Baltika Group

AS BALTIKA ANNUAL REPORT 2011

AS BALTIKA

2011 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
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E-mail	baltika@baltikagroup.com
Internet homepage:	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2011 - 31.12.2011

CONTENTS

BALTIKA GROUP IN BRIEF

Baltika Group is a fashion retailer that operates the Monton, Mosaic, Baltman and Ivo Nikkolo retail chains. Baltika uses a vertically integrated business model that combines collection design, manufacturing, supply chain management, logistics and retailing. The Group has 115 stores in five markets in the Baltics and Eastern Europe. Baltika's shares are listed on the Tallinn Stock Exchange that is part of the NASDAQ OMX Group.

MISSION AND GOAL

Baltika creates quality fashion that allows people to express themselves and feel great.

Our goal is to be the leading specialist fashion retailer in Baltics and Eastern Europe.

KEY STRATEGIC STRENGTHS

- Learning organisation with high targets
- Flexible, vertically integrated business model
- Centralised management with strong retail organisations in markets
- Brand portfolio covering a broad customer base

KEY FIGURES AND RATIOS

	2007	2008	2009	2010	2011
Comprehensive income data, in millions					
Revenue	73.6	76.3	56.3	52.2	53.4
Gross profit	40.7	40.5	27.0	27.0	28.4
EBITDA	6.7	2.6	-6.8	-1.7	-2.1
Operating profit	4.1	-0.4	-9.9	-4.7	-4.5
Profit before income tax	3.4	-1.3	-11.1	-5.9	-5.8
Net profit	2.6	-1.2	-10.2	-6.3	-5.9
Financial position data, in millions					
Total assets	41.9	49.9	44.9	39.5	34.8
Interest-bearing liabilities	11.8	17.4	22.2	19.8	18.3
Shareholders' equity	21.7	19.1	11.9	12.4	9.6
Other data					
Number of stores	128	134	133	120	115
Sales area, sqm	24,290	27,068	26,900	24,424	23,111
Number of employees (31 Dec)	1,983	1,988	1,697	1,419	1,363
Key ratios					
Revenue growth	28.0%	3.7%	-26.3%	-7.2%	2.3%
Retail sales growth	34.1%	7.3%	-23.6%	-5.9%	3.1%
Share of retail sales in revenue	86%	89%	92%	93%	94%
Share of exports in revenue	74%	76%	75%	73%	70%
Gross margin	55.3%	53.1%	48.0%	51.8%	53.1%
Operating margin	5.6%	-0.5%	-17.6%	-9.0%	-8.3%
EBT margin	4.6%	-1.7%	-19.6%	-11.3%	-10.8%
Net margin	3.5%	-1.6%	-18.1%	-12.2%	-11.0%

	2007	2008	2009	2010	2011
Current ratio	1.6	1.3	0.9	1.6	1.3
Debt to equity ratio	54.4%	91.1%	186.3%	160.4%	190.3%
Net gearing ratio	45.1%	88.2%	183.1%	153.8%	181.3%
Inventory turnover	5.30	4.55	3.77	4.74	4.54
Return on equity	13.1%	-5.7%	-73.8%	-52.6%	-54.8%
Return on assets	6.5%	-2.6%	-21.2%	-14.9%	-15.1%
Key share data, EUR					
Number of shares outstanding (31 Dec)	18,644,850	18,644,850	18,644,850	27,494,850	35,794,850
Weighted average number of shares	18,644,850	18,644,850	18,644,850	23,348,686	31,629,918
Share price (31 Dec)	3.90	1.15	0.73	1.14	0.30
Market capitalisation, in millions (31 Dec)	72.71	21.44	13.61	31.32	10.74
Earnings per share (EPS)	0.14	-0.06	-0.55	-0.27	-0.19
Change in EPS, %	-54.9%	-146%	-737%	50%	32%
P/E	27.9	Neg.	Neg.	Neg.	Neg.
Book value per share	1.16	1.02	0.64	0.45	0.27
P/B	3.4	1.1	1.1	2.5	1.1
Dividend per share (DPS)	0	0	0	0	0[1]
Dividend yield	0%	0%	0%	0%	0%[1]
Dividend payout ratio	0%	0%	0%	0%	0%[1]

[1]Proposal to the general meeting.

Any reference to Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

Definitions of key figures and ratios

EBITDA = Operating profit-depreciation and amortisation
Gross margin = (Revenue-Cost of goods sold)/Revenue
Operating margin = Operating profit/Revenue
EBT margin = Profit before income tax/Revenue
Net margin = Net profit (attributable to parent)/Revenue
Current ratio = Current assets/Current liabilities
Debt to equity ratio = Interest-bearing liabilities/Equity
Net gearing ratio = (Interest-bearing liabilities-Cash and bank)/Equity
Inventory turnover = Revenue/Average inventories[1]
Return on equity = Net profit (attributable to parent)/Average equity[1]
Return on assets = Net profit (attributable to parent)/Average total assets[1]
Market cap = Share price (31 Dec)xShares outstanding (31 Dec)
EPS = Net profit (attributable to parent)/Weighted average number of shares
P/E = Share price (31 Dec)/EPS
Book value per share = Equity/Shares outstanding (31 Dec)
P/B = Share price (31 Dec)/Book value per share
Dividend yield = Dividends per share/Share price (31 Dec)
Dividend payout ratio = Paid out dividends/Net profit (attributable to parent)
[1]Based on 12-month average

MANAGEMENT BOARD'S CONFIRMATION OF MANAGEMENT REPORT

The Management Board confirms that the management report presented on pages 6 to 28 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.

Meelis Milder
Chairman of the Management Board
23 March 2012

Maigi Pärnik-Pernik
Member of the Management Board
23 March 2012

Andrew J. D. Paterson
Member of the Management Board
23 March 2012

Maire Milder
Member of the Management Board
23 March 2012

MANAGEMENT REPORT

First time since the year 2008 Baltika Group has achieved in 2011 sales growth and that despite the decreased sales area. Final retail network restructuring was done with closing stores, mainly in Russia, in the beginning of 2012. This concludes the last phase in large scale retail network restructuring. Changes to management efficiency and cost control show positive results: collection creation, distribution, administrative and general expenses decreased; Group reached by the end of the year operating income-expense balance and stable financial position. In addition Baltika has adapted it's business model to be more flexible and cost efficient.

YEAR 2011 HIGHLIGHTS

- Main changes in retail network took place in Polish and Russian markets. Four last stores in Poland were closed, three new stores were opened and three loss-making stores closed in Russia. Final retail network restructuring decisions were taken in December with stores to be closed in the beginning of 2012 – four shops in Russia and one in Lithuania. This concludes the last phase in retail network restructuring plan, going forward no further big changes are required. Normal monitoring of store performance and decision making based on changes in the market conditions continue.

- Sales efficiency growth was achieved in all markets. Total sales efficiency growth in 2011 was 11%.

- Changes were made for cost saving, including improvements to management efficiency and product development, centralisation of a number of activities that used to be brand-based to better utilise sales resources. The number of staff has been reduced during the year and in December AS Baltika reduced the space it uses for head office. The space released already has new tenants and cost efficiency should be achieved via increased rent income in the beginning of 2012.

