AS BALTIKA

Consolidated interim report for the forth quarter and 12 months of 2006

Commercial name	AS Baltika
Commercial registry number	10144415
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E-mail	baltika@baltika.ee
Web page	www.baltikagroup.com
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 31 December 2006, the Group employed 1,915 people (as of 31 December 2005 1,678).

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

The Group consists of the following companies:

	Location	Participation at 31.12.2006	Participation at 31.12.2005
Parent company			
AS BALTIKA	Estonia		
Subsidiaries			
OÜ Baltman	Estonia	100%	100%
Baltika Latvija	Latvia	75%	75%
Baltika Lietuva	Lithuania	100%	100%
OOO Kompania “Baltman Rus”	Russia	100%	50.10%
Baltika Ukraina Ltd	Ukraine	99%	99%
Baltika Poland Sp.z.o.o.	Poland	100%	100%
OY Baltinia AB	Finland	100%	100%
Baltika Sweden AB	Sweden	100%	100%
AS Virulane	Estonia	82.66%	79.23%
AS Elina STC	Estonia	62.50%	50.10%
OÜ Baltika TP	Estonia	100%	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 in 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.

In September 2006, Baltika acquired additionally 3.43% of the share capital of its subsidiary AS Virulane and as a result, Baltika’s ownership in AS Virulane increased to 82.66%.

MANAGEMENT REPORT

Unaudited consolidated financial results, 4Q and 2006

Baltika Group's net profit in 2006 amounted to EEK 87.4 million (EUR 5.6 million) and net profit margin reached 9.7% (2005: 10.7%). The Group's net profit grew 20.2% yoy. Baltika's 2006 net sales increased 32.1%, while retail sales posted a growth of 34.7% and wholesale increased 24.6% in comparison with the previous year. The Group's gross margin rose to 54.5%, compared with 51.6% in 2005. Operating margin stood at 10.8% (2005: 11.0%).

Baltika's 4Q 2006 sales totalled EEK 281.2 million (EUR 18.0 million), up 47.7% yoy. Retail sales grew 49.3% and wholesale 40.0%. In the fourth quarter, the Group's gross margin was 57.4% (4Q 2005: 53.2%) and operating margin 12.9% (4Q 2005: 15.2%). Net profit in 4Q grew 18.0% yoy to EEK 31.1 million (EUR 2.0 million) bringing net margin to 11.1% (4Q 2005: 13.8%).

SALES

Sales breakdown by segment

EEK mln	4Q 2006	4Q 2005	+/-	2006	2005	+/-
Retail sales	248.1	166.2	49.3%	736.4	546.8	34.7%
Wholesale	29.8	21.3	40.0%	150.6	120.9	24.6%
Subcontracting	0	0	0%	0	0.6	-100.0%
Other sales	3.3	2.9	12.5%	12.5	12.8	-1.7%
Total	**281.2**	**190.3**	**47.7%**	**899.5**	**680.9**	**32.1%**

1 EUR = 15.6466 EEK

RETAIL SALES

In 2006, Baltika continued expanding its store network faster than before – the average sales space of the Baltika Group increased by 30% as compared to the 8% growth in 2005. As a result, the growth of retail sales was also faster in 2006 reaching 34.7% (2005: 30.1%). The Group's retail sales totalled EEK 736.4 million (EUR 47.1 million) in 2006.

Like-for-like sales (sales in comparable stores) increased 13% in 2006. A store is comparable if it has been open and has had an unchanged sales area during the reporting period and during the comparable preceding period.

As a result of fast growth, the share of retail sales also increased in the Group's total sales. In 2006, retail sales represented 82% of Baltika's total sales compared to 80% in 2005.

The Group's sales efficiency (sales/m^2) was up 3% yoy in 2006. The growth of the Group's average sales efficiency has slowed down in 2006 as compared to previous year reflecting initial lower sales density of new stores. In 2006, a lot of new stores were opened in Russia and Ukraine moving from capital cities to major regional cities where it takes time for the new shopping centres to build up customer traffic. Hence, it takes up to 12-18 months for a store to achieve planned sales density at such locations. At the same time, stores opened at high-quality and already established centres achieve the planned sales density almost immediately.

Sales density is also affected by enlarging store formats. More than half of the Monton shops opened in 2006 are 300 square metres or larger. In November 2006, Baltika opened the largest Monton store to date – a 500 square metre shop – in Moscow's newest and largest shopping and leisure centre Evropeisky. This shop is a good example of Monton's strategic direction to start operating larger stores.

The Group also continued to improve stock management in 2006 – the inventory turnover ratio increased 9% over the year from 4.92 to 5.38. A strategically important investment in terms of future expansion and stock management was completed in July when Baltika's new logistics centre started operating. If compared with the old one, the new logistics centre has much higher capacity and enables to handle increasing quantities of merchandise faster, making inventory management more flexible and efficient.

In 2006, investments into customer service were prioritised including implementation of extensive sales and customer service training for staff. In addition, two brands, Monton and Mosaic, received new store formats that are flexible and can be used in stores with different floor space as well as comfortable and attractive shop environments for customers. Consequently, we have seen progress in customer service in our stores and in the number of loyal customers. In 2006, the number of people who visited Baltika's stores in six markets grew 37%.

Bearing in mind the strategic goals and future growth, the Group extended its brand portfolio by the acquisition of Ivo Nikkolo fashion brand. With this acquisition, Baltika entered the premium ladies' fashion market. Also, in the beginning of the year Baltika successfully carried out a name change of one of its brands - CHR/Evermen became Mosaic. The name change was implemented in order to simplify the brand's name and thus enhance the concept's international competitiveness.

In the fourth quarter of 2006, the Group's retail sales grew 49.3% and amounted to EEK 248.1 million (EUR 15.9 million). The 4Q sales growth was driven by new store openings during the last 12 months as well as increasing sales efficiency in like-for-like stores. Fourth quarter like-for-like sales posted a strong growth of 14% on an annual basis.

OVERVIEW BY MARKETS

The macroeconomic environment in Baltika's markets continued to be favourable throughout 2006. The fastest economic growth occurred in Baltika's home market i.e. the Baltic countries (7-12%). The overall economic growth is carried through into the purchasing power of our customers. In the Baltic countries, retail sales of textiles, clothing, footwear and leather goods in constant prices increased by 35-42% in 2006. The GDP growth in Russia and Ukraine was also strong last year – respectively 6.7% and 7.0% according to preliminary data.

Retail sales by market

EEK mln	**2006**	**2005**	**+/-**	**Share of markets, 2006**
Estonia	202.2	153.0	32%	28%
Latvia	105.7	74.3	42%	14%
Lithuania	178.8	130.5	37%	24%
Ukraine	128.5	98.6	30%	17%
Russia	86.7	51.3	69%	12%
Poland	34.4	39.2	-12%	5%
Total	**736.4**	**546.8**	**35%**	**100%**

The Baltic countries maintained their 66% share in Baltika's retail sales in 2006. As only a few new stores were opened in these markets in 2006, sales growth in the Baltics was mainly driven by good performance of like-for-like stores. Estonia and Latvia saw especially strong rise in sales per square metre. In Lithuania, sales growth was also supported by eight new openings in 2005.

In terms of individual markets, Estonia was Baltika's largest retail market last year based on sales revenues. With EEK 202.2 million (EUR 12.9 million) Estonia accounted for 28% of the Group's retail sales. Baltika's retail sales in Estonia increased 32% in 2006. Lithuania where retail sales grew 37% yoy to EEK 178.8 million (EUR 11.4 million) continued in the second position with its 24% share. Latvia posted the strongest growth in retail sales among the Baltic States – sales were up 42% yoy and totalled EEK 105.7 million (EUR 6.8 million).

The largest number of stores in 2006 was opened in Ukraine and Russia. Ten new shops were opened in Ukraine doubling Baltika's sales space to ca 4,000 square metres in that market. Majority of stores were opened outside the capital in other large cities such as Odessa, Donetsk and Dnepropetrovsk. Only one store was opened in Kiev, the capital city, because of the deficit of modern shopping centre developments in Ukraine's capital. The situation in Kiev should improve in 2008.

Due to high inflation caused by the increase in the prices of gas, household expenditures and food, the Ukrainian people tended to be less interested in shopping for fashion clothing in 2006. On average, the prices of goods and services in Ukraine increased by 9.1% in 2006 while the prices of services alone increased by 27.8%. Nevertheless, Baltika's retail sales increased 30% in Ukraine in 2006 and amounted to EEK 128.5 million (EUR 8.2 million). Though, due to the above mentioned reasons, like-for-like sales growth in Ukraine was twice as low as the Group's average for 2006.

Russia saw the largest number of new openings in 2006 – altogether 15 new stores (including nine stores in 4Q). As a result, Baltika's retail space increased four times in Russia last year to ca 5,000 square metres. The Group moved into two new cities, Krasnodar and Nizhni Novgorod, and opened two additional stores in Kazan. The largest expansion took place in St. Petersburg where eight new stores were opened taking the total to ten. This has had a positive effect on Baltika's brand awareness among customers in St. Petersburg. In Moscow, Baltika's Monton brand is strengthening its position by opening flagship stores in the two most important shopping centres of the city. In November 2006, a Monton store was opened in Moscow's newest and largest shopping and leisure centre Evropeisky and in January 2007, another Monton store was opened in Moscow's most popular shopping centre Ohotniy Ryad.

Development of shopping centres has accelerated in the two most important cities of Russia – Moscow and St. Petersburg. The trend is expected to continue in the coming years. Shopping centre development is gathering speed also in the other large cities of Russia. Under these circumstances, it is most important for Baltika to choose the best locations and open stores. It has to be noted, though, that the competition in the retail sector is high and in some cases the offering of shopping centres exceeds the demand from customers. These are large cities where it takes time for customer habits to change so that shopping in big centres becomes a common practice. Hence, the starting period of new stores is longer in the Russian market if compared to Baltika's home market and can last up to 12-18 months. Therefore one of the main tasks of Baltika, besides expansion, is to increase the number of loyal customers and strengthen overall brand awareness in the Russian market. The latter is fostered by opening of the flagship stores in Moscow.

In Russia, the Baltika Group's retail sales grew 69% in 2006 to EEK 86.7 million (EUR 5.5 million). Although Russia accounted for just 12% of the Group's retail sales in 2006, this market is expected to become more and more important in the future along with continuing expansion. In April 2006, Baltika also became a sole owner of its Russian subsidiary after acquiring an additional 49.9% stake in the company.

