AS BALTIKA

2002 ANNUAL REPORT
(Translation of the Estonian original)

Commercial Name	AS Baltika
Commercial Registry No	10144415
Legal Address:	Veerenni 24,Tallinn 10135, Estonia
Phone	+37 6302 731
Fax	+37 6302 814
E-mail	baltika@baltika.ee
Auditor	AS PricewaterhouseCoopers
Reporting Period	01.01.2002-31.12.2002
Main Fields of Activity	Manufacturing of menswear and womenswear, retail and wholesale, and sewing services

Table of Contents

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Short Characteristics of AS Baltika group

Baltika Group is an international clothing trade company with AS Baltika as a parent company. The group operates Monton, Baltman, CHR/Evermen and Baltika Factory Shop retail chains in 70 shops at 7 countries – Estonia, Latvia, Lithuania, Poland, the Ukraine, Russia and Sweden. Baltika uses vertically integrated business model. BG's brands are marketed via its own retail chains and wholesalers, the main brands being Baltman, Evermen and Herold (overcoats) for men, and CHR and Mascara (overcoats) for women. Monton, the brand for both men and women, is marketed solely through BG's retail chain Monton.

The history of BG dates back to 1928, when the sewing factory "Gentleman" was founded. By now, BG has become a leading clothing trade company, comprising of 7 trade and 3 production enterprises.

As of 31.12.2002, the group had 1,725 employees. The company is located and has been registered at Veerenni 24, Tallinn, Estonia. AS Baltika is listed in Tallinn Stock Exchange in I-list.

As of 31.12.2002, the group consists of the following companies:

	Country of location	Participation 31.12.2002	Participation 31.12.2001
AS Baltika (parent)	Estonia		
AS Baltman	Estonia	100 %	100 %
Baltika Lietuva	Lithuania	100 %	100 %
Baltika Sweden	Sweden	100 %	100 %
Baltika Ukraina	Ukraine	99 %	99 %
Baltika Poland	Poland	100 %	100 %
Baltika Latvija	Latvia	75 %	-
OY Baltinia AB	Finland	100 %	100 %
AS Virulane	Estonia	75,02%	75,02 %
AS Elina STC	Estonia	50,10%	50,10 %

Management Report of AS Baltika Group 2002

1. Implementation of BG Strategy for 2002–2004

The general meeting of AS Baltika's shareholders, held in May 2002, approved the Baltika Group's strategy for 2002–2004. According to the strategy, the main goal of Baltika Group (BG) is to become the leading clothing-specialised trade company in Central and Eastern Europe by 2004. The goals for year 2002, the first year of the three-year programme, were:

- to accelerate the growth of sales in comparison with the year 2001 by 22% and to increase the share of retail sales to 50% of the total sales.
  Result: the sales of BG grew by 17% compared to 2001 (EUR 31,02m in 2002 compared to EUR 26,5m in 2001); the share of retail sales formed 52% of the total sales of the group (37% in 2001). This percentage grew by 67% compared to 2001. The total amount for retail sales were EUR 16,3m in 2002 and EUR 9,8m in 2001.Together with the controlled retail sales (shop-in-shop and franchise agreements), retail sales amounted to EUR 20.6m and formed 67% of the total sales of BG in 2002;

- to launch a new international fashion brand.
  Result: Monton was launched simultaneously on the five main retail markets of BG: Estonia, Latvia, Lithuania, Poland and Ukraine, in September 2002. Since September when the brand was launched the sales of Monton brand products increased to 76% of the total retail sales of BG. More than 15,000 people have joined the Monton World customer programme on the five markets. The launch of Monton was granted with the second price at the Estonian Marketing Act competition in 2002;
- to prepare and launch a new retail concept (portfolio of retail brands) to segment the markets.
  Result: since September 2002, BG operates four retail brands: Monton, Baltman, CHR/Evermen and Vabrikupood.

2. General Economic Results

The consolidated net sales of the Baltika Group were EUR 31,02m, which exceeds the results for 2001of EUR 26,5m by EUR 4,54m resulting in a growth of 17.13%. The planned sales growth of Baltika was 22%, (totaled to EUR 32,3m). The actual net sales is below the target figure by 4% i.e EUR 1,2 m. The smaller than expected sales were caused by the negative seasonal effects in all of the retail markets of Baltika Group, the re-position of the target customer groups due to the new retail concept, the falling trend of men's classical clothing in Scandinavia, and more conservative sales policy for the Russian market.
The structure of sales was as follows:

- the retail sales of shops owned by BG were EUR 16,3m, grew by 66% compared to the retail sales for 2001 of EUR 9,8m;
- sales covered by retail cooperation agreements (shop-in-shop and franchise) were EUR 4,4m, grew by 6% compared to 2001 of EUR 4,2m;
- sales under the wholesale contracts amounted to EUR 6,66m, falling by 12% as compared to EUR 7,6m in 2001;
- subcontracting sales amounted to EUR 3,3m, falling by 29% as compared to EUR 4,7m in 2001;
- other sales amounted to EUR 0,2m, growing by 130% compared to EUR 0,1m in 2001.

The share of the BG retail system in the total group sales grew from 37% in 2001 to 52% in 2002.
The share of export grew from 71% in 2001 to 73% in 2002 (EUR 18,7m in 2001 and EUR 22,7m in 2002).

The consolidated operating profit of BG in 2002 was EUR 0,9m (EUR 1,5m in 2001), including EUR 0,5m one-off launching costs of Monton.

The consolidated net profit of BG was EUR 0,4m (EUR 0,6m less than in 2001), when the respective figure was EUR 1,0m. Besides the above-mentioned one-off costs, the profit of 2002 was also influenced by the change that took place in the sales portfolio over the year: sales corresponding to the costs of opening new retail markets in Latvia and new retail sales areas (4256 m^2 was added during the year). The operation of those new markets and sales areas had only a partial effect on the year's results, while the volumes of wholesale and contracting agreements, mainly relating to overhead costs, decreased. Interests paid on the loan capital involved in the financing of the development of the company amounted to EUR 0,6m, which exceeds the previous year's interests by EUR 0,2m. Due to the change in the brand portfolio and the structure of the sales areas (the areas of older trademarks were replaced by Monton areas), a need arose to revaluate, on a conservative basis, the inventories kept in those areas and in stock during the previous periods (stock price value EUR 0,6m, for which an additional write-down reserve of EUR 0.05m was formed in 2002; the total reserve was EUR 0,1m.

The balance sheet total of Baltika was EUR 23,8m as of 31.12.2002, having increased by EUR 4,8m over the financial year. Inventories increased by EUR 2,9m in relation to the increased retail area. Investments in production, retail sale and IT projects increased fixed assets by EUR 1,9m. The loan capital used to finance investments and the growth of inventories increased the loan obligations of BG by EUR 3,6m. In October 2002, Baltika issued one-year bonds of EUR 3,2m with 4.95% yield. The equity capital of the group amounted to EUR 10,9m by the end of the year, having increased by EUR 1,9m. The special meeting of shareholders held in September decided to increase the share capital by EUR 0,4m through issuing 644,450 shares with a nominal value of EUR 0,6 and a price of EUR 2,3 each, totalling EUR 1,5m. This issuance of share was undertaken to finance the strategic growth plans of the group and to increase the personal holdings of the senior management. The entire issue was administered by OÜ BMIG, an investment company founded by the senior managers of Baltika. The new amount of share capital is EUR 3,5m.
Since February 17, 2003 the shares of Baltika have been transferred to the main list of the Tallinn Stock Exchange.

The market value of AS Baltika shares as of 31.12.2002 was EUR 12,8m. The closing price of the Baltika share on the Tallinn Stock Exchange on 31.12.2002 was EUR 2,35, having grown by 17% over the year.

The major economic indicators of BG for 2002 were as follows:

	2002	2001
1. Growth in sales as compared to previous year	17%	22%
2. Retail sales from total sales	52%	37%
3. Operating profit to net sales	2.8%	5.6%
4. Profit margin	1.4%	4.0%
5. Return on equity	4.0%	11.3%
6. Commercial area (m^2)	10153	6823

7. Markets (countries) managed via own retail trade organisations	6	5
8. Retail concepts	4	2
9. Shops (retail outlets)	70	55

3. The Main Events in 2002

January	- Opened Lemon Centre (Tallinn) – first testing of furniture concept of Monton - Started the implementation of Protex IT-software
March	- Tested Monton's *soft concept* in Pärnu - BG's management's seminar determined the BG's strategy for 2002-2004
April	- Opened new factory of Virulane in Ahtme
May	- The annual general meeting of BG shareholders - Opened Monton in Akropolis and Kaunas (Lithuania) – tested the *full concept* of Monton - Founded the daughter company Baltika Latvija in cooperation with SIA Care for starting retail operations in Latvia.
July-August	- Preparations for the launch of Monton.
September	- Launch of Monton (and the new retail concept as a whole) at 5 markets on September 5. - Special meeting of shareholders decided to issue 644,450 new shares to investment company OÜ BMIG that was founded by the management of AS Baltika, thus increasing the interest of the management to 22.19 %.
October	- CHR/Evermen test-shop was opened in Järve centre (Tallinn), in order to prepare the next retail concept of BG.
November	- The board prepared and approved the new management structure of BG, new directors were appointed. - The strategy meeting of the board of BG fixed objectives for 2003

4. Development of Retail Trade

In accordance to the BG strategy for 2002–2004, major developments took place in the group's retail concepts and retail network in 2002.