- Share issuance took place in August: 4,300,000 shares were issued with a total par value of 3,010,000 euros.

- On 16th December the Supervisory Council approved a plan to propose to the ordinary general meeting of shareholders to issue convertible bonds with 2 years maturity for approximately 1.5 million euros. Out of this amount 1.25 million euros loan has already been received from KJK Fund Sicav-SIF, who has taken the obligation to convert to convertible bonds. 1.25 million euros loan consists of 250 thousand euros existing liability converted to loan that is classified as equity instrument and 1 million euros loan received in December.

MEETING THE OBJECTIVES OF 2011

- With the assistance of the international consulting firm Dan Pearlman, the company developed new retail concepts and visual identities for its two largest brands, Monton and Mosaic. The new branding was developed with support from the European Regional Development Fund that is allocated by Enterprise Estonia. The brands' new visual signature was adopted in 2011, the first new retail concepts will be gradually implemented in 2012.
- In 2011 Baltika developed the test version of Monton's e-store whose launch was postponed until February 2012.
- In 2011 the company discontinued Mosaic's childrenwear collection and focused on the development of the brand's ladieswear and menswear collections.
- Baltman, the oldest brand in Baltika's brand portfolio, developed vigorously its special order suit service that was launched also in Latvia and Lithuania and was accepted in the offering of the department store Tallinna Kaubamaja that is Baltika's wholesale partner. The brand continued to develop its collection with quality products. Special order sales for 2011 totalled 74.9 thousand euros, a 238% increase compared to 2010.
- The Ivo Nikkolo brand continued to develop its premium signature and sought opportunities for international growth. In 2011, its wholesale revenue, which is the key indicator of international growth, increased by 25%.

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- Baltika Group improved operation of all brands in its retail system, creating additional tools for enhancing the service of the brand stores. The *Retail Manual*, which regulates the stores' work processes, was updated and new *Six Star Service Standards* were compiled for all brand concepts.

REVENUE

Revenue

EUR million	**2011**	**2010**	**+/-**
Retail	50.1	48.6	*3,1%*
Wholesale	2.7	3.0	*-10,0%*
Other	0.6	0.6	*0%*
Total	**53.4**	**52.2**	***2,3%***

Revenue 2007-2011

RETAIL

Year 2011 brought an evident upturn. Despite termination of business operations in Polish market and decrease of retail area by 7%, retail sales totalled 50.1 million euros, a 3% growth compared to the previous year. Consumers' general confidence and consequent consumption revival was negatively affected only in the third quarter by Europe's general concern about economic environment stability due to debt load of some of the Euro Zone countries, for that reason the given quarter was the only one that did not show increase of retail sales (I quarter 8%, II quarter 1%, III quarter 0% and IV quarter 3%).

Baltika's biggest retail market continues to be Estonia, Russia and Lithuania follow. From markets, Estonia and Latvia have shown stable sales growth in every quarter of 2011, by 13% and 18% in total respectively. Sales efficiency increased in all existing retails markets, the biggest sales growth per square meter was in Lithuania and Latvia

Retail sales by market

EUR million	**2011**	**2010**	**+/-**
Estonia	14.7	13.0	*13%*
Lithuania	9.9	9.9	*0%*
Russia	10.5	10.6	*-1%*
Ukraine	6.7	7.2	*-6%*
Latvia	7.6	6.4	*18%*
Poland	0.7	1.5	*-54%*
Total	**50.1**	**48.6**	***3%***

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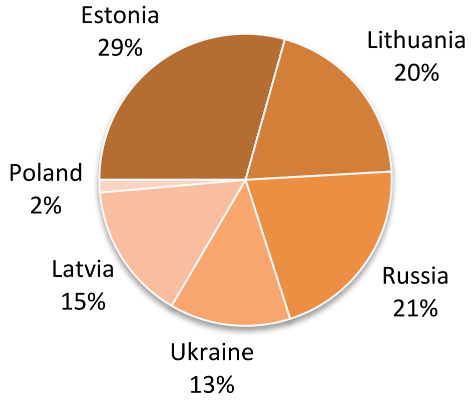
Breakdown of retail sales by market - 2011



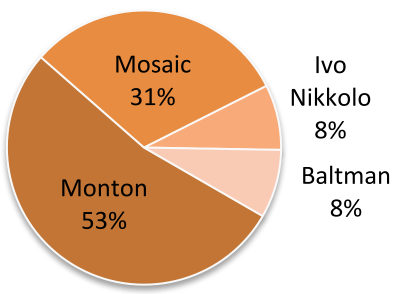
Sales efficiency trends by market

	Q1	Q2	Q3	Q4	2011
Estonia	14%	12%	11%	14%	12%
Lithuania	23%	18%	11%	12%	16%
Latvia	21%	10%	12%	17%	15%
Russia	12%	3%	-2%	-5%	1%
Ukraine	20%	1%	-3%	-1%	5%
Poland	5%	0%	-2%	-	-5%
Total	**18%**	**10%**	**8%**	**10%**	**11%**

OVERVIEW OF BRANDS

In terms of brands, most of Baltika Group retail revenue is contributed by Monton, whose sales for 2011 accounted for 53% of the total retail revenue. Mosaic contributed 31%, Baltman and Ivo Nikkolo 8% of the Group's retail revenue. In 2010 respective percentages were Monton 53%, Mosaic 33%, Baltman and Ivo Nikkolo 7%. All brands increased sales efficiency in 2011, Baltman with 28% and Ivo Nikkoli with 22% had highest increase in sales per square meter

Breakdown of retail sales by brand – 2011



Sales efficiency by brand

EUR/m^2	2011	2010	+/-
Monton	167	149	*13%*
Mosaic	164	159	*3%*
Baltman	285	222	*28%*
Nikkolo	283	233	*22%*
Total	**178**	**160**	***11%***

Monton

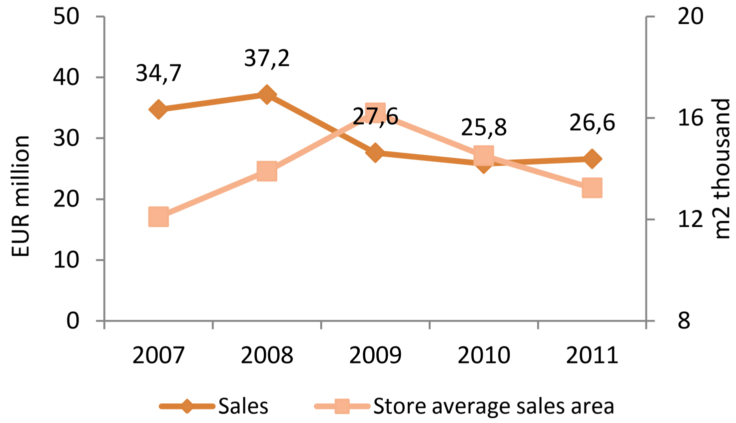
In 2011 retail sales of Monton totalled 26.6 million euros. Compared to 2010, sales increased by 3% while the retail area decreased by 9%. Sales revenue growth was achieved in all markets, the most notable increase was in Latvia 14% and Estonia 13%.

