



AS BALTIKA

Consolidated interim report for the second quarter and first half-year of 2006

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Web page	www.baltika.ee
Main activities	Retail and wholesale of clothes
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2006 - 31.12.2006

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BRIEF DESCRIPTION OF BALTIKA GROUP

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

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

As of 30 June 2006, the Group employed 1,758 people (as of 30 June 2005 1,630).

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

The Group consists of the following companies:

	Location	Participation at 30.06.2006	Participation at 30.06.2005
Parent company			
AS BALTIKA	Estonia		
Subsidiaries			
OÜ Baltman	Estonia	100%	100%
Baltika Lietuva	Lithuania	100%	100%
Baltika Latvija	Latvia	75%	75%
Baltika Sweden AB	Sweden	100%	100%
Baltika Ukraina Ltd	Ukraine	99%	99%
Baltika Poland Sp.z.o.o.	Poland	100%	100%
OY Baltinia AB	Finland	100%	100%
AS Elina STC	Estonia	62.50%	50.10%
AS Virulane	Estonia	79.23%	79.23%
OOO Kompania „Baltman Rus“	Russia	100%	50.10%
OÜ Baltika TP	Estonia	100%	-
Joint venture			
OÜ Baltika Tailor	Estonia	50%	50%

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

According to the contract signed on 4 April 2006, AS Baltika acquired on 19 April 2006 an additional stake of 49.9% of the share capital of its subsidiary OOO Kompania "Baltman Rus" and became the sole owner of the subsidiary.

MANAGEMENT REPORT**Consolidated financial results, 6 months 2006**

Baltika Group's net profit in the second quarter amounted to EEK 22.1 million (EUR 1.4mln) and the Group's 2Q net margin reached 10.8%. Compared with the same period last year, 2Q 2006 net profit grew 24.1%. Profit before income tax amounted to EEK 25.5 million (EUR 1.6mln), growing by 45.9% yoy. Baltika's second quarter sales increased 27.9% yoy to EEK 205.0 million (EUR 13.1mln) while retail sales posted a growth of 25.6% and wholesale increased 52.5% compared with the corresponding period last year. The Group's 2Q gross margin rose to 57.7% (54.8% in 2Q 2005). Operating margin reached 12.1% (11.5% in 2Q 2005) and operating profit was EEK 24.9 million (EUR 1.6mln), up 34.9% from last year's corresponding figure.

Cumulative six month sales of Baltika Group totalled EEK 390.2 million (EUR 24.9mln), up 25.7% yoy. Retail sales grew 25.2% and wholesale 34.3% compared with the same period last year. The Group's gross and operating margins in the first half of the year stood at 55.9% and 10.1%, respectively (51.9% and 8.6% in 6m 2005). Six-month operating profit amounted to EEK 39.3 million (EUR 2.5mln), up 47.5% yoy and profit before income tax was EEK 38.6 million (EUR 2.5mln), expanding by 50.6% yoy. Net profit for the first six months increased 28.8% yoy to EEK 36.3 million (EUR 2.3mln) and net margin reached 9.3% (9.1% in 6m 2005).

SALES**Sales breakdown by segment**

EEK mln	2Q 2006	2Q 2005	+/-	6m 2006	6m 2005	+/-
Retail sales	176.6	140.6	25.6%	315.9	252.3	25.2%
Wholesale	25.3	16.6	52.5%	68.1	50.7	34.3%
Subcontracting	0	0	0%	0	0.6	-100.0%
Other sales	3.1	3.1	0.6%	6.3	6.9	-9.7%
Total	205.0	160.3	27.9%	390.2	310.5	25.7%

1 EUR = 15.6466 EEK

RETAIL SALES

In the first half of 2006, retail sales of Baltika Group amounted to EEK 315.9 million (EUR 20.2mln), increasing by 25.2% yoy. The average retail space of the Group grew 20% yoy and sales efficiency (sales/m²) was up 5% yoy. The growth of the Group's average sales efficiency is impacted by initial lower sales density of new stores. Additionally, sales efficiency is affected by enlarging store formats. Like-for-like sales (sales on comparable areas) increased by 14% yoy in the first half of 2006.

In the first quarter of this year, Baltika launched lingerie as a new product group. In the second quarter, the beach and swimwear range was launched under the Monton brand. In general, the launch of the new product groups has been successful although in men's part the results have been somewhat lower than expected. However, women have received our new products very well. Based on the gained experience, permanent collections of beachwear and lingerie will be developed under the Monton brand.

The breakdown of Baltika's retail sales by brands shows that the sales of Monton accounted for 51% of the total retail sales in the first half of 2006 and amounted to EEK 160 million (EUR 10.2mln), up 19% on last year's figure. The retail sales of Mosaic grew 57% yoy to EEK 108 million (EUR 6.9mln) and the sales of Baltman increased 31% yoy to EEK 35 million (EUR 2.2mln).

Estonia continued to be the Group's largest retail market in the first half of 2006 with sales amounting to EEK 89 million/EUR 5.7mln (+23% yoy). Estonia was followed by Lithuania with EEK 77 million/EUR 4.9mln (+33%). Ukraine was the third largest market with sales totalling EEK 55 million/EUR 3.5mln (+27%). First-half retail sales in Latvia reached EEK 44 million/EUR 2.8mln (+29%) and in Russia EEK 33 million/EUR 2.1mln (+35%). Baltika's smallest market Poland that accounts for 6% of retail sales, experienced a 10% yoy decrease in sales to EEK 18 million (EUR 1.2mln).

SHOPS AND SALES AREA

As of the end of June, Baltika Group operated 94 stores in six countries, with total sales area of 14,517 square metres. A year ago, Baltika's retail system comprised 76 stores with total sales area of 11,341 square metres.

Number of shops by country

	30.06.2006	30.06.2005
Estonia	24	23
Latvia	11	10
Lithuania	23	16
Ukraine	17	12
Russia	12	7
Poland	7	8
Total shops	94	76
Total retail space, m²	14,517	11,341

In the first half of 2006, Baltika opened nine new stores, including four in the second quarter, and closed one store in Poland. In terms of brands, five Monton, three Mosaic and one Baltman store was opened. By markets, the new openings took place in Ukraine (5), Russia (3) and Latvia (1).

In the second half of the year, the number of shops planned to be opened is 22-26, resulting in 31-35 new store openings in full 2006. By the end of the year, the Group's retail system should comprise 114-118 shops with total sales area of 20,000-21,000 square metres. By markets, the largest expansion is planned in Russia and Ukraine and by brands, in Monton and Mosaic.

BALTIKA PLANS TO ACQUIRE TRADEMARK IVO NIKKOLO

According to the agreement signed on 12 July 2006, Baltika plans to acquire Ivo Nikkolo fashion trademark and start operating Ivo Nikkolo stores located in Estonia. Upon realisation of the agreement, three stores selling Ivo Nikkolo's collections will be incorporated in Baltika's retail system starting from 18 September 2006. Estonia's fashion designer Ivo Nikkolo continues consulting collection development.

Ivo Nikkolo is an Estonian based well-known premium trademark bearing the name of its founder. It was created in 1994. The acquisition of the trademark complies with the 2006-2008 strategic objectives of Baltika Group to extend its customer base. Ivo Nikkolo trademark fits perfectly Baltika's current brand portfolio that is missing a premium fashion brand for ladies and creates additional synergies between the existing brands. By using the existing infrastructure and market organisations, Baltika plans to expand the chain of Ivo Nikkolo stores into the markets where the Group is already present with its other brands.

WHOLESALE

In the first half of 2006, wholesale sales of Baltika's own products accounted for 17% of the Group's total sales revenue and totalled EEK 68.1 million (EUR 4.4mln). On an annual basis wholesale sales grew 34.3%. The second quarter of the year is traditionally a low one for wholesale and thus, wholesale accounted for 12% of total sales. At the same time, wholesale posted a very strong growth in 2Q 2006 increasing by 52.5% yoy. The growth comes mainly from Russian wholesale.

EARNINGS AND MARGINS

Despite expansion, Baltika continues reporting improvements in the Group's profitability. In the first six months of the year, the Group's gross profit margin expanded to 55.9% from last year's corresponding figure of 51.9%. Second quarter gross margin reached 57.7% (54.8% in 2Q 2005). As a result of strong gross margin, the Group's six-month gross profit grew significantly faster than the sales revenues posting a growth of 35.4% yoy to EEK 218.1 million (EUR 13.9mln). Among other things, gross margin is positively affected by well managed discount sales periods and growing higher margin sales in Russia and Ukraine. Overall, the results were supported by solid growth of retail sales, including good growth in like-for-like sales, better sales efficiency and improved inventory management.

