2003 was made at the stockholders' meeting. The right to subscribe convertible bonds was given to management. Every convertible bond gives the owner the right to register one share of Baltika (nominal value 10 kroons).

Bonds subscription dates:

192 000 A bonds before April the 15-th 2001;
192 000 B bonds before April the 15-th 2002;
192 000 C bonds before April the 15-th 2003.

As the result of the subscription of bonds the share capital can increase maximum by 576 000 new shares (that is by 5 760 000 kroons).

Shares subscription dates:

A-bonds since May the first 2002;
B-bonds since May the first 2003;
C-bonds since May the first 2004

The redemption price in the first year is 25 kroons per share. In the two following years the redemption price will be the average price of trade volume in Tallinn Stock Exchange for periods 1-st of January till 31-st of March 2002 (B bonds) and 1-st of January till 31-st of March 2003 (C bonds).

Interests are not calculated till redemption date.

At 31.12.2001: 192 000 convertible bonds were issued and registered:

	Quantity	Selling price EEK	Selling price EUR
Members of management	106 000	106 000	6 775
Other members of managerial staff	86 000	86 000	5 496
Total	192 000	192 000	12 271

Consolidated Financial Statements of AS Baltika. Thousand Estonian kroons, in thousand euros

Yield to maturity bond issue

In October 2001 the yield to maturity bond issue was organized during 182 days. The scope of the issue was 25 mln kroons (1,6 mln EUR). Debt instrument is unsecured.

	Quantity	Nominal EEK	Nominal EUR	Sum EEK	Sum EUR	Selling price	Interest %	Redemption date
Bond A	1 000	10 000	639	10 000 000	639 115	9743.85	5,2	12.04.2002
Bond B	1 500	10 000	639	15 000 000	958 672	9763.08	4,8	12.04.2002
Total				25 000 000	1 597 787			

The effective interest rate does not differ substantially from conventional rate of interest, because the bonds are short-term and the transaction costs are immaterial.

NOTE 11

Accrued expenses

	Th. EEK		Th. EUR	
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
Salary related expenses (salaries, vacation pay, bonuses, etc.)	6 203	6 865	396	439
Dividends payable	279	277	18	18
Interest payable (accrued loan interest with payment deadline to come)	134	107	9	7
Other accrued expenses	25	373	2	24
Total accrued expenses	6 641	7 622	424	487

NOTE 12

Income tax

There are no significant deferrable tax losses in the Group. The corporate income tax (185 th kroons/ 12 th EUR) was paid in subsidiary in Ukraine (tax rate 30%).

The company's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet, as this liability cannot be estimated reliably. If the parent company paid the entire amount of retained earnings, as at 31.12.1999 (13 247 th kroons/ 847 th EUR) out as dividends, no income tax liability would arise, as income tax would already be paid on that part of income from 1994 to 1999. Retained earnings accumulated since 2000 (37 774 th kroons/ 2141 th EUR) are subject for income tax payable (26/74 of net dividend payments)

The maximum possible tax liability, which would become payable if the retained earnings would be fully paid out as dividends as at 31.12.2001 would be 13,3 million kroons (0,85 mln EUR).

NOTE 13

Equity

Share capital

The share capital of 48,000,000 kroons (3 067 751 th EUR) consists of 4,800,000 common shares with the nominal value of 10 kroons (0,64 EUR) 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 31.12.2001:

	Quantity	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	384 239	8.0050
Maire Milder	18 000	0.3750
Ülle Järv	17 763	0.3700
Boriss Loifenfeld	3 360	0.0700
3. Investor holding 5% or more interest		
Customers of the Bank of Bermuda	1 914 400	39.8833
Tõnis Kotkas	250 000	5.2083

Retained earnings

Retained earnings as at 31.12.2001 amounted to 44 141 th. kroons (2 821 th EUR).

Dividends payable will be recorded in the balance sheet after the general meeting of shareholders will have declared the payment of dividends. Such declaration has not been made at the time of preparing the current financial statements.

In 2001 AS Baltika has paid out dividends of 3 600 th. kroons (230,1 th EUR), AS Virulane 631,1 th. kroons (40,3 th EUR) and AS Elina 238,8 th kroons (15,3 th EUR).

NOTE 14

Segment information

The primary segments of the Group are operational segments; the secondary segments are geographical - by the locations of distribution network.

