AS BALTIKA

Consolidated interim report for the forth quarter of 2007

Commercial name	AS Baltika
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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	01.01.2007 - 31.12.2007

CONTENTS

BRIEF DESCRIPTION OF BALTIKA GROUP

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer operating in the Baltic States and Eastern Europe. The Group operates four retail concepts: Monton, Mosaic, Baltman and Ivo Nikkolo. Baltika employs a vertically integrated business model which means that the Group controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales. Baltika also sells its collections wholesale.

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

As of 31 December 2007, the Group employed 1,983 people (as of 31 December 2006 1,915).

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

The Group consists of the following companies:

	Location	Activity	Participation 31.12.2007	Participation 31.12.2006
Parent company				
AS Baltika	Estonia			
Subsidiaries				
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvija	Latvia	Retail	75%	75%
UAB Baltika Lietuva	Lithuania	Retail	100%	100%
Baltika Ukraina Ltd	Ukraine	Retail	99%	99%
OOO Kompania “Baltman Rus”	Russia	Retail	100%	100%
Baltika Poland Sp.z.o.o.	Poland	Retail	100%	100%
Baltika Retail Czech Republic s.r.o.	Czech Republic	Retail	100%	0%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	50%
AS Virulane	Estonia	Production	82.66%	82.66%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

MANAGEMENT REPORT

Unaudited consolidated financial results, Q4 and 2007

In 2007, the net sales of Baltika Group grew by 28.0% while retail sales improved by 34.1%. The period's gross margin was 55.3% against 54.5% in 2006. The Group ended 2007 with a consolidated operating profit of 64.6 million kroons (4.1 million euros) and an operating margin of 5.6%. Consolidated net profit decreased by 53.3% to 40.8 million kroons (2.6 million euros) and the net margin was 3.5%.

Consolidated net sales for the fourth quarter totalled 307.4 million kroons (19.6 million euros), up 9.3% yoy, fourth-quarter retail sales improving by 14.7% yoy. Q4 2007 gross margin was 58.1% (Q4 2006: 57.4%) and operating margin 3.3% (Q4 2006: 12.9%). Consolidated net profit for the fourth quarter amounted to 1.6 million kroons (0.1 million euros).

SALES

Sales by segment

EEK million	**Q4 2007**	**Q4 2006**	+/-	**2007**	**2006**	+/-
Retail	284.6	248.1	14.7%	987.3	736.4	34.1%
Wholesale	22.0	29.8	-26.3%	144.7	150.6	-3.9%
Subcontracting	0.3	0	n/a	14.4	0	n/a
Other	0.6	3.3	-82.2%	5.1	12.5	-59.1%
Total	**307.4**	**281.2**	**9.3%**	**1,151.5**	**899.5**	**28.0%**

EUR 1 = EEK 15.6466

RETAIL

In 2007, Baltika's retail sales grew 34.1% to 987.3 million kroons (63.1 million euros), while comparable store sales climbed by 3%. Rapid growth increased the proportion of retail revenue in total consolidated revenue to 86% compared with 82% in 2006.

The retail network continued expanding and the annual average sales area grew by 50%. The average sales efficiency (sales per square metre), on the other hand, declined by 10%. Efficiency is affected by rapid expansion – new stores have more space and in the start-up period their efficiency is generally lower. Moreover, outside Baltika's home market, the Baltic countries, the start-up periods tend to be longer. In 2006 and particularly at the end of the year many new stores were opened in Russia and Ukraine, where the estimated start-up periods of new shopping centres and, consequently, new stores range from 18 to 24 months.

Retail sales for the fourth quarter totalled 284.6 million kroons (18.2 million euros), a 14.7% improvement on the fourth quarter of 2006.

STORES AND SALES AREA

At the year-end, Baltika had 128 stores in seven countries and a total sales area of 24,290 square metres. During the year, 20 stores were opened, four were closed and four were relocated to larger premises in the same shopping centre. The net growth of the retail system was 16 stores and approximately 4,700 square metres, a 24% increase in the sales space operated by Baltika Group.

In terms of markets, the largest number of stores was opened in Lithuania where eight new stores were launched. In Latvia, three stores were opened and four were relocated. Three new stores were opened in Russia and Ukraine each and two in Estonia. At the end of the year, the Group entered a new market – the Czech Republic, where one new store was opened. Two stores were closed in both Russia and Ukraine.

Stores by market

	31.12.2007	31.12.2006
Estonia	30	28
Lithuania	30	22
Russia	24	23
Ukraine	22	21
Latvia	16	13
Poland	5	5
Czech Republic	1	0
Total stores	**128**	**112**
Total sales area, m^2	**24,290**	**19,594**

The largest number of stores was opened under the Monton and Mosaic brands. At the end of 2007, Baltika's retail network included 52 Mosaic, 50 Monton, 16 Baltman, 6 Ivo Nikkolo and 4 factory outlet stores.

In the fourth quarter, Baltika opened four stores and closed one. The opening of a Monton store in the Palladium Centre in Prague marked the Group's entry to the Czech market.

MARKETS

Although in 2007 annual economic growth in the Baltic countries slowed a bit, Baltika's retail markets sustained rapid development. The GDP growth in the Baltic countries amounted to 7-10% in 2007. Baltic economies are currently in a cooling phase and are expected to hit the bottom of their economic cycle in 2008. In the past few years, Baltic economic growth has been fuelled by strong domestic demand which is also a reason for the present deceleration. Curbing of the generous credit supply and rising interest rates are reducing the growth in consumption and investment. According to analysts, Baltic economies will recover and consumption is going to revive in 2009 at the latest. Thereafter, economic growth should level off at around 6% per year. Robust economic growth for 2007 was also posted by Ukraine and Russia – according to preliminary estimates 7-8%. Similarly to the Baltics, the main growth driver of Russian economy is domestic demand, prompted by a swift rise in the construction, retail, accommodation and financial sectors. The Russian economic outlook for the near future remains positive and gross domestic product should continue growing at above 6% per year. In general, all Baltika's retail markets should continue growing at a higher pace than the so-called old Europe.

Thanks to their great potential, Central and Eastern Europe and Russia in particular are becoming increasingly popular destinations for international retail chains. In 2007, the real estate advisors of Cushman & Wakefield undertook research in order to identify international retail companies' 20 most attractive European expansion destinations in the next five years. Moscow ranked first, followed by St Petersburg and Prague. Baltika has secured a foothold in all these cities. Other attractive destinations where Baltika is already operating include Tallinn, Kiev, Warsaw, Riga and Vilnius. In terms of countries, the most attractive destination was Russia.

In 2007, Russia was also Baltika's fastest growing market and became the third-largest one with 18% of sales. Estonia remained the largest retail market, followed by Lithuania which in some months already outperformed Estonia. The three Baltic countries accounted for 63% of the Group's retail sales (2006: 66%) and Russia and Ukraine for a combined 34% (2006: 29%).

Retail sales by market

EEK million	2007	2006	+/-	Percentage, 2007
Estonia	247.7	202.2	23%	25%
Lithuania	231.9	178.8	30%	23%
Russia	173.7	86.7	100%	18%
Ukraine	156.8	128.5	22%	16%
Latvia	144.7	105.7	37%	15%
Poland	29.8	34.5	-14%	3%
Czech Republic	2.7	0	-	0%
Total	**987.3**	**736.4**	**34%**	**100%**

EUR 1 = EEK 15.6466

Sales space grew the most in Latvia and Lithuania. In Lithuania, Baltika opened the largest number of new stores (eight), increasing the sales area by 43%, and launched its Ivo Nikkolo concept, which was previously operated in Estonia only. Now there are Ivo Nikkolo stores also in Vilnius and Kaunas. Expansion will continue in 2008 and 2009 when several new shopping centres are completed. In 2007, Baltika's retail sales in Lithuania totalled 231.9 million kroons (14.8 million euros), a 30% improvement on the prior year.

The strongest retail growth in the Baltics was achieved in Latvia where sales expanded by 37% to 144.7 million kroons (9.3 million euros). In the Latvian market, three stores were opened and four were relocated. Since all stores gained in size, the total sales area grew by 73%. Mostly Monton stores were transferred to larger premises where a full collection of the line can now be offered. Baltika's largest, 603-square metre Monton store is also located in Riga. Thanks to the expansion, the biggest city in the Baltics is better covered with Baltika's brands and the stores are more visible among the competition. At the end of the year, the Group opened two stores in yet another Latvian city – Valmiera.

In Estonia, retail sales amounted to 247.7 million kroons (15.8 million euros), up 23% yoy. During the year, two new stores were launched including a new-concept Ivo Nikkolo store in Viru Centre in Tallinn.

In Russia, Baltika's retail sales grew by 100% to 173.7 million kroons (11.1 million euros). Rapid growth may be attributed to significant expansion in 2006. As the start-up periods of new stores proved longer than average, Baltika focused on enhancing the efficiency of its existing stores. During the year, three stores were opened and two closed. In 2008, Baltika will continue streamlining the store network. Further expansion will be based on two brands, Monton and Mosaic, and aimed at two metropolises – Moscow and St Petersburg. Despite the above strategy, in 2008 Baltika is going to expand to Kaliningrad. Although in 2007 Baltika's development in Russia was hampered by political tensions in Russian-Estonian relations, caused by the events in April, Russia remains a market with huge potential. In the next few years, Russia will be the most attractive expansion destination for all major international retailers because the market is enormous and consumption is on the rise.

Baltika's retail sales in Ukraine rose by 22% to 156.8 million kroons (10.0 million euros). Ukrainian results were adversely affected by the country's political instability and high inflation which have cooled consumption outside the capital. Only six out of the Group's 22 Ukrainian stores are in Kiev, the reason being that in the past few years no large modern shopping centres have been opened there. Nor were any attractive shopping centres opened in 2007 in other Ukrainian cities targeted by the Group. In 2007, three stores were opened and two closed. As a result, the Ukrainian sales area remained practically unchanged. In 2008, the development situation is going to improve and the Group expects to launch some new stores.

In Poland, the positive developments that began in 2006 continued. Although total sales decreased by 14% owing to the closure of inefficient stores, comparable store sales improved by 8%. The Group's retail sales in Poland totalled 29.8 million kroons (1.9 million euros). No new stores were opened and in the forthcoming periods Baltika will focus on improving the efficiency of its existing stores.