Even though the Group's operating expenses are growing in conjunction with expansion, the Group's six-month operating margin improved on an annual basis reaching 10.1% compared with 8.6% in the first six months of 2005. 2Q 2006 operating margin was 12.1% versus 11.5% in the second quarter of last year. The Group's six-month operating profit totalled EEK 39.4 million (EUR 2.5mln), up 47.5% versus previous year.

The Group's net financial expenses amounted to EEK -0.7 million (EUR -47 thousand) in the first half of 2006. Interest expenses in the same period totalled EEK 2.2 million (EUR 144 thousand), decreasing by 19.4% over the year.

In the first six months, Baltika Group's profit before income tax amounted to EEK 38.6 million (EUR 2.5mln), growing by 50.6% yoy. In the second quarter of this year, Baltika paid dividend income tax in the amount of EEK 1,679 thousand (EUR 107 thousand) as a result of dividend payment. In 2005, Baltika was exempt from dividend income tax.

Six-month net profit of the Group after taxes and minority shareholding amounted to EEK 36.3 million (EUR 2.3mln) and grew by 28.8% yoy. Six-month net margin was 9.3% compared with 9.1% a year ago. Second quarter net margin stood at 10.8% (11.1% in 2Q 2005).

BALANCE SHEET

As of 30.06.2006 the total assets of Baltika Group amounted to EEK 480.9 million (EUR 30.7mln). This corresponds to an increase of 51.2% over the year and 27.5% over the first half of 2006.

As of the end of June, the Group's inventories stood at EEK 171.2 million (EUR 10.9mln), increasing by EEK 24.6 million (EUR 1.6mln) or 16.8% yoy. The growth is mainly due to expansion of the retail system. At the same time, inventory management in the Group is continuously improving as a result of which the inventory turnover ratio (net sales/average inventories) has increased from 4.27 to 5.34 within the last twelve months.

As a result of strong growth in wholesale, the Group's accounts receivables have increased by EEK 29.5 million (EUR 1.9mln) over the year to EEK 60.1 million (EUR 3.8mln) by the end of the first half of 2006. Accounts payable expanded by EEK 29.7 million (EUR 1.9mln) over the year to EEK 61.5 million (EUR 3.9mln). Accounts payable have partly increased as a result of earlier purchases of new season's products due to the relocation of Baltika's logistics centre to the new premises in July.

At the end of the review period, the Group's borrowings amounted to EEK 140.1 million (EUR 9.0mln), including bank loans of EEK 109.8 million (EUR 7.0mln). The rest of debt comprises of lease liabilities (EEK 10.9mln/EUR 0.7mln) and bonds (EEK 19.3mln/EUR 1.2mln). Over the year, the Group's debt level has increased by EEK 48.0 million (EUR 3.1mln), mainly due to the usage of the bank's overdraft. Overall debt level has grown because of the need to finance the expansion of the retail system and the construction of the new logistics centre. During the first six months of 2006, the Group has made loan repayments in the amount of EEK 4.7 million (EUR 0.3mln). As of the end of June, the Group's net debt to equity ratio stood at 49.1%, up slightly from the year ago figure of 46.8%.

INVESTMENTS

The Group's investments during the first six months of the year amounted to EEK 54.3 million (EUR 3.47mln). A total of EEK 19.4 million (EUR 1.24mln) was invested into the retail system, EEK 27.4 million (EUR 1.75mln) into the new logistics centre and EEK 4.9 million (EUR 0.31mln) into information technology. Investments into production and other fixed assets amounted to EEK 2.6 million (EUR 0.17mln).

PERSONNEL

As of 30.06.2006, Baltika Group employed 1,758 people, including 882 in production and 711 in retail; 551 people worked outside Estonia. At the same time last year, the number of employees stood at 1,630, including 932 in production and 556 in retail. The average number of personnel in the first six months of 2006 was 1,717 (1,670 in 6m 2005).

In the first half of 2006, the Baltika Group's wages and salaries amounted to EEK 50.9 million (EUR 3.3mln). The remuneration paid to the members of the Management Board and Council totalled EEK 3.2 million (EUR 205 thousand).

INCREASING OWNERSHIP IN THE RUSSIAN SUBSIDIARY TO 100%

On 19 April 2006, AS Baltika acquired an additional stake of 49.9% of the share capital of its subsidiary OOO Kompania "Baltman Rus" and became the sole owner of the subsidiary. At that time, OOO Kompania "Baltman Rus" operated a total of 11 shops selling Baltika's brands in Moscow, St. Petersburg and Kazan. In 2005, the company's sales totalled EEK 51.2 million (EUR 3.3mln) and accounted for 7.5% of the net sales of Baltika Group.

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

ANNUAL GENERAL MEETING

Baltika's Annual General Meeting, held on 3 May 2006, approved the company's annual report for 2005 and the proposal for profit distribution. It was resolved to pay a dividend of EEK 2.00 (EUR 0.13) per share out of the retained earnings of the previous periods, totalling EEK 12.03 million (EUR 769 thousand). The list of shareholders entitled to receive the dividends was fixed on 18 May 2006 at 8:00. Dividends were paid out on 30 May 2006.

The Annual General Meeting decided to recall all the members of the Council and elect for the next three years a new Council, consisting of five members, as follows: Tiina Mõis, Reet Saks, Allan Remmelkoo, Andres Erm and Gert Tiivas. On the council meeting held on 7 June 2006, Mrs. Tiina Mõis was elected as the new Chairman of the Council of Baltika.

The Annual General Meeting also made amendments to the company's Articles of Association and approved the new wording of the Articles of Association. In addition, Baltika Group's strategy for the years 2006-2008 was presented. An overview of the strategy is included in the stock exchange release of the AGM's decisions published on 3 May. Detailed information about the strategy is available in Baltika's 2005 yearbook.

KEY FIGURES OF THE GROUP (6 months 2006)

	30.06.2006	30.06.2005	+/-
Net sales (EEK mln)	390.2	310.5	25.7%
Retail sales (EEK mln)	315.9	252.3	25.2%
Share of retail sales in net sales	81%	81%	
Number of directly managed stores	94	76	23.7%
Retail space (m ²)	14,517	11,341	28.0%
Number of employees (end of period)	1,758	1,630	7.9%
Gross margin, %	55.9%	51.9%	
Operating margin, %	10.1%	8.6%	
Net margin, %	9.3%	9.1%	
Inventory turnover	5.34	4.27	25.1%
Return on equity	39.7%	32.5%	
Return on assets	21.4%	13.5%	

Formulas for key ratios

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

Operating margin = Operating profit/Net sales

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

Inventory turnover = Net sales/Average inventories*

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

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

*Based on 12-month average

1 EUR = 15.6466 EEK

Ülle Järv

Member of the Management Board

Further information:

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FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's consolidated interim report for the second quarter and first half-year of 2006 as presented on pages 8-36.

The Management Board confirms that:

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



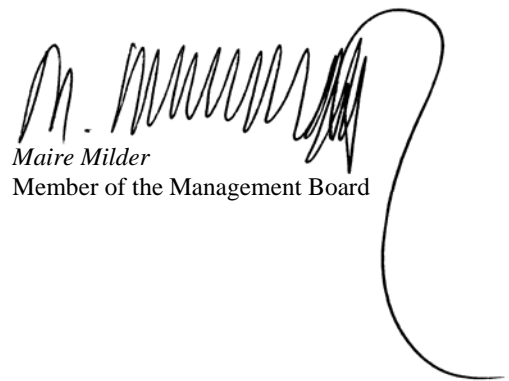
Meelis Milder
Chairman of the Management Board



Ülle Järv
Member of the Management Board



Boriss Loifenfeld
Member of the Management Board



Maire Milder
Member of the Management Board

25 August 2006

CONSOLIDATED BALANCE SHEET

(unaudited, in EEK thousand)