Retail Concepts

The preparations for launching a new retail concept, that began in 2001, were completed in September 2002 when the group's new retail brand portfolio was simultaneously introduced to the five main markets of Baltika. The goal of the new concept (a set of retail brands) is to segment the markets by offering fashion and products to different consumer groups and thus cover larger market shares in all the markets. As of 2002, the retail brand portfolio of Baltika is composed of the leading retail concept MONTON; BALTMAN that offers a fashionable classical lifestyle collection for men; CHR/EVERMEN offering reliable women's and men's clothing collections at a good price; and VABRIKUPOOD that sells inventories of previous seasons' clothes.
The relative shares of the concepts in sales since the launch of the new brand portfolio in 2002 were:
Monton 76%
Baltman 8%
CHR/Evermen 11%
Baltika Vabrikupood 5%.

The launch of Monton particularly brought about a substantial change in the size of the areas operated by the brands. While up to 200 m^2 was sufficient for a concept so far, the Monton prototype shop occupies 350 m^2.
The preparation and launching on five markets of the Monton retail concept cost BG a total of EUR 1,4m, of which investments made in 2002 amounted to EUR 1,2m, including EUR 0,2m on brand development, EUR 0,5m on shop renewal and EUR 0,4m on launching.

Retail Network
Alongside the launch of the new retail concept, the retail network of BG grew significantly over the year. The number of markets managed via the group's own retail trade organisations grew from five to six (the Latvian subsidiary Baltika Latvija was added through a joint project with our former franchise partner) in 2002. The total number of shops and managed retail trade areas increased from 55 to 70 and the total area grew from 6823 m^2 to 10,153 m^2.

It is important for BG, as a rapidly growing retail trade organisation, to able to open new Monton brand shops in the most presentable shopping centres of the capitals (Tallinn, Riga, Vilnius, Kiev, Warsaw) for all our main markets in 2002.

5. Production

The restructuring of the BG production division continued in 2002 to meet the strategic goals of BG: to produce a growing proportion of retail system products for themselves along with ensuring a high quality and a flexible and quick ordering system.
The construction of the AS Virulase Ahtme factory was completed; the capacity of the renewed production unit increased by 21% in 2002.
The total output of 2002 was 818,000 products (841,000 in 2001). The output of own products continued to grow and amounted to 461,000 products (432,000 products in 2001), forming 56% of the total output. The quantity of the products manufactured under subcontracting agreements fell from 409,000 in 2001 to 357,000 in 2002. The main reasons for the decrease were the falling consumption trend of men's classical clothes in Scandinavian countries and the bankruptcy of a former major buyer, the Finnish company P.T.A.

6. Organisation and Personnel

The management structure of the Baltika Group changed after the launch of the new retail concept. The former structure, which supported development and launching activities, was replaced by a more traditional structure based on the management of specific areas of operation on 2.12.2002.
The new structure comprises four divisions:

- Production Division – manages the operations of all production units and contracting sales activities;
- Retail Division – manages the development of retail concepts, collections, and the creation and management of inventories;
- Sales Division – coordinates and supports the operations of the retail organisations, manages wholesale;
- Business Processes Division – coordinates and manages the group's internal business processes, including the movement of money, goods and information.

Market organisations have been established on all the main markets of BG to manage retail operations (the Latvian market subsidiary was added in 2002). BG currently operates on six markets via its retail organisations (Estonia, Latvia, Lithuania, Poland, Ukraine and Sweden).

The Baltika Group employed 1725 people by the end of 2002, including 387 in trade companies and 1061 in production companies; 1451 people in Estonia and 274 abroad. The parent company employed 838 people.

The members of the supervisory board and management board were paid management fees and wages in a total amount of EUR 0,2m in 2002.

The second part of the three-year share option programme aimed to motivate the senior management of BG. 192,000 convertible debentures were distributed between 24 key employees of the group on the basis of a supervisory board resolution.

7. Plans for 2003

The goals for 2003 derive from the strategies for 2002–2004 (the second year of implementation) as well as the need to respond to the results of the changes made in 2002 to review the tactical priorities.

The management of BG has pointed out the following main goals for 2003:

1. Improvement of the efficiency of operations on all levels;
2. Acceleration of the turnover of inventories;
3. Continuation of the rapid growth of sales;
4. Stabilisation of wholesale and contracting volumes.

As the goal of the improved system efficiency is prioritised, the scope of investments will significantly decrease in 2003 compared to 2002 (the investment budget for 2003 is EUR 1,0m).

BG is making preparations in 2003 for establishing a joint retail venture in Russia.

Meelis Milder
Chairman of Management Board

2002 FINANCIAL STATEMENTS

Management Board's Confirmation of the Financial Statements

The Management Board confirms the completeness and correctness of AS Baltika parent company and group 2002 consolidated financial statements which is presented on pages 9-35.

The Management Board confirms that:

1. The accounting principles used in preparing the financial statements are in compliance with International Accounting Standards (IAS);

2. The financial statements presents a true and fair view of the financial situation and the profit of the parent company and the group;

3. AS Baltika and its subsidiaries are going concerns.

....
Meelis Milder
Chairman of Management Board

....
Ülle Järv
Member of Management Board

....
James Hayhow
Member of Management Board

....
Maire Milder
Member of Management Board

....
Boriss Loifenfeld
Member of Management Board

....

....

Tallinn, 25th of February 2003

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials
Kuupäev/date 28.02.2003
PricewaterhouseCoopers, Tallinn

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Balance Sheet

	Note	Parent		Group	
ASSETS		**31.12.2002**	**31.12.2001**	**31.12.2002**	**31.12.2001**
Current assets					
Cash and bank	1	96	196	640	807
Shares and other securities	2	35	37	35	37
Customer receivables	3	2 745	3 224	3 043	3 586
Other receivables and prepaid expenses	4	7 239	3 826	1 234	686
Prepaid income tax	25	0	0	10	5
Inventories	6	5 971	5 329	11 239	8 382
Total current assets		**16 085**	**12 611**	**16 200**	**13 502**
Non-current assets					
Long-term investments	7,8	2 648	2 246	210	166
Deferred tax assets	9	0	0	183	0
Tangible fixed assets	10	2 915	2 839	6 927	5 010
Intangible assets	10	213	327	315	331
Total non-current assets		**5 776**	**5 412**	**7 635**	**5 507**
TOTAL ASSETS		**21 862**	**18 023**	**23 835**	**19 009**
LIABILITIES AND OWNER'S EQUITY					
Current liabilities					
Debt obligations	12,14	5 565	2 399	5 792	2 219
Customer prepayments for goods and services		4	2	10	10
Accounts payable		1 705	2 115	2 154	2 591
Other payables	13	605	508	0	0
Other tax liabilities	5	170	94	517	325
Accrued expenses	15	194	195	497	424
Total current liabilities		**8 243**	**5 314**	**8 970**	**5 569**
Non-current liabilities					
Long-term debt	12	2 758	3 766	3 545	4 073
Other long-term payables		0	0	2	0
Deferred tax liabilities	9	0	0	7	0
Total non-current liabilities		**2 758**	**3 766**	**3 554**	**4 073**
TOTAL LIABILITIES		**11 001**	**9 080**	**12 524**	**9 642**
Minority interest	16	**0**	**0**	**451**	**424**
OWNER'S EQUITY	17	**10 861**	**8 944**	**10 861**	**8 944**
Share capital (par value)		3 480	3 068	3 480	3 068
Share premium		2 663	1 592	2 663	1 592
Other restricted equity		1 463	1 463	1 463	1 463
Retained profit		2 821	1 817	2 821	1 817
Profit for the accounting period		434	1 004	434	1 004
TOTAL LIABILITIES AND OWNER'S EQUITY		**21 862**	**18 023**	**23 835**	**19 009**

Accounting principles presented on pages 14-17 and notes to the financial statements presented on pages 18-35 are integral parts of the financial statements.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials
Kuupäev/date 28.02.2003
PricewaterhouseCoopers, Tallinn

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Income Statement

	Note	Parent 2002	Parent 2001	Group 2002	Group 2001
Revenue					
Net sales	18	**25 811**	**22 332**	**31 025**	**26 487**
Other revenue	19	462	93	385	83
Total revenue		**26 273**	**22 424**	**31 410**	**26 571**
Expenses					
Materials, raw materials, and services		(13 931)	(12 351)	(11 472)	(10 642)
Change in inventories		66	98	104	169
Other operating expenses	20	(3 710)	(2 942)	(8 059)	(5 406)
Personnel expenses	21	(5 088)	(4 640)	(9 653)	(8 067)
Depreciation of fixed assets	10	(677)	(595)	(1 229)	(910)
Other expenses	22	(132)	(114)	(221)	(238)
Total expenses		**(23 473)**	**(20 545)**	**(30 531)**	**(25 093)**
Operating profit		**2 800**	**1 880**	**879**	**1 478**
Financial income	23	**404**	**448**	**49**	**31**
Financial expenses	24	**(2 770)**	**(1 323)**	**(578)**	**(432)**
Profit before taxes and minority interest		**434**	**1 004**	**350**	**1 077**
Income tax expense	25,9	0	0	137	(12)
Profit before minority interest		**434**	**1 004**	**488**	**1 065**
Minority interest	16	0	0	(53)	(61)
Net profit		**434**	**1 004**	**434**	**1 004**
Basic earnings per share (EUR)	26	**0,09**	**0,21**	**0,09**	**0,21**
Diluted earnings per share (EUR)	**26**	**0,09**	**0,21**	**0,09**	**0,21**

Accounting principles presented on pages 14-17 and notes to the financial statements presented on pages 18-35 are integral parts of the financial statements.