In 2007, Baltika penetrated a new retail market – the Czech Republic. At the end of October, a 500-square metre Monton store was launched in the Palladium Centre in Prague. The centrally located Palladium is the newest shopping and business centre in the Czech capital. Competition in the market is strong but Monton has got off to a good start – in terms of sales the recently launched store is among the ten best in the Group. The strategy for the Czech market is gradual expansion. Two new store openings are planned for 2008.

BRANDS

In terms of brands, the largest contributor is Monton which in 2007 accounted for 55% of the Group's retail sales. Other major brands, Mosaic and Baltman, generated 31% and 9% of retail sales respectively while Ivo Nikkolo which was acquired in 2006 accounted for 3%. The remaining 2% was generated by factory outlets.

Monton

In 2007, Monton turned five years old. Within that time, Monton has evolved into a successful international fashion brand. In 2007, retail sales of Monton totalled 543 million kroons (34.7 million euros), up 41% yoy, rendering it the Group's fastest growing brand both in terms of sales and retail space. The largest sales growth was achieved in Russia which became Monton's largest market, outstripping Lithuania and Estonia, the former largest retail markets. Over the year, Monton's retail portfolio was supplemented with ten stores with an upgraded retail environment, which increased the total number of Monton stores to 50.

In 2007, Monton launched two new product groups. In the second half of the year, the collection was supplemented with footwear and the jean brand Spiced M was launched. The pilot season in footwear sales was a success, providing valuable experience for the future. Sales of lingerie and beachwear, which were launched in 2006, doubled. All this shows that Monton can successfully launch new product groups and its customers accept them readily.

In addition to trendy products, Monton is committed to delivering excellent customer care, a relaxing shopping environment, and innovation in communication. During the year, Baltika's interior designers developed various exciting solutions for Monton's retail environment. In June, Monton launched men's underpants with a condom pocket, in August a jean exhibition was organised, and in October customers could admire fashion photos shot in the sky – all examples of innovative marketing solutions.

In 2008, Monton is going to focus on sustaining profitable expansion, improving the efficiency of new product groups, and enhancing the efficiency and effectiveness of intra-brand efforts.

Mosaic

For Mosaic brand, the year 2007 was one of refocusing. The first full year under the new name ended in February, marking the time for further specifying the brand's identity and aims. The most important step was repositioning – the brand was more clearly focused on the needs of its target customer.

In 2007, retail sales of Mosaic totalled 311 million kroons (19.9 million euros), a 29% improvement on 2006. Sales growth stemmed from an increase in the number of stores, the development of the base collections, and the launch of a children's collection. The largest growth occurred in the sales of the men's collection, indicating that the direction of the collection has met with the customer's approval.

In April, Mosaic launched childrenswear. By the year-end, the collection was available at eleven largest stores, mostly in the Baltic market. Although in the first year, the children's collection accounted for 2% of Mosaic sales, the figure should rise considerably. Together with the children's collection, Mosaic launched its sub-brand Lotte by Mosaic which includes a range of children's clothes and accessories named after the highly popular Estonian cartoon character Lotte. The Lotte by Mosaic collection is especially popular in the Estonian market but the Group expects to increase sales of the sub-brand also in Latvia and Lithuania.

In 2007, Mosaic opened nine new stores taking the total number of stores to 52. In view of the growth of the brand and the development of the store environment, new stores are more spacious, allowing better display of the collections.

The main objective for 2008 is to develop a new store environment which would strengthen the position of the brand in international fashion retailing. The main development efforts will be related to the children's collection, including the Lotte by Mosaic collection.

Baltman

Baltman is Baltika's oldest brand whose motto is to develop with the customer. In 2007, retail sales of Baltman amounted to 92 million kroons (5.9 million euros), up 14%. During the year, Baltman opened two new stores in Lithuania, increasing the total number of its stores to 16.

In the area of product development, a lot of effort was put in adjusting Baltman's suits to different types of figure and extending the range for the younger customer. Special attention was paid to the quality of inside works, fabrics and finishing. The travel line with its innovative nano-finishing has been extremely well received. In 2007, Baltman also launched suits made of the thermo-regulating Klimeo fabric.

Baltman's aim is to be not only a clothes store but also a reliable businesswear advisor in all the markets where it operates. In 2008, Baltman will focus on sustaining the qualitative development of the collection. The keywords will be innovation, efficiency and reliability.

Ivo Nikkolo

For Ivo Nikkolo, 2007 was the first full year with Baltika Group. Retail sales of the brand totalled 25 million kroons (1.6 million euros). The main goal was to develop an internationally competitive collection. In the premium segment where Ivo Nikkolo is competing, product quality is essential. Therefore, the focus was on developing women's formal wear by combining the strengths of Baltika's existing production base, quality fabrics by the best manufacturers and the designers' brand specific style.

The highlight of the year was the opening of Ivo Nikkolo stores outside Estonia. Two of the three new stores were opened in Lithuania while one was launched in Estonia. All new stores boast a completely new, specially developed retail concept, which bears more resemblance to a lounge than a store. The purpose was to create a relaxing, attractive, customer-focused atmosphere. The tenants' association of Viru Centre named the store opened in Viru Centre, Tallinn the most customer-friendly shopping environment in the whole shopping centre.

In 2008, Ivo Nikkolo will continue developing the collection. Top quality and designer style at a reasonable price will undoubtedly increase the brand's customer base.

WHOLESALE

Wholesale of Baltika's collections accounted for 13% of the Group's consolidated revenue for 2007, yielding 144.7 million kroons (9.3 million euros) and posting a 3.9% decrease. The decline in wholesale revenue was planned, stemming from stricter sales policy in relations with Baltika's Russian partner. One of Baltika's largest wholesale partners is a Russian company which operates approximately 30 stores in Siberia and the Ural area which carry Baltika's brands. Other wholesale partners include department stores in Finland and the Baltic countries, such as Stockmann and Tallinn Department Store Group. Department stores are sold mostly Mosaic, Baltman and Ivo Nikkolo collections whereas Mosaic accounts for approximately one half of Baltika's wholesale revenue. Monton products are sold to the Russian business partner only.

The fourth quarter is traditionally slow in the wholesale business. Fourth quarter wholesale revenue amounted to 22.0 million kroons (1.4 million euros), accounting for 7% of total revenue. Compared with the fourth quarter of 2006, wholesale revenue shrank by 26.3%.

EARNINGS AND MARGINS

The year 2007 was the second one in the Group's three-year strategy period, following the rapid expansion of 2006. A comparison of the two years' opening and closing figures indicates that in 2006 the Group's sales area expanded abruptly, especially in the last quarter. However, the growth in the average sales space which has to be operated and supplied with inventories was substantially larger in 2007 – 50% against 30% in 2006. Consequently, the impacts of expansion were stronger in 2007.

The impacts of rapid expansion are the following: the sales efficiency of new stores is usually lower than that of established ones and a relatively large proportion of new stores in the overall store portfolio weaken the average sales efficiency. In addition, Baltika's average sales efficiency is affected by the expansion of its store formats. In 2007, the Group's average sales efficiency, i.e. sales per square metre declined by 10%.

At the same time, the stores generate full operating expenses, putting pressure on the Group's profitability. In 2006, the Group expanded rapidly in the Russian and Ukrainian markets where the start-up periods of new stores are longer and store operating expenses are higher than in the Baltics. In addition to expense growth triggered by the enlargement of the Group's sales space, the average store operating expenses per square metre grew by 7% (including rental expenses per square metre rise of 13%) on account of an increase in the proportion of the Russian retail system in the Group's store portfolio. An enlargement in sales space does not only add to the operating expenses of stores but requires also a larger team at the head office while sustained growth assumes constant financing of new projects.

2007 proved a year of adjustment as the Group focused on improving the efficiency of its existing retail system. New stores were launched at a more moderate pace and the number of new stores opened in Russia and Ukraine was reduced significantly – to six altogether. The Baltic countries posted strong development in the first half of the year but the second half-year brought a decrease in the growth of consumption, affecting also Baltika's sales in those markets. Existing stores in Poland followed a positive trend, ending the year in a profit.

The Group succeeded in raising the gross margin for 2007 to 55.3% (2006: 54.5%). The gross margin for the fourth quarter was 58.1% (Q4 2006: 57.4%). Consolidated gross profit for 2007 amounted to 636.7 million kroons (40.7 million euros), a 29.8% improvement on the prior year.

Distribution costs for 2007 grew by 49.1% and the period's administrative and general expenses by 26.0%. Administrative and general expenses in 2007 included also non-recurring costs of 3.82 million kroons (0.24 million euros) incurred in connection with the relocation of manufacturing operations to a new factory.

The Group’s results were adversely affected by exchange rate fluctuations – the period’s other operating expenses include foreign exchange losses of 9.94 million kroons (0.64 million euros). In 2006, foreign exchange losses totalled 4.71 million kroons (0.30 million euros).

Consolidated operating profit for 2007 includes property divestment and revaluation gains of 25.11 million kroons (1.61 million euros) recognised in other operating income. In the first quarter, sales of building rights and a logistics centre generated gains of 16.21 million kroons (1.04 million euros). In the third and fourth quarters, property revaluation gains amounted to 6.77 million kroons (0.43 million euros) and 2.13 million kroons (0.14 million euros) respectively. In 2006, property divestment and revaluation gains totalled 11.89 million kroons (0.76 million euros).

The Group’s operating margin for 2007 was 5.6% compared with 10.8% for 2006. Consolidated operating profit amounted to 64.6 million kroons (4.1 million euros), 33.7% down from the prior year.

Consolidated financial expenses for 2007 totalled 11.5 million kroons (0.7 million euros), a 90.9% rise on 2006. The largest financial expense item was interest expense (9.0 million kroons/0.6 million euros), which increased by 57.9% yoy. The growth in interest expense may be explained by an increase in the loan burden as well as a rise in Euribor. Financial expenses were also increased by a change in foreign exchange losses.

The Group’s profit before income tax amounted to 53.0 million kroons (3.4 million euros), 41.9% down from 2006. Consolidated net profit for 2007 (profit after tax and minority interest) amounted to 40.8 million kroons (2.6 million euros), a 53.3% decrease compared with 2006. The Group’s net margin for 2007 was 3.5% (2006: 9.7%).

The fourth quarter ended in a consolidated net profit of 1.6 million kroons (0.1 million euros) and a net margin of 0.5% (Q4 2006: 11.1%).

In 2007, the Group’s return on equity was 13.1% (2006: 35.9%) and return on assets was 6.5% (2006: 18.3%).

BALANCE SHEET

At 31 December 2007, Baltika’s consolidated balance sheet total was 656.4 million kroons (41.9 million euros), a 10% increase yoy.