	Note	30.06.2006	31.12.2005
ASSETS			
Current assets			
Cash and bank	3	17,490	25,961
Current financial assets	4	1,826	1,808
Trade receivables	5	60,083	39,566
Other receivables and prepaid expenses	6,7	30,613	14,992
Inventories	8	171,206	144,459
Total current assets		281,218	226,786
Non-current assets			
Investments in joint ventures		0	234
Investment property		27,193	27,193
Deferred income tax receivable		3,598	3,598
Other non-current assets	9	6,141	4,708
Property, plant and equipment	10	130,514	88,089
Intangible assets	11	32,265	26,491
Total non-current assets		199,711	150,313
TOTAL ASSETS		480,929	377,099
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	12,13	66,120	30,278
Supplier payables		61,501	44,782
Tax liabilities	7	15,379	17,563
Accrued expenses	14	17,511	13,505
Other short-term payables	14	153	466
Total current liabilities		160,664	106,594
Non-current liabilities			
Long-term borrowings	12	74,014	62,553
Total non-current liabilities		74,014	62,553
TOTAL LIABILITIES		234,678	169,147
EQUITY			
Share capital at par value		60,150	58,230
Share premium		55,298	49,690
Reserves		9,721	9,532
Retained earnings		73,521	13,077
Net profit for the period		36,269	72,664
Currency translation differences		4,022	4,131
Total equity attributable to majority shareholder		238,981	207,324
Minority interest		7,270	628
TOTAL EQUITY	15	246,251	207,952
TOTAL LIABILITIES AND EQUITY		480,929	377,099

CONSOLIDATED BALANCE SHEET

(unaudited, in EUR thousand)

	Note	30.06.2006	31.12.2005
ASSETS			
Current assets			
Cash and bank	3	1,118	1,659
Current financial assets	4	117	116
Trade receivables	5	3,840	2,529
Other receivables and prepaid expenses	6,7	1,957	958
Inventories	8	10,942	9,233
Total current assets		17,974	14,495
Non-current assets			
Investments in joint ventures		0	15
Investment property		1,738	1,738
Deferred income tax receivable		230	230
Other non-current assets	9	392	301
Property, plant and equipment	10	8,341	5,630
Intangible assets	11	2,062	1,693
Total non-current assets		12,764	9,607
TOTAL ASSETS		30,738	24,102
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	12,13	4,226	1,935
Supplier payables		3,931	2,862
Tax liabilities	7	983	1,122
Accrued expenses	14	1,119	863
Other short-term payables	14	10	30
Total current liabilities		10,268	6,813
Non-current liabilities			
Long-term borrowings	12	4,730	3,998
Total non-current liabilities		4,730	3,998
TOTAL LIABILITIES		14,999	10,811
EQUITY			
Share capital at par value		3,844	3,722
Share premium		3,534	3,176
Reserves		621	609
Retained earnings		4,699	836
Net profit for the period		2,318	4,644
Currency translation differences		257	264
Total equity attributable to majority shareholder		15,275	13,251
Minority interest		465	40
TOTAL EQUITY	15	15,739	13,291
TOTAL LIABILITIES AND EQUITY		30,738	24,102

CONSOLIDATED INCOME STATEMENT

(unaudited, in EEK thousand)

	Note	2Q 2006	2Q 2005	6m 2006	6m 2005
Net sales	17	205,006	160,271	390,204	310,488
Cost of goods sold	18	-86,737	-72,491	-172,138	-149,390
Gross profit		118,269	87,780	218,066	161,098
Distribution costs	19	-68,463	-48,616	-130,237	-96,761
Administrative and general expenses	20	-22,372	-23,128	-44,874	-42,357
Other operating income	21	283	2,838	851	5,682
Other operating expenses	22	-2,825	-420	-4,467	-996
Operating profit		24,892	18,454	39,339	26,666
Financial income (expenses)		621	-970	-728	-1,034
Share of gains (losses) from joint ventures		0	-23	-234	934
Gains (losses) from other investments		1,820	-38	1,586	459
Interest expenses		-1,255	-1,297	-2,249	-2,790
Foreign exchange gains (losses)		57	50	287	5
Other financial income (expenses)		-1	338	-118	358
Profit before corporate income tax		25,513	17,484	38,611	25,632
Corporate income tax		-2,122	-342	-2,583	-712
Net profit		23,391	17,142	36,028	24,920
Net loss attributable to minority shareholders		1,330	-635	-241	-3,240
Net profit attributable to parent company		22,061	17,777	36,269	28,160
Basic earnings per share, EEK	23	3.67	3.10	6.11	4.96
Diluted earnings per share, EEK	23	3.56	2.87	5.86	4.67

CONSOLIDATED INCOME STATEMENT

(unaudited, in EUR thousand)

	Note	2Q 2006	2Q 2005	6m 2006	6m 2005
Net sales	17	13,102	10,243	24,939	19,844
Cost of goods sold	18	-5,544	-4,633	-11,002	-9,548
Gross profit		7,559	5,610	13,937	10,296
Distribution costs	19	-4,376	-3,107	-8,324	-6,184
Administrative and general expenses	20	-1,430	-1,478	-2,868	-2,707
Other operating income	21	18	181	54	363
Other operating expenses	22	-181	-27	-285	-64
Operating profit		1,591	1,179	2,514	1,704
Financial income (expenses)		40	-62	-47	-66
Share of gains (losses) from joint ventures		0	-1	-15	60
Gains (losses) from other investments		116	-2	101	29
Interest expenses		-80	-83	-144	-178
Foreign exchange gains (losses)		4	3	18	0
Other financial income (expenses)		0	22	-8	23
Profit before corporate income tax		1,631	1,117	2,468	1,638
Corporate income tax		-136	-22	-165	-46
Net profit		1,495	1,096	2,303	1,593
Net loss attributable to minority shareholders		85	-41	-15	-207
Net profit attributable to parent company		1,410	1,136	2,318	1,800
Basic earnings per share, EUR	23	0.23	0.20	0.39	0.32
Diluted earnings per share, EUR	23	0.23	0.18	0.37	0.30

CONSOLIDATED CASH FLOW STATEMENT

(unaudited, in EEK thousand)

	Note	6m 2006	6m 2005
Operating activities			
Operating profit		39,339	26,666
Adjustments:			
Depreciation, amortisation and impairment of property, plant and equipment, intangibles	10,11	12,802	10,489
Profit (loss) from sale of property, plant and equipment		18	130
Changes in working capital:			
Change in balance of receivables		-28,132	-6,470
Change in balance of inventories	8	-26,747	-1,135
Change in supplier payables		10,328	4,861
Interest paid		-2,910	-3,803
Income tax paid		-3,348	-581
Total cash flow from operating activities		1,350	30,157
Investing activities			
Purchase of property, plant and equipment, intangibles	10,11	-53,713	-4,514
Including under the operating lease terms		0	444
Proceeds from disposal of property, plant and equipment		689	192
Investments in subsidiaries		-353	0
Interest received		78	41
Repayments of loans granted	24	160	6
Total cash flow from investing activities		-53,139	-3,831
Financing activities			
Repayments of borrowings	12	-4,650	-27,098
Loans received	12	51,130	0
Finance lease and installment payments made		-113	-494
Receipts from contributions into share capital		7,021	6,254
Dividends paid	15	-12,020	-4,474
Dividends received		15	0
Redemption of bonds	13	-17,500	-6
Proceeds from emission of bonds	13	19,148	353
Total cash flow from financing activities		43,031	-25,465
Effect of exchange rate changes on cash balance		287	5
Total cash flows		-8,471	866
Cash and cash equivalents at the beginning of the period	3	25,961	12,515
Cash and cash equivalents at the end of the period	3	17,490	13,381
Change in cash and cash equivalents		-8,471	866

CONSOLIDATED CASH FLOW STATEMENT

(unaudited, in EUR thousand)

	Note	6m 2006	6m 2005
Operating activities			
Operating profit		2,514	1,704
Adjustments:			
Depreciation, amortisation and impairment of property, plant and equipment, intangibles	10,11	818	670
Profit (loss) from sale of property, plant and equipment		1	8
Changes in working capital:			
Change in balance of receivables		-1,798	-414
Change in balance of inventories	8	-1,709	-73
Change in supplier payables		660	311
Interest paid		-186	-243
Income tax paid		-214	-37
Total cash flow from operating activities		86	1,927
Investing activities			
Purchase of property, plant and equipment, intangibles	10,11	-3,432	-288
Including under the operating lease terms		0	28
Proceeds from disposal of property, plant and equipment		44	12
Investments in subsidiaries		-23	0
Interest received		5	3
Repayments of loans granted	24	10	0
Total cash flow from investing activities		-3,396	-244
Financing activities			
Repayments of borrowings	12	-297	-1,732
Loans received	12	3,268	0
Finance lease and installment payments made		-7	-32
Receipts from contributions into share capital		449	400
Dividends paid	15	-768	-286
Dividends received		1	0
Redemption of bonds	13	-1,118	0
Proceeds from emission of bonds	13	1,224	23
Total cash flow from financing activities		2,750	-1,628
Effect of exchange rate changes on cash balance		18	0
Total cash flows		-540	55
Cash and cash equivalents at the beginning of the period	3	1,659	800
Cash and cash equivalents at the end of the period	3	1,118	855
Change in cash and cash equivalents		-540	55