Changes in collection planning carried out in 2011 justified itself entirely, it is proven by sales efficiency growth by 13% and diminishing markdowns. In 2011 several inefficient stores were closed, including Monton's exit from Polish market with closing four stores with low efficiency.

Monton achieved increase of sales efficiency in all markets, sales revenue per square meter grew highest in the Baltic countries stores. The most notable growth - 21%, took place in Lithuania. Monton's largest market continues to be Russia, which accounts for 29% of retail sales of the brand.

Year 2011 was very important for Monton in terms of innovation. In co-operation with international agency Dan Pearlman new branding and shop concept was developed. Implementation of new visual identity had already started in 2011, gradual implementation of new shop concept begins in stores in 2012, which will strengthen Monton stores competitiveness.

Monton retail sales



The year 2012 is special for Monton – the brand is celebrating its 10^{th} anniversary and launching its international e-store. In the Estonian market, 2012 is also special because of the London Olympics – as a sponsor of the Estonian Olympic Committee in spring Monton will unveil the Estonian team's parade outfit and fan collection.

Within the next four years, Monton's new store concept will be implemented in all markets, the flagship stores will be fully renovated and aligned with the new concept, and the brand will expand through the e-store, its franchise partners and new wholesale channels.

Mosaic

Mosaic's retail revenue for 2011 was 15.6 million euros, a 2% decrease compared with 2010. Smaller than planned sales result from changes in the customers' purchasing behaviour and the brand's offering that did not completely meet the market's expectations. The decline in retail sales is also directly related to cutbacks in the sales area – in 2011 the brand's average sales area decreased by 6%.

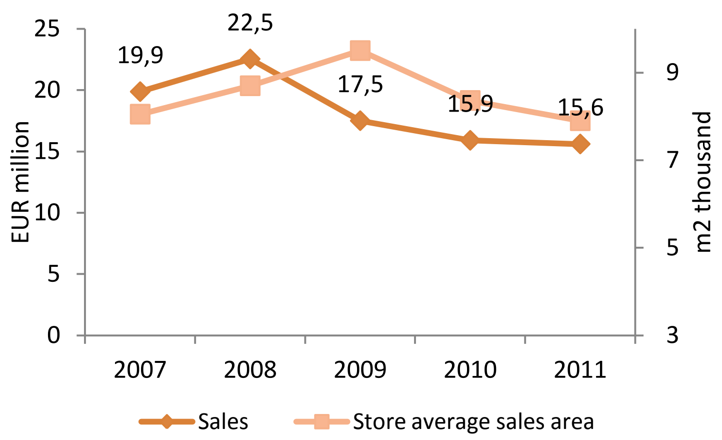
In 2011 one of Mosaic's main goals was to increase retail sales efficiency and profitability. While sales efficiency rose by 3% in retail, in terms of gross profit the brand lost

to the result of 2010 by 4%. In 2010 significant improvement in the results was seen for brand's Ukrainian and Russian stores, but 2011 turned out to be successful year in the Baltic countries, primarily in Estonian and Latvia.

In 2011 Mosaic's menswear collection strengthened significantly, showing the past four years' best sales result. The changes made to the structure of the collection, including expansion of the proportion of the smart casual products and implementation of a local approach in planning the collection and ordering inventory, have borne fruit. The menswear collection's retail sales efficiency improved by 13% and profitability rose by 16% while inventory per square metre dropped by 5%.

The offering of Mosaic's ladieswear collection did not meet the customers' expectations with regard to all product groups and criteria, particularly in terms of the colour palette. As a result, the brand was unable to deliver the retail growth that was expected to emerge for ladies and menswear when the development and distribution of its childrenswear collection was discontinued at the beginning of 2011. The experience and knowledge gained in 2011 have been taken into account in creating and planning the collections of 2012, which should improve the performance of the ladieswear collection already in the first half of 2012.

Mosaic retail sales



In 2011 Mosaic continued working with the existing suppliers base in order to ensure the brand's quality level in all product groups. The products' purchase margins were kept stable or, in some product groups, even improved. For the first time Mosaic tried out in-seasonal buying of new products for supporting prior planned and purchased collection. The trial turned out to be successful and therefore in 2012 collections rate of open-to-buy options has been increased, which allows to react faster and better to customer wishes and needs.

In 2011 Baltika in co-operation with international agency Dan Pearlman updated Mosaic's visual identity and shop concept in order to strengthen the brand's competitiveness. Elements of visual identity were put to use in 2011, gradual implementation of new shop concept begins in 2012.

Mosaic plays an important role in the Group's wholesale revenue, accounting for 72% of it. In 2011 successful cooperation with important wholesale partners continued, including Stockmann department stores and Peek & Cloppenburg, a leading European department store chain. Orders for 2012 collections have also been placed by new potential wholesale partners.

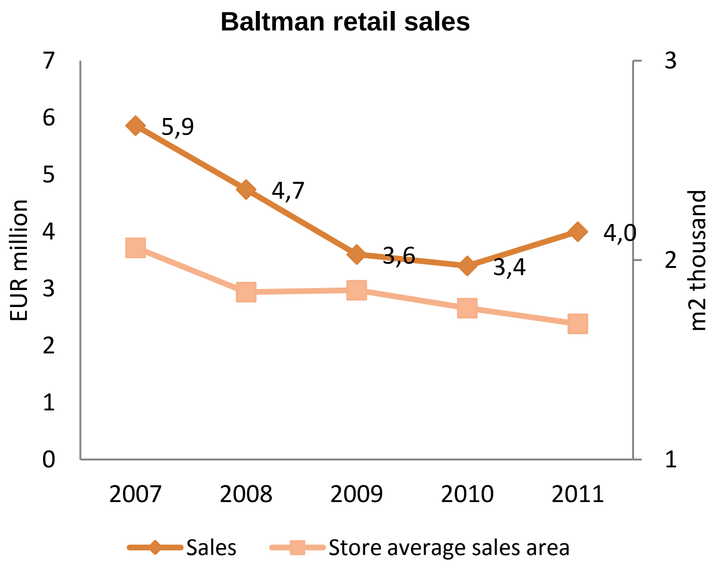
Baltman

For Baltman 2011 was a very successful and important year in many ways. Surely the most important was increase of retail sales by 20% totalling 4.04 million euros, while average sales area decreased by 6% in the same period. Lithuanian market was the only one that did not show growth of retail sales, however sales efficiency meanwhile rose by 13%. At the year-end, Baltman operated on 13 separate retail areas in the Baltic countries and, in addition, in three of the Group's multi-brand stores. In terms of retail area developments, the most important took place in October with the opening of a new store in Riga's prestige shopping centre Riga Galleria, which substantially expanded the brand's availability in Riga.

The brand was not only able to increase retail sales but profitability at the same time, gross profit rose by 28% and positive growth figures were achieved in all retail markets. It was backed up by one of the brand's strategic goals to cut considerably markdown rates that increased considerably during recession. Work towards this goal continues in 2012.