During the year, the Group's trade receivables decreased by 15.3 million kroons (1.0 million euros) to 71.1 million kroons (4.5 million euros). The decline resulted mainly from a reduction in sales to the Russian wholesale partner, a measure adopted for hedging the Russian risks. Supplier payables followed a similar trend, declining by 24.2 million kroons (1.5 million euros) to 72.3 million kroons (4.6 million euros) at the year-end.

At 31 December 2007, the Group’s inventories totalled 220.7 million kroons (14.1 million euros), up 20.0 million kroons (1.3 million euros) or 10% yoy. Inventory management efficiency remained almost stable – the period’s inventory turnover ratio was 5.30 (2006: 5.38).

At the year-end, the Group’s borrowings totalled 184.5 million kroons (11.8 million euros), including bank loans of 145.5 million kroons (9.3 million euros). The remainder of borrowings was made up of bonds (29.7 million kroons/1.9 million euros) and finance lease liabilities (9.3 million kroons/0.6 million euros). During the year, the Group’s total debt burden increased by 37.1 million kroons (2.4 million euros); bank loans grew by 40.4 million kroons (2.6 million euros). Borrowings increased in connection with investments made in the expansion of the retail system and the financing of operating activities.

At 31 December 2007, the Group’s net debt (interest-bearing liabilities less cash and bank balances) equalled 153.0 million kroons (9.8 million euros) and the net debt to equity ratio was 45.1% against 44.3% at the end of 2006.

In the reporting period, the Group’s equity grew by 35.1 million kroons (2.2 million euros) to 339.3 million kroons (21.7 million euros). The equity structure changed in connection with a bonus issue performed to increase share capital at the expense of retained earnings and share premium. As a result of the bonus issue, share capital increased by 124.3 million kroons (7.9 million euros) to 186.4 million kroons (11.9 million euros).

INVESTMENTS

In 2007, the Group's investments totalled 102.9 million kroons (6.6 million euros). The corresponding figure for 2006 was 130.4 million kroons (8.3 million euros).

Investments in the retail system and information technology amounted to 69.9 million kroons (4.5 million euros) and 13.6 million kroons (0.8 million euros) respectively while investments in manufacturing totalled 12.8 million kroons (0.8 million euros). Repurchase of the 50% share in joint venture OÜ Baltika Tailor cost 5.6 million kroons (0.4 million euros). Investments in other fixed assets amounted to 1.0 million kroons (0.1 million euros).

MANUFACTURING

At the end of 2007, Baltika Group included two manufacturing companies: OÜ Baltika Tailor (100%) and AS Virulane (82.66%). In 2007 Baltika continued tightening control over its manufacturing operations and combined two entities – OÜ Baltika Tailor and AS Elina. Manufacturing characterised by high quality, flexibility and prompt response to new requirements is an important part of the vertical business model of Baltika Group which is otherwise focused on the retail business.

In autumn 2007, the new sewing factory of Baltika Tailor was completed. Owing to its special design, the state of the art factory is the most modern sewing facility in the Baltics. The sewing factory was the last part of the Group's manufacturing and logistics operations which was transferred from Tallinn's city centre to Lasnamäe Industrial Park in the suburbs of Tallinn. Previously, in the summer of 2006, a new higher-capacity logistics centre was opened in the new location. The new complex where logistics and manufacturing and connected allows Baltika to respond to changes in market demand with greater speed and efficiency.

PERSONNEL

At the end of 2007, Baltika Group employed 1,983 (31 December 2006: 1,915) people, including 986 (857) in the retail system, 773 (866) in manufacturing and 224 (192) at the head office. During the year, the number of employees grew by 68. The largest growth occurred in the retail system (+129). The number of people employed in manufacturing, on the other hand, declined in connection with the launch of the new factory and the restructuring of manufacturing operations. The period's average number of employees was 1,982 (2006: 1,777).

At the end of 2007, 40% of the Group's employees were working outside Estonia. The proportion of people employed in Estonia is higher because the head office and manufacturing facilities are located here.

The Group's employee remuneration expenses for 2007 totalled 200.1 million kroons (12.8 million euros). The remuneration of members of the supervisory council and management board amounted to 4.8 million kroons (0.3 million euros).

OUTLOOK AND GOALS FOR 2008

The year 2008 is the last one in Baltika's three-year strategy period aimed at achieving rapid and profitable growth. At the beginning of 2006, the following financial targets were set for 2008:

- a two-fold increase on the sales of 2005, i.e. revenue of 1.36 billion kroons (87 million euros);
- gross margin at least 52%;
- return on equity at least 30%.

Other keywords of 2008 are efficiency improvement, especially in large markets such as Russia and Ukraine, restoring rapid growth in the retail system in the second half of the year, and real estate development. Because of the company's current development phase, the year may be divided into two parts which have the following goals and prospects:

1) Sales and sales area
- The main objectives of the first half-year are to improve sales efficiency and to streamline the store portfolio. Around five to six stores will be opened and closed so that at the end of the period the number of stores will remain similar to the end of 2007. Retail revenues are expected to increase by 10-12% whereas wholesale revenues should decline by 15-20% yoy.
- In the second half of the year, rapid retail growth should be restored: the Group intends to open 14-18 stores, retail revenues should grow at the rate of 20-25% and wholesale revenues should remain at the level of the prior year.

- The revenue target for 2008 is 1.3 billion kroons (83 million euros), up 13%, which practically corresponds to the target set in 2006.
- At the end of 2008, the number of stores will be 140-145. Although the figure does not comply with the target (160+), the new stores have a larger format than planned at the beginning of 2006 and the 2008 year-end sales area with its approximately 28,000 square metres corresponds to the Group's target.
- While continuing expansion in Central and Eastern Europe, the Group will prepare for the penetration of new markets.

2) Profitability
- The gross margin reached the targeted level (54.5%) in 2006 and continued rising in 2007 (55.3%). The Group will focus on improving the margin in a situation where input prices are on the rise owing to an increase in raw materials prices and logistics expenses.
- Due to slower than expected development in the second half of 2007 and the first half of 2008, in the core business the targeted return on equity can not be achieved.

3) Real estate development
- In 2008, the Group began developing its city centre property at Veerenni 24, Tallinn. In phase I, which should be completed in May 2009, the former factory building will be transformed into a business centre with approximately 10,000 square metres of office, commercial and service space. Baltika will occupy up to 4,500 square metres of the new centre for its head office and retail premises. The rest of the space as well as Baltika's current head office will be let. The company expects to earn income in connection with an increase in the value of the property.

4) Investments
- According to plan, in 2008 the largest investments will be made in the development of phase I in Baltika's business centre, the opening of new stores and the increase of inventories.

REPORTING CALENDAR IN 2008

In 2008, the consolidated financial results of AS Baltika will be published on the following dates:

2007 audited annual report	March 26
2008 Q1 results	April 24
2008 Q2 results	July 24
2008 Q3 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 (2007)

	31.12.2007	**31.12.2006**	**+/-**
Net sales (EEK million)	1,151.5	899.5	28.0%
Retail sales (EEK million)	987.3	736.4	34.1%
Share of retail sales in net sales	86%	82%	
Number of directly managed stores	128	112	14.3%
Sales area (m^2)	24,290	19,594	24.0%
Number of employees (end of period)	1,983	1,915	3.6%
Gross margin	55.3%	54.5%	
Operating margin	5.6%	10.8%	
EBT margin	4.6%	10.1%	
Net margin	3.5%	9.7%	
Current ratio	1.6	1.5	6.7%
Inventory turnover	5.3	5.38	-1.5%
Debt to equity ratio	54.4%	48.5%	
Return on equity	13.1%	35.9%	
Return on assets	6.5%	18.3%	

EUR 1 = EEK 15.6466

Definitions of 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
Return on equity (ROE) = Net profit (attributable to parent)/Average equity*
Return on assets (ROA) = 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 of 2007 as presented on pages 14-42.

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
26 February 2008

Ülle Järv
Member of the management board
26 February 2008

Boriss Loffenfeld
Member of the management board
26 February 2008

Maire Milder
Member of the management board
26 February 2008

CONSOLIDATED BALANCE SHEET
(unaudited, in EEK thousand)

	Note	31.12.2007	31.12.2006
ASSETS			
Current assets			
Cash and bank	3	31,494	12,584
Trade receivables	4	71,148	86,402
Other receivables and prepaid expenses	5,6	42,415	42,069
Inventories	7	220,698	200,702
Non-current assets available for sale	10	500	0
Total current assets		**366,255**	**341,757**
Non-current assets			
Investment property	8	11,250	23,572
Deferred income tax asset		5,897	4,462
Other non-current financial assets	9	11,448	11,077
Property, plant and equipment	10	203,098	166,448
Intangible assets	11	58,409	49,074
Total non-current assets		**290,102**	**254,633**
TOTAL ASSETS		**656,357**	**596,390**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	12,13	100,167	88,179
Supplier payables		72,345	96,535
Tax liabilities	6	33,065	23,006
Accrued expenses	14	22,857	18,174
Other short-term liabilities	14	1,097	7,022
Total current liabilities		**229,531**	**232,916**
Non-current liabilities			
Long-term borrowings	12	84,331	59,234
Other long-term liabilities		1,074	0
Deferred income tax liability		2,075	0
Total non-current liabilities		**87,480**	**59,234**
TOTAL LIABILITIES		**317,011**	**292,150**
EQUITY			
Share capital at par value		186,449	62,150
Share premium		0	59,088
Reserves		26,133	9,721
Retained earnings		67,949	73,521
Net profit for the period		40,773	87,376
Currency translation reserve		8,131	4,319
Total equity attributable to equity holders of the parent		**329,435**	**296,175**
Minority interest		9,911	8,065
TOTAL EQUITY	15	**339,346**	**304,240**
TOTAL LIABILITIES AND EQUITY		**656,357**	**596,390**

CONSOLIDATED BALANCE SHEET
(unaudited, in EUR thousand)