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(unaudited, in EEK thousand)

	Share capital	Share premium	Reserves	Retained earnings	Currency translation differences	Total equity attributable to majority shareholders	Minority interest	Total
Balance as of 31.12.2004	56,340	44,508	26,783	193	6,622	134,446	7,024	141,470
Currency translation differences	0	0	0	0	-2,296	-2,296	-326	-2,622
Net profit for the period	0	0	0	28,159	0	28,159	-3,240	24,919
Total recognized income (expense)	0	0	0	28,159	-2,296	25,863	-3,566	22,297
Dividends paid	0	0	0	-4,367	0	-4,367	0	-4,367
Transfers to statutory reserve capital	0	0	834	-834	0	0	0	0
Increase of share capital	1,890	4,553	0	0	0	6,443	0	6,443
Allocations to retained earnings	0	0	-18,085	18,085	0	0	0	0
Balance as of 30.06.2005	58,230	49,061	9,532	41,236	4,326	162,385	3,458	165,843
Balance as of 31.12.2005	58,230	49,690	9,532	85,741	4,131	207,324	628	207,952
Currency translation differences	0	0	0	0	-109	-109	-8	-117
Net profit for the period	0	0	0	36,269	0	36,269	-241	36,028
Total recognized income (expense)	0	0	0	36,269	-109	36,160	-249	35,911
Equity-settled share-based transactions (Note 13, 15)	0	315	0	0	0	315	0	315
Dividends paid (Note 15)	0	0	0	-12,031	0	-12,031	0	-12,031
Transfers to statutory reserve capital (Note 15)	0	0	189	-189	0	0	0	0
Increase of share capital (Note 13, 15)	1,920	5,293	0	0	0	7,213	0	7,213
Changes in minority interest	0	0	0	0	0	0	6,891	6,891
Balance as of 30.06.2006	60,150	55,298	9,721	109,790	4,022	238,981	7,270	246,251

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

	Share capital	Share premium	Reserves	Retained earnings	Currency translation differences	Total equity attributable to majority shareholders	Minority interest	Total
Balance as of 31.12.2004	3,601	2,845	1,712	12	423	8,593	450	9,043
Currency translation differences	0	0	0	0	-147	-147	-20	-167
Net profit for the period	0	0	0	1,800	0	1,800	-206	1,594
Total recognized income (expense)	0	0	0	1,800	-147	1,653	-227	1,426
Dividends paid	0	0	0	-279	0	-279	1	-278
Transfers to statutory reserve capital	0	0	53	-53	0	0	1	1
Increase of share capital	121	291	0	0	0	412	1	413
Allocations to retained earnings	0	0	-1,156	1,156	0	0	1	1
Balance as of 30.06.2005	3,722	3,136	609	2,635	276	10,378	222	10,600
Balance as of 31.12.2005	3,722	3,176	609	5,480	264	13,250	41	13,292
Currency translation differences	0	0	0	0	-7	-7	0	-6
Net profit for the period	0	0	0	2,318	0	2,318	-14	2,304
Total recognized income (expense)	0	0	0	2,318	-7	2,311	-15	2,296
Equity-settled share-based transactions (Note 13, 15)	0	20	0	0	0	20	1	21
Dividends paid (Note 15)	0	0	0	-769	0	-769	1	-768
Transfers to statutory reserve capital (Note 15)	0	0	12	-12	0	0	1	1
Increase of share capital (Note 13, 15)	123	338	0	0	0	461	1	462
Changes in minority interest	0	0	0	0	0	0	441	441
Balance as of 30.06.2006	3,844	3,534	621	7,017	257	15,274	466	15,739

NOTES TO CONSOLIDATED INTERIM REPORT

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

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

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

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

Comparability

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

NOTE 2 Financial risks

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

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

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

Market risk

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

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

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

Foreign exchange risk

Exports constitute 72% of the sales of AS Baltika Group. The Group's major currencies for exports are LTL (Lithuanian litas), LVL (Latvian lat), UAH (Ukrainian hryvnia), PLN (Polish zloty), RUR (Russian rouble), EUR (Euro). The majority of raw materials used in production is imported. The major currencies for imports are EUR (euro) and USD (US dollar). Trading with the countries belonging to the European Monetary Union is handled only in euros.

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

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

In the first half-year of 2006, the Group's results were impacted by the changes of average foreign currency exchange rates against the Estonian kroon in those countries where AS Baltika has subsidiaries: Polish zloty -4.5%, Ukrainian hryvnia -6.2% and Russian rouble -0.6%. In the first half-year of 2005, changes of average foreign currency exchange rates against the Estonian kroon were as follows: Polish zloty +0.9%, Ukrainian hryvnia +19.1% and Russian rouble +9.3%.

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

If feasible, foreign currencies collected are used for the settling of liabilities measured in the same currency. For foreign currency profits and losses, please refer to Note 21 and 22.

Credit and liquidity risks

Credit risk is a potential loss that would occur by the balance sheet date if the contract parties did not meet their obligations. The Group is exposed to credit risk to the extent of solvency of its business partner in Russia. There are no collaterals for receivables in the balance sheet. Credit risks arising from the Group's seasonal production and sales cycle are not permanent. As of the balance sheet date, the maximum credit risk is 60.1 million kroons (3.8 million euros), including credit risk of the Russian wholesale partner of 33.8 million kroons (2.2 million euros). Russia's credit risk is related to one customer, with whom Baltika has concluded franchise and wholesale agreements and in partnership with whom Baltika founded a subsidiary Baltman Rus in 2004 for establishing retail operations in Russia (Baltika's ownership 50.1%). In April 2006, Baltika acquired full ownership in Baltman Rus.

A group account is in use for more flexible management of liquid assets, enabling the Group companies to use the Group resources up to the limit established by AS Baltika (Note 12).

Interest rate risk

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

Operating risks

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

To ensure good collections, Baltika employs a strong team of designers who monitor and are always aware of fashion trends by using internationally acclaimed channels. Such a structure, procedures and information systems have been set up at the Group which help daily monitoring of sales and the balance of inventories and using it in subsequent activities. In order to upgrade information systems, the plan for 2006 calls for the transition to the

integrated system encompassing several areas of operations. In order to avoid supply problems, cooperation with the world's leading procurement intermediaries as well as fabric manufacturers has been expanded.

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

NOTE 3 Cash and bank

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Cash in hand	2,232	1,896	143	121
Cash at bank	14,773	11,267	944	720
Short-term deposits	485	12,798	31	818
Total	17,490	25,961	1,118	1,659

As of the end of June 2006, cash had been deposited overnight by the parent company in the amount of 4 thousand kroons (256 euros), with the interest rate of 2.15% and by the Polish subsidiary in the amount of 481 thousand kroons (31 thousand euros) with the interest rate of 3.8%. No other overnight deposits existed. As of the end of 2005, overnight deposits had been deposited by the parent company in the amount of 12,798 thousand kroons (818 thousand euros) with the interest rate of 2.05% for EEK, 1.55% for EUR and 4.00% for USD.

NOTE 4 Current financial assets

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Shares of Tallinna Kaubamaja	1,826	1,808	117	116

The shares of Tallinna Kaubamaja are listed on Tallinn Stock Exchange and are actively traded, thus the basis for the fair value assessment is the closing price quoted on Tallinn Stock Exchange. In May 2006, Tallinna Kaubamaja increased the share capital in the account of retained earnings without additional cash payments by the bonus issue by issuing five new shares per each existing share. As a result of the bonus issue, the number of shares owned by AS Baltika increased from 5,160 to 30,960.

NOTE 5 Trade receivables

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Accounts receivable	61,391	39,579	3,924	2,530
Allowance for doubtful receivables	-1,308	-13	-84	-1
Total	60,083	39,566	3,840	2,529

Trade receivables include the parent's receivable from the joint venture in the amount of 2,369 thousand kroons (151 thousand euros); 31 December 2005: 1,627 thousand kroons (104 thousand euros) (Note 22).