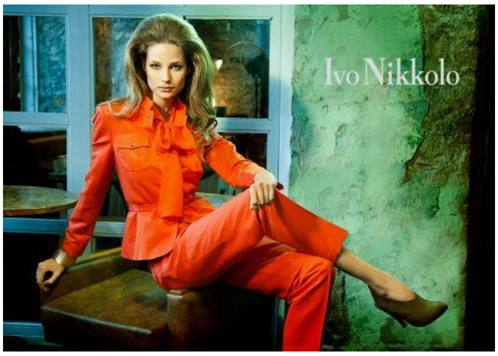
Improved sales and profitability reflect the customers' recognition of the development efforts put into renewing the Baltman collection. The collection focuses on suits as the most important product group, where four new sub-brands were launched in order to make it easier for the customer to make a choice on the scale of price and trendiness. In other product groups, many innovative products were launched that were well received by the customers.

The strength of the collection is one of the factors that allow planning Baltman's entry to the Ukrainian market in 2012. In addition to customers, the renewed collection has also been noticed by fashion professionals – in 2011 Baltman's designer Aivar Antonio Lätt was nominated for Kuldnõel, the most important Estonian fashion award.



In 2011 there were positive developments also in Baltman's special order suit service. Its revenue grew to 74.9 thousand euros, a 238% increase compared with 2010, and its availability improved – in addition to the Moetänav store in Tallinn special order suits can now be bought from Baltman's stores in Riga and Vilnius and from the department store Tallinna Kaubamaja. The special order service is also part of Baltman's cooperation with the Estonian Football Association – for the second consecutive year Baltman arranged the election of the most stylish football player whose prize is a custom-made suit. In 2011 the people elected Tarmo Kink as the most stylish football player.

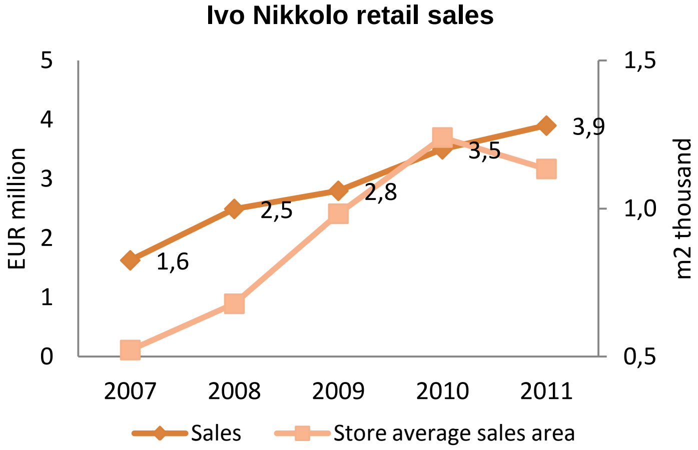
Ivo Nikkolo



In 2011 Ivo Nikkolo's activities were aimed at increase of retail sales efficiency and growing sales volume.

The brand's sales for 2011 totalled 4.3 million euros, from which 3.9 million euros were earned from sales through retail system and 0.4 million euros from sales to wholesale partners. Compared to 2010 Ivo Nikkolo achieved a 11% growth in retail sales, while the sales area decreased by 9%, sales efficiency improved by 22%.

In the beginning of 2011 the brand closed inefficient store in Vilnius and in the second half of the year successfully opened new Ivo Nikkolo sales areas in multibrand stores in Riga and Kaliningrad.



As one of the strategic objectives of the Ivo Nikkolo brand is expansion and growth via wholesale partners, commencement of its sales at a Stockmann department store in St Petersburg was a major breakthrough. The goal is to expand to other Stockmann chain department stores. In 2011 Ivo Nikkolo's wholesale revenue grew by 25% compared with the previous year. The brand's steady growth is attributable to sustained development of the collection that successfully takes advantage of the brand's established position as a business and formal wear supplier. An undeniable strength of the second half-year was a strong offering of outdoor garments adjusted to the taste and needs of the Nordic countries, whose sales grew by 38% compared to 2010.

The objective of the Ivo Nikkolo brand is stable, sustainable and profitable growth, which is underpinned, on the one hand, by professional collection development and dignified marketing that supports the brand's image and recognition, and, on the other hand, by the brand's established position in the Baltics and expansion in Russia, Ukraine and Finland.

STORES AND SALES AREA

At the end of 2011, Baltika Group had 115 stores in five countries with a total sales area 23 111 m², five stores and 1313 m² less than at the end of the previous year. During the year seven stores were opened, including three stores taken over from a Russian wholesale partner; and 12 unprofitable or inefficient stores were closed, among them four Monton stores in Poland. Several brand stores were transformed into multibrand concept stores, i.e. stores that sell collections of several Baltika Group's brands. As increase of proportion of multibrand stores has been fruitful, addition of brands' collections into suitable stores is planned.

In 2011 Baltika powerfully strengthened its brands' visual merchandising and store window concepts, which has had a clear positive impact on brands' sales results in 2011, especially results of fourth quarter, and has earned a positive feedback from both customers and shopping centres. Among other acknowledgments, Monton store in Riga Galerija Centrs received a letter of thanks from City Council of Riga for participation in creating a festive Christmas atmosphere, Monton store in Ülemiste Keskus got a 3rd place in Christmas decoration contest and Monton store in Krasnoyarsk Planeta won a best

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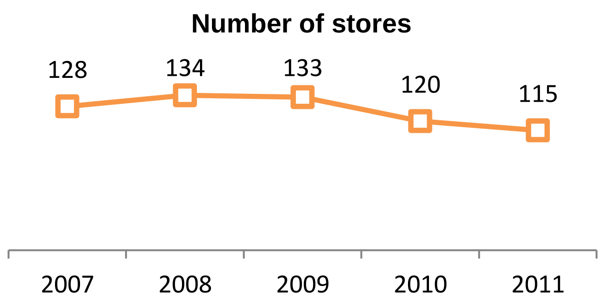
Christmas tree contest in shopping centre. Ivo Nikkolo store in Viru Keskus was voted as the best shopping environment of 2011.

Stores by market

	31 December 2011	31 December 2010	+/-
Lithuania	29	31	-2
Estonia	29	30	-1
Russia	23	23	0
Ukraine	18	17	1
Latvia	16	15	1
Poland	0	4	-4
Total stores	**115**	**120**	**-5**
Total sales area, m^2	**23,111**	**24,424**	**-1,313**

Retail network by market and brand, 31 December 2011

	Monton	Mosaic	Baltman	Ivo Nikkolo	Mixed brand	Total	m^2
Lithuania	9	10	6	2	2	**29**	**5 576**
Estonia	7	10	5	5	2	**29**	**5 688**
Russia	12	7			4	**23**	**4 840**
Ukraine	8	8			2	**18**	**3 546**
Latvia	3	5	2	2	4	**16**	**3 461**
Total	**39**	**40**	**13**	**9**	**14**	**115**	**23 111**
+/- vs 2010	-13	-4	1	-1	12	-5	-1 313



WHOLESALE

The Group's wholesale revenue for 2011 amounted to 2.7 million euros, decreasing by 10% compared to the previous year. At the same time comparable wholesale revenue from the Group's own brands increased by 6% (in 2010 wholesale decreased due to selling of trademarks „MasCara“ and „Herold“). The biggest volume of wholesale belongs to sales of Mosaic brand collections.