Despite decreasing sales in Poland, Baltika saw very positive developments in that market in 2006. Sales in Poland totalled EEK 34.4 million (EUR 2.2 million) decreasing 12% over the year. Overall sales decreased due to closing of three stores out of Baltika's eight stores in the market. As a result of closings, sales area was cut by 38%, however, sales dropped only 12% because the Polish market achieved a 16% growth in sales efficiency (sales/m^2) and a 9% growth in like-for-like sales in 2006. Positive trends appeared in the second half of 2006 when like-for-like sales growth reached 21% versus the same period last year. Poland is currently the smallest of Baltika's markets, with five stores and sales comprising 5% of the Group's retail sales.

OVERVIEW BY BRANDS

In terms of brands Monton accounted for the largest share (52%) of the total retail sales in 2006. The sales of Mosaic were 33% and Baltman 11% of the Group's retail sales. The new brand Ivo Nikkolo – acquired in September 2006 – accounted for only one percent of the retail sales. The rest, 3%, came from factory outlet stores and one multibrand store that sells several brands together.

Monton as the largest brand of Baltika posted a solid growth in 2006, achieving the retail sales of EEK 385 million (EUR 24.6 million) which is 31% more than in 2005. The sales growth was driven by increasing number of stores, a better coordinated base collection, and successful launch of new product groups. The year 2006 marked expansion both for the whole Baltika Group as well as Monton – 15 new stores were opened taking the total number of stores to 44. In accordance with the set goals Monton started to operate larger stores, opening eight 300-400 square meter shops and one 500 square meter flagship store in Moscow. In future Monton will focus on opening average (300-400 m^2) and large (500 m^2 and larger) stores. In order to become more attractive for the client the base collection choice was expanded, a new lingerie and beachwear collection was launched, and several new product groups were introduced into the collection of accessories. Compared with the growth of the clothing sales, the sales of accessories grew even faster (+47%). This growth was based on very successful launch of sun-glasses, Monton's own stockings and socks collections and a more focussed choice of accessories that better matched the base collection. In addition, Monton men's collection witnessed a higher growth than the average growth of the whole brand.

Last year Monton increased brand awareness by creating the uniforms for the very successful Estonian Olympic Team for the 2006 Torino Olympic Winter Games. The co-operation with the Estonian Olympic Committee will continue in preparation for the 2008 Beijing Summer Olympics. Monton is also chosen by the Olympic Committee of Ukraine as the official partner to dress its sportsmen for the 2008 Beijing Summer Olympics.

The past year showed that Monton is continuously innovative and is able to surprise clients with exciting marketing, to successfully launch new product groups, to wisely develop the base collection, and to productively operate on larger store areas. In 2007 Monton aims to launch its footwear collection and become even more efficient.

The year 2006 marked the birth of the brand Mosaic – in February Baltika changed the name of one of its concepts and CHR/Evermen stores became Mosaic. The name change was carried out in order to simplify the brand's name and thus enhance the concept's international competitiveness, especially in large markets such as Russia and Ukraine where the brand awareness is currently limited due to the small number of stores. The name change can be definitely regarded successful – with the 56% retail sales growth Mosaic was the fastest growing Baltika brand in 2006. The retail sales of Mosaic amounted to EEK 242 million (EUR 15.4 million) in 2006. The growth in sales revenue was due to both the growth of sales efficiency in like-for-like stores and opening of new stores. By the end of 2006, the number of Mosaic stores reached 45, out of which 14 were newly opened stores.

Collection-wise the year was good for both Mosaic women's and men's collections. The greatest change in women's collection took place in autumn – the party collections were introduced in stores already in September and new items were added in October and November. In future the Mosaic women's collection will offer festive clothes all year round. The Mosaic men's collection witnessed significant changes becoming more stylish and including more fashionable details. The aim of the change is to increase the sales efficiency of the Mosaic men's collection. In 2006 this goal was already achieved in the Baltic countries and in 2007 the goal is to increase sales efficiency in all other markets. The accessories collection also witnessed a noteworthy development in 2006 as a result of which the sales of accessories increased by 71% compared with the previous year. In 2007 it is planned to increase the relative share of the accessories even more.

The 2007 will be remarkable for Mosaic – in spring the brand will launch its first children's collection in the larger stores. In future Mosaic will become a brand for the whole family. The women's, men's and also accessories' collections will be developed in the direction established with the 2006 name change. The collections will be balanced with each other and develop together with the client who expects the Mosaic products to be new, stylish and fashionable. Also, from the year 2007 onwards the number of collections will be increased from four to seven per year.

The retail sales of Baltman totalled EEK 80 million (EUR 5.1 million) in 2006, increasing by 39% compared with the previous year. In 2006 three new stores were opened and by the end of the year Baltman had 15 stores in five countries. The year 2006 as a whole was successful for the brand. This was mostly due to offering the target client a collection enabling a more specific choice, also a more fashionable and high-quality product which is characteristic of the brand's core values. New details, innovative materials and finishings, plus additions to the present product ranges have all been most favourably received by the customers. In the range of accessories the results of the year 2006 can also be regarded successful – a more specific and wider choice resulted in a larger than expected sales revenue. The sales were enhanced by timely and successful campaigns, especially the Baltman Travel suit campaign. In addition, last year Baltman and the Estonian national football team signed a sponsorship agreement. As provided by the agreement, the Estonian national football team will wear Baltman Travel suits at public events during the next two years. To dress the national football team is the aim of any serious men's brand. Last year Baltman also renewed the co-operation agreement with the Latvian national football team.

In September 2006 Baltika acquired a well-known Estonian fashion brand Ivo Nikkolo. The aim of the acquisition was to expand the brand portfolio and to enter the premium fashion market for ladies. Together with the trademark rights Baltika also took over the three Ivo Nikkolo stores in Estonia. Merging the Ivo Nikkolo brand with Baltika has been successful – the brand's turnover after the merger was more than EEK 5.0 million (EUR 0.35 million), delivering an estimated sales growth of 40% compared with the same period of the previous year.

Ivo Nikkolo brand has found its own niche in the Baltika Group's brand portfolio – the brand will focus on ladies fashion in future. The aim is to maintain Ivo Nikkolo's specific style and enlarge the assortment. The production facilities of Baltika Group enable to offer the top-level sewing quality vital for premium brand. The assortment of casual clothing will also be broader and as a result the whole collection will become more balanced. In addition, in 2007 the number of collections will be increased to seven collections per year.

In 2006 a new store environment and concept were developed for Ivo Nikkolo brand. The aim of the brand is to offer the client a comfortable and spirited shopping environment with attentive and personal service. In the upcoming years Baltika plans to expand the chain of Ivo Nikkolo stores into the markets presently covered by other Baltika brands. The first new concept stores will be opened in 2007 in Lithuania and Latvia. All in all, 8-12 Ivo Nikkolo stores are planned to be opened in 2007-2008.

SHOPS AND SALES AREA

As of the end of 2006, the Baltika Group operated 112 shops in six countries, with total sales area of 19,594 square metres. As of the end of 2005, Baltika's retail system comprised 86 stores with total sales area of 12,736 square metres. During 2006, 32 new stores were opened, nine closed (including relocated stores) and three stores were added with the acquisition of Ivo Nikkolo. All the new stores were opened in shopping centres. The net growth of the retail system in 2006 was 26 stores and 6,858 square metres as a result of which the sales area operated by Baltika increased by 54% over the year.

In terms of markets, the largest retail chain expansion took place in Russia and Ukraine last year with 15 and 10 new store openings, respectively. Four stores were opened in Latvia, two in Estonia and one in Lithuania.

Number of shops by country

	31.12.2006	**31.12.2005**
Estonia	28	24
Latvia	13	10
Lithuania	22	23
Ukraine	21	12
Russia	23	9
Poland	5	8
Total shops	**112**	**86**
Total sales area, m^2	**19,594**	**12,736**

In terms of brands, the largest number of stores were opened under the Monton (15) and Mosaic (14) names. In addition, three multibrand shops in Russia were converted into Mosaic stores. A total of three Baltman stores were opened. As of the end of 2006, the stores were divided between the concepts as follows: 45 Mosaic, 44 Monton, 15 Baltman, 3 Ivo Nikkolo and 4 factory outlet stores. In addition, Baltika still had one multibrand store that sells several brands together.

In the fourth quarter Baltika opened 13 new stores and closed one. Most of the 4Q openings took place in Russia – a total of nine stores. Three stores were opened in Ukraine and one in Lithuania.

WHOLESALE

In 2005, wholesale sales of Baltika's brands amounted to EEK 150.6 million (EUR 9.6 million) and represented 17% of Baltika's net sales. The growth of wholesale sales of almost 25% yoy was stronger than expected. The biggest contributor to growth was Russian wholesale.

One of Baltika's largest wholesale clients in Russia is a company that operates around 30 stores in the Siberia and Ural region that sell Baltika's brands. The other wholesale partners are mainly department stores in the Baltics and Finland such as Stockmann and Tallinn Department Store Group. Two brands – Mosaic and Baltman – are mostly distributed wholesale whereas Mosaic accounts for almost half of Baltika's wholesale. Monton is only sold wholesale to Baltika's Russian partner.

The fourth quarter of the year is traditionally a low one for wholesale. Baltika's 4Q wholesale sales totalled EEK 29.8 million (EUR 1.9 million) and accounted for 11% of the Group's net sales. However, wholesale sales posted a solid growth of 40.0% yoy in the last quarter of the year.

EARNINGS AND MARGINS

2006 was the first year in Baltika's three-year strategic period during which the Group's goal is to grow profitably. The year was successful – the Group expanded rapidly as well as prepared several projects that facilitate fast growth in the future (construction of the new logistics centre, acquisition of a new brand, name change of one of the brands, development of shop concepts, development and launch of new product groups). Although the Group increased its sales space rapidly in more risky markets such as Russia and Ukraine where the starting period of new stores is longer putting pressure upon the profit margins, the Group maintained strong profitability in 2006. Overall, the results were supported by solid growth of retail sales (+35% yoy), including good growth in like-for-like sales (+13%), better sales efficiency (+3%) and more efficient inventory management.