No impairment losses have been recognised and no reversal of the impairment losses previously provided for has occurred during the first half-year of 2006. However, the allowance for doubtful receivables has been adjusted by doubtful receivables from OOO Streit, the controlled company that is no longer consolidated into the Group's results from the beginning of year 2006. During the first half-year of 2006, doubtful receivables in the amount of 13 thousand kroons (831 euros) were written off the balance sheet. During the first half-year of 2005, the Group recognised impairment losses in the amount of 448 thousand kroons (29 thousand euros), reversal of the impairment losses previously provided for occurred in the amount of 24 thousand kroons (1.5 thousand euros) and uncollectible receivables in the amount of 215 thousand kroons (14 thousand euros) were written off the balance sheet.

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

NOTE 6 Other receivables and prepaid expenses

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Other current receivables	1,364	3,578	87	228
Tax prepayments and tax reclaims	7,349	5,189	470	332
Prepaid expenses	21,895	6,207	1,400	397
Interest receivables	5	18	0	1
Total	30,613	14,992	1,957	958

Prepaid expenses include prepaid rental payments, insurance payments, prepayment for information technology services, subscription costs of periodicals, etc. Material increase in prepaid expenses during first half-year of 2006 is related to prepayments for rent of the shops to be opened in Russia.

NOTE 7 Tax receivables and tax liabilities**Tax receivables (prepayments)**

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Value added tax	6,624	4,818	423	308
Prepaid income tax	526	323	34	21
Other taxes	199	48	13	3
Total	7,349	5,189	470	332

Tax liabilities

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Personal income tax	2,356	2,601	151	166
Social security tax	5,102	5,686	326	363
Value added tax	7,208	7,958	461	509
Corporate income tax liability	370	932	23	60
Other taxes	343	386	22	24
Total	15,379	17,563	983	1,122

NOTE 8 Inventories

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Raw materials and materials	56,849	65,630	3,633	4,195
Impairment of raw materials	-1,790	-2,534	-114	-162
Work-in-progress	1,531	1,600	98	102
Finished goods and goods purchased for resale	113,303	77,816	7,241	4,973
Impairment of finished goods and goods purchased for resale	-1,856	-1,556	-119	-99
Prepayments to suppliers	3,169	3,503	203	224
Total	171,206	144,459	10,942	9,233

As of the end of the reporting period, the inventories of the Group with the carrying amount of 7.3 million kroons/0.47 million euros (31 December 2005: 7.5 million kroons/0.5 million euros) were in the custody of third parties.

The amount of fabric carried at net realizable value amounted to 5.48 million kroons/0.35 million euros as of 30 June 2006 (31 December 2005: 6.59 million kroons/0.42 million euros). The net realizable value of finished goods and goods for resale did not change in the reporting period. The impairment losses of raw materials in the Group amounted to 105 thousand kroons/6.7 thousand euros in first half-year of 2006 (first half-year 2005:

1 million kroons/64 thousand euros). No additional losses have been incurred from the realisation of previously impaired raw materials.

Due to improved planning for selling old inventories, the impairment allowance of finished goods and goods for resale has decreased by 849 thousand kroons/54 thousand euros during the first half-year of 2006 (first half-year of 2005: 517 thousand kroons/33 thousand euros).

NOTE 9 Other non-current financial assets

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Investments in joint venture	0	234	0	15
Other non-current financial assets				
Loan receivable from joint venture	1,309	1,302	84	83
Long-term prepayments for rent	4,274	3,361	273	215
Other long-term financial assets	558	45	35	3
Total	6,141	4,708	392	301

Long-term prepayments for rent have been paid by the retail companies in Latvia, Lithuania, Poland and Russia.

NOTE 10 Property, plant and equipment

The Group's investments in property, plant and equipment totalled 53.2 million kroons (3.4 million euros) during the first half-year of 2006 and 3.4 million kroons (0.2 million euros) in the corresponding period of 2005. Investments in the construction of a new logistics centre amounted to 27.4 million kroons (1.8 million euros). Investments in retail operations in all the markets totalled 19.4 million kroons/1.2 million euros (first half-year of 2005: 1.8 million kroons/0.12 million euros). In first half-year of 2006, investments in the amount of 2.4 million kroons/0.15 million euros (first half-year of 2005: 0.8 million kroons/0.05 million euros) were made into production related assets, in the amount of 3.8 million kroons/0.24 million euros (first half-year of 2005: 0.2 million kroons/0.013 million euros) into information technology and 0.2 million kroons/0.01 million euros (first half-year of 2005: 0.6 million kroons/0.04 million euros) was invested in other equipment.

During first half-year of 2006, non-current assets were sold with an acquisition cost of 0.26 million kroons/0.017 million euros (first half-year of 2005: 0.75 million kroons/0.05 million euros). Write-offs of non-current assets amounted to 7.8 million kroons (0.5 million euros) at acquisition cost (2005: 0.96 million kroons/0.06 million euros).

Movement of property, plant and equipment of the group

EEK '000	Land	Buildings, structures	Machinery, equipment	Other fixtures	Constr. in progress	Pre-payments	Total
Acquisition cost 31.12.2004	3,004	69,628	70,706	47,902	68	0	191,308
Accumulated depreciation 31.12.2004	0	-22,454	-62,353	-29,176	0	0	-113,983
Net book amount 31.12.2004	3,004	47,174	8,353	18,726	68	0	77,325
Additions	0	1,294	1,446	643	12	189	3,584
Disposals	0	0	-62	-40	0	0	-102
Written off	0	-179	0	-41	0	0	-220
Reclassification	0	0	131	-131	0	0	0
Depreciation	0	-2,894	-2,559	-3,610	0	0	-9,063
Currency translation differences	0	262	52	452	0	0	766
Acquisition cost 30.06.2005	3,004	70,849	72,677	48,074	12	189	194,805
Accumulated depreciation 30.06.2005	0	-25,192	-65,316	-32,007	0	0	-122,515
Net book amount 30.06.2005	3,004	45,657	7,361	16,067	12	189	72,290

Acquisition cost 31.12.2005	10,973	74,005	71,321	51,440	2,009	3,305	213,053
Accumulated depreciation 31.12.2005	0	-27,516	-64,299	-33,149	0	0	-124,964
Net book amount 31.12.2005	10,973	46,489	7,022	18,291	2,009	3,305	88,089
Additions	0	5,182	2,699	10,109	30,894	4,366	53,250
Written off	0	-1,573	-5	-620	0	0	-2,198
Written off against reserve	0	1,243	0	0	0	0	1,243
Reclassification	0	183	0	0	2,567	-2,750	0
Depreciation	0	-3,244	-1,926	-4,102	0	0	-9,272
Currency translation differences	0	-221	-54	-248	-19	-56	-598
Acquisition cost 30.06.2006	10,973	76,146	71,613	59,041	35,451	4,865	258,089
Accumulated depreciation 30.06.2006	0	-28,087	-63,877	-35,611	0	0	-127,575
Net book amount 30.06.2006	10,973	48,059	7,736	23,430	35,451	4,865	130,514

EUR '000	Land	Buildings, structures	Machinery, equipment	Other fixtures	Constr. in progress	Pre- payments	Total
Acquisition cost 31.12.2004	192	4,450	4,519	3,062	4	0	12,227
Accumulated depreciation 31.12.2004	0	-1,435	-3,985	-1,865	0	0	-7,285
Net book amount 31.12.2004	192	3,015	534	1,197	4	0	4,942
Additions	0	83	92	41	1	12	229
Disposals	0	0	-4	-3	0	0	-7
Written off	0	-11	0	-3	0	0	-14
Reclassification	0	0	8	-8	0	0	0
Depreciation	0	-185	-163	-231	0	0	-579
Currency translation differences	0	16	3	30	0	0	49
Acquisition cost 30.06.2005	192	4,528	4,644	3,073	1	12	12,450
Accumulated depreciation 30.06.2005	0	-1,610	-4,174	-2,046	0	0	-7,830
Net book amount 30.06.2005	192	2,918	470	1,027	1	12	4,620
Acquisition cost 31.12.2005	701	4,730	4,559	3,288	128	211	13,617
Accumulated depreciation 31.12.2005	0	-1,759	-4,109	-2,119	0	0	-7,987
Net book amount 31.12.2005	701	2,971	450	1,169	128	211	5,630
Additions	0	331	172	646	1,975	279	3,403
Written off	0	-100	0	-40	0	0	-140
Written off against reserve	0	79	0	0	0	0	79
Reclassification	0	12	0	0	164	-176	0
Depreciation	0	-207	-123	-262	0	0	-593
Currency translation differences	0	-14	-3	-16	-1	-4	-38
Acquisition cost 30.06.2006	701	4,867	4,577	3,773	2,266	311	16,495
Accumulated depreciation 30.06.2006	0	-1,796	-4,082	-2,276	0	0	-8,154
Net book amount 30.06.2006	701	3,072	494	1,497	2,266	311	8,341

NOTE 11 Intangible assets

Investments into licenses and software were made in total amount of 1,082 thousand kroons/69 thousand euros (first half-year 2005: 930 thousand kroons/59 thousand euros).