Three stores taken over from a Russian wholesale business partner were integrated into Baltika retail system, therefore wholesale to the Russian wholesale partner decreased. At the same time Mosaic's wholesale to Stockmann department stores in Russia increased and from spring 2011 the brand is sold in a newly opened department store in Yekaterinburg. As of today Mosaic is represented in all Stockman department stores in Baltic countries and Russia: five department stores in Moscow, and department store in St. Petersburg, Yekaterinburg, Tallinn and Riga. In addition good and stable co-operation with Peek & Cloppenburg department store chain continues.

OPERATING EXPENSES AND NET LOSS

Changes in collections and better inventory management helped improving the gross margin. The Group's gross margin rose by 1 percentage point to 53% (2010: 52%). Gross profit for 2011 totalled 28.4 million euros increasing by 1.4 million euros due to growth of sales and gross margin (2010: 27 million euros).

Steps undertaken for cost saving plan realised in diminished expenses. Distribution expenses decreased by 1.3 million euros (5%) and amounted to 27.1 million euros. Cutbacks in the retail system were mainly made in Lithuanian and Russian markets, cost savings in Russia are especially notable as expenses per square meter in the market decreased by 2.7%. Administrative expenses decreased the most also in Russian market. The fourth quarter distribution expenses include 175 thousand euros accrual for last phase in retail network restructuring- closing additional stores and moving the office in Russia from Moscow to St. Petersburg in the beginning of 2012.

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In 2011 Baltika continued cutting administrative and general expenses, implemented changes brought results already in the second half of the year and in total administrative and general expenses decreased by 2%, 64 thousand euro. Payroll costs decreased by 33 thousand euros. Number of staff in the head office decreased by 13 people compared to the end of 2010, reduction took place mainly in the fourth quarter.

In December 2011 AS Baltika reduced office space used for the company's head office. Tenants for the vacant office space have already been found, cost-saving from increased rental income will be achieved in the beginning of 2012.

In 2011 the Group's operating loss from the business before non-recurring expenses (before other operating income and expense) amounted to 1,592 thousand euros, 2,746 thousand euros less compared to similar figure 4,338 thousand euros in 2010. Operating loss before depreciation and amortisation was -2.1 million euros in 2011 (2010: -1.7 million euros).

EUR million	2011	2010
Operating loss from the core operations before non-recurring expenses and foreign exchange losses and gains	**-0.9**	**-4**
Non-recurring expenses:	**-3.5**	**-1,1**
Store closure expenses (distribution cost)	-0.6	-0,8
Change in inventory cost accounting estimate previous period impact	-1.2	0
Impairment allowances for receivables and interest expense on discounted receivables	-0.7	-0,2
Change in fair value of investment property	-0.5	0
Termination benefits provisions/expense (distribution or general expense accordingly)	-0.3	-0,1
Loss from disposals of non-current assets	-0.2	0
Foreign exchange losses and gains	**-0.1**	**0,4**
Financial expenses (income)	**-1.3**	**-1,2**
of which interest expense	-1.3	-1,2
Loss before income tax	**-5.8**	**-5,9**
Income tax income (expense)	-0.1	-0,4
Net loss	**-5.9**	**-6,3**

In 2011 other operating income and expense were significant with the net amount of 2,858 thousand euros (2010: 381 thousand euros). The main one-off non-cash items in other operating expense were 1,176 thousand euros changing estimates used in inventory cost price from prior period, 645 thousand euros allowance for third party receivables, 150 thousand euros loss from disposal of non-current assets, 500 thousand euros change to investment property fair value.

In 2011 Baltika Group's financial expenses totalled 1.3 million euros, a 11% increase compared to the previous year. Interest expenses were 1.2 million euros and declined by 12% year-over-year. Average interest rate in 2011 was 6,3% (2010: 5,8%).

The Group ended 2011with a net loss of 5.9 million euros. In 2010 net loss was 6.3 million euros.

FINANCIAL POSITION

Baltika Group was dealing in 2011 with difficult objective to secure financial position and means to carry out needed changes. Share issue took place in August for 3,010 thousand euros. In addition AS Baltika converted in November 250 thousand euros existing liabilities to KJK Fund Sicav-SIF to loan that carries no interest, which is recorded as equity instrument in equity and 1 million euros loan with 10% interest was received from KJK Fund Sicav-SIF in December. Total borrowings have been reduced as at 31.12.2011 compared to 31.12.2010 by 1,756 thousand euros.

Trade and other receivables as at 31 December 2011 decreased during the year by 930 thousand euros, which is mainly due to allowance expense that amounted to 699 thousand euros in 2011.

At the end of the year, inventories totalled 10,048 thousand euros, that is 756 thousand euros less than a year ago. When made comparable by using current inventory cost accounting principle an increase of 420 thousand euros, i.e. 4% compared with the previous year-end (31.12.2010 amount 10,804 thousand euros and adjustment 1,176 thousand euros). One reason for the increase is general sales growth and partly due to the delayed start of winter season.

The Group's net debt (interest-bearing liabilities less cash and bank balances) has decreased and amounted to 17,449 thousand euros the end of the year, 1,549 thousand euros less than as of 31 December 2010. The year-end net debt to equity ratio was 181%. Baltika Group's equity amounted to 9,622 thousand euros at year end.

NET ASSET POSITION

As at 31 December 2011 AS Baltika had net assets of 9,622 thousand euros. Mainly due to one-off expense the company is not compliant with Commercial Code as net assets are not half of the share capital of 25,056 thousand euros. In accordance with the Supervisory Council approved plan the ordinary general meeting of shareholders on 20th April will be proposed to reduce the nominal value of the share, which will ensure compliance with net asset position requirement in Commercial Code.

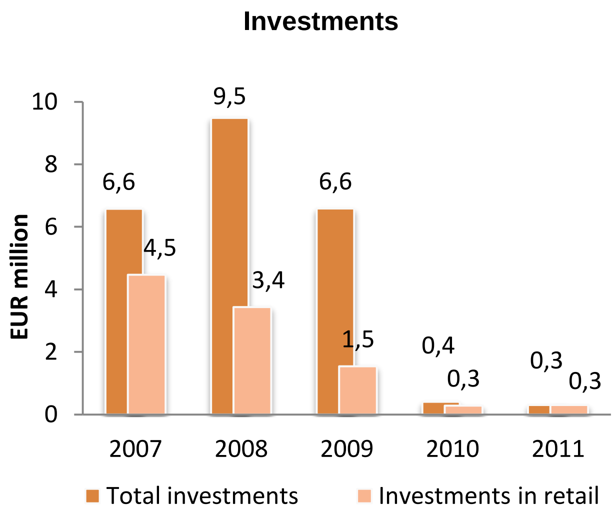
CASH FLOWS

In 2011 the Group's cash flows from operating activities substantially improved. Cash flows from operating activities amounted to -1,313 thousand euros (2010: -5,000 thousand euros) and include interest expense of 1,239 thousand euros and financing working capital in the amount of 467 thousand euros.