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Cash flow statement
(indirect method)

		Parent		Group	
Operating activities	**Notes**	**2002**	**2001**	**2002**	**2001**
Operating profit		2 800	1 880	879	1 478
Adjustment for depreciation	10	677	595	1 229	910
Profit from sale of fixed assets	10	(302)	10	(302)	9
Change in receivables from operating activities	8	(5 149)	(2 944)	(75)	(1 130)
Change in inventories	6	(642)	(740)	(2 858)	(1 639)
Change in payables		(182)	752	(189)	627
Interest paid	24	(483)	(348)	(558)	(347)
Income tax paid	25	0	0	(43)	34
Other financial income/expenses		2	(9)	2	0
Total cash flow from operating activities		**(3 277)**	**(805)**	**(1 914)**	**(59)**
Investing activities					
Purchase of tangible and intangible assets	10	(751)	(1 198)	(2 933)	(2 529)
Proceeds from sale of fixed assets	10	0	0	19	67
Proceeds from sale of right of pre-emption of real estate	10,19	368	0	368	0
Acquisition of subsidiaries	8	(120)	(495)	(23)	(214)
Interest received	23	53	4	11	8
Dividends received	2	4	111	4	1
Proceeds from sales of marketable securities	2	6	0	6	0
Repayments of loans granted		1	44	2	5
Loans granted		0	(56)	0	(3)
Total cash flow from investing activities		**(439)**	**(1 590)**	**(2 547)**	**(2 666)**
Financing activities					
Loan repayments	12	(120)	(2 935)	(257)	(2 935)
Loans received	12	853	4 154	1 696	4 269
Capital lease payments and instalments paid	11,12	(60)	(50)	(112)	(60)
Dividends paid		(0)	(230)	(0)	(249)
Receipts from contributions into share capital	17	1 483	0	1 483	0
Redemption of commercial papers	14	(3 518)	0	(3 518)	0
Proceeds from sale of commercial papers	14	4 992	1 553	4 992	1 553
Proceeds from sale of convertible bonds	14	12	12	12	12
Cash flow from financing activities		**3 641**	**2 504**	**4 296**	**2 591**
Changes in foreign currency exchange rate		(25)	(29)	(1)	(36)
Total cash flow		**(99)**	**79**	**(167)**	**(171)**
Opening cash and equivalents balance	1	**196**	**116**	**807**	**978**
Closing cash and equivalents balance	1	**96**	**196**	**640**	**807**

Accounting principles presented on pages 14-17 and notes to the financial statements presented on pages 18-35 are integral parts of the financial statements.

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Statement of Changes in Equity

	Share capital	Share premium	Reserves	Retained earnings	Profit/loss for the financial year	Total
Balance per 31.12.2000	**3 068**	**1 592**	**1 463**	**1 136**	**912**	**8 169**
Appropriation of 2000 profit	**0**	**0**	**0**	912	(912)	0
Dividends	0	0	0	(230)	0	(230)
Net profit for the accounting period	0	0	0	0	1 004	1 004
Balance per 31.12.2001	**3 068**	**1 592**	**1 463**	**1 817**	**1 004**	**8 944**
Appropriation of 2001 profit	0	0	0	1 004	(1 004)	0
Net profit for the accounting period	0	0	0	0	434	434
Contribution to share capital	412	1 071	0	0	0	1 483
Balance per 31.12.2002	**3 480**	**2 663**	**1 463**	**2 821**	**434**	**10 861**

More detailed information on owner's equity and changes in equity is provided in Notes 14 and 17.

Accounting methods presented on pages 14-17 and notes to the financial statements presented on pages 18-35 are integral part of the financial statements.

Accounting methods and principles used in preparing the financial statements

The 2002 AS Baltika financial statements have been prepared on accrual basis in accordance with historical cost convention, if not indicated otherwise in the accounting principles of a specific asset. Accountancy is being held and the 2002 parent and group consolidated financial statements have been prepared in accordance with international accounting standards (IAS). The financial statements are prepared in thousand of Euros kroons, unless individually referred to another currency. Estonian kroon is pegged to Euro, 1 EUR = 15,64664 EEK.
In 2002, there have been no significant changes in accounting methods and principles used by the group.

First-time Application of IAS to Parent Company's Report(s)
From 2002 on, AS Baltika's IAS-compliant annual report includes the non-consolidated financial indicators of the parent company, which are also prepared in accordance with IAS. As the previous years parent company's financial statements were based on Estonian Accounting Law, there are discrepancies with comparative data presented about parent company in 2001 report. The main differences originate from classification of lease contracts, and from provisions in accounts receivable in daughter companies in amount of their negative equity.

Consolidation Principles
The parent company and subsidiaries are considered as one business entity for consolidation. Revenues, unrealized profits and losses incurred from the inter-group transactions are eliminated. The 2002 consolidated annual report incorporates the financial reports of AS Baltika, AS Baltman, AS Virulane, AS Elina STC, Baltika Lietuva, Baltika Latvija, Baltika Sweden, Baltika Poland, Baltika Ukraina, and OY Baltinia AB.
Foreign subsidiaries are presented according to the valuation method of the foreign operations. Monetary assets and liabilities are revalued based on the foreign currency exchange rates of balance sheet date. Other assets and expenses related to assets (for example, depreciation) are assessed based on the currency rates of the acquisition date of the assets. Equity transactions are assessed based on the currency rates of transaction date. Revenues and expenses based on the average currency rates during the period. Foreign exchange gains and losses are recorded in income statement.

Cash and Cash Equivalents
Cash in hand, bank account balances (excl overdraft), and short-term deposits are recorded as cash and cash equivalents in the cash flow statement.

Inventories
Inventories are accounted by using the average price method. Inventories in stock of stores are recorded at acquisition cost. On balance sheet date, the inventories are recorded at the lower of cost and net realizable 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 31.12.2002 at Tallinn Stock Exchange; other securities at the sales price on financial markets of the transaction date. Unrealized profits and losses from revaluation of the shares are recorded in income statement, at line "Financial income from investments".

Subsidiaries
Companies controlled by parent company are considered as subsidiaries. Companies are considered to be controllable by the parent company if the latter owns over 50% of the voting shares of the subsidiary or if it is capable of controlling the operational or financial policy of the subsidiary or if the it has the right to appoint or call back the majority of council members of the subsidiary.
Investments in subsidiaries have been recorded in the balance sheet of the parent using the equity method. Unrealized profits and losses from the transactions between group companies have been eliminated.

Other long-term Financial Investments

Other long-term investments (excl investments in subsidiaries) are recorded at fair value. If the value of shares has decreased, the investment is written down to its net realizable 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 shareholding in the balance sheet presents the share of equity belonging to the non-group shareholders of subsidiaries.

Goodwill

Goodwill is the amount of the acquisition cost that exceeds the fair value of net assets acquired. Goodwill is amortized using the straight-line method over their useful lives, not exceeding a period of 5 years.

Related Parties

Following parties are considered as related parties in the AS Baltika annual report:

a) Owners;
b) Members of management, management board and supervisory board;
c) Confidants of the above mentioned; and
d) Employees of the company;
e) Companies that are under the control of the members of management board and supervisory board;
f) Subsidiaries.

Foreign Currency Transactions

All transactions of AS Baltika and the group are recorded in Estonian kroons. Assets and liabilities denominated in foreign currency have been revalued into Estonian kroons based on the foreign currency exchange rates of Bank of Estonia officially valid on the balance sheet date. During the year, transactions in foreign currency are recorded in Estonian kroons based on the foreign currency exchange rates of Bank of Estonia officially valid on the transaction date.