Movement of intangible assets of the group

EEK '000	Licences and software	Positive goodwill	Total
Acquisition cost 31.12.2004	20,070	13,924	33,994
Accumulated amortisation 31.12.2004	-6,011	0	-6,011
Net book amount 31.12.2004	14,059	13,924	27,983
Additions	930	0	930
Amortisation	-1,425	0	-1,425
Currency translation differences	9	-28	-19
Acquisition cost 30.06.2005	20,783	13,896	34,679
Accumulated amortisation 30.06.2005	-7,210	0	-7,210
Net book amount 30.06.2005	13,573	13,896	27,469
Acquisition cost 31.12.2005	21,125	14,129	35,254
Accumulated amortisation 31.12.2005	-8,763	0	-8,763
Net book amount 31.12.2005	12,362	14,129	26,491
Additions	1,028	7,086	8,114
Written off	-13	0	-13
Amortisation	-2,562	0	-2,562
Currency translation differences	-8	243	235
Acquisition cost 30.06.2006	22,108	21,458	43,566
Accumulated amortisation 30.06.2006	-11,301	0	-11,301
Net book amount 30.06.2006	10,807	21,458	32,265

EUR '000	Licences and software	Positive goodwill	Total
Acquisition cost 31.12.2004	1,283	890	2,173
Accumulated amortisation 31.12.2004	-384	0	-384
Net book amount 31.12.2004	899	890	1,789
Additions	59	0	59
Amortisation	-91	0	-91
Currency translation differences	1	-2	-1
Acquisition cost 30.06.2005	1,329	888	2,217
Accumulated amortisation 30.06.2005	-461	0	-461
Net book amount 30.06.2005	868	888	1,756
Acquisition cost 31.12.2005	1,350	903	2,253
Accumulated amortisation 31.12.2005	-560	0	-560
Net book amount 31.12.2005	790	903	1,693
Additions	66	453	519
Written off	-1	0	-1
Amortisation	-164	0	-164
Currency translation differences	-1	16	15
Acquisition cost 30.06.2006	1,412	1,372	2,784
Accumulated amortisation 30.06.2006	-722	0	-722
Net book amount 30.06.2006	690	1,372	2,062

NOTE 12 Borrowings

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Short-term borrowings				
Future repayments of long-term bank loans	8,044	11,443	514	731
Short-term bank loans	38,613	0	2,468	0
Short-term finance lease liabilities	94	194	6	12
Convertible bonds	20	212	1	14
Bonds	19,349	18,429	1,237	1,178
Total	66,120	30,278	4,226	1,935
Long-term borrowings				
Long-term bank loans	63,106	51,840	4,033	3,313
Long-term finance lease liabilities	10,908	10,713	697	685
Total	74,014	62,553	4,730	3,998

Bank loans of the Group as of 30.06.2006

EEK '000	Loan payable on 30.06.2006	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	5,146	468	4,678	6m Euribor+2.5%
Nordea Pank	2,501	417	2,084	3m Euribor+2.5%
Hansapank	44,558	3,765	40,793	6m Euribor+1.5%
Hansapank	6,428	2,143	4,285	6m Euribor+2.35%
Hansapank	10,000	10,000	0	4.00%
Nordea Pank	12,517	1,251	11,266	3m Euribor+1.0%
Hansapank (overdraft facility)	28,613	28,613	0	4.20%
Total	109,763	46,657	63,106	

EUR '000	Loan payable on 30.06.2006	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	329	30	299	6m Euribor+2.5%
Nordea Pank	160	27	133	3m Euribor+2.5%
Hansapank	2,848	241	2,607	6m Euribor+1.5%
Hansapank	411	137	274	6m Euribor+2.35%
Hansapank	639	639	0	4.00%
Nordea Pank	800	80	720	3m Euribor+1.0%
Hansapank (overdraft facility)	1,828	1,828	0	4.20%
Total	7,015	2,982	4,033	

All long-term bank loans as of 30 June 2006 are subject to a floating interest rate, which is dependent on the Euribor changed and fixed every three or six months. As the loans are subject to the floating interest rate and the interest margin is based on the Group's business risk, the management of the parent company estimates that all the loans have been taken under the market conditions with the market rate of interest, thus the fair value of the loans is close to the carrying value.

In May 2006, Baltika received a short-term loan from Hansapank in the amount of 10 million kroons (0.64 million euros) to finance the investments budgeted in the second half-year of 2006. The loan carries fixed interest of 4% and is due in November 2006.

To finance the construction of the new logistics centre situated in Lasnamäe Tööstuspark, Baltika TP received a loan from Nordea Pank in the amount of 12.5 million kroons (0.8 million euros). The loan is due in June 2011.

All long-term bank loans are denominated in euros, thus no currency risk is assumed.

Bank loans of the Group as of 31.12.2005

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

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

NOTE 13 Bonds**Convertible bonds**

As of 31.12.2005, there were C and D type of convertible bonds and as of 30.06.2006 D-bonds outstanding that were issued during the convertible bond program for the executives of Baltika:

	Issue date	Bond conversion period	Number of convertible bonds 31.12.2005	Number of convertible bonds 30.06.2006
C-bond	01.05.2003	01.05.2004-01.05.2006	192,000	0
D-bond	21.12.2004	01.07.2006-30.12.2006	200,000	200,000
Total			392,000	200,000

In the first quarter of 2006, C-bonds were converted into shares as a result of which 192,000 registered shares with a nominal value of 10.00 kroons (0.64 euros) per share were issued. C-bonds were issued with the nominal value of 1.00 kroons (0.06 euros) per bond and were convertible into ordinary shares for an additional payment of 36.57 kroons (2.34 euros) per share. Thus, the issue price per share was 37.57 kroons (2.40 euros) including a premium of 27.57 kroons (1.76 euros) per share. The issued shares are entitled to receive dividends starting from 2006.

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

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

During the first half-year of 2006, 314 thousand kroons (20 thousand euros) were expensed as payroll costs and a respective increase of share premium in owner's equity as part of the D-bond cost for the vesting period from 1 January 2006 until 30 June 2006.

EEK '000	Issue date	Total nominal value of issue	Bond conversion period	Bonds converted into shares	Convertible bonds as of 30.06.2006
D-Bond	21.12.2004	20	01.07.2006-30.12.2006	0	20

EUR '000	Issue date	Total nominal value of issue	Bond conversion period	Bonds converted into shares	Convertible bonds as of 30.06.2006
D-Bond	21.12.2004	1.3	01.07.2006-30.12.2006	0	1.3

Closed issue of bonds

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

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

	Quantity	Nominal (EEK)	Issue price (EEK)	Balance as of 30.06.2006 (EEK '000)	Coupon interest rate	Maturity
Bonds	2,000	10,000	9,597	19,349	4.08%	16.03.2007

	Quantity	Nominal (EUR)	Issue price (EUR)	Balance as of 30.06.2006 (EUR '000)	Coupon interest rate	Maturity
Bonds	2,000	639	613	1,237	4.08%	16.03.2007

NOTE 14 Accrued expenses and other short-term liabilities

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Payables to employees	17,195	12,767	1,099	816
Dividends payable	7	2	0	0
Interest payable	1	27	0	0
Customer prepayments	153	409	10	26
Other short-term payables	308	766	20	51
Total	17,664	13,971	1,129	893

All of the financial liabilities have been designated by the parent company's managements as payable within 12 months after the balance sheet date and are therefore recorded as current liabilities.