Industrial segment – primary

2001 industrial segment by operations

Th EEK

	Retail operations 2001	Manufacturing and wholesale operations 2001	Transactions between segments 2001	Total 2001
Sales outside the Group	153 079	261 358	0	414 437
Sales between the segments	0	156 258	-156 258	0
Sales total	153 079	417 616	-156 258	414 437
Operating profit of the segment	16 115	16 384	0	32 499
Unallocated business expenses				-9 373
Total operating profit	16 115	16 384	0	23 126
Other financial income				484
Other financial expenses				-6 764
Income tax				-185
Profit of the Group				16 661
Minority interest				950
Net profit				15 711
Assets	86 355	205 337	-7 950	283 742

Consolidated Financial Statements of AS Baltika. Thousand Estonian kroons, in thousand euros

Unallocated assets of the Group				9 109
Total assets	86 355	205 337	-7 950	292 851
Liabilities	66 042	50 101	-64 136	52 007
Unallocated liabilities of the Group				101 742
Total liabilities	66 042	50 101	-64 136	153 749
Acquisition of fixed assets	11 165	19 366		30 531
Depreciation	4 863	9 378		14 241
Other significant non-monetary expenses				4 761

2000 industrial segment by operations

Th EEK

	Retail operations 2000	Manufacturing and wholesale operations 2000	Transactions between segments 2000	Total 2000
Sales outside the Group	108 345	232 411		340 756
Sales between the segments	0	86 083	-86 083	0
Sales total	108 345	318 494	-86 083	340 756
Operating profit of the segment	11 425	16 274	0	27 699
Unallocated business expenses				-8 441
Total operating profit	11 425	16 274	0	19 258
Other financial income				2 458
Other financial expenses				-5 217
Income tax				0
Profit of the Group				16 499
Minority interest				2 238
Net profit				14 261
Assets	55 534	163 738	0	219 272
Unallocated assets of the Group				9 946
Total assets	55 534	163 738	0	229 218
Liabilities	31 538	32 911	-27 651	36 798
Unallocated liabilities of the Group				59 441
Total liabilities	31 538	32 911	-27 651	96 239
Acquisition of fixed assets	7 713	9 695	0	17 408
Depreciation	2 727	9 440	0	12 167
Other significant non-monetary expenses				5 373

2001 industrial segment by operations

Th EUR

	Retail operations 2001	Manufacturing and wholesale operations 2001	Transactions between segments 2001	Total 2001
Sales outside the Group	9 784	16 704	0	26 487
Sales between the segments	0	9 987	-9 987	0
Sales total	9 784	26 690	-9 987	26 487
Operating profit of the segment	1 030	1 047	0	2 077
Unallocated business expenses				-599
Total operating profit	1 030	1 047	0	1 478
Other financial income				31
Other financial expenses				-432
Income tax				-12
Profit of the Group				1 065
Minority interest				61
Net profit				1 004
Assets	5 519	13 123	-508	18 134
Unallocated assets of the Group				582
Total assets	5 519	13 123	-508	18 717
Liabilities	4 221	3 202	-4 099	3 324
Unallocated liabilities of the Group				6 502
Total liabilities	4 221	3 202	-4 099	9 826
Acquisition of fixed assets	714	1 238	0	1 951
Depreciation	311	599	0	910
Other significant non-monetary expenses				304

2000 industrial segment by operations

Th EUR

	Retail operations 2000	Manufacturing and wholesale operations 2000	Transactions between segments	Total 2000
Sales outside the Group	6 924	14 854	0	21 778
Sales between the segments	0	5 502	-5 502	0
Sales total	6 924	20 356	-5 502	21 778
Operating profit of the segment	730	1 040	0	1 770
Unallocated business expenses				-539
Total operating profit	730	1 040	0	1 231
Other financial income				157
Other financial expenses				-333
Income tax				0

Consolidated Financial Statements of AS Baltika. Thousand Estonian kroons, in thousand euros

Profit of the Group				1 054
Minority interest				143
Net profit				911
Assets	3 549	10 465	0	14 014
Unallocated assets of the Group				636
Total assets	3 549	10 465	0	14 650
Liabilities	2 016	2 103	-1 767	2 352
Unallocated liabilities of the Group				3 799
Total liabilities	2 016	2 103	-1 767	6 151
Acquisition of fixed assets	493	620	0	1 113
Depreciation	174	603	0	778
Other significant non-monetary expenses				343

Segment "Retail operations" includes assets, liabilities, income and expenses of these subsidiaries that act on retail operations and of factory stores of AS Baltika and AS Virulane.

Segment "Manufacturing and wholesale operations" includes assets, liabilities, income and expenses of manufacturing, wholesale and other bound activities.

Assets and liabilities do not include financial assets and liabilities; income and expenses do not include financial income and expenses from abovementioned assets and liabilities.

Unallocated asset is the administrative building. Liabilities, which are not allocated to certain segments, are long-term loans, dividend- and interest liabilities. Unallocated business expenses include central office expenses.