	Note	31.12.2007	31.12.2006
ASSETS			
Current assets			
Cash and bank	3	2,013	804
Trade receivables	4	4,547	5,522
Other receivables and prepaid expenses	5,6	2,711	2,689
Inventories	7	14,105	12,827
Non-current assets available for sale	10	32	0
Total current assets		**23,408**	**21,842**
Non-current assets			
Investment property	8	719	1,507
Deferred income tax asset		377	285
Other non-current financial assets	9	732	708
Property, plant and equipment	10	12,980	10,638
Intangible assets	11	3,733	3,136
Total non-current assets		**18,541**	**16,274**
TOTAL ASSETS		**41,949**	**38,116**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	12,13	6,402	5,636
Supplier payables		4,624	6,170
Tax liabilities	6	2,113	1,470
Accrued expenses	14	1,461	1,162
Other short-term liabilities	14	70	449
Total current liabilities		**14,670**	**14,886**
Non-current liabilities			
Long-term borrowings	12	5,390	3,786
Other long-term liabilities		69	0
Deferred income tax liability		133	0
Total non-current liabilities		**5,591**	**3,786**
TOTAL LIABILITIES		**20,261**	**18,672**
EQUITY			
Share capital at par value		11,916	3,972
Share premium		0	3,776
Reserves		1,670	621
Retained earnings		4,343	4,699
Net profit for the period		2,606	5,584
Currency translation reserve		520	276
Total equity attributable to equity holders of the parent		**21,055**	**18,929**
Minority interest		633	515
TOTAL EQUITY	15	**21,688**	**19,444**
TOTAL LIABILITIES AND EQUITY		**41,949**	**38,116**

CONSOLIDATED INCOME STATEMENT
(unaudited, in EEK thousand)

	Note	Q4 2007	Q4 2006	2007	2006
Net sales	17	307,421	281,164	1,151,520	899,481
Cost of goods sold	18	-128,816	-119,869	-514,839	-408,919
Gross profit		**178,605**	**161,295**	**636,681**	**490,562**
Distribution costs	19	-143,016	-115,433	-522,620	-350,471
Administrative and general expenses	20	-21,597	-11,642	-60,911	-48,334
Other operating income	21	2,904	4,873	25,219	12,482
Other operating expenses	22	-6,707	-2,701	-13,815	-6,907
Operating profit		**10,189**	**36,392**	**64,554**	**97,332**
Financial income (expenses)		**-3,587**	**-4,753**	**-11,523**	**-6,037**
Share of joint venture results		0	0	0	-234
Gains from other investments, net		0	-1,568	0	322
Interest expenses, net		-2,579	-1,846	-9,049	-5,730
Foreign exchange gains, net		-1,000	-1,346	-2,389	-863
Other financial expenses, net		-8	7	-85	468
Profit before income tax		**6,602**	**31,639**	**53,031**	**91,295**
Income tax		-4,277	-244	-9,189	-3,136
Net profit		**2,325**	**31,395**	**43,842**	**88,159**
Net profit attributable to equity holders of the parent company		**1,643**	**31,075**	**40,773**	**87,376**
Net profit (loss) attributable to minority shareholders		682	320	3,069	783
Basic earnings per share, EEK	23	0.09	1.69	2.19	4.85
Diluted earnings per share, EEK	23	0.09	1.67	2.19	4.71

CONSOLIDATED INCOME STATEMENT
(unaudited, in EUR thousand)

	Note	Q4 2007	Q4 2006	2007	2006
Net sales	17	19,648	17,970	73,596	57,487
Cost of goods sold	18	-8,233	-7,661	-32,904	-26,135
Gross profit		**11,415**	**10,309**	**40,691**	**31,353**
Distribution costs	19	-9,140	-7,378	-33,402	-22,399
Administrative and general expenses	20	-1,380	-744	-3,893	-3,089
Other operating income	21	186	311	1,612	798
Other operating expenses	22	-429	-173	-883	-441
Operating profit		**651**	**2,326**	**4,126**	**6,221**
Financial income (expenses)		**-229**	**-304**	**-736**	**-386**
Share of joint venture results		0	0	0	-15
Gains from other investments, net		0	-100	0	21
Interest expenses, net		-165	-118	-578	-366
Foreign exchange gains, net		-64	-86	-153	-55
Other financial expenses, net		-1	0	-5	30
Profit before income tax		**422**	**2,022**	**3,389**	**5,835**
Income tax		-273	-16	-587	-200
Net profit		**149**	**2,007**	**2,802**	**5,634**
Net profit attributable to equity holders of the parent company		**105**	**1,987**	**2,606**	**5,584**
Net profit (loss) attributable to minority shareholders		44	19	196	50
Basic earnings per share, EUR	23	0.01	0.11	0.14	0.31
Diluted earnings per share, EUR	23	0.01	0.11	0.14	0.30

CONSOLIDATED CASH FLOW STATEMENT

(unaudited, in EEK thousand)

	Note	2007	2006
Operating activities			
Operating profit		64,554	97,332
Adjustments:			
Depreciation, amortisation and impairment of property, plant and equipment, intangibles	9,10	39,832	26,158
Profit (loss) from disposal of property, plant and equipment		-13,799	1,236
Profit (loss) from disposal of investment property		0	-7,513
Revaluation of investment property	8,21	-8,893	-4,380
Other non-monetary expenses		7,080	315
Changes in working capital:			
Change in balance of receivables		6,720	-66,717
Change in balance of inventories	7	-19,996	-56,243
Change in supplier payables		-10,176	53,422
Interest paid		-7,501	-5,537
Income tax paid		-4,089	-7,846
Total cash flow from operating activities		**53,732**	**30,227**
Investing activities			
Purchase of property, plant and equipment, intangibles	9,10	-101,946	-104,176
Thereof under the finance lease terms		6,581	5,804
Thereof within business combinations		4,647	-11,667
Proceeds from disposal of property, plant and equipment		50,463	435
Proceeds from disposal of investment property		0	11,055
Investments in subsidiaries	24	-5,699	-786
Interest received		184	89
Dividend received		0	15
Proceeds from disposal of current financial assets		0	2,131
Repayments of loans granted		0	352
Total cash flow from investing activities		**-45,770**	**-96,748**
Financing activities			
Received borrowings	11	50,628	22,517
Repayments of borrowings	11	-25,712	-12,695
Change in bank overdraft	11	15,524	31,911
Finance lease and installment payments made		-9,216	-1,236
Receipts from contributions into share capital		0	12,791
Dividends paid	15	-14,910	-12,020
Redemption of bonds	12	-31,500	-17,500
Proceeds from issue of bonds	12	28,523	30,239
Total cash flow from financing activities		**13,337**	**54,007**
Effect of exchange rate changes on cash balance		-2,389	-863
Total cash flows		**18,910**	**-13,377**
Cash and cash equivalents at the beginning of the period	3	**12,584**	**25,961**
Cash and cash equivalents at the end of the period	3	**31,494**	**12,584**
Change in cash and cash equivalents		**18,910**	**-13,377**

CONSOLIDATED CASH FLOW STATEMENT
(unaudited, in EUR thousand)

	Note	2007	2006
Operating activities			
Operating profit		4,126	6,221
Adjustments:			
Depreciation, amortisation and impairment of property, plant and equipment, intangibles	9,10	2,546	1,672
Profit (loss) from disposal of property, plant and equipment		-882	79
Profit (loss) from disposal of investment property		0	-480
Revaluation of investment property	8,21	-568	-280
Other non-monetary expenses		452	20
Changes in working capital:			
Change in balance of receivables		429	-4,264
Change in balance of inventories	7	-1,278	-3,595
Change in supplier payables		-650	3,414
Interest paid		-479	-354
Income tax paid		-261	-501
Total cash flow from operating activities		**3,434**	**1,932**
Investing activities			
Purchase of property, plant and equipment, intangibles	9,10	-6,515	-6,658
Thereof under the finance lease terms		421	371
Thereof within business combinations		297	-746
Proceeds from disposal of property, plant and equipment		3,225	28
Proceeds from disposal of investment property		0	707
Investments in subsidiaries	24	-364	-50
Interest received		12	6
Dividend received		0	1
Proceeds from disposal of current financial assets		0	136
Repayments of loans granted		0	22
Total cash flow from investing activities		**-2,925**	**-6,182**
Financing activities			
Received borrowings	11	3,236	1,439
Repayments of borrowings	11	-1,643	-811
Change in bank overdraft	11	992	2,039
Finance lease and installment payments made		-589	-79
Receipts from contributions into share capital		0	817
Dividends paid	15	-953	-768
Redemption of bonds	12	-2,013	-1,118
Proceeds from issue of bonds	12	1,823	1,933
Total cash flow from financing activities		**852**	**3,452**
Effect of exchange rate changes on cash balance		-153	-55
Total cash flows		**1,210**	**-855**
Cash and cash equivalents at the beginning of the period	3	**804**	**1,659**
Cash and cash equivalents at the end of the period	3	**2,013**	**804**
Change in cash and cash equivalents		**1,210**	**-855**

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

	Share capital	Share premium	Reserves	Retained earnings	Currency translation reserve	Total attributable to equity holders	Minority interest	Total
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 income (expense) recognised directly in equity	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 recognised income (expense)	**0**	**0**	**0**	**87,376**	**188**	**87,564**	**776**	**88,340**
Equity-settled share-based transactions	0	315	0	0	0	315	0	315
Dividends paid	0	0	0	-12,031	0	-12,031	0	-12,031
Transfers to statutory reserve capital	0	0	189	-189	0	0	0	0
Increase of share capital	3,920	9,083	0	0	0	13,003	0	13,003
Acquisition of 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**
Balance as of 31.12.2006	**62,150**	**59,088**	**9,721**	**160,897**	**4,319**	**296,175**	**8,065**	**304,240**
Currency translation differences	0	0	0	0	3,812	3,812	14	3,826
Net income (expense) recognised directly in equity	0	0	0	0	3,812	3,812	14	3,826
Net profit for the period	0	0	0	40,773	0	40,773	3,069	43,842
Total recognised income (expense)	**0**	**0**	**0**	**40,773**	**3,812**	**44,585**	**3,083**	**47,668**
Dividends paid	0	0	0	-14,916	0	-14,916	0	-14,916
Transfers to statutory reserve capital	0	0	12,822	-12,822	0	0	0	0
Increase of share capital	124,299	-59,088	0	-65,211	0	0	0	0
Revaluation reserve of investment property	0	0	3,590	0	0	3,590	0	3,590
Acquisition of minority interest	0	0	0	0	0	0	-1,237	-1,237
Balance as of 31.12.2007	**186,449**	**0**	**26,133**	**108,722**	**8,131**	**329,435**	**9,911**	**339,346**