Fixed assets

Fixed assets are presented in the balance sheet in residual value showing also the acquisition cost and accumulated depreciation.

Assets with a useful life of over 1 year and acquisition cost of over 639 Euros are considered to be fixed assets. Assets with a useful life of over 1 year but acquisition cost of less than 639 Euros are expensed at acquisition date, except production equipment.

Fixed assets are recorded at acquisition cost. Self-constructed assets are recorded at acquisition cost that includes actual production expenses. Reconstruction expenses increase the acquisition cost of reconstructed non-current physical assets. Depreciation is calculated based on the straight-line method, depending on the useful life of the fixed asset.

Software licenses and intangible assets arising from development are recorded as intangible assets. Development expenditures are capitalized only if the company is capable of controlling the use of the asset, capable of assessing the profit generated by that asset, and if technical facilities and practical solutions for applying the new project exist. Intangible assets are depreciated on straight-line method over 5 years.

Intangible assets are recorded at acquisition cost and depreciated at straight-line method in 5 years.

Profits and losses from the sale of fixed assets are recorded in the income statement, in other income or other expenses.

Annual depreciation rates used by the group companies are:

Building and facilities	1,5-9%
Capital repairs	8-15%
Production equipment	18-30%
Cars	20%
Computer hardware	40%
Furniture, other equipment, security systems	30%

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Office equipment	30%
Intangible assets	20%
Investments at rented space	20-33%

Receivables

Customer receivables and other receivables 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 will probably be received. Doubtful receivables that have been written down in previous periods but have been received during the accounting period, are recorded as "other income". Uncollectible receivables have been written off from the balance sheet.

Corporate Income Tax

According to Estonian Income Tax Law, which took effect on January 1, 2000, dividends paid by the company to resident natural persons and non-residents are subject to income tax (26/74 of net dividends paid) up to December 31, 2002. According to the amendment to the law, effective from January 1, 2003, all dividends paid by the company are subject to income tax (26/74 of net dividends paid), regardless of the receiver of the dividend.

The company's potential corporate income tax liability related to the distribution of the company's retained earnings as dividends, is not recorded in the balance sheet. The maximum possible tax liability, which would become payable if the retained earnings would be fully paid out as dividends, is disclosed in Note 25. Income tax from the payment of dividends is recorded as expense in the income statement at the moment of declaring the dividends.

Deferred income tax

According to the Estonian Income Tax Law, the permanent and temporary differences between the tax bases of assets and liabilities and their carrying values in Estonian companies of the group does not arise, thus no deferred income tax assets or liabilities arise. Subsidiaries in Latvia, Lithuania, Poland and Ukraine are the subjects of corporate income tax, adjusted with temporary and permanent differences between the tax bases of assets and liabilities and their carrying values in the balance sheet (Income tax rate in Latvia is 22%; Lithuania 15%; Poland 27% and Ukraine 30%).

Deferred tax is provided for all temporary differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. Main temporary differences arise from depreciation of fixed assets and tax loss carry forward. Deferred tax asset in respect of tax losses carry forward are recognized in the balance sheet only if their realization is probable.

Vacation Payments and Liabilities

Vacation expense is recorded at the period of recognizing the liability, thus at the moment when the employee has the right of demand. Payments for vacations served but not used are recorded in income statement as personnel costs and in balance sheet as short-term accrued expense.

Recognizing Revenue

Revenue from the sales of goods is recognized when all material risks related to the asset have been transferred to the purchaser and the sales revenue and expenses related to the transaction can be determined reliably. Revenue from the sales of services is recorded upon rendering of the service. Interest income is accounted for by using the effective interest rate, except if the receipt of the interest is uncertain. In such cases, the interest income is accounted for on a cash basis. Dividend income is recognized at the moment when the company's right to receive payment is established.

Cash Flow Statement

Cash flow statement is compiled based on the indirect method. According to that method, operating cash flow is calculated by adjusting the operating profit by eliminating the non-monetary transactions and changes in balances of current assets and current liabilities related to operating activities.

Segment Reporting

All assets and liabilities related to segments are recorded as segmental assets and liabilities accordingly. Unallocated assets and liabilities (corporate income tax, interest receivables and liabilities, dividend receivables and liabilities, shares) are recorded as the assets and liabilities of the Group. The primary segments of the group are the business segments by areas of operation (differentiating retail trade and

production/wholesale), and its secondary segments are geographical segments on the basis of the location of the company's sales network.
Retail segment reflects assets, liabilities, revenues and expenses of retail subsidiaries, related to retail trade as well as assets, liabilities, revenues and expenses of factory shops belonging to production companies. Production and wholesale segment reflects assets, liabilities, revenues and expenses related to production, wholesales and other associated operations. Assets and liabilities of segments do not include financial assets and liabilities, and the revenues and expenses of segment do not include the revenues and expenses accruing from these assets and liabilities. In segment reporting, administrative buildings are considered as indivisible asset of the group; long-term loans, dividends and interest liabilities are considered as indivisible liabilities of the group; administrative costs of centre are considered as non-allocated expenses of the group.
The management is convinced that the prices used in inter segmental transactions do not substantially differ from market prices.

Operating and Finance Leases
Rental agreements are divided in operating and finance lease contracts according to the rules in IAS 17. Rental agreement is considered as finance lease agreement, if all material revenues and expenses deriving from the agreement are transferred to the lessee. Assets rented under finance lease agreements are capitalized at the present value of rental payments and are depreciated according to the shorter of their useful life or rental period. The other rental agreements are considered as operating lease agreements and rental payments deriving from these agreements are recorded as rental expense in income sheet line "other operating expenses" at the period when the payments have accrued.

Financial liabilities
Loans, bonds and convertible bonds are considered as financial assets. Financial assets are initially recognized at the proceeds received, net of transaction cost incurred and subsequently stated at amortized cost using the affective yield method. The financial liabilities value in balance sheet does not materially differ from their fair value.

Reserves
Reserves in owner's equity consist of statutory legal reserves, which were formed from the retained earnings. Statutory legal reserves of Estonian companies must equal to at least 1/10 of share capital. Statutory legal reserves can be used for covering losses if the losses cannot be covered by retained earnings.

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).

Subsequent Events
Material matters that have an effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of approving the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.
Subsequent events that have not been taken into consideration when evaluating the assets and liabilities but have material effect on the result of the next financial year are disclosed in the Notes to the financial statements.

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Cash and Bank

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Accounts in Estonian kroons and cash on hand	7	25	82	239
Accounts in foreign currencies and cash on hand	89	170	558	568
	96	**196**	**640**	**807**

Note 2 Short Term Shares and Securities

		31.12.2002		31.12.2001	
	Acquisition value	Quantity	Book value	Quantity	Book value
Shares of AS Tallinna Kaubamaja	0	5 160	18	5 160	20
Shares of AS Hansapank	9	1 056	17	1 056	11
Shares of AS Briti Kaubamaja	6	0	0	95	6
Total	**15**		**35**		**37**

Income from dividends drawn was 3,6 thousand euros in 2002.
Data of parent company is equal to the data of the group.

Note 3 Customer Receivables

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Customer receivables	2 824	3 368	3 126	3 742
Allowance for doubtful receivables	(80)	(145)	(83)	(155)
Total	**2 745**	**3 224**	**3 043**	**3 586**

Doubtful receivables that have been written down in previous periods but have been received during the accounting period, are recorded as "other income" (Note 19).
Changes in allowance for doubtful receivables:

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Allowance for doubtful receivables 31.12.01	(145)	(41)	(155)	(48)
Doubtful receivables expensed in 2002	(182)	(103)	(192)	(126)
Debts expensed in previous periods collected in 2002	0	0	2	0
Uncollectible receivables written off in year 2002	247	0	262	18
Allowance for doubtful receivables 31.12.02	**(80)**	**(145)**	**(83)**	**(155)**

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Note 4 Other Receivables and Prepaid Expenses

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Receivables from subsidiaries	7 007	3 548	0	0
Other short-term receivables	58	33	74	45
Prepaid and refundable taxes	132	188	995	517
Prepaid expenses	40	56	162	122
Interest receivables	3	2	3	2
Total	**7 239**	**3 826**	**1 234**	**686**

More detailed information about prepaid and refundable taxes is disclosed in note 5. Prepaid expenses reflect rental and insurance expenses, ordering costs of intermittent publications and other similar costs, prepaid as at 31.12.2002.

Receivables from subsidiaries	**31.12.2002**	**31.12.2001**
For goods		
Baltika Lietuva	1 779	1 080
Baltika Sweden	99	190
Baltika Poland	1 921	993
Baltika Ukraina	2 061	731
Baltika Latvija	909	0
Baltinia OY	32	28
Total	**6 801**	**3 023**
Loan	**206**	**0**
Other		
Baltika Ukraina	0	323
AS Virulane	0	202
Total	**0**	**525**
Total receivables from subsidiaries	**7 007**	**3 548**

Receivables from subsidiaries in parent company's balance sheet includes allowance in total of 1,4 million euros (Note 8).