Geographical segment report – secondary

	Th. EEK		Th. EUR	
	2001	2000	2001	2000
Estonia	122 244	116 404	7 813	7 440
Latvia	34 078	31 569	2 178	2 018
Lithuania	44 289	39 728	2 831	2 539
Russia	56 622	25 172	3 619	1 609
Ukraine	29 224	2 589	1 868	165
Finland	57 175	51 024	3 654	3 261
Sweden	25 904	35 914	1 656	2 295
England	25 627	26 225	1 638	1 676
Germany	0	3 725	0	238
Poland	14 079	4 163	900	266
Norway	2 008	2 303	128	147
Austria	78	0	5	0
Denmark	0	86	0	5
USA	3 109	1 853	199	118
Total	414 437	340 755	26 487	21 778

At 31.12.2001 assets hold in foreign subsidiaries amounted to 56 415 th kroons (3 606 th EUR). The amount of fixed assets acquired in foreign subsidiaries formed 8 195 th kroons (524 th EUR).

The company's management assessment is that the prices used in inter-segment transactions do not materially differ from the market prices.

NOTE 15

Other revenue

	Th. EEK		Th. EUR	
	2001	2000	2001	2000
Profit from sales of fixed assets	680	642	43	41
Foreign exchange gain	0	634	0	41
Other revenue	623	1 900	40	121
Total	1 303	3 176	83	203

NOTE 16

Operating expenses

	Th.EEK		Th.EUR	
	2001	2000	2001	2000
Rent	24 668	13 401	1 577	856
Fuel and energy	6 060	4 074	387	260
Transport expenses	6 171	4 455	394	285
Travelling expenses	3 405	2 852	218	182
Advertising	9 514	7 948	608	508
Insurance	1 266	1 035	81	66
Municipal services	659	497	42	32
Personal retrieval	671	111	43	7
Training expenses	971	448	62	29
Security expenses	1 593	1 357	102	87
Consultancy	1 041	1 291	67	83
Commissions	2 738	788	175	50
Research	779	1 147	50	73
Doubtful accounts and bad debts	2 572	930	164	59
IT costs	4 353	1 592	278	102
Other expenses	18 117	20 148	1 158	1 288
Total	84 578	62 074	5 406	3 967

Other expenses include stationery costs, protection costs, repair costs, credit cards expenses, agency fees etc.

NOTE 17

Personnel expenses

	Th EEK		Th EUR	
	2001	2000	2001	2000
Salaries	90 707	77 489	5 797	4 952
Social security tax	29 311	25 754	1 873	1 646
Vacation pay and bonuses	6 204	5 503	397	352
Total	126 222	108 746	8067	6950

NOTE 18

Other expenses

	Th. EEK		Th. EUR	
	2001	2000	2001	2000
Membership fees	96	132	6	8
Losses from sales and write-off of fixed assets	813	49	52	3
Fines, penalties, tax interests	20	5	1	0
Representation expenses	1523	856	97	55
Foreign exchange losses	308	0	20	0
Other expenses	957	183	61	12
Total	3 717	1 225	238	78

NOTE 19

Financial income

	Th. EEK		Th. EUR	
	2001	2000	2001	2000
Income from sale of long-term financial investments	0	1 522	0	97
Interest income	119	303	8	19
Dividends received	9	5	1	0
Income from short-term securities	49	271	3	17
Other financial income	307	357	20	23
Total	484	2 458	31	157

NOTE 20

Financial expenses

	Th. EEK		Th. EUR	
	2001	2000	2001	2000
Interest expense on loans	5 671	4 778	362	305
Foreign exchange loss	565	74	36	5
Other financial expenses	528	365	34	23
Total	6 764	5 217	432	333

NOTE 21

Earnings per share

		2 001	2 000
Average number of shares	tk	4 800 000	4 800 000
Net profit	tuh. EEK	15 711	14 262
	tuh. EUR	1 004	912
Basic earnings per share	EEK	3,27	2,97
	EUR	0,21	0,19

A diluted earnings per share of 2001 is 3,25 kroons (0,21 EUR). In 2000 basic earnings per share equalled with diluted earnings per share. When calculating diluted earnings per share the 192 000 convertible bonds issued, which give the owner the right to convert the bonds into shares of Baltika (the share option for management), have been taken into account (see Note 10). The option price is 25 kroons. The average market price of the share of Baltika was 34 kroons (2,17 EUR) in the year 2001.

NOTE 23

Related parties

Subsidiary Baltmano Prekiba granted a loan to the managing director in the amount of 133 thousand kroons (30 th LTL), repayment deadline 01.05.2006. Interest is not calculated as long as the employment contract is valid.

In 2001 salaries in the amount of 2 872 th. kroons (184 th EUR) were paid to the management of AS Baltika and 57,6 th. kroons (4 th EUR) were paid to the members of Supervisory Board.