The Group’s gross profit margin in 2006 rose to 54.5% from the corresponding figure of 51.6% in 2005. Gross profitability was bolstered by better intake margins and more accurate product pricing on the markets. As a result of strong sales, 4Q gross margin rose to 57.4% (4Q 2005: 53.2%). In 2006, the Group’s gross profit amounted to EEK 490.6 million (EUR 31.4 million) and was up by 39.7% versus 2005.

The Group’s operating expenses are growing in conjunction with the expansion of the retail network. Despite the fact that the new shops have initially lower sales density while operating costs are reported in full, the Group was able to maintain the operating margin almost unchanged in comparison with 2005. In 2006, operating margin stood at 10.8% compared with 11.0% in 2005 and operating profit increased 29.9% to EEK 97.3 million (EUR 6.2 million).

Baltika’s operating profit in 2006 includes some one-off revenues from the sale and revaluation of real estate in the amount of EEK 11.89 million (EUR 760 thousand). In the third quarter, Baltika received EEK 7.51 million (EUR 480 thousand) from sale of a building lease on a plot located in Lasnamäe Industrial Park in Tallinn. A factory will be built on the site by November 2007 for relocation of the production premises of Baltika’s joint venture OÜ Baltika Tailor from Veerenni 24, Tallinn. In the fourth quarter, EEK 4.38 million (EUR 280 thousand) was recorded as revenue from the revaluation of the Group’s real estate investments. In 2005, Baltika’s operating profit included one-off revenues from the revaluation of the Group’s real estate investments in the amount of EEK 13.74 million (EUR 878 thousand).

In 2006, fluctuations in foreign exchange rates had a negative impact on the results. Other operating expenses include foreign exchange losses in the amount of EEK 4.71 million (EUR 301 thousand) in 2006. In 2005, the Group received foreign exchange gains in the amount of EEK 4.93 million (EUR 315 thousand) – recorded in other operating income.

The Group’s financial expenses totalled EEK 6.0 million (EUR 386 thousand) increasing by 53.0% over the year. Financial expenses grew mostly as a result of foreign exchange losses. Foreign exchange gains of EEK 645 thousand (EUR 41 thousand) earned in 2005 were replaced by foreign exchange losses in the amount of EEK 863 thousand (EUR 55 thousand) in 2006. Interest expenses grew 5.8% yoy to EEK 5.7 million (EUR 366 thousand) in 2006.

The Group’s profit before income tax grew 28.7% over the year and amounted to EEK 91.3 million (EUR 5.8 million) in 2006.

The Baltika Group’s net profit after taxes and minority shareholding amounted to EEK 87.4 million (EUR 5.6 million) in 2006, up 20.2% versus last year. Net margin reached 9.7% (2005: 10.7%).

In the fourth quarter of 2006, Baltika’s net profit amounted to EEK 31.1 million (EUR 2.0 million) and net profit margin was 11.1% (4Q 2005: 13.8%).

The Group’s return on equity was 35.9% in 2006 (2005: 44.1%) and return on assets 18.3% (2005: 22.2%).

BALANCE SHEET

On 31 December 2006, the total assets of the Baltika Group amounted to EEK 596.4 million (EUR 38.1 million), up 58% in comparison with the end of the previous year. The growth is attributed to the Group’s fast expansion.

Due to the strong growth and the credit terms of the wholesale sales, trade receivables increased by EEK 46.8 million (EUR 3.0 million) over the year, reaching EEK 86.4 million (EUR 5.5 million). Other receivables and prepaid expenses have grown mainly because of increasing prepayments of rent and value-added tax in Russia and Ukraine.

As of the end of the year, the Group’s total inventories stood at EEK 200.7 million (EUR 12.8 million), up by EEK 56.2 million (EUR 3.6 million) or 39% since the end of 2005. The growth is mainly due to increasing number of shops in Baltika’s retail network. The Group’s inventory turnover ratio (net sales/average inventories) increased from 4.92 to 5.38 in 2006, reflecting more efficient stock management.

Likewise, due to major expansion of Baltika’s retail business, supplier payables expanded by EEK 51.7 million (EUR 3.3 million) to EEK 96.5 million (EUR 6.2 million) by the end of 2006.

At the end of the year, the Group's borrowings amounted to EEK 147.4 million (EUR 9.4 million), including bank loans of EEK 105.0 million (EUR 6.7 million). The rest of the debt consists of finance lease liabilities (EEK 11.2 million/EUR 0.7 million) and bonds (EEK 31.2 million/EUR 2.0 million). Over the year, the Group's borrowings have increased by EEK 54.6 million (EUR 3.5 million), including bank loans by EEK 41.7 million (EUR 2.7 million). Bank loans have increased mainly due to the usage of the bank's overdraft in the amount of EEK 31.9 million (EUR 2.0 million). As of 31.12.2005, the bank's overdraft was not used. Overall debt level has grown because of the need to finance the expansion of the retail space and the construction of the new logistics centre. In 2006, the Group made loan repayments in the amount of EEK 12.7 million (EUR 0.8 million).

As of the end of 2006, the Group's total net debt (Interest-bearing liabilities less Cash and Current financial assets) amounted to EEK 134.8 million (EUR 8.6 million), and the net debt to equity ratio stood at 44.3%. A year ago, net debt to equity ratio was 31.3%.

The Group's equity grew by EEK 96.3 million (EUR 6.2 million) in 2006 to EEK 304.2 million (EUR 19.4 million).

INVESTMENTS

The Group's investments in 2006 totalled EEK 130.4 million (EUR 8.33 million). In 2005, investments amounted to EEK 36.2 million (EUR 2.31 million).

A total of EEK 75.6 million (EUR 4.83 million) was invested in the retail system and EEK 33.8 million (EUR 2.16 million) in the new logistics centre. The acquisition of an additional 49.9% stake in the Russian subsidiary cost EEK 6.3 million (EUR 0.40 million). Investments in information technology, software and licences amounted to EEK 10.2 million (EUR 0.65 million). The rest of the investments of EEK 4.5 million (EUR 0.29 million) were made in production equipment and other fixed assets.

ENLARGEMENT OF THE SHARE CAPITAL

As a result of converting D-bonds into shares, the share capital of Baltika increased by EEK 1,176,000 (EUR 75,160) in the fourth quarter of 2006. The company issued 117,600 new shares with a nominal value of EEK 10.00 (EUR 0.64) per share. The total issue price of the shares was EEK 28.95 (EUR 1.85) per share including a premium of EEK 18.95 (EUR 1.21) per share. The share premium in the transaction was EEK 2,228,520 (EUR 142,428).

As of the end of the year, the share capital of Baltika amounted to EEK 62,149,500 (EUR 3,972,077) consisting of 6,214,950 common shares.

The Group's share capital increased by EEK 3,920,000 (EUR 250,534) during 2006, as a result of the conversion of 392,000 C- and D-bonds into shares. The share premium in the transactions was EEK 9,083,440 (EUR 580,538).

As of the end of 2006, all the convertible bond programs of Baltika Group were completed.

PERSONNEL

As of the end of 2006, Baltika Group employed 1,915 people (31.12.2005: 1,678), including 857 (630) in retail, 866 (896) in production, and 192 (152) at the head office. During 2006, the number of employees increased by 237 people, while the largest growth occurred in retail (+227) as a result of opening new stores. The number of people employed outside Estonia was 689 (483) representing 36% of the Group's employees. The average number of personnel stood at 1,777 (1,651) in 2006.

In 2006, the Baltika Group's wages and salaries amounted to EEK 137.5 million (EUR 8.8 million). The remuneration paid to the members of the Management Board and Supervisory Board totalled EEK 6.1 million (EUR 0.4 million).

OUTLOOK AND GOALS FOR 2007

In 2007, Baltika Group will continue implementation of its profitable growth strategy:

- The Group's goal in 2007 is to increase net sales at least 40%. During the year, 20-25 new stores are planned to be opened taking the Group's total to 132-137 by the end of the year;
- Continuing expansion into Central and Eastern Europe, Baltika plans to enter one or two new markets (Czech Republic and Romania);
- Gross margin will be improved (54.5% in 2006);
- The brands will launch new product groups: Mosaic will launch childrenswear during the spring-summer season and Monton will present footwear during the fall season;
- Ivo Nikkolo starts expansion into the other Baltic markets (Latvia and Lithuania) in 2007;
- Investments are continuing into information technology related to the management of inventory and overall retail system;
- In the fall of 2007, a new production building will be completed in the suburbs of Tallinn for relocation of the Group's production company Baltika Tailor that is currently located in the city centre at Veerenni 24. After that, the real estate owned by Baltika at Veerenni 24 is ready for extensive development.

REPORTING CALENDAR IN 2007

In 2007, the consolidated financial results of AS Baltika will be published on the following dates:

2006 audited annual report	March 28
2007 1Q results	April 24
2007 2Q results	July 24
2007 3Q results	October 23

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

KEY FIGURES OF THE GROUP (2006)

	31.12.2006	**31.12.2005**	**+/-**
Net sales (EEK mln)	899.5	680.9	32.1%
Retail sales (EEK mln)	736.4	546.8	34.7%
Share of retail sales in net sales	82%	80%	
Number of directly managed stores	112	86	30.2%
Sales area (m^2)	19,594	12,736	53.8%
Number of employees (end of period)	1,915	1,678	14.1%
Gross margin, %	54.5%	51.6%	
Operating margin, %	10.8%	11.0%	
EBT margin, %	10.1%	10.4%	
Net margin, %	9.7%	10.7%	
Current ratio	1.5	2.1	-28.6%
Inventory turnover	5.38	4.92	9.3%
Debt to equity ratio	48.5%	44.6%	
Return on equity	35.9%	44.1%	
Return on assets	18.3%	22.2%	

1 EUR = 15.6466 EEK

Formulas for key ratios
Gross margin = (Net sales-COGS)/Net sales
Operating margin = Operating profit/Net sales
EBT margin = Profit before corporate income tax/Net sales
Net margin = Net profit (attributable to parent)/Net sales
Current ratio = Current assets/Current liabilities
Inventory turnover = Net sales/Average inventories*
Debt to equity ratio = Interest-bearing liabilities/Equity
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

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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 forth quarter and 12 months of year 2006 as presented on pages 13-42.