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 31.12.2005	**3,722**	**3,176**	**609**	**5,480**	**264**	**13,251**	**40**	**13,291**
Currency translation differences	0	0	0	0	12	**12**	0	11
Net income (expense) recognised directly in equity	0	0	0	0	12	**12**	0	11
Net profit for the period	0	0	0	5,584	0	**5,584**	50	5,634
Total recognised income (expense)	**0**	**0**	**0**	**5,584**	**12**	**5,596**	**50**	**5,645**
Equity-settled share-based transactions	0	20	0	0	0	**20**	0	20
Dividends paid	0	0	0	-769	0	**-769**	0	-769
Transfers to statutory reserve capital	0	0	12	-12	0	**0**	0	0
Increase of share capital	251	581	0	0	0	**831**	0	831
Acquisition of 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**
Balance as of 31.12.2006	**3,972**	**3,776**	**621**	**10,283**	**276**	**18,930**	**515**	**19,445**
Currency translation differences	0	0	0	0	244	**244**	1	245
Net income (expense) recognised directly in equity	0	0	0	0	244	**244**	1	245
Net profit for the period	0	0	0	2,606	0	**2,606**	196	2,802
Total recognised income (expense)	**0**	**0**	**0**	**2,606**	**244**	**2,849**	**198**	**3,047**
Dividends paid	0	0	0	-953	0	**-953**	0	-953
Transfers to statutory reserve capital	0	0	819	-819	0	**0**	0	0
Increase of share capital	7,944	-3,776	0	-4,168	0	**0**	0	0
Revaluation reserve of investment property	0	0	229	0	0	**229**	0	229
Acquisition of minority interest	0	0	0	0	0	**0**	-79	-79
Balance as of 31.12.2007	**11,916**	**0**	**1,670**	**6,949**	**520**	**21,055**	**633**	**21,688**

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 of 2007 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 2006. The financial statements have been prepared under the historical cost convention, as modified by the revaluations of investment property, which are presented at fair value as disclosed in the accounting policies presented in the 2006 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 EUR 1 = EEK 15.6466.

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 risk management, which 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 (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit, operational 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. Although the management of the parent company is responsible for managing risks and approving risk procedures, 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 in 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 a marketing organisation in each target market enabling the Group to obtain fast and direct feedback on market developments on the one hand and adequately consider local condition on the other.

As improvement of flexibility plays an important role in increasing the Group'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 consumer expectations.

Foreign exchange risk

Exports constitute 74% of the sales of Baltika Group. The major currencies for exports at the Group's retail markets are LTL (Lithuanian lit), LVL (Latvian lat), UAH (Ukrainian hryvnia), PLN (Polish zloty), RUR (Russian rouble); the Group's other currencies are EUR (euro), GBP (British pound). 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 Group'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 USD 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, and Poland). On the other hand, the weakening of the dollar has a positive impact on importing from the countries (China, Japan, Korea) 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 the following: Polish zloty +2.96% (2006: +3.29%), Ukrainian hryvnia -8.10% (2006: +0.13%), Russian rouble -2.53% (2006: +3.13%) and Latvian lat -0.55% (2006: +0.00%). The Lithuanian lit is fixed to EUR and has therefore no impact on the Group's results.

No separate instruments were used for hedging foreign currency risks in 2007. The Group mostly uses the euro to settle the accounts with its subsidiaries located in foreign markets; for the Polish subsidiary, accounts are settled in zlotys and since October 2005, accounts are settled in roubles with the Russian subsidiary.

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

Credit and liquidity risks

Credit risk is a potential loss that would occur by the balance sheet date if the contract parties did not meet their obligations. The Group is exposed to credit risk to the extent of solvency of its business partner in Russia. There are no collaterals for receivables in the balance sheet. Credit risks arising from the Group's seasonal production and sales cycle are not permanent.

As of the balance sheet date, the maximum credit risk is 71,148 thousand kroons/4,547 thousand euros (31 December 2006: 86,402 thousand kroons/5,522 thousand euros), including credit risk of the Russian wholesale partner of 42,458 thousand kroons/2,714 thousand euros (31 December 2006: 49,044 thousand kroons/3,134 thousand euros). Russia's credit risk is related to one customer, who was also a minority shareholder of Baltman Rus until April 2006.

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

Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value 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. During 2007 and 2006, the Group's long-term borrowings at variable rate were denominated in EUR, therefore no currency risk is assumed.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. No separate financial instruments have been used to manage the interest rate risk during neither the current reporting period nor the comparable period.

Operational risk

The most important operating risk arises from the Group's inability to produce collections which would meet customer expectations and the goods that cannot be sold when expected and as budgeted. Another important risk is that the Group's information technology system is unable to ensure sufficiently fast and accurate transmission of information for decision-making purposes. In 2006, one more risk has been identified resulting from later than planned openings of shopping centres that might lead to excessive inventories.

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 balance of inventories and using the information in subsequent activities. In order to upgrade information systems, the transition to the integrated system encompassing several areas of operations has been initiated in 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	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Cash in hand	3,425	3,879	219	248
Cash at bank	19,113	8,705	1,222	556
Short-term deposits	8,956	0	572	0
Total	**31,494**	**12,584**	**2,013**	**804**

NOTE 4 Trade receivables

	EEK '000		EUR '000	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Accounts receivable	73,786	87,710	4,716	5,606
Allowance for impairment of trade receivables	-2,638	-1,308	-169	-84
Total	**71,148**	**86,402**	**4,547**	**5,522**

NOTE 5 Other receivables and prepaid expenses

	EEK '000		EUR '000	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Other current receivables	3,958	9,065	253	579
Tax prepayments and tax reclaims	15,649	14,356	1,000	918
Prepaid expenses	22,808	18,648	1,458	1,192
Total	**42,415**	**42,069**	**2,711**	**2,689**

NOTE 6 Tax receivables and tax liabilities

Tax receivables (prepayments)

	EEK '000		EUR '000	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Value added tax	15,490	13,260	990	847
Prepaid income tax	97	978	6	63
Other taxes	62	118	4	8
Total	**15,649**	**14,356**	**1,000**	**918**

Tax liabilities

	EEK '000		EUR '000	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Personal income tax	5,156	3,895	330	249
Social security tax	10,576	7,444	676	476
Value added tax	12,319	10,565	787	675
Income tax	3,985	406	255	26
Other taxes	1,029	696	66	44
Total	**33,065**	**23,006**	**2,113**	**1,470**

NOTE 7 Inventories

	EEK '000		EUR '000	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Raw materials and materials	47,695	71,239	3,048	4,552
Impairment of raw materials	-200	-524	-13	-33
Work-in-progress	4,419	2,293	282	147
Finished goods and goods purchased for resale	163,708	129,335	10,463	8,265
Impairment of finished goods and goods purchased for resale	-1,600	-2,807	-102	-179
Prepayments to suppliers	6,676	1,166	427	75
Total	**220,698**	**200,702**	**14,105**	**12,827**

As of 31 December 2007, the inventories of the Group with the carrying amount of 1,391 thousand kroons/89 thousand euros (31 December 2006: 3,191 thousand kroons/204 thousand euros) were in the custody of third parties.

NOTE 8 Investment property

	EEK '000	EUR '000
Balance as of 31.12.2005	**27,193**	**1,738**
Disposals	-8,001	-511
Revaluation	4,379	280
Balance as of 31.12.2006	**23,572**	**1,507**
Balance as of 31.12.2006	**23,572**	**1,507**
Reclassification from fixed assets	909	58
Revaluation	12,483	797
Reclassification to fixed assets	-25,715	-1,643
Balance as of 31.12.2007	**11,250**	**719**

As of 31 December 2006, the investment property consisted of the production facility located at Veerenni 24, leased to the joint venture and carried at fair value of 23,572 thousand kroons/1,507 thousand euros. Within the reporting period, the investment property has been revalued and the revaluation gain of 2,143 thousand kroons/137 thousand euros recognised in income statement under other operating income (Note 21).

Due to the acquisition of 100% ownership in joint venture and the start of the development project of Veerenni 24, the production facility recognised under investment property has been reclassified as construction in progress. The facility was carried at fair value of 25 715 thousand kroons/1 643 thousand euros before the transfer to fixed assets.

4,500 m^2 of land located at Veerenni 24 was reclassified from owner-occupied non-current assets to investment property. As of 31 December 2007, the land has been presented at fair value of 11,250 thousand kroons/719 thousand euros. Following the reclassification, the land was recognised at fair value and the resulting increase in value of 3,590 thousand kroons/229 thousand euros recognised in owners' equity under revaluation reserve

(Note 15). Further revaluation gain of 6,750 thousand kroons/431 thousand euros was recognised in income statement under other operating income (Note 21).

NOTE 9 Other non-current financial assets

	EEK '000		EUR '000	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Loan receivable from joint venture	0	1,359	0	87
Long-term prepayments for rent	11,448	9,718	732	621
Total	**11,448**	**11,077**	**732**	**708**

NOTE 10 Property, plant and equipment

The Group's investments in property, plant and equipment during the reporting period amounted to 90,356 thousand kroons/5,775 thousand euros (2006: 102,385 thousand kroons/6,543 thousand euros), thereof within business combinations to 4,505 thousand kroons/288 thousand euros (2006: 882 thousand kroons/56 thousand euros).

Investments in retail operations totalled 69,887 thousand kroons/4,467 thousand euros (2006: 62,163 thousand kroons/3,973 thousand euros). Investments in the amount of 17,314 thousand kroons/1,107 thousand euros (2006: 4,080 thousand kroons/261 thousand euros) were made in production related assets and in the amount of 2,169 thousand kroons/139 thousand euros (2006: 1,877 thousand kroons/120 thousand euros) in information technology. Investments in other equipments amounted to 986 thousand kroons/62 thousand euros (2006: 451 thousand kroons/29 thousand euros). In 2006, the Group invested additionally 33,814 thousand kroons/2,160 thousand euros in the construction of the new logistics centre.

In March 2007, the Group sold the construction rights and the logistics centre located in Lasnamäe Industrial Park. At the same time, the Group signed a lease agreement with the purchaser to rent the logistics centre over the ten year lease period. The transaction price was 50,186 thousand kroons/3,207 thousand euros and gain from sales amounted to 16,210 thousand kroons/1,036 thousand euros.

The storage facility located at Veerenni 24 was transferred to non-current assets available for sale. Impairment loss from revaluation into fair value of 1,318 thousand kroons/84 thousand euros was recognised in income statement under other operating expenses (Note 22).

For reclassifications from and to investment property see Note 8.