Note 5 Tax Receivables and Liabilities

Tax Receivables (Prepayments)

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
VAT	132	182	994	510
Personal income tax	0	0	0	0
Other taxes	0	6	1	6
Total	**132**	**188**	**995**	**517**

Tax Liabilities

	Parent		Group	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Personal income tax	65	45	156	120
Social tax	104	49	258	118

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

VAT	0	0	85	81
Other taxes	1	0	18	6
Total	**170**	**94**	**517**	**325**

Information about income tax of parent company is provided in note 25.

Note 6 Inventories

	Parent		**Group**	
	31.12.2002	**31.12.2001**	**31.12.2002**	**31.12.2001**
Raw materials (fabric, accessories, material on the way)	2 586	2 531	2 940	2 815
Write-down provision for inventories of material	(19)	(69)	(23)	(77)
Work-in progress	412	676	468	747
Finished goods	2 239	1 923	5 730	4 241
Write-down provision for inventories of finished goods	(95)	(62)	(98)	(72)
Purchased goods	858	321	2 227	696
Write-down provision for inventories of purchased goods	(15)	0	(15)	0
Prepayments to suppliers	5	10	9	32
Total	**5 971**	**5 329**	**11 239**	**8 382**

Of the balance of inventories presented in the balance sheet as of 31.12.2002, the inventories of 0,6 million EUR are presented in their net realizable value, including 0,6 million EUR of finished goods and 0.1 million EUR of materials.

Note 7 Long-term financial assets

	Parent		**Group**	
	31.12.2002	**31.12.2001**	**31.12.2002**	**31.12.2001**
Shares and securities	0	0	0	0
Long-term receivables	20	20	210	166
Loan to the manager of a subsidiary (note 27)	0	0	9	9
Long-term lease prepayment	20	20	201	157
Investments in subsidiaries	2 628	2 226	0	0
Total	**2 648**	**2 246**	**210**	**166**

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Note 8 Investments in Subsidiaries

	AS Baltman (Estonia)	Baltika Sweden (Sweden)	Baltika Poland (Poland)	AS Virulane (Estonia)	AS Elina STC (Estonia)	Baltika Lietuva (Lithuania)	Baltika Latvija (Latvia)	OY Baltinia (Finland)	Baltika Ukraina (the Ukraine)
Number of shares 31.12.2001	96 000	1 000	2 000	31 561	5 010	1000	0	120	1
Acquired shares in 2002	0	0	800	1 770	0	2 000	984	0	0
Number of shares 31.12.2002	96 000	1 000	2 800	33 331	5 010	3 000	984	120	1
Participation % year end/beginning	**100%**	**100%**	**100%**	**79,22%/ 75,02%**	**50,1 %/ 50,1 %**	**100%**	**75%/0**	**100%**	**99%**
Acquisition cost 31.12.2001	614	84	263	508	64	231	0	3	46
Book value 31.12.2001	1 214	0	0	991	57	9	0	4	0
Incl goodwill	4	0	0	39	0	9	0	0	0
Acquisition cost of shares acquired in 2002	0	108	112	23	0	319	164	0	0
Goodwill from acquisition of shares	0	0	0	(59)	0	0	0	0	0
Depreciation of goodwill in 2002	4	0	0	(20)	0	3	0	0	0
Change in participation after repurchase of own shares	0	0	0	0	0	0	0	0	0
2002 profit/(loss) at equity method	108	(108)	(135)	269	10	(268)	(77)	0	0
Change of unrealized profit in inventories	(14)	4	23	0	0	(51)	(80)	0	0
Dividends received	0	0	0	0	0	0	0	0	0
Book value 31.12.2002	**1 304**	**4**	**0**	**1 243**	**67**	**6**	**7**	**4**	**0**
Incl goodwill	**0**	**0**	**0**	**0**	**0**	**6**	**0**	**0**	**0**

Owner's equity of subsidiaries per 31.12.2002

	AS Baltman (Estonia)	Baltika Sweden (Sweden)	Baltika Poland (Poland)	AS Virulane (Estonia)	AS Elina STC (Estonia)	Baltmano Prekiba (Lithuania)	Baltika Latvija (Latvia)	OY Baltinia (Finland)	Baltika Ukraina (the Ukraine)
Share capital	153	192	375	538	64	457	219	3	46
Share premium	0	0	4	0	10	0	0	0	0
Reserves	61	0	998	55	4	12	0	0	0
Retained profit/(loss)	704	(162)	(357)	876	36	(182)	0	1	(127)

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Profit/(loss) of accounting period	108	(22)	(1 163)	241	19	(274)	(103)	0	(763)
Total owner's equity	**1 026**	**8**	**(143)**	**1 711**	**133**	**14**	**115**	**4**	**(844)**
Additional change in value of investment	0	0	(1)	0	0	(171)	(80)	0	(267)
Investor's share in owner's equity	**1 026**	**8**	**(143)**	**1 243**	**67**	**14**	**87**	**2**	**(844)**
Total value of the investment	**1 026**	**8**	**(143)**	**1 243**	**67**	**(157)**	**7**	**2**	**(1 111)**

Of the gross value amount of the negative investment of 1 412 thousand EUR, receivables from subsidiaries have been written off from the parent company balance sheet.

Note 9 Deferred Income Tax

	2002				
Deferred income tax liability	**Poland**	**Latvia**	**Lithuania**	**Ukraine**	**Total**
From fixed assets	0	0	0	7	**7**
Deferred income tax receivables					
From fixed assets	7	(13)	2	0	**(4)**
From tax losses carry forward	101	31	56	0	**187**
From pension liability	0	0	0	0	**0**
	108	18	57	0	**183**
Total	**108**	**18**	**57**	**(7)**	**176**

As at 31.12.2001 the deferred tax asset in respect of tax losses carry forward and deferred tax liabilities was not recorded in the balance sheet because the deferred tax liabilities were immaterial and the deferred tax asset was not expected to be realized based on management opinion.

Deferred tax assets in Ukraine and Lithuania are calculated using the current income tax rate respectively 30% and 15%. In Latvia the lower tax rate 15% that will take effect in 2004 is used as a basis of calculation. In Poland current tax rate 27% and the future rate 22% have been used in calculation based on the estimate of the realization of the assets and liabilities.
In addition to the deferred tax losses carried forward recorded in the balance sheet of Polish subsidiary, the company also has an off-balance sheet tax losses carry forward in amount of 168 thousand euros that management estimates will not be realized.
The realization of the deferred assets from tax loss carry forward is dependent on the future taxable profit in subsidiaries that exceed the losses carried forward. Tax losses carried forward in Latvia, Lithuania and Poland expire during the 5 years starting with 2003.

Note 10 Tangible and Intangible Assets

As a result of the change in the structure of sales space in 2002, old shops were renovated and new shops were opened in all retail markets. Total investments in retail trade amounted to 1,9 million EUR.

In 2002, production buildings and equipment were acquired in the amount of 1,6 million EUR, IT equipment in the amount of 0,1 million EUR and other fixed assets in the amount of 0,1 million EUR. The buildings and equipment for the new sewing plant in Ahtme, belonging to the subsidiary Virulane, constitute the majority of the production fixed assets acquired in 2002. Prepayments for these assets in the amount of 0,7 million EUR were already made in 2001. Equipment and fixtures of Ahtme plant in total of 0,3 million EUR are acquired under finance lease conditions. Finance lease period is 3 years for the production equipment and 2 years for furniture. The interest rate of the finance lease is 6-months' EURIBOR + margin 3.25%. The new plant started functioning April 1, 2002.

During the reporting period, fixed assets no longer used are acquisition cost of 0,3 million EUR, and residual value of 0,1 million EUR were written down in the whole group.