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

28 February 2007

CONSOLIDATED BALANCE SHEET

(unaudited, in EEK thousand)

	Note	31.12.2006	31.12.2005
ASSETS			
Current assets			
Cash and bank	3	12,584	25,961
Current financial assets	4	0	1,808
Trade receivables	5	86,402	39,566
Other receivables and prepaid expenses	6,7	42,069	14,992
Inventories	8	200,702	144,459
Total current assets		**341,757**	**226,786**
Non-current assets			
Investments in joint ventures		0	234
Investment property	9	23,572	27,193
Deferred income tax receivable		4,462	3,598
Other non-current financial assets	10	11,077	4,708
Property, plant and equipment	11	166,448	88,089
Intangible assets	12	49,074	26,491
Total non-current assets		**254,633**	**150,313**
TOTAL ASSETS		**596,390**	**377,099**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	13,14	88,179	30,278
Supplier payables		96,535	44,782
Tax liabilities	7	23,006	17,563
Accrued expenses	15	18,174	13,505
Other short-term liabilities	15	7,022	466
Total current liabilities		**232,916**	**106,594**
Non-current liabilities			
Long-term borrowings	13	59,234	62,553
Total non-current liabilities		**59,234**	**62,553**
TOTAL LIABILITIES		**292,150**	**169,147**
EQUITY			
Share capital at par value		62,150	58,230
Share premium		59,088	49,690
Reserves		9,721	9,532
Retained earnings		73,521	13,077
Net profit for the period		87,376	72,664
Currency translation differences		4,319	4,131
Total equity attributable to majority shareholder		**296,175**	**207,324**
Minority interest		8,065	628
TOTAL EQUITY	16	**304,240**	**207,952**
TOTAL LIABILITIES AND EQUITY		**596,390**	**377,099**

CONSOLIDATED BALANCE SHEET
(unaudited, in EUR thousand)

	Note	31.12.2006	31.12.2005
ASSETS			
Current assets			
Cash and bank	3	804	1,659
Current financial assets	4	0	116
Trade receivables	5	5,522	2,529
Other receivables and prepaid expenses	6,7	2,689	958
Inventories	8	12,827	9,233
Total current assets		**21,843**	**14,495**
Non-current assets			
Investments in joint ventures		0	15
Investment property	9	1,507	1,738
Deferred income tax receivable		285	230
Other non-current financial assets	10	708	301
Property, plant and equipment	11	10,638	5,630
Intangible assets	12	3,136	1,693
Total non-current assets		**16,274**	**9,607**
TOTAL ASSETS		**38,117**	**24,102**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	13,14	5,636	1,935
Supplier payables		6,170	2,862
Tax liabilities	7	1,470	1,122
Accrued expenses	15	1,162	863
Other short-term liabilities	15	449	30
Total current liabilities		**14,886**	**6,813**
Non-current liabilities			
Long-term borrowings	13	3,786	3,998
Total non-current liabilities		**3,786**	**3,998**
TOTAL LIABILITIES		**18,672**	**10,811**
EQUITY			
Share capital at par value		3,972	3,722
Share premium		3,776	3,176
Reserves		621	609
Retained earnings		4,699	836
Net profit for the period		5,584	4,644
Currency translation differences		276	264
Total equity attributable to majority shareholder		**18,930**	**13,251**
Minority interest		515	40
TOTAL EQUITY	16	**19,445**	**13,291**
TOTAL LIABILITIES AND EQUITY		**38,117**	**24,102**

CONSOLIDATED INCOME STATEMENT
(unaudited, in EEK thousand)

	Note	**4Q 2006**	**4Q 2005**	**2006**	**2005**
Net sales	18	281,164	190,335	899,481	680,906
Cost of goods sold	19	-119,869	-89,068	-408,919	-329,827
Gross profit		**161,295**	**101,267**	**490,562**	**351,079**
Distribution costs	20	-96,978	-59,873	-300,879	-207,704
Administrative and general expenses	21	-30,097	-24,058	-97,926	-85,232
Other operating income	22	4,873	11,640	12,482	19,817
Other operating expenses	23	-2,701	37	-6,907	-3,053
Operating profit		**36,392**	**29,013**	**97,332**	**74,907**
Financial income (expenses)		**-4,753**	**-2,248**	**-6,037**	**-3,947**
Share of gains (losses) from joint ventures		0	-1,273	-234	-861
Gains (losses) from other investments		-1,568	-210	322	1,205
Interest expenses		-1,846	-1,376	-5,730	-5,415
Foreign exchange gains (losses)		-1,346	514	-863	645
Other financial income (expenses)		7	97	468	479
Profit before corporate income tax		**31,639**	**26,765**	**91,295**	**70,960**
Corporate income tax		-244	-3,029	-3,136	-4,280
Net profit		**31,395**	**23,736**	**88,159**	**66,680**
Net loss attributable to minority shareholders		320	-2,598	783	-5,984
Net profit attributable to parent company		**31,075**	**26,334**	**87,376**	**72,664**
Basic earnings per share, EEK	24	5.06	4.52	14.54	12.62
Diluted earnings per share, EEK	24	5.01	4.30	14.12	12.11

CONSOLIDATED INCOME STATEMENT
(unaudited, in EUR thousand)

	Note	4Q 2006	4Q 2005	2006	2005
Net sales	18	17,970	12,165	57,487	43,518
Cost of goods sold	19	-7,661	-5,692	-26,135	-21,080
Gross profit		**10,309**	**6,472**	**31,353**	**22,438**
Distribution costs	20	-6,198	-3,827	-19,230	-13,275
Administrative and general expenses	21	-1,924	-1,538	-6,259	-5,447
Other operating income	22	311	744	798	1,267
Other operating expenses	23	-173	2	-441	-195
Operating profit		**2,326**	**1,854**	**6,221**	**4,787**
Financial income (expenses)		**-304**	**-144**	**-386**	**-252**
Share of gains (losses) from joint ventures		0	-81	-15	-55
Gains (losses) from other investments		-100	-13	21	77
Interest expenses		-118	-88	-366	-346
Foreign exchange gains (losses)		-86	33	-55	41
Other financial income (expenses)		0	6	30	31
Profit before corporate income tax		**2,022**	**1,711**	**5,835**	**4,535**
Corporate income tax		-16	-194	-200	-274
Net profit		**2,007**	**1,517**	**5,634**	**4,262**
Net loss attributable to minority shareholders		20	-166	50	-382
Net profit attributable to parent company		**1,986**	**1,683**	**5,584**	**4,644**
Basic earnings per share, EUR	24	0.32	0.29	0.93	0.81
Diluted earnings per share, EUR	24	0.32	0.27	0.90	0.77

CONSOLIDATED CASH FLOW STATEMENT
(unaudited, in EEK thousand)

	Note	2006	2005
Operating activities			
Operating profit		97,332	74,907
Adjustments:			
Depreciation, amortisation and impairment of property, plant and equipment, intangibles	11,12	27,366	20,713
Profit (loss) from sale of property, plant and equipment		28	1,350
Profit (loss) from sale of investment property	9	-7,513	0
Revaluation of investment property	9	-4,380	-13,738
Other non-monetary expenses	14	315	629
Changes in working capital:			
Change in balance of receivables		-67,582	-22,956
Change in balance of inventories	8	-56,243	1,001
Change in supplier payables		53,422	20,098
Interest paid		-5,537	-4,338
Income tax paid		-6,981	-3,043
Total cash flow from operating activities		**30,227**	**74,623**
Investing activities			
Purchase of property, plant and equipment, intangibles	11,12	-115,843	-36,164
Including under the operating lease terms		5,804	10,954
Proceeds from disposal of property, plant and equipment		435	406
Proceeds from disposal of investment property	9	11,055	0
Investments in subsidiaries		-786	0
Interest received		89	167
Proceeds from disposal of current financial assets	4	2,131	0
Loans granted		0	-1,505
Repayments of loans granted	23	352	305
Total cash flow from investing activities		**-96,763**	**-25,837**
Financing activities			
Repayments of borrowings	13	-12,695	-37,456
Loans received	13	54,428	0
Finance lease and instalment payments made		-1,236	-654
Receipts from contributions into share capital	15	12,791	6,254
Dividends paid	15	-12,020	-4,475
Dividends received		15	0
Redemption of bonds	14	-17,500	-6
Proceeds from emission of bonds	14	30,239	352
Total cash flow from financing activities		**54,022**	**-35,985**
Effect of exchange rate changes on cash balance		-863	645
Total cash flows		**-13,377**	**13,446**
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	**12,584**	**25,961**
Change in cash and cash equivalents		**-13,377**	**13,446**

CONSOLIDATED CASH FLOW STATEMENT
(unaudited, in EUR thousand)

	Note	2006	2005
Operating activities			
Operating profit		6,221	4,787
Adjustments:			
Depreciation, amortisation and impairment of property, plant and equipment, intangibles	11,12	1,749	1,324
Profit (loss) from sale of property, plant and equipment		2	86
Profit (loss) from sale of investment property	9	-480	0
Revaluation of investment property	9	-280	-878
Other non-monetary expenses	14	20	40
Changes in working capital:			
Change in balance of receivables		-4,319	-1,467
Change in balance of inventories	8	-3,595	64
Change in supplier payables		3,414	1,284
Interest paid		-354	-277
Income tax paid		-446	-194
Total cash flow from operating activities		**1,932**	**4,769**
Investing activities			
Purchase of property, plant and equipment, intangibles	11,12	-7,403	-2,311
Including under the operating lease terms		371	700
Proceeds from disposal of property, plant and equipment		28	26
Proceeds from disposal of investment property	9	707	0
Investments in subsidiaries		-50	0
Interest received		6	11
Proceeds from disposal of current financial assets	4	136	0
Loans granted		0	-96
Repayments of loans granted	23	22	19
Total cash flow from investing activities		**-6,184**	**-1,650**
Financing activities			
Repayments of borrowings	13	-811	-2,394
Loans received	13	3,479	0
Finance lease and instalment payments made		-79	-42
Receipts from contributions into share capital	15	817	400
Dividends paid	15	-768	-286
Dividends received		1	0
Redemption of bonds	14	-1,118	0
Proceeds from emission of bonds	14	1,933	22
Total cash flow from financing activities		**3,453**	**-2,300**
Effect of exchange rate changes on cash balance		-55	41
Total cash flows		**-854**	**859**
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	**804**	**1,659**
Change in cash and cash equivalents		**-854**	**859**