Movement of property, plant and equipment of the Group

EEK '000	Land	Buildings, structures	Machinery, equipment	Other fixtures	Constr. in progress	Pre-payments	Total
31.12.2005							
Acquisition cost	**10,973**	**74,005**	**71,321**	**51,440**	**2,009**	**3,305**	**213,053**
Accumulated depreciation	0	-27,516	-64,299	-33,149	0	0	-124,964
Net book amount	**10,973**	**46,489**	**7,022**	**18,291**	**2,009**	**3,305**	**88,089**
Additions	0	43,104	7,195	48,342	1,448	1,414	101,503
Acquired within business combinations	0	0	0	882	0	0	882
Disposals	0	-615	-236	-822	0	0	-1,673
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
31.12.2006							
Acquisition cost	**10,973**	**116,708**	**78,982**	**94,154**	**1,605**	**1,552**	**303,974**
Accumulated depreciation	0	-31,667	-68,899	-36,960	0	0	-137,526
Net book amount	**10,973**	**85,041**	**10,083**	**57,194**	**1,605**	**1,552**	**166,448**

31.12.2006							
Acquisition cost	**10,973**	**116,708**	**78,982**	**94,154**	**1,605**	**1,552**	**303,974**
Accumulated depreciation	0	-31,667	-68,899	-36,960	0	0	-137,526
Net book amount	**10,973**	**85,041**	**10,083**	**57,194**	**1,605**	**1,552**	**166,448**
Additions	0	29,528	19,826	35,472	920	105	85,851
Acquired within business combinations	0	0	4,280	0	0	225	4,505
Disposals	-7,969	-32,973	-13	-6	-181	0	-41,142
Reclassifications from investment property	0	0	0	0	25,715	0	25,715
Reclassifications to investment property	-891	-18	0	0	0	0	-909
Reclassifications to non-current assets available for sale	0	-1,818	0	0	0	0	-1,818
Reclassification	0	8,643	-533	-6,528	-1,140	-442	0
Depreciation	0	-12,093	-5,365	-15,603	0	0	-33,061
Currency translation differences	0	-620	-180	-1,573	-40	-78	-2,491
31.12.2007							
Acquisition cost	**2,113**	**113,430**	**98,437**	**116,685**	**26,879**	**1,362**	**358,906**
Accumulated depreciation	0	-37,740	-70,339	-47,729	0	0	-155,808
Net book amount	**2,113**	**75,690**	**28,098**	**68,956**	**26,879**	**1,362**	**203,098**

EUR '000	**Land**	**Buildings, structures**	**Machinery, equipment**	**Other fixtures**	**Constr. in progress**	**Pre-payments**	**Total**
31.12.2005							
Acquisition cost	**701**	**4,730**	**4,559**	**3,288**	**128**	**211**	**13,617**
Accumulated depreciation	0	-1,759	-4,109	-2,119	0	0	-7,987
Net book amount	**701**	**2,971**	**450**	**1,169**	**128**	**211**	**5,630**
Additions	0	2,755	460	3,090	93	90	6,487
Acquired within business combinations	0	0	0	56	0	0	56
Disposals	0	-39	-15	-53	0	0	-107
Reclassification	0	243	4	67	-115	-199	0
Depreciation	0	-463	-248	-616	0	0	-1,327
Currency translation differences	0	-31	-5	-59	-4	-3	-101
31.12.2006							
Acquisition cost	**701**	**7,459**	**5,048**	**6,018**	**103**	**99**	**19,427**
Accumulated depreciation	0	-2,024	-4,403	-2,362	0	0	-8,790
Net book amount	**701**	**5,435**	**644**	**3,655**	**103**	**99**	**10,638**
31.12.2006							
Acquisition cost	**701**	**7,459**	**5,048**	**6,018**	**103**	**99**	**19,427**
Accumulated depreciation	0	-2,024	-4,403	-2,362	0	0	-8,790
Net book amount	**701**	**5,435**	**644**	**3,655**	**103**	**99**	**10,638**
Additions	0	1,887	1,267	2,267	59	7	5,487
Acquired within business combinations	0	0	274	0	0	14	288
Disposals	-509	-2,107	-1	0	-12	0	-2,629

Reclassifications from investment property	0	0	0	0	1,643	0	1,643
Reclassifications to investment property	-57	-1	0	0	0	0	-58
Reclassifications to non-current assets available for sale	0	-116	0	0	0	0	-116
Reclassification	0	552	-34	-417	-73	-28	0
Depreciation	0	-773	-343	-997	0	0	-2,113
Currency translation differences	0	-40	-12	-101	-3	-5	-159
31.12.2007							
Acquisition cost	**135**	**7,249**	**6,291**	**7,458**	**1,718**	**87**	**22,938**
Accumulated depreciation	0	-2,412	-4,495	-3,050	0	0	-9,958
Net book amount	**135**	**4,837**	**1,796**	**4,407**	**1,718**	**87**	**12,980**

NOTE 11 Intangible assets

The investments in development of information systems in 2007 amounted to 11,448 thousand kroons/732 thousand euros (2006: 8,330 thousand kroons/532 thousand euros).

Intangible assets in the amount of 5,696 thousand kroons/364 thousand euros were acquired within business combinations including the goodwill of 5,555 thousand kroons/355 thousand euros (Note 25). In 2006, the investments within business combinations amounted to 19,719 thousand kroons/1,260 thousand euros including the goodwill of 6,326 thousand kroons/404 thousand euros.

Movement of intangible assets of the Group

EEK '000	**Licenses, software and other**	**Trade-marks**	**Pre-payments**	**Goodwill**	**Total**
31.12.2005					
Acquisition cost	**21,125**	**0**	**0**	**14,129**	**35,254**
Accumulated amortisation	-8,763	0	0	0	-8,763
Net book amount	**12,362**	**0**	**0**	**14,129**	**26,491**
Additions	6,871	0	1,459	0	8,330
Acquired within business combinations	3,333	10,060	0	6,326	19,719
Disposals	-26	0	0	0	-26
Amortisation	-5,346	-45	0	0	-5,391
Currency translation differences	-8	0	-9	-32	-49
31.12.2006					
Acquisition cost	**31,114**	**10,060**	**1,450**	**20,423**	**63,047**
Accumulated amortisation	-13,928	-45	0	0	-13,973
Net book amount	**17,186**	**10,015**	**1,450**	**20,423**	**49,074**
31.12.2006					
Acquisition cost	**31,114**	**10,060**	**1,450**	**20,423**	**63,047**
Accumulated amortisation	-13,928	-45	0	0	-13,973
Net book amount	**17,186**	**10,015**	**1,450**	**20,423**	**49,074**

Additions	11,448	0	0	0	11,448
Acquired within business combinations	141	0	0	5,555	5,696
Disposals	-261	0	0	0	-261
Reclassification	66	0	-66	0	0
Amortisation	-6,144	-626	0	0	-6,770
Currency translation differences	9	0	-43	-744	-778
31.12.2007					
Acquisition cost	**32,549**	**10,060**	**1,341**	**25,234**	**69,184**
Accumulated amortisation	-10,104	-671	0	0	-10,775
Net book amount	**22,445**	**9,389**	**1,341**	**25,234**	**58,409**

EUR '000	**Licenses, software and other**	**Trade-marks**	**Pre-payments**	**Goodwill**	**Total**
31.12.2005					
Acquisition cost	**1,350**	**0**	**0**	**903**	**2,253**
Accumulated amortisation	-560	0	0	0	-560
Net book amount	**790**	**0**	**0**	**903**	**1,694**
Additions	439	0	93	0	532
Acquired within business combinations	213	643	0	404	1,260
Disposals	-2	0	0	0	
Amortisation	-342	-3	0	0	-345
Currency translation differences	-1	0	-1	-2	-3
31.12.2006					
Acquisition cost	**1,989**	**643**	**93**	**1,305**	**4,029**
Accumulated amortisation	-890	-3	0	0	-893
Net book amount	**1,098**	**640**	**93**	**1,305**	**3,136**
31.12.2006					
Acquisition cost	**1,988**	**643**	**93**	**1,305**	**4,029**
Accumulated amortisation	-890	-3	0	0	-893
Net book amount	**1,098**	**640**	**93**	**1,305**	**3,136**
Additions	732	0	0	0	732
Acquired within business combinations	9	0	0	355	364
Disposals	-17	0	0	0	-17
Reclassification	4	0	-4	0	0
Amortisation	-393	-40	0	0	-433
Currency translation differences	1	0	-3	-48	-50
31.12.2007					
Acquisition cost	**2,080**	**643**	**86**	**1,613**	**4,422**
Accumulated amortisation	-646	-43	0	0	-689
Net book amount	**1,434**	**600**	**86**	**1,613**	**3,733**

NOTE 12 Borrowings

	EEK '000		EUR '000	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Short-term borrowings				
Current portion of long-term bank loans	20,733	13,946	1,325	891
Short-term bank loans	47,435	41,911	3,032	2,679
Short-term finance lease liabilities	2,302	1,149	147	73
Bonds	29,697	31,173	1,898	1,993
Total	**100,167**	**88,179**	**6,402**	**5,636**
Long-term borrowings				
Long-term bank loans	77,288	49,160	4,940	3,142
Long-term finance lease liabilities	7,031	10,074	449	644
Other long-term liabilities	12	0	1	0
Total	**84,331**	**59,234**	**5,390**	**3,786**

In March 2007, the Group signed a loan contract with Hansapank with maximum credit exposure of 50,000 thousand kroons/3,196 thousand euros. The loan shall be fully repaid by March 2015.

During the reporting period, the Group made loan repayments in the amount of 25,712 thousand kroons/1,643 thousand euros (2006: 12,695 thousand kroons/811 thousand euros). Interest expense of the reporting period amounted to 6,960 thousand kroons/445 thousand euros (2006: 5,858 thousand kroons/374 thousand euros). Interest expenses have been recognised net with the corresponding income under interest expenses.