In April 2001 members of the management had the right to mark 106 000 convertible bonds. In May 2002 the owners of convertible bonds have the right to possess shares of Baltika (see Note 10).

Goods bought from OÜ Maisan, the company under the control of the members of the management of Baltika, amounted to 4 531 th kroons in the year 2001.

The company's management assessment is that the prices used in transactions with related parties do not materially differ from the market prices.

NOTE 23

Financial risks

Foreign currency risk

Export makes a total of 71% 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 also in EUR.

Since 01.01.2001 the currency, used in transactions with countries that are the members of European Monetary Union, is euro, so the currency risk related to national currency is eliminated.

In 2001 the foreign exchange gains totalled to 2 478 th. kroons and foreign exchange loss to 2 784 th. kroons.

Credit and liquidity risk

The Group is exposed to credit risks regarding the solvency of business partners in Russia. No guarantees have been given to the receivables presented in the balance sheet. The liquidity risks due to the Group's seasonal production and sales cycle are not of constant nature. The amount expressing maximum liquidity risk is as at 31.12.2001 47.2 million kroons, incl. 28,9 million kroons related to transactions with Russia.

Interest risk

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

NOTE 24

Shareholdings in subsidiaries

In the year 2001 changes in AS Baltika shareholdings in AS Virulane:

	Share %	Acquisition cost TEEK	Acquisition cost TEUR	Goodwill TEEK	Goodwill TEUR
Shareholding in the beginning of the year 31.12.2000	60,88%				
a) Purchase of shares	+8,41%	1 505	96	(239)	(15)
b) Transactions with treasury stock (purchase and cancellation)	+0,5%	51	3	(104)	(7)
c) Barter transaction of option shares for Baltika's shares	+5,23%	1575	101	419	27
Shareholding in the end of the year 31.12.2001	75,02%				

- a) AS Baltika purchased 3 540 (cost of acquisition 1 505 th kroons/ 96 th EUR) shares of AS Virulane. The payment was monetary. Negative goodwill 239 th. kroons is recorded in the income statement in line "other financial income" (see Note 7).
- b) AS Virulane repurchased 338 treasury stock units (150 kroons per share, nominal value 200 kroons per share). According to the decision of the general meeting of AS Virulane, 1338 shares (1000 treasury stock units were repurchased earlier) were cancelled, the result was the decrease of the share capital of AS Virulane by 267,6 th kroons. Due to the purchased treasury stock negative goodwill occurred in the amount of 104 th. kroons, which is recorded in the income statement as "other financial income" (see Note 7).
- c) In March 2001 the share of AS Baltika in AS Virulane was increased up to 75,02 %. Share increase was the effect of realizing the option shares belonging to the management of AS Virulane. 2200 shares of AS Virulane were changed for 43 756 shares of Baltika. Shares of Baltika were purchased at market price 36 kroons per share. The total amount of transaction was 1 575,2 th kroons (100,7 th EUR). Positive goodwill 419 th kroons will be depreciated in 5 years (see Note 7).

In the year 2001 the changes in a share of AS Baltika in AS Elina:

	Share %	Acquisition cost TEEK	Acquisition cost TEUR	Goodwill TEEK	Goodwill TEUR
Share in the beginning of the year 31.12.2000	37,5%				
a) Purchase of the share	+12,6%	214	14	(8)	(0,5)
Share in the end of the year 31.12.2001	50,1%				

- a) In February 2001 the share of AS Baltika in AS Elina was increased up to 50,1 %. Share increase was the effect of acquiring shares. 1260 shares were purchased in the acquiring cost of 214 th kroons (14 th EUR). Negative goodwill occurred in the amount of 8 th kroons (0,5 th EUR), that is recorded in the income statement in line "fixed asset depreciation" (see Note 7).

NOTE 25

Contingent liabilities

The group guarantees the deposits of rental payments for the shops to the third parties in the amount of 65 th EUR (1 010 th kroons).

NOTE 26

Off-balance sheet assets

The raw materials (fabric, lining etc.) in the total amount of 1 046 th. meters imported for fulfilling the orders by the sub-contractors are kept on consignment in the warehouses of AS Baltika.

NOTE 27

“Fair value”

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

NOTE 28

Subsequent events

In January 2002 AS Baltika sold the preemptive right for real estate in Viru Street 10. Income from sale is recorded in the accounting report of 2002. January 2002, when the preemptive right was sold, contract with Hoiupanga Liisingu AS was valid. Taking into account the fact, that at the time of submitting the accounting report, the sale was already concluded, all long-term rental payments were recorded as short-term payments (31.12.2001).

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 2001 as set out on pages 7 to 34. These financial statements are the responsibility of the Group'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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2001 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



Hanno Lindpere
Authorised auditor

12 March 2002