AS Baltika received financing from share issuance in the amount of 3,010 thousand euros. To secure financial position against seasonality and as part of improving investing capabilities decision was taken to isuse convertible bonds in spring of 2012 and for this 1 million loan was taken from KJK Fund Sicav-SIF (lender is obliged to convert loan to convertible bonds). Total cash flow from financing activities amounted to 1,449 thousand euros (2010: 4,055 thousand euros).

INVESTMENTS

In 2011 the Group's investments (to fixed and intangible assets) totalled 0.3 million euros. In 2010 investments in amount of 0.4 million euros were made.



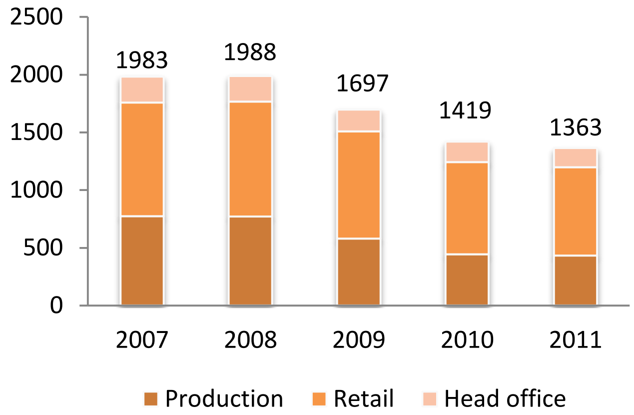
PEOPLE

To improve management efficiency and product development and better utilise sales resources, a new and more effective brand and sales management structure was implemented in the third quarter of 2011. Baltika will continue to operate with four brands but will centralise a number of activities that used to be brand-based and will streamline its former matrix management structure by reducing management levels and specifying responsibilities. With the change to new management structure and preceding profound analysis of business processes and with the objective to reduce administrative and general expense employment was terminated in second half of 2011 with 25 staff.

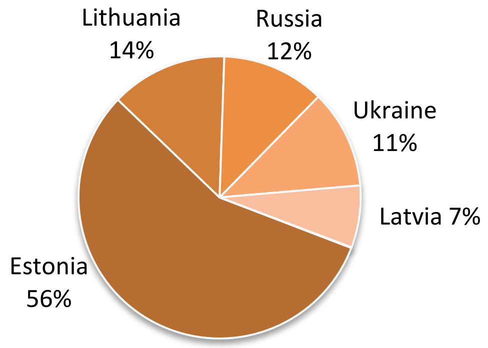
At the end of 2011 Baltika Group employed 1,363 people (31 December 2010: 1,419): in the retail system 765 (2010: 799), in manufacturing 433 (2010: 442) and in the head office 165 (2010: 178). During the year, number of employees decreased by 56 people. The Group's annual average number of staff was 1,405 (2010: 1,527). The proportion of staff employed outside Estonia was 44%, i.e. 595 people (2010: 43%, 614).

Employee remuneration expenses for 2011 totalled 10.7 million euros (2010: 10.7 million euros). The remuneration of the members of the Supervisory Council and the Management Board totalled 0.3 million euros (2010: 0.3 million euros). During the year, the number of the members of the Management Board decreased by one and the number of the members of the Supervisory Council also decreased by one.

Number of employees



Breakdown of personnel by country at 31 December 2011



In the first quarter of 2011 the company augmented its top management and the competence of its key areas. In January the company created the position of Retail Operations Director that was filled by Luke Dobbs who has extensive industry experience from British retail chains and in February the position of CFO was taken over by Maigi Pärnik-Pernik who has a strong finance and IT background. In the second half-year, the company appointed a new Market Director for Russia whose responsibilities include restructuring the existing Russian operations into a strong retail organization.

In 2011 a lot of effort was put into streamlining the work flows of the Group's stores. The human resources department and retail operations division updated the *Retail Manual* that regulates the stores' work processes and developed new service standards for all brand concepts. The new *Six Star Service Standards* further promote and support proactive, customer-focused sales and service.

A lot of attention was paid to implementing the new service standards through relevant training activities. AS Baltika prepared the training plans and materials. A crucial role in delivering the training was played by in-house trainers and store managers who conducted training courses and workshops on the new standards.

Following the implementation of the new service standards, in the second half-year a thorough customer service survey was performed at all stores. The survey was conducted in cooperation with Dive Eesti OÜ using the mystery shopping technique. The survey revealed both the strengths and weaknesses of the service and sales process. The main training and development activities of 2012 will be directed at resolving the weaknesses. We are pleased to report that several stores achieved the highest (100%) score in their customer service evaluation.

In 2011 the Group continued its inter-store competition *Store and Manager of the Year*, which lasts for the whole year and is aimed at identifying the best stores and store managers. The purpose of the competition is to recognise employees and value their contribution and commitment to achieving their sales targets.

SOCIAL RESPONSIBILITY AND ENVIRONMENT

The Group is a socially responsible company that considers the environmental aspects of its activities. The environmental dimension has been integrated into the Group's management structure and the Group strives to ensure that all its units operate in a way that is environmentally sustainable.

The Group's operations (head office, stores, manufacturing and logistics centre) do not have any major environmental impact. Environmental responsibility and sustainable behaviour is fostered by collecting, sorting and recycling packaging and production waste. The Group has a contract with the Estonian packaging recovery organisation MTÜ Eesti Pakendiringlus that looks after all of the packaging recycling aspects.

Manufacturing units, i.e. the sewing factories collect fabric, paper and plastic waste. In the case of woollen fabric, post-cutting fabric waste is sorted (paper parts of patterns are separated) and sent for recycling. Fabric storage waste (roll scraps and defective pieces) is also recovered for recycling. Cardboard boxes are collected and reused at the factory or sent for reuse to the logistics centre. The logistics centre sorts all packaging waste (cardboard, plastic, packaging tape) and reuses cardboard containers to the maximum. The stores collect cardboard and plastic waste.

All units gather batteries, electronic devices (computers, printers, etc.), bulbs and fluorescent lamps that are taken to recovery sites according to recycling requirements. The head office collects paper and documents (including old archive materials) and sends them for recycling.

In 2011 Baltika and its brands continued their long-term charity and sponsoring programmes. In accordance with the sponsoring agreement between Baltika and the Estonian Football Association, since 2006 the menswear brand Baltman supplies formal clothing for the players of the national team – on formal occasions the football players, their coaches and football officials wear Baltman's special order suits.

Based on a sponsoring agreement signed with the Estonian Olympic Committee in 2005, until the end of 2012 Baltika's fashion brand Monton will supply formal and casual wear to all Olympic and young athletes that represent Estonia at international competitions. To date, Olympic and fan collections have been created for the Athens, Torino, Beijing and Vancouver Olympics. The parade and fan collections for the 2012 London Olympics will be unveiled in spring 2012. In addition to the Estonian Olympic athletes, in 2008 Monton dressed the Latvian delegation to the Beijing Olympics. Since 2007 Monton has also been the official fashion partner of the Tallinn film festival PÖFF. The brand supplies the festival with a special fashion films programme and the official PÖFF shirts worn by both the festival team and the fans.