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

	Share capital	Share pre-mium	Reser-ves	Retained earnings	Currency transla-tion reserve	Total attribu-table to equity holders	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	-2,491	**-2,491**	-413	**-2,904**
Net profit for the period	0	0	0	72,664	0	**72,664**	-5,984	**66,680**
Total recognized income (expense)	**0**	**0**	**0**	**72,664**	**-2,491**	**70,173**	**-6,397**	**63,776**
Equity-settled share-based transactions	0	629	0	0	0	**629**	0	**629**
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 31.12.2005	**58,230**	**49,690**	**9,532**	**85,741**	**4,131**	**207,324**	**628**	**207,952**
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	188	**188**	-7	**181**
Net profit for the period	0	0	0	87,376	0	**87,376**	783	**88,159**
Total recognized income (expense)	**0**	**0**	**0**	**87,376**	**188**	**87,564**	**776**	**88,340**
Equity-settled share-based transactions (Note 14,16)	0	315	0	0	0	**315**	0	**315**
Dividends paid (Note 16)	0	0	0	-12,031	0	**-12,031**	0	**-12,031**
Transfers to statutory reserve capital (Note 16)	0	0	189	-189	0	**0**	0	**0**
Increase of share capital (Note 14,16)	3,920	9,083	0	0	0	**13,003**	0	**13,003**
Changes in minority interest	0	0	0	0	0	**0**	6,661	**6,661**
Balance as of 31.12.2006	**62,150**	**59,088**	**9,721**	**160,897**	**4,319**	**296,175**	**8,065**	**304,240**

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

	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total attributable to equity holders	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	-159	**-159**	-26	**-186**
Net profit for the period	0	0	0	4,644	0	**4,644**	-382	**4,262**
Total recognized income (expense)	**0**	**0**	**0**	**4,644**	**-159**	**4,485**	**-409**	**4,075**
Equity-settled share-based transactions	0	40	0	0	0	**40**	0	**39**
Dividends paid	0	0	0	-279	0	**-279**	0	**-279**
Transfers to statutory reserve capital	0	0	53	-53	0	**0**	0	**0**
Increase of share capital	121	291	0	0	0	**412**	0	**412**
Allocations to retained earnings	0	0	-1,156	1,156	0	**0**	0	**0**
Balance as of 31.12.2005	**3,722**	**3,176**	**609**	**5,480**	**264**	**13,250**	**41**	**13,292**
Balance as of 31.12.2005	**3,722**	**3,176**	**609**	**5,480**	**264**	**13,251**	**40**	**13,291**
Currency translation differences	0	0	0	0	12	**12**	0	**12**
Net profit for the period	0	0	0	5,584	0	**5,584**	50	**5,634**
Total recognized income (expense)	**0**	**0**	**0**	**5,584**	**12**	**5,596**	**51**	**5,647**
Equity-settled share-based transactions (Note 14,16)	0	20	0	0	0	**20**	0	**20**
Dividends paid (Note 16)	0	0	0	-769	0	**-769**	0	**-769**
Transfers to statutory reserve capital (Note 16)	0	0	12	-12	0	**0**	0	**0**
Increase of share capital (Note 14,16)	251	581	0	0	0	**831**	0	**831**
Changes in minority interest	0	0	0	0	0	**0**	426	**426**
Balance as of 31.12.2006	**3,972**	**3,776**	**621**	**10,283**	**276**	**18,930**	**515**	**19,445**

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 forth quarter and 12 months 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 lita), 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.

The Group's results are open to fluctuations in foreign currency rates against Estonian kroon in those countries where AS Baltika has subsidiaries. The impact of changes in average foreign currency rates against Estonian kroon in the reporting period were following: Polish zloty +3.3% (2005: +12.3%), Ukrainian hryvnia +0.1% (2005: +4.5%), Russian rouble +3.1% (2005: +1.8%) and Latvian lat +0.0% (2005: -4.5%).

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 22 and 23.

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 87.7 million kroons (5.6 million euros), including credit risk of the Russian wholesale partner of 49.0 million kroons (3.1 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 13).

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.

Operational 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 transition to the integrated system encompassing several areas of operations has been initiated in year 2006. 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	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Cash in hand	3,879	1,896	247	121
Cash at bank	8,705	11,267	556	720
Short-term deposits	0	12,798	0	818
Total	**12,584**	**25,961**	**804**	**1,659**

As of the end of 2005, cash had been deposited overnight by the parent company in the amount of 12.8 million thousand kroons (0.8 million euros) with the interest rate of 2.05% for EEK, 1.55% for EUR and 4.00% for USD. As of 31 December 2006, the Group had no cash in overnight deposit.

NOTE 4 Current financial assets

	EEK '000		EUR '000	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Shares of Tallinna Kaubamaja	0	1,808	0	116

The shares of Tallinna Kaubamaja, disclosed as current financial assets, were sold on 22 August 2006. The net gain from the transaction amounted to 198 thousand kroons (13 thousand euros) and was disclosed under other financial income.

NOTE 5 Trade receivables

	EEK '000		EUR '000	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Accounts receivable	87,710	39,579	5,606	2,530
Allowance for doubtful receivables	-1,308	-13	-84	-1
Total	**86,402**	**39,566**	**5,522**	**2,529**

Trade receivables include the parent's receivable from the joint venture in the amount of 4.7 million kroons (0.3 million euros); 31 December 2005: 1.7 million kroons (110 thousand euros) (Note 25).

From beginning of year 2006, AS Baltika has no longer control over the activities of OOO Streit and has therefore discontinued consolidation of the company's results in Group's financial statements. Hence, the balance of uncollectible receivables has been increased by impaired receivables from OOO Streit in the amount of 1.3 million kroons (0.08 million euros) that have been eliminated during the previous periods.

In 2006, impaired receivables in the amount of 17 thousand kroons (1.1 thousand euros) were expensed and written off the balance sheet. There has been no reversal of the impairment losses previously provided for. During year 2005, the Group recognised impairment losses in the amount of 224 thousand kroons (14.3 thousand euros), reversal of the impairment losses previously provided for occurred in the amount of 24 thousand kroons (1.5 thousand euros).

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	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Other current receivables	9,065	3,578	579	228
Tax prepayments and tax reclaims	14,356	5,189	918	332
Prepaid expenses	18,648	6,207	1,192	397
Interest receivables	0	18	0	1
Total	**42,069**	**14,992**	**2,689**	**958**

Prepaid expenses include prepaid rental and insurance expenses, prepayment for information technology services, subscription costs of periodicals, etc. Significant increase in prepaid expenses by the end of year 2006 has occurred due to a number of new shops opened in Russia and following prepaid rental expense.

NOTE 7 Tax receivables and tax liabilities

Tax receivables (prepayments)

	EEK '000		EUR '000	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Value added tax	10,596	4,818	677	308
Prepaid income tax	3,642	323	233	21
Other taxes	118	48	8	3
Total	**14,356**	**5,189**	**918**	**332**

Tax liabilities

	EEK '000		EUR '000	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Personal income tax	3,895	2,601	249	166
Social security tax	7,444	5,686	476	363
Value added tax	10,565	7,958	675	509
Corporate income tax liability	406	932	25	60
Other taxes	696	386	45	24
Total	**23,006**	**17,563**	**1,470**	**1,122**

NOTE 8 Inventories

	EEK '000		EUR '000	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Raw materials and materials	71,239	65,630	4,553	4,195
Impairment of raw materials	-524	-2,534	-33	-162
Work-in-progress	2,293	1,600	147	102
Finished goods and goods purchased for resale	129,335	77,816	8,266	4,973
Impairment of finished goods and goods purchased for resale	-2,807	-1,556	-179	-99
Prepayments to suppliers	1,166	3,503	74	224
Total	**200,702**	**144,459**	**12,827**	**9,233**

As of 31 December 2006, the inventories of the Group with the carrying amount of 3.2 million kroons/0.2 million euros (31 December 2005: 7.5 million kroons/0.5 million euros) were in the custody of third parties.

The acquisition cost of fabric carried at net realizable value as of 31 December 2006 amounted to 2.2 million kroons/0.14 million euros (31 December 2005: 6.6 million kroons/0.4 million euros). The impairment losses of raw materials recognised in the Group in 2006 amounted to 356 thousand kroons/22.8 thousand euros (2005: 1.1 million kroons/70.6 thousand euros). No additional losses have been incurred from sales of previously impaired raw materials.

The acquisition cost of finished goods carried at net realizable value as of 31 December 2006 amounted to approximately 10.9 million kroons/0.7 million euros (31 December 2005: 7.0 million kroons/0.4 million euros). The impairment allowance of finished goods has increased due to increased number of retail locations and corresponding volumes. The relation of impairments allowance to the total balance of finished goods and goods purchased for resale shows moderate changes compared to previous reporting period.

NOTE 9 Investment property

	EEK '000	EUR '000
Balance 31.12.2004	**7,500**	**479**
Additions during the period	5,956	381
Revaluation into fair value	13,737	878
Balance 31.12.2005	**27,193**	**1,738**
Disposals during the period	-8,001	-511
Revaluation into fair value	4,380	280
Balance 31.12.2006	**23,572**	**1,507**

As of 31 December 2006, investment property consists of the production facility located at Veerenni 24, Tallinn that is leased to the joint venture OÜ Baltika Tailor carried at fair value of 23.6 million kroons (1.5 million euros).

As of 31 December 2005, following facilities were recognised as investment property:
- a production facility located at Veerenni 24, Tallinn that is leased to the joint venture OÜ Baltika Tailor and is carried at fair value of 19.2 million kroons (1.2 million euros);
- a plot located in Lasnamäe Tööstuspark, Tallinn including construction rights acquired by the subsidiary OÜ Baltika TP and carried at fair value of 8.0 million kroons (0.5 million euros).

In September 2006, OÜ Baltika TP concluded the agreement to sell the plot including the construction rights of the property located in Lasnamäe Tööstuspark. According to the agreement, the buyer has the obligation to construct a production building by the end of 2007 for relocation of the production premises of OÜ Baltika Tailor from their current location at Veerenni 24, Tallinn. At the same time, OÜ Baltika TP has signed a lease agreement with the buyer providing a 10 year lease period of the production premises to be constructed.

The acquisition cost of the investment property included the discounted net present value of the buy-out option of construction rights that was accounted for as finance lease. As a result of sales of the investment property, the recognition of long-term finance lease liability in the amount of 4.5 million kroons (0.3 million euros) has been discontinued.