Tangible Fixed Assets movement in the Group in 2002

	Land	Buildings, facilities	Plant, equipment	Other fixtures	Facilities under construction	Pre-payments	Total
Acquisition cost 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)
Residual value 31.12.2001	**192**	**2 092**	**1 045**	**893**	**617**	**172**	**5 010**
Acquired during the period	0	1 891	462	1 265	1 146	177	4 940
Sold during the period	0	0	(4)	(86)	0	0	(91)
Written off during the period	0	(11)	0	(63)	0	0	(74)
Commissioned	0	0	0	0	(1 363)	(345)	(1 708)
Depreciation 2002	0	(262)	(445)	(445)	0	0	(1 151)
Foreign exchange differences	0	0	0	0	0	0	0
Acquisition cost 31.12.2002	192	4 721	4 669	2 642	400	4	12 628
Accumulated depreciation 31.12.2002	0	(1010)	(3612)	(1079)	0	0	(5 701)
Residual value 31.12.2002	**192**	**3 711**	**1 057**	**1 563**	**400**	**4**	**6 927**

Tangible Fixed Assets movements in the Parent in 2002 (In thousand of EUR)

	Land	Buildings, facilities	Plant, equipment	Other fixtures	Facilities under construction	Pre-payments	Total
Acquisition cost 31.12.2001	181	1 856	3 449	1 025	64	6	6 581
Accumulated depreciation 31.12.2001	0	(612)	(2 721)	(409)	0	0	**(3 742)**
Residual value 31.12.2001	**181**	**1 244**	**728**	**616**	**64**	**6**	**2 839**
Acquired during the period	0	45	80	369	336	43	**873**
Sold during the period	0	0	0	(85)	0	0	**(85)**
Written off during the period	0	0	0	(60)	0	0	**(60)**
Commissioned	0	0	0	0	0	(46)	**(46)**
Depreciation 2002	0	(102)	(281)	(222)	0	0	**(605)**
Acquisition cost 31.12.2002	181	1 901	3 480	1 211	400	4	**7 177**
Accumulated depreciation 31.12.2002	0	(714)	(2 953)	(595)	0	0	**(4 262)**
Residual value 31.12.2002	**181**	**1 187**	**527**	**616**	**400**	**4**	**2 915**

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

In 2002, AS Baltika Parent made investments in retail trade (0,4 million EUR), production equipment (0,1 million EUR) and other fixed assets (0.02 million EUR). As of balance sheet date, the parent company had capitalised uncompleted work for implementing new software in the amount of 0,4 million EUR.
In January, the parent company sold the right of pre-emption of real property at Viru 10, Tallinn. Until the transaction date, the parent company used the premises by a long-term rental agreement with Hoiupanga Liisingu AS. Profit from the sale was 0,3 million EUR.
Sale of right of pre-emption is reflected neither in the balance sheet nor in table of movements in fixed assets.

See note 12 concerning pledged assets.

Intangible Assets movements in the Group in 2002

	Intangible assets	Prepayments for intangible assets	Positive goodwill	Negative goodwill	Total
Acquisition cost 31.12.2001	395	0	149	0	544
Accumulated amortization 31.12.2001	(115)	0	(98)	0	(213)
Residual value 31.12.2001	**280**	**0**	**51**	**0**	**331**
Acquired during the period	44	63	0	0	107
Originating from acquiring a participation	0	0	0	(59)	(59)
Written off during the period	0	0	0	0	0
Amortization 2002	(78)	0	0	0	(78)
Amortization of positive goodwill	0	0	(16)	0	(16)
Amortization of negative goodwill	0	0	0	29	29
Acquisition cost 31.12.2002	414	63	149	(59)	568
Accumulated amortization 31.12.2002	(168)	0	(114)	29	(253)
Residual value 31.12.2002	**246**	**63**	**35**	**(29)**	**315**

Intangible Assets movements in the Parent in 2002

	Intangible Assets	Positive goodwill	Negative goodwill	Total
Acquisition cost 31.12.2001	383	149	0	532
Accumulated amortization 31.12.2001	(107)	(98)	0	(205)
Residual value 31.12.2001	**276**	**51**	**0**	**327**
Acquired during the period	4	0	0	4
Originating from acquiring a participation	0	0	(59)	(59)
Written off during the period	0	0	0	0
Amortization 2002	(72)	0	0	(72)
Amortization of positive goodwill	0	(16)	0	(16)
Amortization of negative goodwill	0	0	29	29
Acquisition cost 31.12.2002	387	149	(59)	477
Accumulated amortization 31.12.2002	(179)	(114)	29	(264)
Residual value 31.12.2002	**207**	**35**	**(29)**	**213**

Amotization of intangible assets is presented in the income statement as tangible fixed asset's depreciation.

Negative goodwill of 0.06 million EUR originates from increasing the share in subsidiary Virulane, and is recorded as a negative intangible asset in the group's balance sheet.

1770 shares of the subsidiary AS Virulane was purchased in year 2002, the share increased 4,21%.

	As Virulane balance sheet	Baltika share 4,21%	Acquisition cost
Current assets	1 543	65	65
Fixed assets	2 050	86	86
Liabilities	(1 660)	(70)	(70)
Owner's equity	1 932	81	81
Acquisition cost			23
Goodwill			59

Note 11 Operating and Finance Lease

Operating Lease - Lessee

Future operating lease payments of the group companies divide as follows:

	Parent		**Group**	
	31.12.2002	**31.12.2001**	**31.12.2002**	**31.12.2001**
Up to 1 year	161	218	3 113	1 595
1-5 years	385	439	9 189	4 298
Over 5 years	0	0	841	252
	546	**657**	**13 143**	**6 145**

Operating lease expenses include rental expenses of shop spaces and means of transportation. Lease contracts of shops are not binding in long-term; most of them can be terminated by notifying the other party up to 3 months in advance.
In 2002, operating lease payments in Group were made in total of 2 543 thousand EUR, in 2001, they were 1 577 thousand EUR.

Operating Lease - Lessor

Operating lease income includes income from rental of premises.

Rental payment receivables divide as follows (termless rental contracts are considered as 5-year contracts):

	In thousand of EUR
Up to 1 year	46
1-5 years	128
Over 5 years	0

In 2002, operating lease payments were received in total of 60 thousand EUR, in 2001 89 thousand EUR.
The direct and other expenditures relating to these revenues were in amount of 10 thousand EUR in year 2002.

Assets that Are Rented Out as at 31.12.2002 (In thousand EUR)

	Acquisition cost	Accumulated depreciation 01.01.2002	Depreciation 2002	Residual value 31.12.2002
Buildings	11	3	1	8

Finance lease – lessee

	Equipment and fittings of factory	Car	Total
Acquisition cost 31.01.2001	0	21	21
Depreciation 2001	0	4	4
Accumulated depreciation	0	4	4
Residual value 31.12.2001	0	17	17
Acquisition 2002	310	0	310
Depreciation 2002	51	4	55
Residual value 31.12.2002	**259**	**13**	**272**

Finance lease liabilities	**31.12.2002**	**31.12.2001**
Short-term – up to 1 year	91	5
Long-term – 1-5 year	102	7
Total	**193**	**12**

Parent company has no finance lease liabilities.

Note 12 Debt Obligations (in thousand of EUR)

	Parent		**Group**	
Short-term debt	**31.12.2002**	**31.12.2001**	**31.12.2002**	**31.12.2001**
Debt to Estonian Privatization Agency	0	60	0	60
Current portion of long-term debt	1008	120	1145	120
Short-term loans from banks	1461	609	1461	424
Short-term leasing liabilities (note 11)	0	0	91	5
Convertible bonds (note 14)	25	12	25	12
Commercial papers (note 14)	3071	1598	3071	1598
Total	**5 565**	**2 399**	**5 792**	**2 219**

	Parent		**Group**	
Long-term debt	**31.12.2002**	**31.12.2001**	**31.12.2002**	**31.12.2001**
Long-term loans from banks	2 758	3 766	3 443	4 066
Long-term leasing debt (note 11)	0	0	102	7
Total	**2 758**	**3 766**	**3 545**	**4 073**

Bank Loans (in thousand of EUR)

Creditor	**Loan debt 31.12.02**	**Current portion up to 1 year**	**Long-term portion 1-5 years**	**Interest**
Nordea Bank	839	240	599	3 kuu EURIBOR+2,5%
Hansapank	2 927	768	2 159	6,4

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Hansapank	822	137	685	6 kuu EURIBOR + 2,75%
Hansapank (overdraft facility)	1 461	1 461	0	6,1
Total	**6 049**	**2 606**	**3 443**	

AS Baltika has a group account in Hansapank with an overdraft facility of 1,6 million EUR. As of 31.12.2002, the overdraft facility has been used to the extent of 1,5 million EUR. The loans and overdraft are secured by a commercial pledge of 4 326 thousand EUR and a mortgage on the registered immovable property at Veerenni 24 in the amount of 2,6 million EUR. The residual value of mortgage is 1,3 million EUR as at 31.12.2002. Supplementary clauses of the loan agreement between AS Baltika and Hansapank (loan amount 2 927 thousand EUR) are the following: Baltika AS owners equity ratio (e.g. owners equity divided with current assets and fixed assets, less intangible assets) exceeds at all times 40%; the short terms liabilities divided by EBITA (profit before interest, depreciation, amortization and income tax) will not exceed at all times 4,0; interest ratio (EBITA divided with interest costs of the period) is at least 3,5.
AS Virulane has concluded a long-term loan agreement with Hansapank to finance the construction of the Ahtme factory. The loan limit was 959 thousand EUR. The loan is secured by mortgages on the registered immovable property at Kalda 10A in Rakvere (residual value 0,5 million EUR) and Õpetajate 5 in Ahtme (residual value 1,1 million EUR) as well as the surety of AS Baltika.
Interest expenses are classified as financial expenses (note 24).