Bank loans of the Group as of 31 December 2007

EEK '000	**Balance as of 31.12.2007**	**Expiring within 1 year**	**Expiring within 1-5 years**	**Interest rate**
Nordea Pank	3,743	936	2,807	6 month Euribor+2.50%
Nordea Pank	1,250	833	417	3 month Euribor+2.50%
Hansapank	48,333	6,667	41,666	6 month Euribor+0.90%
Hansapank	2,143	2,143	0	6 month Euribor+2.35%
Hansapank	33,790	7,651	26,139	6 month Euribor+1.50%
Nordea Pank	8,762	2,503	6,259	3 month Euribor+1.00%
Hansapank (overdraft facility)	41,191	41,191	0	5.25%
Nordea Pank (overdraft facility)	6,244	6,244	0	6.85%
Total	**145,456**	**68,168**	**77,288**	

EUR '000	**Balance as of 31.12.2007**	**Expiring within 1 year**	**Expiring within 1-5 years**	**Interest rate**
Nordea Pank	239	60	179	6 month Euribor+2.50%
Nordea Pank	80	53	27	3 month Euribor+2.50%
Hansapank	3,089	426	2,663	6 month Euribor+0.90%
Hansapank	137	137	0	6 month Euribor+2.35%
Hansapank	2,160	489	1,671	6 month Euribor+1.50%
Nordea Pank	560	160	400	3 month Euribor+1.00%
Hansapank (overdraft facility)	2,633	2,633	0	5.25%
Nordea Pank (overdraft facility)	399	399	0	6.85%
Total	**9,297**	**4,357**	**4,940**	

Bank loans of the Group as of 31 December 2006

EEK '000	Balance as of 31.12.2006	Expiring within 1 year	Expiring within 1-5 years	Interest rate
Nordea Pank	4,678	936	3,742	6 month Euribor+2.50%
Nordea Pank	2,084	833	1,251	3 month Euribor+2.50%
Hansapank	40,793	7,531	33,262	6 month Euribor+1.50%
Hansapank	4,286	2,143	2,143	6 month Euribor+2.35%
Hansapank	10,000	10,000	0	4.25%
Nordea Pank	11,265	2,503	8,762	3 month Euribor+1.00%
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	Balance as of 31.12.2006	Expiring within 1 year	Expiring within 1-5 years	Interest rate
Nordea Pank	299	60	239	6 month Euribor+2.50%
Nordea Pank	133	53	80	3 month Euribor+2.50%
Hansapank	2,607	481	2,126	6 month Euribor+1.50%
Hansapank	274	137	137	6 month Euribor+2.35%
Hansapank	639	639	0	4.25%
Nordea Pank	720	160	560	3 month Euribor+1.00%
Hansapank (overdraft facility)	1,777	1,776	0	4.25%
Nordea Pank (overdraft facility)	263	262	0	5.30%
Total	**6,712**	**3,570**	**3,142**	

NOTE 13 Bonds

Closed issue of bonds

On 15 March 2007, AS Baltika issued 3,000 bonds with the nominal value of 10,000.00 kroons/639.12 euros and price of 9,517.51 kroons/608.28 euros per bond. The total amount of the closed bond issue was 30,000 thousand kroons/1,917 thousand euros. The redemption date of the bonds is 14 March 2008. The difference between the nominal value and issue price yields an interest of 5.0% per annum. The bonds are unsecured.

The proceeds were used to finance the redemption of the bond issues due on 16 March and 18 April 2007. The redemption value of the bond issues was 20,000 thousand kroons/1,278 thousand euros and 11,500 thousand kroons/735 thousand euros respectively.

Bonds as of 31 December 2007

	Quantity	Nominal (EEK)	Issue price (EEK)	Balance as of 31.12.2007 (EEK '000)	Interest rate	Maturity
Bonds	3,000	10,000	28,553	29,697	5.00%	14.03.2008
Total	**3,000**		**28,553**	**29,697**		

	Quantity	Nominal (EUR)	Issue price (EUR)	Balance as of 31.12.2007 (EUR '000)	Interest rate	Maturity
Bonds	3,000	639	1,825	1,898	5.00%	14.03.2008
Total	**3,000**		**1,825**	**1,898**		

Bonds as of 31 December 2006

	Quantity	Nominal (EEK)	Issue price (EEK)	Balance as of 31.12.2006 (EEK '000)	Interest rate	Maturity
Bonds	2,000	10,000	19,208	19,835	4.08%	16.03.2007
Bonds	1,150	10,000	11,111	11,338	4.60%	18.04.2007
Total	**3,150**		**30,319**	**31,173**		

	Quantity	Nominal (EUR)	Issue price (EUR)	Balance as of 31.12.2006 (EUR '000)	Interest rate	Maturity
Bonds	2,000	639	1,228	1,268	4.08%	16.03.2007
Bonds	1,150	639	710	725	4.60%	18.04.2007
Total	**3,150**		**1,938**	**1,993**		

NOTE 14 Accrued expenses and other short-term liabilities

	EEK '000		EUR '000	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
Payables to employees	22,152	17,250	1,416	1,102
Dividends payable	13	7	1	0
Interest payable	37	43	2	3
Other accrued expenses	655	874	42	57
Customer prepayments	1,096	392	70	25
Other short-term liabilities	1	6,630	0	424
Total	**23,954**	**25,196**	**1,531**	**1,611**

NOTE 15 Equity

Share capital

EEK '000	**31.12.2007**	**31.12.2006**
Share capital	186,449	62,150
Number of shares	18,644,850	6,214,950
Nominal value of shares (EEK)	10.00	10.00
Statutory reserve	18,645	5,823
Revaluation reserve	7,488	3,898

EUR '000	**31.12.2007**	**31.12.2006**
Share capital	11,916	3,972
Number of shares	18,644,850	6,214,950
Nominal value of shares (EUR)	0.64	0.64
Statutory reserve	1,192	372
Revaluation reserve	478	249

Under the articles of association, the Company’s minimum share capital is 100,000 thousand kroons/6,391 thousand euros and the maximum share capital is 400,000 kroons/25,565 thousand euros. All shares have been paid for.

According to the decision of the Annual General Meeting held on 21 May 2007, the share capital of AS Baltika was increased through a bonus issue by 124,299 thousand kroons/7,944 thousand euros (thereof 65,211 thousand kroons/4,168 thousand euros from retained earnings and 59,088 thousand kroons/3,776 thousand euros from share premium), 12,822 thousand kroons/819 thousand euros were transferred to statutory reserve and 14,916 thousand kroons/953 thousand euros distributed as dividends to the shareholders.

As a result of the bonus issue, two bonus shares were issued for each existing share and the number of shares outstanding increased from 6,214,950 to 18,644,850.

In 2007, dividends paid to the shareholders amounted to 2.40 kroons/0.15 euros per share equalling a total of 14,910 thousand kroons/953 thousand euros (2006: 2.00 kroons/0.13 euros per share equalling a total of 12,020 thousand kroons/768 thousand euros). Corporate income tax expense on dividends amounted to 3,359 thousand kroons/215 thousand euros (2006: 1,796 thousand kroons/115 thousand euros).

The revaluation reserve increased by 3,590 thousand kroons/229 thousand euros due to reclassification of assets from owner-occupied properties to investment property and their revaluation at fair value (Note 8).

Change in the number of shares

	Issue	Number of shares
Number of shares on 31.12.2002		**5,444,450**
Issued 20.02.2003	Conversion of A-bonds	15,500
Issued 30.07.2003	Conversion of A-bonds	39,500
Number of shares on 31.12.2003		**5,499,450**
Issued 15.07.2004	Conversion of A-bonds	88,000
Issued 16.12.2004	Conversion of A-bonds	46,500
Number of shares on 31.12.2004		**5,633,950**
Issued 17.05.2005	Conversion of B-bonds	189,000
Number of shares on 31.12.2005		**5,822,950**
Issued 30.03.2006	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**
Issued 11.06.2007	Bonus issue	12,429,900
Number of shares on 31.12.2007		**18,644,850**

Shareholders as of 31 December 2007

	Number of shares	Participation
1. BMIG OÜ	4,261,120	22.85%
2. Morgan Stanley + CO Incorporated Equity Client Account	1,545,000	8.29%
3. Svenska Handelsbanken Clients	1,160,500	6.22%
4. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	741,549	3.98%
Maire Milder	316,083	1.70%
Boriss Loifenfeld	150,366	0.81%
Andres Erm	108,000	0.58%
Ülle Järv	57,570	0.31%
5. Other minority shareholders	10,304,662	55.27%
Total	**18,644,850**	**100.00%**

Shareholders as of 31 December 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 and supervisory boards and persons related to them		
Meelis Milder	247,183	3.98%
Maire Milder	115,361	1.86%
Boriss Loifenfeld	50,122	0.81%
Andres Erm	36,000	0.58%
Ülle Järv	23,158	0.37%
5. Other minority shareholders	3,725,094	59.94%
Total	**6,214,950**	**100.00%**

The shares of the parent company are listed on the 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 16 Segments

Geographical segment by client's location – primary segment

As of 31 December 2007, the Group 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, the Czech Republic etc.) – the Group's presence in other markets is small or less strategic and these markets separately do not form a segment for the segment reporting.

Financial information by geographical segment, 12 months 2007

EEK '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Internal trans-actions	Total
Non-group sales	296,630	154,937	236,035	242,966	156,835	29,824	34,293	0	1,151,520
Inter-segment sales	0	81,389	138,500	55,639	67,408	13,474	2,298	-358,708	0
Total sales	296,630	236,326	374,535	298,605	224,243	43,298	36,591	-358,708	1,151,520
Operating profit of the segment	44,726	31,642	37,724	-6,339	5,301	3,086	1,163	0	117,303
Unallocated operating exp. and inc.									-52,749
Total operating profit									64,554
Other financial income (expenses)									-11,523
Corporate income tax									-9,189
Net profit before minority interest									43,842
Minority interest									3,069
Net profit for the financial year									40,773
Assets	207,082	63,629	85,397	260,049	76,217	7,918	17,769	-180,552	537,509
Group`s unallocated assets									118,848
Incl. assets used in production									65,207
assets used for administrative use									8,625
other unallocated assets									45,016
Total assets									656,357
Liabilities	25,632	26,705	41,036	158,811	53,553	2,588	9,310	-252,618	65,017
Group`s unallocated liabilities									251,994
Incl. liab. related to production activity									60,818
other unallocated liabilities									191,176
Total liabilities									317,011
Property, plant and equipment acquired	10,507	22,644	17,832	15,697	5,360	831	7,151	0	80,022
Property, plant and equipment acquired, unallocated									27,478
Depreciation	11,283	4,123	5,760	9,343	3,655	1,260	332	0	35,756
Incl. depreciation of PPE	5,307	3,906	5,427	9,343	3,641	1,236	318	0	29,178
amort. of intangible assets	5,976	217	333	0	14	24	14	0	6,578
Depreciation, unallocated									4,075

Financial information by geographical segment, 12 months 2007

EUR '000	Estonia	Latvia	Lithuania	Russia	Ukraine	Poland	Other	Internal trans-actions	Total
Non-group sales	18,958	9,902	15,085	15,528	10,024	1,906	2,192	0	73,596
Inter-segment sales	0	5,202	8,852	3,556	4,308	861	147	-22,926	0
Total sales	18,958	15,104	23,937	19,084	14,332	2,767	2,339	-22,926	73,596
Operating profit of the segment	2,859	2,022	2,411	-405	339	197	74	0	7,497
Unallocated operating exp. and inc.									-3,371
Total operating profit									4,126
Other financial income (expenses)									-736
Corporate income tax									-587
Net profit before minority interest									2,802
Minority interest									196
Net profit for the financial year									2,606
Assets	13,235	4,067	5,458	16,620	4,871	506	1,136	-11,539	34,353
Group`s unallocated assets									7,596
Incl. assets used in production									4,167
assets used for administrative use									551
other unallocated assets									2,877
Total assets									41,949
Liabilities	1,638	1,707	2,623	10,150	3,423	165	595	-16,145	4,155
Group`s unallocated liabilities									16,105
Incl. liab. related to production activity									3,887
other unallocated liabilities									12,218
Total liabilities									20,261
Property, plant and equipment acquired	672	1,447	1,140	1,003	343	53	457	0	5,114
Property, plant and equipment acquired, unallocated									1,756
Depreciation	721	264	368	597	234	81	21	0	2,285
Incl. depreciation of PPE	339	250	347	597	233	79	20	0	1,865
amort. of intangible assets	382	14	21	0	1	2	1	0	420
Depreciation, unallocated									261

Financial information by geographical segment, 12 months 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

Financial information by geographical segment, 12 months 2006

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									2,190
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

Business segment by area of operations – secondary segment

As of 31 December 2007, the Group 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 of retail chains in the 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.