Since 2007, the Ivo Nikkolo brand has sponsored the charity project *From Estonian Women to Ivo Nikkolo* in which well-known Estonian women contribute to the creation of the Ivo Nikkolo collection and the revenue generated by the products designed by them is donated to a charity of their choice. Project participants have included the beloved TV star Anu Välba, the Estonian First Lady Evelin Ilves, the artist Epp-Maria Kokamägi and the former model Anni Arro.

In addition, every year Baltika dresses students that represent Estonia at the International Chemistry Olympiad and the staff of the best Estonian student company that represent Estonia at the Junior Achievement Young Enterprise Europe competition. At the competition held in Norway in 2011, which had participants from 34 countries, the Estonian student firm SOCKme finished among the best five.

Baltika upholds the policy of supporting its former long-term employees. Besides supporting their events, twice a year the company organises their reunions. In addition, the company supports female choir Baltika, which was founded in 1961 and consists of current and former employees, their friends and relatives and other interested persons.

Baltika contributes to the clothing industry and fashion education with a view to supporting the development of Estonian fashion and preparing qualified professionals who understand the fashion business. The company has strong partnerships with the Estonian Academy of Arts, TTK University of Applied Sciences and Tallinn Industrial Education Centre. Baltika allows students to attend its in-house training courses, arranges annual information days where it informs students about the processes and daily business of a fashion company and participates in the development of the fashion design curriculum of the Estonian Academy of Arts. The company's employees deliver lectures to students and annually more than 60 students from the above educational establishments have their industry training at Baltika. Many of the former trainees have become valued employees.

OUTLOOK AND OBJECTIVES FOR 2012

Baltic market has shown strong retail sales growth in 2011 and the beginning of 2012. Baltika Group expects continued stable growth for the Baltic market in the year 2012, although due to the crisis in European sovereign debt market and political tensions in Europe, the consumer confidence regarding future is volatile in Europe, including Baltic countries. Expectation for consumer spending growth in Eastern Europe is smaller, as the confidence of economic environment future is more uncertain. Stable development could be mainly impacted by Ukrainian political and economic situation.

Baltika Group

Taking forward the long-term strategy of Baltika Group for 2010-2014 that was developed in cooperation with the global consulting firm Roland Berger, the objectives for the year 2012 are:

- Sales revenue growth through increased sales efficiency
- Development of multi-brand stores strategy, including starting with concessions
- Gradual implementation of Monton and Mosaic brand new store concept upgrades
- Additional increase in sales revenue through additional sales channels: multi-channel strategy, development of Monton e-store
- Continued cost control and savings with the emphasis in 2012 on supply chain (customs, transportation, logistics)
- Continuing with improvements to collection quality
- Improving service standards in stores
- Improving net debt to equity ratio

Baltika management target for the full year of 2012 is 5% sales growth, sales efficiency growth of 10% and positive EBITDA of ca. 3 million euros. Cost saving from operating expenses target is to decrease operating expenses to revenue by 4 percentage points. The targets are in accordance with the budget approved by Supervisory Council on February 15 2012, which does not include possible impact from exiting real estate business.

In 2012 AS Baltika is planning to exit real estate business and sell office property and land in Tallinn, located at Veerenni Street 24. The company has finished the development process started in 2007, whereby the former factory building has been transformed into complete Baltika Quarter. The Quarter is mainly occupied by external tenants, and Baltika occupies for head office and store “Moetänav” 37% of the total rentable space and plans to continue renting after possible sale of the scheme. With the sale of property the company will focus on its main activity - fashion retailing, AS Baltika has chosen as the property transaction advisor Catella Corporate Finance. With the proceeds from sale the company will reduce leverage and improve its investing capability.

BALTIKA SHARE

Baltika's share has been listed on the Tallinn Stock Exchange since 5 June 1997. The Tallinn Stock Exchange is a member of the world's largest exchange company NASDAQ OMX Group. NASDAQ OMX Group was established at the beginning of 2008 when NASDAQ Stock Market completed its merger with the Baltic and Nordic exchange company OMX. The new stock exchange company delivers trading, exchange technology and public company services across six continents and, with over 3,500 companies, it is number one in worldwide listings among major markets.

Baltika's share does not have an official market maker. In February 2012 no companies listed on the Tallinn Stock Exchange had market maker agreements. The rules enforced in 2005 require newly listed companies to sign a relevant agreement for a certain period. For shares that have been listed for a longer time, it has not been necessary to enter into or extend such agreements.

AS Baltika received third place among Tallinn Stock Exchange listed companies for investor relations from NASDAQ OMX.

SHARES

AS Baltikal has issued 35,794,850 ordinary shares.

BEST INVESTOR RELATIONS
IN NASDAQ OMX TALLINN 2011 (III place)

Ordinary shares

Baltika's ordinary shares are listed on the NASDAQ OMX Tallinn Stock Exchange and carry equal voting and dividend rights. In the text below (the key share data, share price and trading figures, shareholder structure), any reference to Baltika's "share" or "shares" is a reference to ordinary shares unless indicated otherwise.

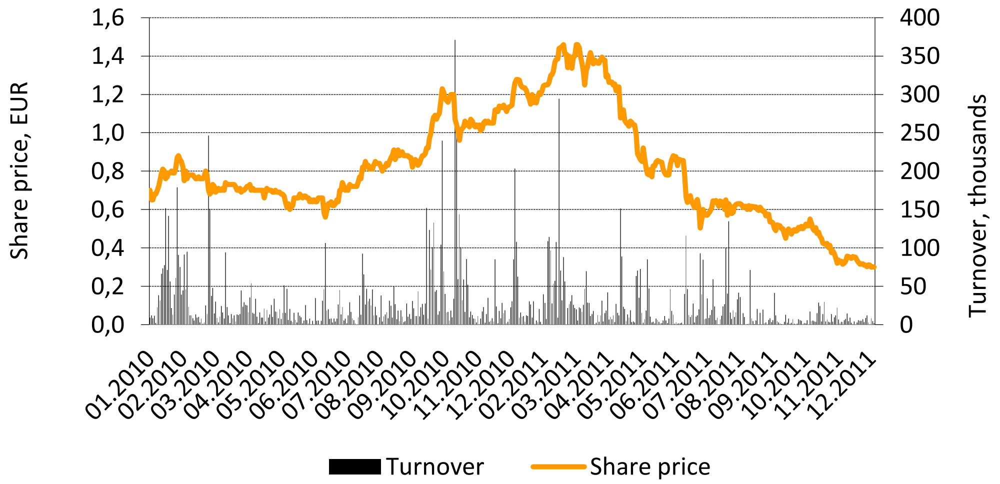
Information on listed ordinary shares

NASDAQ OMX symbol: BLT1T
ISIN number: EE3100003609
Minimum number of shares to trade: 1
Number of shares: 35,794,850
Nominal value of a share: 0.7 euros
Votes per share: 1

SHARE PRICE AND TRADING

In 2011 the price of the Baltika share decreased by 73.7% to 0.3 euros and the Group's year-end market capitalisation to 10.74 million euros. During the same period, the OMX Tallinn All-Share Index decreased by 23.9%.