NOTE 15 Equity**Share capital**

EEK '000	30.06.2006	31.12.2005
Share capital	60,150	58,230
Number of shares	6,014,950	5,822,950
Nominal value of shares (EEK)	10.00	10.00
Statutory reserve	5,823	5,634
Revaluation reserve	3,898	3,898

EUR '000	30.06.2006	31.12.2005
Share capital	3,844	3,722
Number of shares	6,014,950	5,822,950
Nominal value of shares (EUR)	0.64	0.64
Statutory reserve	372	360
Revaluation reserve	249	249

Change in the number of shares

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

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

In the reporting period, the number of shares of AS Baltika was increased by 192,000 in connection with the conversion of C-bonds into shares (Note 13). The issue price per share was 37.57 kroons (2.40 euros) including a premium of 27.57 kroons (1.76 euros) per share. After the conversion of C-bonds into shares, the share capital of the Company is 60,149,500 kroons (3,844,254 euros) consisting of 6,014,950 shares. The share premium of the share issue was 5,293,440 kroons (338,312 euros). The issued shares are entitled to receive dividends starting from 2006.

During the first half-year of 2006, 314 thousand kroons (20 thousand euros) were expensed as payroll costs and a respective increase of share premium in owner's equity as part of the D-bond cost for the vesting period from 1 January 2006 until 30 June 2006.

In May 2006, Baltika paid dividends to its shareholders at the rate of 2.00 kroons (0.13 euros) per share in total amount of 12.03 million kroons (769 thousand euros). Corporate income tax on dividends amounted to 1.7 million kroons (0.11 million euros).

Shareholders as of 30.06.2006

	Number of shares	Participation %
1. BMIG OÜ	1,295,072	21.53
2. Skandinaviska Enskilda Banken Ab Clients	572,120	9.51
3. AS SUPREMA CLIENT ACCOUNT	282,781	4.70
4. Members of Management Board and persons related to them		
Meelis Milder	203,183	3.38
Maire Milder	98,661	1.64
Boriss Loifenfeld	33,422	0.56
Ülle Järv	18,158	0.30
5. Other minority shareholders	3,511,553	58.38
Total	6,014,950	100.00

Shareholders as of 31.12.2005

	Number of shares	Participation %
1. BMIG OÜ	1,284,980	22.07
2. Skandinaviska Enskilda Banken Ab Clients	451,295	7.75
3. AS LHV Arbitrage	336,000	5.77
4. Members of Management Board and persons related to them		
Meelis Milder	151,617	2.60
Maire Milder	62,161	1.07
Boriss Loifenfeld	12,482	0.21
Ülle Järv	8,158	0.14
5. Other minority shareholders	3,516,257	60.39
Total	5,822,950	100.00

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

NOTE 16 Segments**Geographical segment by client's location – primary segment**

As of 30 June 2006, the Company is active in the following markets:

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

6 months 2006

EEK '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Inter-segment transactions	TOTAL
Non-group sales	109,562	48,750	77,537	73,036	55,023	18,143	8,153	0	390,204
Inter-segment sales	0	29,354	54,823	9,098	39,435	9,297	0	-142,007	0
Total sales	109,562	78,104	132,360	82,134	94,458	27,440	8,153	-142,007	390,204
Operating profit of the segment	33,849	12,848	14,780	16,803	5,364	-2,901	3,470	0	84,213
Unallocated operating exp. and inc.									-44,874
Total operating profit									39,339
Other financial income (expenses)									-728
Corporate income tax									-2,583
Net profit before minority interest									36,028
Minority interest									-241

Net profit for the financial year									36,269
Assets	127,104	24,099	61,061	141,416	76,898	16,439	41	-111,782	335,276
Group`s unallocated assets									145,653
Incl. assets used in production									131,642
assets used for administrative use									6,555
other unallocated assets									7,456
Total assets									480,929
Liabilities	23,952	17,396	42,557	39,002	42,105	8,388	0	-127,160	46,240
Group`s unallocated liabilities									188,438
Incl. liab. related to production activity									47,927
other unallocated liabilities									140,511
Total liabilities									234,678
Property, plant and equipment acquired	6,405	1,508	2,366	6,460	7,526	49	0	0	24,314
Property, plant and equipment acquired, unallocated									29,964
Depreciation	4,696	641	2,139	792	1,095	1,083	0	0	10,446
Incl. depreciation of PPE	2,420	565	1,997	792	1,087	1,047	0	0	7,908
amort. of intangible assets	2,276	76	142	0	8	36	0	0	2,538
Depreciation, unallocated									1,389

EUR '000								Inter-	TOTAL
	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	segment transactions	
Non-group sales	7,002	3,116	4,954	4,668	3,517	1,161	521	0	24,939
Inter-segment sales	0	1,876	3,505	581	2,520	594	0	-9,076	0
Total sales	7,002	4,992	8,459	5,249	6,037	1,755	521	-9,076	24,939
Operating profit of the segment	2,163	821	945	1,074	343	-185	221	0	5,382
Unallocated operating exp. and inc.									-2,868
Total operating profit									2,514
Other financial income (expenses)									-47
Corporate income tax									-165
Net profit before minority interest									2,303
Minority interest									-15
Net profit for the financial year									2,318
Assets	8,123	1,540	3,903	9,038	4,915	1,051	3	-7,144	21,429
Group`s unallocated assets									9,309
Incl. assets used in production									8,413
assets used for administrative use									419
other unallocated assets									477
Total assets									30,738
Liabilities	1,531	1,112	2,720	2,493	2,691	536	0	-8,127	2,956
Group`s unallocated liabilities									12,043
Incl. liab. related to production activity									3,063
other unallocated liabilities									8,980
Total liabilities									14,999

Property, plant and equipment acquired	410	96	151	413	481	3	0	0	1,554
Property, plant and equipment acquired, unallocated									1,915
Depreciation	300	41	137	51	70	69	0	0	668
Incl. depreciation of PPE	154	36	128	51	69	67	0	0	505
amort. of intangible assets	145	6	9	0	1	2	0	0	163
Depreciation, unallocated									89

6 months 2005

EEK '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Inter-segment transactions	TOTAL
Non-group sales	90,786	37,539	58,809	50,389	43,156	20,095	9,714	0	310,488
Inter-segment sales	0	21,637	36,086	9,155	17,032	10,924	2,993	-97,827	0
Total sales	90,786	59,176	94,895	59,544	60,188	31,019	12,707	-97,827	310,488
Operating profit of the segment	21,762	8,998	12,778	13,405	12,111	-2,571	2,540	0	69,023
Unallocated operating exp. and inc.									-42,357
Total operating profit									26,666
Other financial income (expenses)									-1,034
Corporate income tax									-712
Net profit before minority interest									24,920
Minority interest									-3,240
Net profit for the financial year									28,160
Assets	125,924	23,110	47,250	58,189	36,686	30,350	911	-82,461	239,959
Group`s unallocated assets									78,128
Incl. assets used in production									61,382
assets used for administrative use									6,991
other unallocated assets									9,755
Total assets									318,087
Liabilities	19,363	19,385	29,861	13,663	26,760	15,530	271	-93,282	31,551
Group`s unallocated liabilities									120,692
Incl. liab. related to production activity									28,283
other unallocated liabilities									92,409
Total liabilities									152,243
Property, plant and equipment acquired	1,359	311	1,238	93	244	101	0	0	3,346
Property, plant and equipment acquired, unallocated									1,035
Depreciation	4,468	636	1,386	295	797	1,456	0	0	9,038
Depreciation, unallocated									1,450
Other material non-monetary exp.	-55	0	0	0	0	0	0	0	-55

EUR '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Inter-segment transactions	TOTAL
Non-group sales	5,802	2,399	3,759	3,220	2,758	1,284	622	0	19,844
Inter-segment sales	0	1,382	2,306	585	1,089	698	192	-6,252	0
Total sales	5,802	3,781	6,065	3,805	3,847	1,982	814	-6,252	19,844