The proceeds from sales amounted to 11.1 million kroons (0.7 million euros). Gain recognised from disposal of the investment property amounted to 7.5 million kroons (0.5 million euros).

The production facility located at Veerenni 24, Tallinn that is leased to the joint venture OÜ Baltika Tailor has been restated at fair value of 23.6 million kroons (1.5 million euros) as of 31 December 2006. The revaluation gain of 4.4 million kroons (0.3 million euros) has been recognised under other operating revenues (Note 22).

NOTE 10 Other non-current financial assets

	EEK '000		EUR '000	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Loan receivable from joint venture	1,359	1,302	87	83
Long-term prepayments for rent	9,718	3,361	621	215
Other long-term financial assets	0	45	0	3
Total	**11,077**	**4,708**	**708**	**301**

Long-term prepayments for rent arise from lease agreements of the Group’s retail subsidiaries operating in Latvian, Lithuanian, Polish and Russian markets. Additional information on loans given to joint-venture is disclosed in Note 25.

NOTE 11 Property, plant and equipment

The Group's investments in property, plant and equipment during the reporting period amounted to 102.4 million kroons (6.5 million euros). The investments during the previous reporting period amounted to 29.0 million kroons (1.9 million euros). Investments into the construction of the new logistics centre amounted to 33.8 million kroons/2.2 million euros (2005: 11.7 million kroons/0.8 million euros). Investments into retail operations totalled 62.2 million kroons/4.0 million euros (2005: 13.8 million kroons/0.9 million euros). Investments in the amount of 4.1 million kroons/0.2 million euros (2005: 1.5 million kroons/0.1 million euros) were made into production related assets, investments in the amount of 1.9 million kroons/0.1 million euros (2005: 0.8 million kroons/0.05 million euros) into information technology and 0.4 million kroons/0.03 million euros (2005: 1.2 million kroons/0.08 million euros) was invested into other equipment.

In 2006, non-current assets with the acquisition cost of 0.9 million kroons/0.06 million euros (2005: 2.2 million kroons/0.2 million euros) were disposed. Write-offs of non-current assets during the reporting period amounted to 9.6 million kroons (0.6 million euros) at acquisition cost (2005: 7.0 million kroons/0.4 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	7,969	5,960	3,364	6,554	1,892	3,295	29,034
Disposals	0	0	-118	-72	0	0	-190
Written off	0	-181	-2	-163	0	0	-346
Reclassification	0	0	218	-218	0	0	0
Impairment	0	-1,243	0	0	0	0	-1,243
Depreciation	0	-5,773	-4,871	-7,175	0	0	-17,819
Currency translation differences	0	552	78	639	49	10	1,328
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**
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	43,104	7,195	49,224	1,448	1,414	102,385
Disposals	0	-207	-181	-74	0	0	-462
Written off	0	-1,651	-55	-748	0	0	-2,454
Written off against reserve	0	1,243	0	0	0	0	1,243
Reclassification	0	3,795	67	1,054	-1,796	-3,120	0
Depreciation	0	-7,248	-3,885	-9,634	0	0	-20,767
Currency translation differences	0	-484	-80	-919	-56	-47	-1,586
Acquisition cost 31.12.2006	**10,973**	**116,708**	**78,982**	**94,154**	**1,605**	**1,552**	**303,974**
Accumulated depreciation 31.12.2006	0	-31,667	-68,899	-36,960	0	0	-137,526
Net book amount 31.12.2006	**10,973**	**85,041**	**10,083**	**57,194**	**1,605**	**1,552**	**166,448**

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	509	381	215	419	121	211	1,856
Disposals	0	0	-8	-5	0	0	-12
Written off	0	-12	0	-10	0	0	-22
Reclassification	0	0	14	-14	0	0	0
Impairment	0	-79	0	0	0	0	-79
Depreciation	0	-369	-311	-459	0	0	-1,139
Currency translation differences	0	35	5	41	3	1	85
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**
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	2,755	460	3,146	93	90	6,544
Disposals	0	-13	-12	-5	0	0	-30
Written off	0	-106	-4	-47	0	0	-157
Written off against reserve	0	79	0	0	0	0	79
Reclassification	0	243	4	67	-115	-199	0
Depreciation	0	-463	-248	-616	0	0	-1,327
Currency translation differences	0	-31	-5	-59	-3	-3	-101
Acquisition cost 31.12.2006	**701**	**7,459**	**5,048**	**6,017**	**103**	**99**	**19,427**
Accumulated depreciation 31.12.2006	0	-2,024	-4,403	-2,362	0	0	-8,790
Net book amount 31.12.2006	**701**	**5,435**	**645**	**3,655**	**103**	**99**	**10,638**

NOTE 12 Intangible assets

Cost of acquired licenses, software and trademarks recognised as intangible assets in 2006 amounted to 21.7 million kroons/1.4 million euros (2005: 1.1 thousand kroons/0.07 million euros). As a result of the purchase of an additional 49.9% of the share capital of the Russian subsidiary, goodwill was recognised in the amount of 6.3 million kroons (0.4 million euros).

Movement of intangible assets of the Group

EEK '000	Licences, software, trademarks	Pre-payments	Positive goodwill	TOTAL
Acquisition cost 31.12.2004	**20,070**	**0**	**13,924**	**33,994**
Accumulated amortisation 31.12.2004	-6,011	0	0	-6,011
Net book amount 31.12.2004	**14,059**	**0**	**13,924**	**27,983**
Additions	1,184	0	0	1,184
Amortisation	-2,894	0	0	-2,894
Currency translation differences	13	0	205	218
Acquisition cost 31.12.2005	**21,125**	**0**	**14,129**	**35,254**
Accumulated amortisation 31.12.2005	-8,763	0	0	-8,763
Net book amount 31.12.2005	**12,362**	**0**	**14,129**	**26,491**

Acquisition cost 31.12.2005	**21,125**	**0**	**14,129**	**35,254**
Accumulated amortisation 31.12.2005	-8,763	0	0	-8,763
Net book amount 31.12.2005	**12,362**	**0**	**14,129**	**26,491**
Additions	20,264	1,459	6,326	28,049
Written off	-26	0	0	-26
Amortisation	-5,391	0	0	-5,391
Currency translation differences	-8	-9	-32	-49
Acquisition cost 31.12.2006	**41,174**	**1,450**	**20,423**	**63,047**
Accumulated amortisation 31.12.2006	-13,973	0	0	-13,973
Net book amount 31.12.2006	**27,201**	**1,450**	**20,423**	**49,074**

EUR '000	**Licences, software, trademarks**	**Pre-payments**	**Positive goodwill**	**TOTAL**
Acquisition cost 31.12.2004	**1,283**	**0**	**890**	**2,173**
Accumulated amortisation 31.12.2004	-384	0	0	-384
Net book amount 31.12.2004	**899**	**0**	**890**	**1,789**
Additions	76	0	0	76
Amortisation	-185	0	0	-185
Currency translation differences	1	0	13	14
Acquisition cost 31.12.2005	**1,350**	**0**	**903**	**2,253**
Accumulated amortisation 31.12.2005	-560	0	0	-560
Net book amount 31.12.2005	**790**	**0**	**903**	**1,693**
Acquisition cost 31.12.2005	**1,350**	**0**	**903**	**2,253**
Accumulated amortisation 31.12.2005	-560	0	0	-560
Net book amount 31.12.2005	**790**	**0**	**903**	**1,693**
Additions	1,296	93	404	1,793
Written off	-2	0	0	-2
Amortisation	-345	0	0	-345
Currency translation differences	-1	0	-2	-3
Acquisition cost 31.12.2006	**2,631**	**93**	**1,305**	**4,029**
Accumulated amortisation 31.12.2006	-893	0	0	-893
Net book amount 31.12.2006	**1,738**	**93**	**1,305**	**3,136**

NOTE 13 Borrowings

	EEK '000		**EUR '000**	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Short-term borrowings				
Future repayments of long-term bank loans	13,946	11,443	891	731
Short-term bank loans	41,911	0	2,679	0
Short-term finance lease liabilities	1,149	194	74	12
Convertible bonds	0	212	0	14
Bonds	31,173	18,429	1,992	1,178
Total	**88,179**	**30,278**	**5,636**	**1,935**
Long-term borrowings				
Long-term bank loans	49,160	51,840	3,142	3,313
Long-term finance lease liabilities	10,074	10,713	644	685
Other long-term liabilities	0	0	0	0
Total	**59,234**	**62,553**	**3,786**	**3,998**

Bank loans of the Group as of 31.12.2006

EEK '000	Loan payable on 31.12.2006	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	4,678	936	3,742	6m Euribor+2.5%
Nordea Pank	2,084	833	1,251	3m Euribor+2.5%
Hansapank	40,793	7,531	33,262	6m Euribor+1.5%
Hansapank	4,286	2,143	2,143	6m Euribor+2.35%
Hansapank	10,000	10,000	0	4.25%
Nordea Pank	11,265	2,503	8,762	3m Euribor+1.0%
Hansapank (overdraft facility)	27,805	27,805	0	4.25%
Nordea Pank (overdraft facility)	4,106	4,106	0	5.30%
Total	**105,017**	**55,857**	**49,160**	

EUR '000	Loan payable on 31.12.2006	Current portion up to 1 year	Long-term portion 1-5 years	Interest rate
Nordea Pank	299	60	239	6m Euribor+2.5%
Nordea Pank	133	53	80	3m Euribor+2.5%
Hansapank	2,607	481	2,126	6m Euribor+1.5%
Hansapank	274	137	137	6m Euribor+2.35%
Hansapank	639	639	0	4.25%
Nordea Pank	720	160	560	3m Euribor+1.0%
Hansapank (overdraft facility)	1,777	1,776	0	4.25%
Nordea Pank (overdraft facility)	263	262	0	5.30%
Total	**6,712**	**3,570**	**3,143**	

All long-term bank loans as of 31 December 2006 are subject to a floating interest rate based on Euribor, which is 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.

Long-term bank loans of the Group are denominated in euros, thus no currency risk is assumed.

In May 2006, AS 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 is due on 30 March 2007.

To finance the construction of the new logistics centre situated in Lasnamäe Tööstuspark, Baltika TP received a loan from Nordea Pank in June 2006 in the amount of 12.5 million kroons (0.8 million euros). The loan is due in June 2011.