Financial information by business segment

EEK '000	Net sales		Assets		Additions to PPE and intangibles	
	2007	2006	31.12.2007	31.12.2006	2007	2006
Retail	987,297	736,366	312,207	250,075	74,519	71,660
Wholesale and other	144,696	150,585	55,477	67,204	0	0
Production	14,396	0	65,207	72,092	23,010	5,158
Unallocated	5,131	12,530	223,466	207,019	9,971	53,616
Total	**1,151,520**	**899,481**	**656,357**	**596,390**	**107,500**	**130,434**

EUR '000	Net sales		Assets		Additions to PPE and intangibles	
	2007	2006	31.12.2007	31.12.2006	2007	2006
Retail	63,100	47,062	19,954	15,983	4,763	4,580
Wholesale and other	9,248	9,624	3,546	4,295	0	0
Production	920	0	4,167	4,608	1,471	330
Unallocated	328	801	14,282	13,231	637	3,426
Total	**73,596**	**57,487**	**41,949**	**38,116**	**6,871**	**8,335**

NOTE 17 Sales revenue

	EEK '000		EUR '000	
	2007	2006	2007	2006
Sale of goods	1,131,993	886,951	72,348	56,687
Sale of sewing services	14,396	0	920	0
Rental income	1,894	7,121	121	455
Other	3,237	5,409	207	346
Total	**1,151,520**	**899,481**	**73,596**	**57,487**

NOTE 18 Cost of goods sold

	EEK '000		EUR '000	
	2007	2006	2007	2006
Materials and supplies	425,578	363,874	27,199	23,256
Impairment of inventories	-1,530	-699	-98	-45
Other production costs	13,869	5,530	886	353
Production payroll	73,028	39,351	4,667	2,515
Depreciation of assets used in production	3,451	2,741	221	175
Change in inventories	443	-1,878	28	-120
Total	**514,839**	**408,919**	**32,904**	**26,135**

NOTE 19 Distribution costs

	EEK '000		EUR '000	
	2007	**2006**	**2007**	**2006**
Rental expenses	202,338	121,004	12,932	7,734
Payroll expenses	178,005	129,815	11,377	8,297
Advertising expenses	32,341	22,776	2,067	1,456
Depreciation and amortisation	31,206	18,896	1,994	1,208
Municipal services and security expenses	7,340	3,040	469	194
Fuel, heating and electricity	7,050	4,862	451	311
Fees for card payments	6,953	4,988	444	319
Business trips	5,339	4,352	341	278
Freight cost	5,254	11,127	336	711
Communication expenses	3,567	2,252	228	144
Training expenses	3,205	2,216	205	142
Renovation of retail outlets	3,098	1,414	198	90
Information technology expenses	3,051	2,090	195	134
Bank fees	3,028	2,042	194	131
Expenses for uniforms	2,089	1,262	134	81
Packaging expenses	1,450	1,708	93	109
Accounting and auditing expenses	721	911	46	58
Other sales expenses	26,585	15,716	1,699	1,004
Total	**522,620**	**350,471**	**33,402**	**22,399**

NOTE 20 Administrative expenses

	EEK '000		EUR '000	
	2007	**2006**	**2007**	**2006**
Payroll costs	25,630	23,096	1,638	1,476
Depreciation and amortisation	5,348	4,899	342	313
Rental expenses	7,510	1,770	480	113
Information technology expenses	4,992	2,824	319	180
Move of production	3,814	0	244	0
Municipal services and security expenses	1,707	1,186	109	76
Sponsorship	1,064	1,341	68	86
Fuel, heating and electricity	1,296	971	83	62
Bank fees	1,015	994	65	64
Training expenses	922	455	59	29
Communication costs	807	860	52	55
Business trips	380	604	24	39
Management and consulting fees	184	2,581	12	165
Other administrative expenses	6,242	6,753	399	432
Total	**60,911**	**48,334**	**3,893**	**3,089**

NOTE 21 Other operating income

	EEK '000		EUR '000	
	2007	**2006**	**2007**	**2006**
Gains from sale of non-current assets	15,362	7,443	982	476
Gain from revaluations of investment property	8,893	4,379	568	280
Other operating income	964	660	62	42
Total	**25,219**	**12,482**	**1,612**	**798**

NOTE 22 Other operating expenses

	EEK '000		EUR '000	
	2007	**2006**	**2007**	**2006**
Foreign exchange losses	9,945	4,710	636	301
Impairment of non-current assets available for sale	1,318	0	84	0
Fines, penalties and tax interest	1,470	626	94	40
Representation costs	551	220	35	14
Other operating expenses	531	1,351	34	86
Total	**13,815**	**6,907**	**883**	**441**

NOTE 23 Earnings per share

Basic earnings per share

		2007	**2006**
Weighted average number of shares	pcs	18,644,850	18,026,350
Net profit attributable to the equity holders of the parent	EEK '000	40,773	87,376
	EUR '000	2,606	5,584
Basic earnings per share	**EEK**	**2.19**	**4.85**
	EUR	**0.14**	**0.31**

Diluted earnings per share

		2007	**2006**
Weighted average number of shares	pcs	18,644,850	18,556,609
Profit used to determine diluted earnings per share	EEK '000	40,773	87,376
	EUR '000	2,606	5,584
Diluted earnings per share	**EEK**	**2.19**	**4.71**
	EUR	**0.14**	**0.30**

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2007 was 109.99 kroons/7.03 euros (2006: 78.39 kroons/5.01 euros).

The comparable information for year 2006, including the basic and diluted earning per share, the number of shares and the arithmetic average of daily closing prices of the share, has been recalculated by applying the conditions of the bonus issue (two bonus shares issued for each existing share) carried out in June 2007 (Note 15).

NOTE 24 Related parties

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

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.

Transactions with joint venture

EEK '000	2007		2006	
	Purchases	Sales	Purchases	Sales
Purchases and sales of goods	9	952	26	2,641
Purchases and sales of services	9,079	1,735	32,734	5,163

EUR '000	2007		2006	
	Purchases	Sales	Purchases	Sales
Purchases and sales of goods	1	61	2	169
Purchases and sales of services	580	111	2,092	330

Balances with joint venture

	EEK '000		EUR '000	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Trade receivables	0	4,659	0	298
Other current receivables	0	1,736	0	111
Non-current receivables	0	1,359	0	87
Trade payables	0	3,125	0	200

The management of the parent company estimates that the prices used in related party transactions do not materially differ from the market prices.

NOTE 25 Subsidiaries

Subsidiary	Location	Activity	Participation 31.12.2007	Participation 31.12.2006
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvia	Latvia	Retail	75%	75%
UAB Baltika Lietuva	Lithuania	Retail	100%	100%
Baltika Ukraina Ltd	Ukraine	Retail	99%	99%
OOO Kompania "Baltman RUS"	Russia	Retail	100%	100%
Baltika Poland Sp.z.o.o.	Poland	Retail	100%	100%
Baltika Retail Czech Republic s.r.o.	Czech Republic	Retail	100%	0%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	50%
AS Virulane	Estonia	Production	82.66%	82.66%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

Acquisition of minority interest in AS Elina STC

In March 2007, AS Baltika acquired 37.5% of the shares of the subsidiary AS Elina STC becoming the sole owner of the subsidiary. The purchase consideration amounted to 1,300 thousand kroons/83 thousand euros, which was paid in cash. The registry entry in the Central Register of Securities was concluded on 17 April 2007. The goodwill arising from the transaction was immaterial.

Foundation of a subsidiary in the Czech Republic

In 2007, the Group initiated the foundation of the subsidiary in the Czech Republic. In March 2007, the share capital of the subsidiary was paid in. The subsidiary Baltika Retail Czech Republic s.r.o. was registered on 7 May 2007. AS Baltika is the sole owner of the subsidiary.

Acquisition of an additional stake in joint venture OÜ Baltika Tailor

According to the agreement signed on 27 February 2007 AS Baltika acquired additional 50% of the shares of the joint venture OÜ Baltika Tailor and thereby increased its ownership to 100%. The title to the shares was transferred with the first instalment paid in April. The transaction price was 4,412 thousand kroons/282 thousand euros paid in cash according to the agreement. The difference between the acquisition cost and acquired share in carrying value of the company's net assets amounting 5,555 thousand kroons/355 thousand euros was recognised as goodwill (Note 11).

Merger of the fully owned subsidiaries

On 28 May 2007, an agreement was signed to merge the two fully owned subsidiaries of Baltika Group – AS Elina STC and OÜ Baltika Tailor, whereby AS Elina STC was merged with OÜ Baltika Tailor.

NOTE 26 Events after balance sheet date

Acquisition of an additional stake in AS Virulane

AS Baltika concluded an agreement on 22 January 2008 to acquire 4,250 shares (10.1%) in AS Virulane with the price of 3,150 thousand kroons/201 thousand euros. The purchase price shall be settled in two payments. The ownership of the shares will be transferred with the settlement of the remaining amount on 25 March 2008.

On 19 February 2008 AS Baltika acquired additional 240 shares (0.57%) in AS Virulane. The purchase consideration amounted to 178 thousand kroons/11 thousand euros.

As a result of the transactions described above, AS Baltika's ownership in AS Virulane shall be 93.3%.