Note 13 Other Payables

Payables to subsidiaries	**31.12.2002**	**31.12.2001**
For goods and services		
AS Elina STC	102	75
AS Virulane	199	214
Baltika Ukraina	147	7
OÜ Baltman	158	212
Total	**605**	**508**

Note 14 Debt Instruments

Convertible Bonds

According to the resolution of the general meeting of shareholders, held on April 6, 2001, 576,000 (192,000 per annum) convertible bonds would be issued with a nominal value of 0,06 EUR. Management has the right to subscribe for the bonds, each bond entitles the holder to subscribe for one share of Baltika with the nominal value of 0,64 EUR.

Dates of subscription for the bonds:
192 000 A Bonds on April 15, 2001 at the latest;
192 000 B Bonds on April 15, 2002 at the latest;
192 000 C Bonds on April 15, 2003 at the latest.

A and B bonds were fully subscribed and 24,5 thousand EUR was received by the date of approving the financial statements.

As the result of subscriptions, the share capital of AS Baltika can be increased by a maximum of 576,000 shares, thus by a maximum of 368 130 EUR.

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Dates of subscription for the shares:
For A Bonds – starting from May 1, 2002 until May 1, 2004
For B Bonds – starting from May 1, 2003 until May 1, 2005
For C Bonds – starting from May 1, 2004 until May 1, 2006.

The share redemption price during the 1st year is 1,60 EUR per share. The share redemption price during the following 2 years is the weighted average price of the trading volume on the Tallinn Stock Exchange – in case of B bonds from January 1 to March 31, 2002 (2,19 EUR), and in case of C bonds from January 1 to March 31, 2003. No interest on the bonds until the maturity date.
As of 31.12.2002, 384,000 bonds have been issued and subscribed for, including 192,000 bonds that are expropriable without restraint and have the right of subscription for the shares (see note 12).

Distribution of the Convertible Bonds:

	31.12.2002		**31.12.2001**	
	Quantity	Sum	Quantity	Sum
Members of the Management Board	236 000	15 083	112 000	7 158
Other Management	134 500	8 596	80 000	5 113
Third parties	13 500	863	0	0
Total	**384 000**	**24 542**	**192 000**	**12 271**

At the time of compiling the annual report, the owner of 15,500 A bonds has expressed the wish to use the right of subscription for the shares. Increase in share capital will occur in 2003 (note 31).

Closed Issue of Debt Instrument

In October 2002, debt obligations with term to maturity of 365 days (0% coupon interest), redemption term on October 14, 2003 were issued at a closed issue with total volume of 3,2 million EUR. The debt obligation is not secured. The resources acquired were used for repaying the previous issue of debt obligations (1,9 million EUR) and for financing investments (note 12).

31.12.2002	Quantity	Nominal EUR	Total EUR	Selling price	Effective Interest Rate %	Redemption term
Commercial papers	5 000	639	3 195 574	608,57	4,95	14.10.2003

Note 15 Accrued Expenses

	Parent		**Group**	
	31.12.2002	**31.12.2001**	**31.12.2002**	**31.12.2001**
Payables to employees (salaries, vacation reserves, bonus reserves etc)	168	168	469	396
Dividends payable	18	18	18	18
Interest payable (accrued interest not yet due by due date)	7	9	9	9
Other accrued expenses	1	1	2	2
Total	**194**	**195**	**497**	**424**

Note 16 Minority interest

	2002	2001
Minority share on 1 January	**424**	**586**
Change in minority interest as a result of increasing the share of parent company	(27)	(286)
Net profit for the financial year	79	143
Net loss for the financial year	(26)	0
Dividends paid	0	(19)
Minority interest on 31 December	**451**	**424**

Note 17 Owners' Equity

Share Capital

	31.12.2002	31.12.2001
Share capital (EUR '000)	3 480	3 068
Number of shares (pc)	5 444 450	4 800 000
Nominal value of shares (EUR)	0,64	0,64

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

Shareholders per 31.12.2002

	Number of shares	Participation %
1. Members of the Management board and their confidants:		
- Meelis Milder	84 239	1,5472
- Maire Milder	18 000	0,3306
- Ülle Järv	3 963	0,0728
2. OÜ BMIG	1 103 310	20,2649
3. Baltic Republics Fund	1 914 400	35,6767

Retained Earnings

Per 31.12.2002, the retained earnings amounted to 3 256 thousand EUR (31.12.2003, 2 821 thousand EUR). Dividend payables are recorded in balance sheet after general meeting of shareholders' decision of paying the dividends. The respective decision has not been taken by the time of compiling the annual report.

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Note 18 Segments

Business Segment Report - Primary

Business segment report by areas of operation for 2002

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	16 326	14 699		31 025
Intersegmental sales	0	15 764	(15 764)	0
Total sales	16 326	30 463	(15 764)	31 025
Operating profit of the segment	1 122	1 703		2 825
Indivisible expenses				(1 946)
Total operating profit				879
Other financial income				49
Other financial expenses				(578)
Income tax				137
Profit before minority shareholding				488
Minority shareholding				53
Net profit				434
Assets	10 149	13 249	-305	23 093
Indivisible assets of the group				742
Total assets				23 835
Liabilities	9 174	2 397	(8 419)	3 153
Indivisible liabilities of the group				9 371
Total liabilities				12 524
Acquisition of fixed assets in the accounting period	2 028	3 019	0	5 047
Depreciation in the accounting period	583	646	0	1 229
Other major non-monetary expenses				219

Business segment report by areas of operation for 2001

	Retail trade	Production and wholesale	Intersegmental transactions	TOTAL
Extra-group sales	9 784	16 704	0	26 487
Intersegmental sales	0	9 987	(9 987)	0
Total sales	9 784	26 690	(9 987)	26 487
Operating profit of the segment	1 030	1 047	0	2 077
Indivisible expenses				(599)
Total operating profit				1 478

AS Baltika 2002 Annual Report. In thousand euros.   Translation of the Estonian original

Other financial income				31
Other financial expenses				(432)
Income tax				(12)
Profit before minority shareholding				1 065
Minority shareholding				61
Net profit				1 004
Assets	5 519	13 123	(508)	18 134
Indivisible assets of the group				582
Total assets	5 519	13 123	(508)	18 716
Liabilities	4 221	3 202	(4 099)	3 324
Indivisible liabilities of the group				6 502
Total liabilities	4 221	3 202	(4 099)	9 826
Acquisition of fixed assets in the accounting period	714	1 238	0	1 951
Depreciation in the accounting period	311	599	0	910
Other major non-monetary expenses				304

Retail segment reflects assets, liabilities, revenues and expenses of retail subsidiaries, related to retail trade as well as assets, liabilities, revenues and expenses of factory shops belonging to production companies AS Baltika and AS Virulane.
Production and wholesale segment reflects assets, liabilities, revenues and expenses related to production, wholesales and other associated operations.
Assets and liabilities of segments do not include financial assets and liabilities, and the revenues and expenses of segment do not include the revenues and expenses accruing from these assets and liabilities.
In segment report, administrative building is considered as indivisible asset of the group; long-term loans, dividends and interest liabilities are considered as indivisible liabilities of the group; administrative costs of centre are considered as indivisible costs of the group.

Sales and assets by Geographical Segment - Secondary

	Sales		**Fixed assets**		**Other assets**	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
Estonia	8 362	7 813	5 333	5 425	10 770	10 594
Latvia	3 078	2 178	221	0	861	0
Lithuania	4 597	2 831	541	266	1 568	1 035
Russia	3 273	3 619	0	0	0	0
The Ukraine	3 477	1 868	380	266	1 847	928
Finland	3 389	3 654	0	0	35	34
Sweden	1 426	1 656	9	12	137	208
Great Britain	1 092	1 638	0	0	0	0
Poland	2 235	900	869	224	1 377	870
Other markets	96	332	0	0	0	0
Total	**31 025**	**26 487**	**7 354**	**6 193**	**16 594**	**13 668**

The management is of the opinion that the prices used in inter segmental transactions do not substantially differ from market prices.

Note 19 Other Income

	Parent 2002	Parent 2001	Group 2002	Group 2001
Profit from sales of pre-emption right on real estate (note 10)	314	0	330	43
Other income	148	92	54	40
Total	**462**	**93**	**385**	**83**

Note 20 Operating Expenses (in thousand of EUR)

	Parent 2002	Parent 2001	Group 2002	Group 2001
Rental expenses	324	436	2 543	1 577
Expenses on fuel and energy	225	201	441	387
Transportation expenses	509	340	590	394
Travel expenses	195	159	261	218
Advertising costs	804	386	1 265	608
Costs of insurance	61	61	91	81
Costs of utilities	26	26	51	42
Communication costs	160	138	257	196
Personnel recruitment costs	4	31	5	43
Training costs	20	50	48	62
Security costs	44	42	123	102
Consultation fees	166	60	173	67
Agency fees	99	76	122	175
Doubtful receivables and uncollectible receivables	182	103	192	126
IT costs	282	240	345	278
Credit card expenses	0	1	139	82
Other operating expenses	608	592	1 413	968
Total	**3 710**	**2 942**	**8 059**	**5 406**

The essential increase in advertising costs is connected with launching a new trademark. Increase in rental expenses results from opening new shops in the different markets.
Other operating expenses include costs of office supplies, customs services, maintenance, bank services, legal services etc.