In September, AS Baltika signed the agreement for an overdraft facility with Nordea Pank. The maximum exposure of the overdraft is 6.3 million kroons (0.4 million euros). The agreement is without term.

The maximum exposure of the overdraft facility received from Hansapank was 37.0 million kroons (2.4 million euros) until the end of year 2006. From 1 January 2007, the maximum exposure has been changed to 32.0 million kroons (2.1 million euros).

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 14 Bonds

Convertible bonds

As of 31 December 2005, there were C and D type of convertible bonds outstanding that were issued during the convertible bond program for the executives of Baltika. All C and D bonds were converted into shares during year 2006.

	Issue date	**Bond conversion period**	**Number of convertible bonds 31.12.2005**	**Number of convertible bonds 31.12.2006**
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	0
Total			**392,000**	**0**

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 (2.88 euros) 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.

In September 2006, D-bonds were converted into 82,400 registered shares with nominal value of 10.00 kroons (0.64 euros). The issue price per share was 28.95 kroons (1.85 euros) including the share premium of 18.95 kroons (1.21 euros) per share. The issued shares are entitled to dividends starting from the dividend payments made in 2007. After the partial conversion of D-bonds into shares, the share capital of the Company is 60,973,500 kroons (3,896,917 euros) consisting of 6,097,350 shares. The total share premium of the issue was 1,561,480 kroons (99,797 euros).

In December 2006, the remaining amount of D-bonds were converted into 117,600 registered shares with nominal value of 10.00 kroons (0.64 euros). The terms of shares issued were same as for the first stage conversion of D-bonds. After the second conversion of D-bonds into shares, the share capital of the Company is

62,149,500 kroons (3,972,077 euros) consisting of 6,214,950 shares. The total share premium of the issue was 2,228,520 kroons (142,428 euros).

Closed issue of bonds

In 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 were used for financing investments into the Company's core activities.

In July 2006, AS Baltika issued additional unsecured bonds via a closed issue in the amount of 11.1 million kroons (0.7 million euros). The redemption date of the bonds is 18 April 2007. A total of 1,150 bonds were issued with a nominal value of 10,000 kroons (639 euros) and price of 9,661.73 kroons (617.50 euros) per bond. The bonds do not carry coupon interest, instead the difference between the nominal value and issue price yields an interest of 4.6% per annum. The proceeds are used for financing investments of the second half-year of 2006.

	Quantity	**Nominal (EEK)**	**Issue price (EEK)**	**Balance as of 31.12.2006 (EEK '000)**	**Interest rate**	**Maturity**
Bonds	2,000	10,000	9,597	19,835	4.08%	16.03.2007
Bonds	1,150	10,000	11,111	11,338	4.60%	18.04.2007
Total	**3,150**		**20,708**	**31,173**		

	Quantity	**Nominal (EUR)**	**Issue price (EUR)**	**Balance as of 31.12.2006 (EUR '000)**	**Interest rate**	**Maturity**
Bonds	2,000	639	613	1,268	4.08%	16.03.2007
Bonds	1,150	639	710	725	4.60%	18.04.2007
Total	**3,150**		**1,324**	**1,992**		

NOTE 15 Accrued expenses and other short-term liabilities

	EEK '000		**EUR '000**	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Payables to employees	17,250	12,767	1,102	816
Dividends payable	7	2	0	0
Interest payable	43	27	3	2
Customer prepayments	392	409	25	26
Other accrued expenses	874	710	56	45
Other short-term liabilities	6,630	56	425	4
Total	**25,196**	**13,971**	**1,611**	**893**

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

Other short-term liabilities consist of payable for acquisition of Ivo Nikkolo's trademark in year 2007. The liability has been discounted for reporting purposes.

NOTE 16 Equity

Share capital

EEK '000	31.12.2006	31.12.2005
Share capital	62,150	58,230
Number of shares	6,214,950	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	31.12.2006	31.12.2005
Share capital	3,972	3,722
Number of shares	6,214,950	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
Issued 05.10.2006	Conversion of D-bonds	82,400
Issued 08.12.2006	Conversion of D-bonds	117,600
Number of shares on 31.12.2006		**6,214,950**

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 first quarter f 2006, the number of shares of AS Baltika was increased by 192,000 in connection with the conversion of C-bonds into shares (Note 14). 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 1.8 million kroons (0.12 million euros).

Before the end of year 2006, D-bonds were converted into registered shares in two stages. As a result, 200,000 registered shares with nominal value of 10.00 kroons (0.64 euros) were issued. The issue price per share was 28.95 kroons (1.85 euros) including the share premium of 18.95 kroons (1.21 euros) per share. The issued shares are entitled to dividends starting from the dividend payments made in 2007. After the conversion of D-bonds into shares, the share capital of the Company is 62,149,500 kroons (3,972,077 euros) consisting of 6,214,950 shares. The total share premium of the issue was 3,790,000 kroons (242,225 euros).

Shareholders as of 31.12.2006

	Number of shares	Participation
1. BMIG OÜ	1,295,072	20.84%
2. Skandinaviska Enskilda Banken Ab Clients	417,020	6.71%
3. Raiffeisen Zentralbank Österreich AG Clients	305,940	4.92%
4. Members of Management Board and persons related to them		
Meelis Milder	247,183	3.98%
Maire Milder	115,361	1.86%
Boriss Loifenfeld	50,122	0.81%
Ülle Järv	23,158	0.37%
5. Other minority shareholders	3,761,094	60.52%
Total	**6,214,950**	**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	82,161	1.41%
Boriss Loifenfeld	12,482	0.21%
Ülle Järv	8,158	0.14%
5. Other minority shareholders	3,496,257	60.04%
Total	**5,822,950**	**100.00%**

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. The investment company OÜ BMIG is under the control of the Management Board members of AS Baltika.

NOTE 17 Segments

Geographical segment by client's location – primary segment

As of 31 December 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.

2006

EEK '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Internal trans-actions	TOTAL
Non-group sales	247,741	115,276	180,302	174,670	128,524	34,440	18,528	0	899,481
Inter-segment sales	0	69,789	118,071	37,778	80,342	14,541	0	-320,521	0
Total sales	247,741	185,065	298,373	212,448	208,866	48,981	18,528	-320,521	899,481
Operating profit of the segment	76,000	28,854	30,496	36,630	9,235	-2,548	4,699	0	183,366
Unallocated operating exp. and inc.									-86,034
Total operating profit									97,332

Other financial income (expenses)									-6,037
Corporate income tax									-3,136
Net profit before minority interest									88,159
Minority interest									783
Net profit for the financial year									87,376
Assets	181,193	37,332	62,965	254,944	87,780	9,873	303	-166,909	467,481
Group`s unallocated assets									128,909
Incl. assets used in production									72,092
assets used for administrative use									6,337
other unallocated assets									50,480
Total assets									596,390
Liabilities	33,285	19,889	38,866	102,022	57,647	4,466	0	-190,868	65,307
Group`s unallocated liabilities									226,843
Incl. liab. related to production activity									78,885
other unallocated liabilities									147,958
Total liabilities									292,150
Property, plant and equipment acquired	30,921	5,005	2,881	43,840	13,441	63	0	0	96,151
Property, plant and equipment acquired, unallocated									34,283
Depreciation	9,982	1,517	4,262	2,554	2,525	1,864	0	0	22,704
Incl. depreciation of PPE	5,201	1,357	3,978	2,554	2,509	1,794	0	0	17,393
amort. of intangible assets	4,781	160	284	0	16	70	0	0	5,311
Depreciation, unallocated									3,454

EUR '000	**Estonia**	**Latvia**	**Lithuania**	**Russia**	**Ukraine**	**Poland**	**Other**	**Internal trans-actions**	**TOTAL**
Non-group sales	15,834	7,367	11,523	11,163	8,214	2,201	1,184	0	57,487
Inter-segment sales	0	4,460	7,546	2,414	5,135	929	0	-20,485	0
Total sales	15,834	11,828	19,070	13,578	13,349	3,130	1,184	-20,485	57,487
Operating profit of the segment	4,857	1,844	1,949	2,341	590	-163	300	0	11,719
Unallocated operating exp. and inc.									-5,499
Total operating profit									6,221
Other financial income (expenses)									-386
Corporate income tax									-200
Net profit before minority interest									5,634
Minority interest									50
Net profit for the financial year									5,584
Assets	11,580	2,386	4,024	16,294	5,610	631	19	-10,667	29,877
Group`s unallocated assets									8,239
Incl. assets used in production									4,608
assets used for administrative use									405
other unallocated assets									3,226
Total assets									38,116
Liabilities	2,127	1,271	2,484	6,520	3,684	285	0	-12,199	4,174

Group`s unallocated liabilities									14,498
Incl. liab. related to production activity									5,042
other unallocated liabilities									9,456
Total liabilities									18,672
Property, plant and equipment acquired	1,976	320	184	2,802	859	4	0	0	6,145
Property, plant and equipment acquired, unallocated									2,191
Depreciation	638	97	272	163	161	119	0	0	1,451
Incl. depreciation of PPE	332	87	254	163	160	115	0	0	1,112
amort. of intangible assets	306	10	18	0	1	4	0	0	339
Depreciation, unallocated									221

2005

EEK '000	**Estonia**	**Latvia**	**Lithuania**	**Russia**	**Ukraine**	**Poland**	**Other**	**Internal trans-actions**	**TOTAL**
Non-group sales	195,359	82,333	132,431	111,480	98,599	39,150	21,554	0	680,906
Inter-segment sales	0	46,898	83,867	17,274	36,685	21,443	3,027	-209,194	0
Total sales	195,359	129,231	216,298	128,754	135,284	60,593	24,581	-209,194	680,906
Operating profit of the segment	54,075	20,275	25,771	23,348	17,487	-692	6,137	0	146,401
Unallocated operating exp. and inc.									-71,494
Total operating profit									74,907
Other financial income (expenses)									-3,947
Corporate income tax									-4,280
Net profit before minority interest									66,680
Minority interest									-5,984
Net profit for the financial year									72,664
Assets	137,248	20,510	51,782	88,197	31,108	16,887	422	-74,969	271,185
Group`s unallocated assets									105,914
Incl. assets used in production									91,567
assets used for administrative use									6,719
other unallocated assets									7,628
Total assets									377,099
Liabilities	14,251	17,154	35,627	26,063	16,305	6,365	0	-86,875	28,890
Group`s unallocated liabilities									140,257
Incl. liab. related to production activity									20,371
other unallocated liabilities									119,886
Total liabilities									169,147
Property, plant and equipment acquired	3,076	342	6,941	4,959	899	660	0	0	16,877
Property, plant and equipment acquired, unallocated									13,341
Depreciation	8,520	1,268	2,901	593	1,668	2,918	0	0	17,868
Depreciation, unallocated									2,845