Operating profit of the segment	1,391	575	817	857	774	-164	161	0	4,411
Unallocated operating exp. and inc.									-2,707
Total operating profit									1,704
Other financial income (expenses)									-66
Corporate income tax									-46
Net profit before minority interest									1,593
Minority interest									-207
Net profit for the financial year									1,800
Assets	8,048	1,477	3,020	3,719	2,345	1,940	58	-5,271	15,336
Group`s unallocated assets									4,993
Incl. assets used in production									3,923
assets used for administrative use									447
other unallocated assets									623
Total assets									20,329
Liabilities	1,238	1,239	1,908	873	1,710	993	17	-5,962	2,016
Group`s unallocated liabilities									7,714
Incl. liab. related to production activity									1,808
other unallocated liabilities									5,906
Total liabilities									9,730
Property, plant and equipment acquired	87	20	79	6	16	6	0	0	214
Property, plant and equipment acquired, unallocated									66
Depreciation	285	41	89	19	51	93	0	0	578
Depreciation, unallocated									92
Other material non-monetary exp.	-4	0	0	0	0	0	0	0	-4

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

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

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

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

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

Business segment by area of operations – secondary segment

As of 30 June 2006, the Company operated in the following areas, generating significantly different risks and returns compared to each other and each activity is material enough to form a separate segment:

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

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

EEK '000	Net sales		Assets		Additions to property, plant and equipment	
	6m 2006	6m 2005	30.06.2006	30.06.2005	6m 2006	6m 2005
Retail	315,875	252,320	226,602	110,970	18,342	2,515
Wholesale and other	68,068	50,690	41	448	0	0
Production	0	556	76,373	67,675	2,453	1,035
Unallocated	6,261	6,922	177,913	138,993	33,483	831
Total	390,204	310,488	480,929	318,086	54,278	4,381

EUR '000	Net sales		Assets		Additions to property, plant and equipment	
	6m 2006	6m 2005	30.06.2006	30.06.2005	6m 2006	6m 2005
Retail	20,187	16,126	14,483	7,092	1,172	160
Wholesale and other	4,350	3,240	3	29	0	0
Production	0	36	4,881	4,325	157	66
Unallocated	402	442	11,371	8,883	2,140	54
Total	24,939	19,844	30,738	20,329	3,469	280

NOTE 17 Sales revenue

	EEK '000		EUR '000	
	6m 2006	6m 2005	6m 2006	6m 2005
Sale of goods	383,943	303,010	24,538	19,366
Sale of sewing services	0	556	0	36
Rental income	2,979	2,896	190	185
Other	3,282	4,026	211	257
Total	390,204	310,488	24,939	19,844

NOTE 18 Cost of goods sold

	EEK '000		EUR '000	
	6m 2006	6m 2005	6m 2006	6m 2005
Materials and supplies	156,198	130,232	9,983	8,323
Change in allowance for inventories	-444	487	-28	31
Other production costs	2,942	2,382	188	152
Payroll costs in production	18,634	16,519	1,191	1,056
Depreciation of assets used in production	1,326	1,470	85	94
Change in inventories	-6,518	-1,700	-417	-108
Total	172,138	149,390	11,002	9,548

NOTE 19 Distribution costs

	EEK '000		EUR '000	
	6m 2006	6m 2005	6m 2006	6m 2005
Rental expenses	51,125	39,223	3,267	2,507
Payroll expenses	40,484	30,051	2,587	1,921
Depreciation	7,070	5,827	452	372
Advertising expenses	10,767	5,802	688	371
Transportation expenses	5,159	2,791	330	178
Credit card expenses	2,091	1,736	134	111
Communication expenses	1,004	835	64	53
Information technology expenses	888	591	57	38
Accounting and auditing expenses	413	415	26	27
Renovation of retail outlets	331	185	21	12
Other selling expenses	10,905	9,305	698	594
Total	130,237	96,761	8,324	6,184

NOTE 20 Administrative expenses

	EEK '000		EUR '000	
	6m 2006	6m 2005	6m 2006	6m 2005
Payroll expenses	27,481	27,361	1,756	1,749
Depreciation	3,644	3,192	233	204
Business trips	1,747	1,107	112	71
Rental expenses	1,597	2,383	102	152
Information technology expenses	1,373	1,127	88	72
Sponsorship	737	223	47	14
Communication expenses	733	638	47	41
Bank fees	484	507	31	32
Other administrative expenses	7,078	5,819	452	372
Total	44,874	42,357	2,868	2,707

NOTE 21 Other operating income

	EEK '000		EUR '000	
	6m 2006	6m 2005	6m 2006	6m 2005
Foreign exchange gains	671	4,952	43	316
Profit from the sale of non-current assets	21	90	1	6
Other operating income	159	640	10	41
Total	851	5,682	54	363

NOTE 22 Other operating expenses

	EEK '000		EUR '000	
	6m 2006	6m 2005	6m 2006	6m 2005
Foreign exchange losses	2,926	0	187	0
Fines, penalties on late payment and interest expenses on tax	514	10	33	1
Representation costs	478	393	31	25
Other operating expenses	549	593	34	38
Total	4,467	996	285	64

NOTE 23 Earnings per share**Basic earnings per share**

		6m 2006	6m 2005
Weighted average number of shares	pcs	5,934,950	5,681,200
Net profit	EEK '000	36,269	28,160
	EUR '000	2,318	1,800
Basic earnings per share	EEK	6.11	4.96
	EUR	0.39	0.32

Diluted earnings per share

		6m 2006	6m 2005
Weighted average number of shares	pcs	6,188,836	6,034,185
Net profit	EEK '000	36,269	28,160
	EUR '000	2,318	1,800
Diluted earnings per share	EEK	5.86	4.67
	EUR	0.37	0.30

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

NOTE 24 Related parties

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

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

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

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

Transactions with related parties

EEK '000	6m 2006		6m 2005	
	Purchases	Sales	Purchases	Sales
Purchases and sales of goods				
Subsidiaries	14,678	196,291	15,170	141,384
Joint venture	7	1,968	0	2,805
Total purchases and sales of goods	14,685	198,259	15,170	144,189
Purchases and sales of services				
Subsidiaries	13,858	865	14,972	1,288
Joint venture	13,976	3,446	14,621	3,571
Total purchases and sales of services	27,834	4,311	29,593	4,859

EUR '000	6m 2006		6m 2005	
	Purchases	Sales	Purchases	Sales
Purchases and sales of goods				
Subsidiaries	938	12,546	970	9,035
Joint venture	1	126	0	180
Total purchases and sales of goods	939	12,672	970	9,215
Purchases and sales of services				
Subsidiaries	886	55	957	82
Joint venture	894	221	935	229
Total purchases and sales of services	1,780	276	1,892	311

Balances with related parties

	EEK '000		EUR '000	
	30.06.2006	31.12.2005	30.06.2006	31.12.2005
Subsidiaries	99,773	75,636	6,377	4,834
Joint venture	2,369	1,724	151	110
Total current receivables	102,142	77,360	6,528	4,944
Subsidiaries	22,724	12,703	1,452	812
Joint venture	33	0	2	0
Total current liabilities	22,757	12,703	1,454	812
Subsidiaries	38,053	9,415	2,433	602
Joint venture	1,309	1,302	84	83
Total non-current receivables	39,362	10,717	2,517	685

A loan has been granted to the joint venture OÜ Baltika Tailor with a purpose of investing in production. The loan amount is 1,500 thousand kroons (96 thousand euros) and the loan's annual interest rate is 1%. In the balance sheet, the loan has been discounted at 4% and is carried at 1,309 thousand kroons (84 thousand euros). Interest calculated on the loan and not paid by the end of the reporting period amounts to 7.5 thousand kroons (0.5 thousand euros).

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

Convertible bonds

As of 31 March 2006, the members of the Management Board had been issued and subscribed for 100,000 D-bonds in the amount of 10 thousand kroons (0.6 thousand euros); as of 31 December 2005, respectively 227,953 C- and D-bonds, in the amount of 138 thousand kroons (9 thousand euros) (Note 13).

Loans to management members

	EEK '000		EUR '000	
	6m 2006	6m 2005	6m 2006	6m 2005
Balance at the beginning of period	352	574	22	37
Loans granted	0	0	0	0
Repayments of loans received	-160	0	-10	0
Foreign exchange rate differences	0	74	0	5
Balance at the end of period	192	648	12	41

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

NOTE 25 Events after the balance sheet date

On 18 June 2006, AS Baltika issued unsecured bonds via a closed issue in the amount of 11.5 million kroons (0.7 million euros). The redemption date of the bonds is 18 April 2007. Total number of 1,150 bonds were issued with the nominal value of 10,000 kroons (639 euros) and price of 9,661.73 kroons (617.50 euros). The bonds are not subject to coupon interest payments. The nominal interest rate of the bonds is 4.6% per annum.

The proceeds from the issue will be used for financing investments in the second half-year of 2006.