Note 21 Personnel Expenses

	Parent 2002	Parent 2001	Group 2002	Group 2001
Wages and salaries	3 711	3 341	6 951	5 797
Social and other taxes	1 211	1 134	2 215	1 873
Vacation pay liabilities and unpaid bonuses	166	166	487	397
Total	**5 088**	**4 640**	**9 653**	**8 067**

Note 22 Other Expenses

	Parent		Group	
	2002	**2001**	**2002**	**2001**
Membership fees	5	4	7	6
Loss from sales and write-off of fixed assets	12	10	29	52
Penalties, delay allowances, tax interests	0	0	1	1
Representational costs	62	87	87	97
Foreign exchange losses	18	9	24	20
Other expenses	35	3	73	61
Total	**132**	**114**	**221**	**238**

Note 23 Financial Income

In thousand of EUR	Parent		Group	
	2002	**2001**	**2002**	**2001**
Interest income	52	4	10	8
Dividends received	4	0	4	1
Financial income from short-term shares	6	3	6	3
Share of profit of subsidiaries	313	441	0	0
Other financial income	29	0	29	20
Total	**404**	**448**	**49**	**31**

Note 24 Financial Expenses

	Parent		Group	
	2002	**2001**	**2002**	**2001**
Interest expense from loans and leases	482	350	558	362
Foreign exchange losses	25	29	1	36
Share of loss of subsidiaries	2 245	912	0	0
Other financial expenses	18	32	18	34
Total	**2 770**	**1 323**	**578**	**432**

Note 25 Income Tax

Calculation of income tax	**2002**	**2001**
Current income tax	(38)	(12)
Deferred income tax (note 9)	176	0
Total income tax	**137**	**(12)**

Corporate income tax of 38 thousand EUR was paid by the Ukrainian subsidiary (income tax rate 30%) and 0,4 thousand EUR by the Finnish subsidiary (interest rate 29%).

Potential corporate income tax liability, concurring with distribution of the company's retained earnings as dividends, is not recorded in the balance sheet because this liability cannot be reliably assessed. In case the parent company paid out the retained earnings as of 31.12.1999 as dividends (470 thousand EUR), there would be no income tax liability for 1994-1999. The income tax from the respective proportion of profit has already been paid. If dividends were paid from retained earnings starting from 2000 amounted to 2 785 thousand EUR, they will be subject to income tax (26/74 of net dividends paid).

The maximum possible tax liability, which would become payable if the retained earnings would be fully paid out as dividends as at 31.12.2002, is 0,98 million EUR.

Income tax prepayment in amount of 9,6 thousand EUR is paid by Ukrainian, Finnish and Swedish subsidiary.

Note 26 Earnings Per Share

Basic earnings per share

		2 002	2 001
Weighted average number of shares	Pcs	5 015 817	4 800 000
Net profit	EUR '000	**434**	**1 004**
Basic earnings per share	**EUR**	**0,09**	**0,21**

Diluted earnings per share

		2 002	2 001
Weighted average number of shares	Pcs	5 015 817	4 800 000
Number of dilutive shares		74 202	139 373
Net profit	EUR '000	**434**	**1 004**
Diluted earnings per share	**EUR**	**0,09**	**0,20**

In calculating the diluted earning per share, the 384,000 convertible bonds issued within the framework of the top executives' share option program, have been taken into account. The convertible bonds entitle their holders to exchange them for the same amount of shares of AS Baltika (see note 10). The average market price of the share of AS Baltika was 2,26 EUR.

Note 27 Related Parties

The director of the subsidiary Baltika Lietuva has been granted a loan in the amount of 8,7 thousand EUR (30 thousand LTL), due date is May 1, 2006. In the current employment contract no interests are calculated on the loan.

In 2002, the salaries of members of the Management Board and the Supervisory Board amounted to 0,2 million EUR (2001 0,18 million EUR).

In April 2002 the members of the Management Board were entitled to subscribe for 124,000 convertible bonds that will entitle them to subscribe for the shares of Baltika for 2,18 EUR per share starting from May 2003 (see Note 14). In year 2001 106 000 convertible bonds were subscribed by members of Management Board.

In September 2002, OÜ BMIG that is controlled by the members of the Management Board and a member of Supervisory Board subscribed for 644,450 shares of AS Baltika, paying 2,30 EUR per share in total sum of 1,48 million EUR. After the transaction, OÜ BMIG holds 20,26 % of the shares of AS Baltika (see Note 14)

During 2002, goods in the amount of 285 thousand EUR (2001 290 thousand EUR) were purchased from OÜ Maisan that is controlled by a member of Management Board.

During 2002, sewing services in the amount of 1,1m EUR were sold to and services in the amount of 2,1 thousand EUR were bought from The Major Oak Clothing Co that is controlled by a member of Supervisory Board. (in the amount of 1,6 million EUR sewing services was sold in 2001)

According to the agreement of joint bank account the members of the group have a joint liability over the unpaid balances to the bank. AS Baltika, AS Virulane, AS Elina STC and OÜ Baltman have been joined with the joint bank account of AS Baltika that uses the overdraft of 1,6 million EUR (note 12).

AS Baltika 2002 Annual Report. In thousand euros. Translation of the Estonian original

Liabilities and Receivables of Parent Company to/from Subsidiaries:

	31.12.2002	31.12.2001
Liabilities	605	508
Receivables	7 007	3 548

The management is of the opinion that the prices used in transactions with related parties do not substantially differ from market prices.

Note 28 Financial Risks

Foreign Currency Risk

Exports constitute 73% of the group's net sales. Major selling currencies are EUR and GBP. All direct materials used in production are imported. Major buying currencies are EUR and USD. Trading with countries belonging to the European Monetary Union is held solely in EUR, thus eliminating the currency risks previously connected with their national currencies. No financial instruments have been used in year 2002 to hedge the foreign currency risk. The foreign currency obtained from the sales has been used for the payments of the liabilities due with the same currency.
In 2002, foreign currency gains amounted to 265 thousand EUR, losses to 285 thousand EUR. In year 2001 the figures were accordingly gains 158 thousand EUR and losses 178 thousand EUR. The gains and losses in 2002 are recorded in income statement as net loss 20 thousand EUR (notes 15 and 18).

Credit and Liquidity Risk

The group is open to credit risk concerning the solvency of a business partner in Russia. Receivables recorded in balance sheet are not secured. As the production and sales cycle of the group are seasonal, the credit risks are not of a constant nature. The maximum credit risk per balance sheet date is 2,8 million EUR, including credit risk of Russian partner 1,8 million EUR. Credit risk in Russia is concentrated to a single business partner that Baltika has been trading with for the past 9 years, with whom the franchise and wholesales agreement have been signed. In years 1999-2002 Russian sales have grown 45%, and have reached 3,6 million EUR in year 2002 (note 18). AS Baltika has started the negotiations for establishing a joint venture in Russia in the future and most probably the current business partner will be the main candidate.

Risk of Interest Rates
Risks of interest rates are primarily bound to the possible fluctuation of EURIBOR as well as change in average interest rates of banks.

Note 29 Warranties

Per 31.12.2002, the group has guaranteed rental payments arising from rental contracts with third parties in amount of 309 thousand EUR, and future payments of bills of credit to bank in amount of 133 thousand EUR. Information about the pledges of the warranties, see note 12.

Note 30 Off-Balance Sheet Assets

AS Baltika holds 878.9 thousand meters of direct materials (fabric, lining etc) sent by the subcontractors in its custody.

Note 31 Subsequent events
At the time of compiling the annual report, the owner of 15,500 A convertible bonds has expressed the wish to use the right of subscription for the shares. Increase in share capital by the 15 500 shares with the nominal value of 0,6 EUR to the total amount of 3 544 528 EUR did occur in February 2003.

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia
www.pwcglobal.com/ee/

Telephone +372 6 141 800
Facsimile +372 6 141 900

AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Baltika

We have audited the financial statements of AS Baltika (the Parent Company) and the consolidated financial statements (presented in euros) of the Parent Company and its subsidiary companies (the Group) for the year ended 31 December 2002 as set out on pages 9 to 35. These financial statements are the responsibility of the Group 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 Parent Company and the Group as at 31 December 2002 and of the results of their operations and their cash flows for the year then ended in accordance with International Accounting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

28 February 2003

Signatures of the Management Board and Supervisory Board to the 2002 Annual Report

Chairman of the Management Board
Meelis Milder

Chairman of the Supervisory Board
Miles Warwic Burger

Member of the Management Board
Ülle Järv

Member of the Supervisory Board
Joakim H. Helenius

Member of the Management Board
Maire Milder

Member of the Supervisory Board
Reet Saks

Member of the Management Board
James Hayhow

Member of the Management Board
Boriss Loifenfeld