EUR '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Internal trans-actions	TOTAL
Non-group sales	12,486	5,262	8,464	7,125	6,302	2,502	1,378	0	43,518
Inter-segment sales	0	2,997	5,360	1,104	2,345	1,370	193	-13,370	0
Total sales	12,486	8,259	13,824	8,229	8,646	3,873	1,571	-13,370	43,518
Operating profit of the segment	3,456	1,296	1,647	1,492	1,118	-44	392	0	9,357
Unallocated operating exp. and inc.									-4,569
Total operating profit									4,787
Other financial income (expenses)									-252
Corporate income tax									-274
Net profit before minority interest									4,262
Minority interest									-382
Net profit for the financial year									4,644
Assets	8,772	1,311	3,309	5,637	1,988	1,079	27	-4,791	17,332
Group`s unallocated assets									6,769
Incl. assets used in production									5,852
assets used for administrative use									429
other unallocated assets									488
Total assets									24,101
Liabilities	911	1,096	2,277	1,666	1,042	407	0	-5,552	1,846
Group`s unallocated liabilities									8,964
Incl. liab. related to production activity									1,302
other unallocated liabilities									7,662
Total liabilities									10,810
Property, plant and equipment acquired	197	22	444	317	57	42	0	0	1,079
Property, plant and equipment acquired, unallocated									853
Depreciation	545	81	185	38	107	186	0	0	1,142
Depreciation, unallocated									182

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.

From year 2006, the principles of allocating operating profit to individual geographical segments have been changed. The operating profit of every individual segment contains relevant part from wholesale operations of the parent company and the part of operating profit from intra-group transactions attributable to clients located in this particular geographical segment. The unallocated other income and expenses consist of general and administrative expenses recognised by the Group as well as from gains and losses from sales and revaluation of unallocated assets. General and administrative (GA) expenses of the Group include GA expenses recognised by the parent company and the subsidiaries engaged in production. The comparable financial information for the year 2005 has been restated according to the changes in principles.

Business segment by area of operations – secondary segment

As of 31 December 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.

From year 2006, Group's assets and investments that relate to more than one business segment and cannot be allocated are recognised as unallocated assets and investments into property, plant and equipment.

During the previous periods, additions to tangibles assets in the parent company and investments into the new logistics centre were allocated to wholesale. Those balances have been restated to provide comparable information about the year 2005.

EEK '000	**Net sales**		**Assets**		**Additions to property, plant and equipment**	
	2006	**2005**	**31.12.2006**	**31.12.2005**	**2006**	**2005**
Retail	736,366	546,760	250,075	127,724	71,660	15,791
Wholesale and other	150,585	120,845	67,204	31,552	0	0
Production	12,530	13,301	72,092	79,055	5,158	1,577
Unallocated	0	0	207,019	138,768	53,616	12,850
Total	**899,481**	**680,906**	**596,390**	**377,099**	**130,434**	**30,218**

EUR '000	**Net sales**		**Assets**		**Additions to property, plant and equipment**	
	2006	**2005**	**31.12.2006**	**31.12.2005**	**2006**	**2005**
Retail	47,062	34,944	15,983	8,163	4,580	1,009
Wholesale and other	9,624	7,723	4,295	2,017	0	0
Production	801	850	4,608	5,053	330	101
Unallocated	0	0	13,231	8,869	3,427	821
Total	**57,487**	**43,518**	**38,116**	**24,101**	**8,336**	**1,931**

NOTE 18 Sales revenue

	EEK '000		EUR '000	
	2006	**2005**	**2006**	**2005**
Sale of goods	886,951	667,605	56,687	42,668
Sale of sewing services	0	556	0	36
Rental income	7,121	5,676	455	363
Other	5,409	7,069	345	452
Total	**899,481**	**680,906**	**57,487**	**43,518**

NOTE 19 Cost of goods sold

	EEK '000		EUR '000	
	2006	**2005**	**2006**	**2005**
Materials and supplies	363,874	289,619	23,256	18,510
Change in allowance for inventories	-699	253	-45	16
Other production costs	5,530	5,112	353	327
Production payroll	39,351	31,302	2,516	2,001
Depreciation of assets used in production	2,741	2,769	175	177
Change in inventories	-1,878	772	-120	49
Total	**408,919**	**329,827**	**26,135**	**21,080**

NOTE 20 Distribution costs

	EEK '000		EUR '000	
	2006	**2005**	**2006**	**2005**
Rental expenses	119,245	81,345	7,621	5,199
Wages	92,322	66,704	5,900	4,263
Advertising expenses	22,776	13,180	1,456	842
Depreciation	16,300	11,756	1,042	751
Transportation expenses	11,127	4,734	711	303
Credit card expenses	4,988	3,697	319	236
Communication expenses	2,252	1,929	144	123
Information technology expenses	2,090	1,373	134	88
Bank fees	2,042	2,143	131	137
Packing expenses	1,708	910	109	58
Renovation of retail outlets	1,414	1,097	90	70
Expenses for uniforms	1,262	913	81	58
Accounting and auditing expenses	911	1,020	58	65
Other sales expenses	22,442	16,903	1,434	1,082
Total	**300,879**	**207,704**	**19,230**	**13,275**

NOTE 21 Administrative expenses

	EEK '000		EUR '000	
	2006	**2005**	**2006**	**2005**
Wages	60,588	54,579	3,872	3,488
Depreciation	7,498	6,187	479	395
Business trips	3,809	2,277	243	146
Rental expenses	3,529	3,683	226	235
Management and consulting fees	2,976	4,164	190	266
Information technology expenses	2,902	2,515	185	161
Fuel, heating and electricity	1,453	1,400	93	89
Sponsorship	1,416	1,069	90	68
Bank fees	994	1,020	64	65
Communication costs	894	1,208	57	77

Other administrative expenses	11,867	7,130	760	457
Total	**97,926**	**85,232**	**6,259**	**5,447**

NOTE 22 Other operating income

	EEK '000		EUR '000	
	2006	**2005**	**2006**	**2005**
Gain from sales of non-current assets	7,443	217	476	14
Gain from revaluation of investment property	4,379	13,738	280	878
Other operating income	660	932	42	60
Foreign exchange gains	0	4,930	0	315
Total	**12,482**	**19,817**	**798**	**1,267**

NOTE 23 Other operating expenses

	EEK '000		EUR '000	
	2006	**2005**	**2006**	**2005**
Foreign exchange losses	4,710	0	301	0
Fines, penalties and tax interest	626	34	40	2
Representation costs	220	963	14	62
Losses from sales and write-offs of non-current assets	0	1,567	0	100
Other operating expenses	1,351	489	86	31
Total	**6,907**	**3,053**	**441**	**195**

NOTE 24 Earnings per share

Basic earnings per share

		2006	**2005**
Weighted average number of shares	pc	6,008,783	5,759,950
Net profit	EEK '000	87,376	72,664
	EUR '000	5,584	4,644
Basic earnings per share	**EEK**	**14.54**	**12.62**
	EUR	**0.93**	**0.81**

Diluted earnings per share

		2006	**2005**
Weighted average number of shares	pc	6,186,941	5,998,761
Net profit	EEK '000	87,376	72,664
	EUR '000	5,584	4,644
Diluted earnings per share	**EEK**	**14.12**	**12.11**
	EUR	**0.90**	**0.77**

The weighted average number of shares for diluted earnings per share has been adjusted by convertible bonds issued to senior managers and converted into the registered shares by the end of the reporting period taking into account the actual conversion date and assuming that all outstanding bonds will be converted.

NOTE 25 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.

For interim consolidated reports of Baltika Group, 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;
- 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	2006		2005	
	Purchases	**Sales**	**Purchases**	**Sales**
Purchases and sales of goods				
Joint venture	26	2,641	76	4,267
Total purchases and sales of goods	**26**	**2,641**	**76**	**4,267**
Purchases and sales of services				
Joint venture	32,734	5,163	25,976	7,033
Total purchases and sales of services	**32,734**	**5,163**	**25,976**	**7,033**

EUR '000	2006		2005	
	Purchases	**Sales**	**Purchases**	**Sales**
Purchases and sales of goods				
Joint venture	2	169	5	273
Total purchases and sales of goods	**2**	**169**	**5**	**273**
Purchases and sales of services				
Joint venture	2,092	330	1,660	449
Total purchases and sales of services	**2,092**	**330**	**1,660**	**449**

Balances with related parties

	EEK '000		EUR '000	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
Joint venture	6,395	1,724	409	110
Total current receivables	**6,395**	**1,724**	**409**	**110**
Joint venture	3,125	0	200	0
Total current liabilities	**3,125**	**0**	**200**	**0**
Joint venture	1,359	1,302	87	83
Total non-current receivables	**1,359**	**1,302**	**87**	**83**

A loan has been granted to the joint venture OÜ Baltika Tailor in the amount of 1,5 million kroons (96 thousand euros) with the annual interest rate of 1% to be used for investments into production. For the reporting purposes the loan has been discounted at 4%. The balance as of 31 December 2006 includes accrued interest expense in the amount of 57.0 thousand kroons (3.6 thousand euros).

Convertible bonds

As of 31 December 2005, 392,000 C and D bonds have been issued to and subscribed by the members of the Management Board with the nominal value of 212 thousand kroons (14 thousand euros) (Note 14). All outstanding bonds were converted into ordinary shares by the end of year 2006.

Loans to management members

	EEK '000		EUR '000	
	2006	**2005**	**2006**	**2005**
Balance at the beginning of period	352	574	22	37
Loans granted	0	0	0	0
Repayments of loans received	-352	-289	-22	-18
Foreign exchange rate differences	0	67	0	4
Balance at the end of period	**0**	**352**	**0**	**22**

In 2004, an interest free loan was granted to the manager of Baltika's subsidiary Baltika Ukraina. The loan has been fully repaid by the end of the reporting period.

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