Share price and turnover



Share Trading history

EUR	2007	2008	2009	2010	2011
High	9.57	3.95	1.27	1.23	1.52
Low	3.35	0.73	0.44	0.54	0.30
Average	7.03	2.09	0.70	0.82	0.81
Year-end price	3.90	1.15	0.73	1.14	0.30
Change, %	-47.30%	-70.50%	-36.50%	56.00%	-73.66%
Traded volume	8,384,256	12,572,468	10,671,279	9,389,183	6,663,797
Turnover, in millions	53.55	23.62	7.57	7.84	5.51

INDICES

The Nordic and Baltic exchanges of NASDAQ OMX Group use the same index structure. The NASDAQ OMX Baltic index family comprises the All Share Index, the Tradable Index, the Benchmark Index, and sector indices. The indices are calculated in euros as price (PI) and/or gross (GI) indices. All indices are chain-linked, meaning that they are calculated based on the price level of the previous trading day. All Baltic equity indices have a base value of 100 and a base date of 31 December 1999. The base date for OMX Tallinn is 3 June 1996.

As of February 2012 Baltika share was part of the following all share indexes:

Index	Description	Type	Short name
OMX Tallinn GI	OMX Tallinn all share index	Gross index	OMXTGI
OMX Baltic PI	Baltic all share index	Price index	OMXBPI
OMX Baltic GI	Baltic all share index	Gross index	OMXBGI

SHAREHOLDER STRUCTURE

At the end of 2011, AS Baltika had 1,987 shareholders. The number of shareholders decreased by 2% over the year.

The largest shareholder of AS Baltika is KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account), which owned 21.21% of ordinary shares as at the end of 2011. The full list of shareholders is available on the website of the Estonian Central Securities Depository (www.e-register.ee).

Largest shareholders as at 31 December 2011

	Number of shares	Holding
ING Luxembourg S.A.	7,590,914	21.21%
E. Miroglio S.A.	4,968,330	13.88%
BMIG OÜ	4,750,033	13.27%
Skandinaviska Enskilda Banken Ab clients	3,591,060	10.03%
Svenska Handelsbanken clients	1,895,000	5.29%
Clearstream Banking Luxembourg S.A. clients	1,712,730	4.78%
AS Genteel	977,837	2.73%
Meelis Milder	726,336	2.03%
Central Securities Depository of Lithuania	641,455	1.79%
Tõnis Kotkas	444,167	1.24%
Other	8,496,988	23.74%
Total	**35,794,850**	**100%**

Largest shareholders besides the Management Board include international investment funds and other legal persons who own approximately 82% of the shares. Individuals hold approximately 18% of the shares. Approximately 39% of AS Baltika shareholders are from Estonia.

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

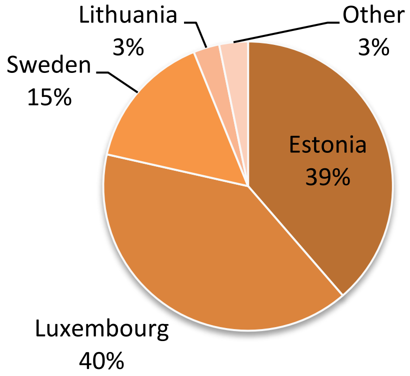
Shareholder structure by shareholder type as at 31 December 2011

	Number of shares	Holding
Management Board members, close family members and entities under their control	5,811,552	16.24%
Legal persons	24,407,104	68.19%
Individuals	5,576,194	15.58%
Total	**35,794,850**	**100%**

Shareholder structure by size of holding as at 31 December 2011

Holding	Number of shareholders	Percentage of all shareholders	Number of shares	Percentage of votes held
> 10%	4	0.20%	20,900,337	58.39%
1.0 - 10.0%	8	0.40%	7,208,025	20.14%
0.1 - 1.0%	34	1.69%	3,006,705	8.40%
< 0.1%	1,965	97.71%	4,679,783	13.07%
Total	**2,011**	**100%**	**35,794,850**	**100%**

Shareholder structure by country at 31 December 2011



SHARE CAPITAL

In 2011 AS Baltika share capital increased by 3 million euros from share issuance and 2 million euros from share capital conversion to euros through a bonus issue and amounted to 25.1 million euros as at year end. In accordance with annual general meeting decision on 31 May 2011 4,000,000 preference shares were cancelled and ordinary shares issued instead. Share capital increased with emission of 4,300,000 shares by 3,010,000 euros and in accordance with annual general meeting decision to undertake the conversion of the share capital to euros, the share capital increased without making any additional contributions (through a bonus issue) by 1,917,518 euros. As a result of the issue AS Baltika has 35,794,850 shares (see also section “Shares”).

According to the Articles of Association, AS Baltika maximum share capital is 40 million euros.

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

Changes in share capital

Date	Issue type	Issue price EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31.12.2006				**6,214,950**	**3,972**	**3,776**
11.06.2007	Bonus issue	-	12,429,900	18,644,850	11,916	-3776
31.12.2007				**18,644,850**	**11,916**	**0**
31.12.2008				**18,644,850**	**11,916**	**0**
10.07.2009	Issue of preference shares	0.64	4,000,000	22,644,850	14,473	0
31.12.2009				**22,644,850**	**14,473**	**67**
21.06.2010	Issue of ordinary shares	0.77	8,850,000	31,494,850	20,129	1,131
31.12.2010				**31,494,850**	**20,129**	**1,198**
30.05.2011	Share nominal conversion to euros				1,918	-1,377
31.05.2011	Cancelling of preference shares		-4,000,000	**27,494,850**	-2,556	0
31.05.2011	Issue of ordinary shares		4,000,000	**31,494,850**	2,556	0
3.08.2011	Issue of ordinary shares	0.7	4,300,000	**35,794,850**	3,010	0
31.12.2011				**35,794,850**	**25,057**	**89**

DIVIDENDS

The Group ended 2011 with a consolidated net loss of 5.9 million euros. The Management Board of the Group’s proposes that this year no dividends be distributed to the holders of ordinary shares. In previous year, the company did not distribute any dividends either.

For dividend history and ratios, please refer to the Key share data table.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Code (CGC) of the Tallinn Stock Exchange is a set of rules and principles which is designed, above all, for listed companies. Since the provisions of CGC are recommendations by nature, the company need not observe all of them. However, where the company does not comply, it has to provide an explanation in its corporate governance report. The “comply or explain” approach has been mandatory for listed companies since 1 January 2006.

Baltika adheres to all applicable laws and regulations. As a public company, Baltika also observes the rules of the Tallinn Stock Exchange and the requirement to treat investors and shareholders equally. Accordingly, Baltika complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, our corporate governance report contains information on the annual general meeting of 2011, the supervisory council, the Management Board and explains Baltika’s governance structure and processes.

CGC Article 1.3.3.

An issuer shall make attendance and participation in the general meeting possible by means of communication equipment (e.g. the Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the issuer

Since Baltika does not have the required technical equipment, that would allow secure identification of shareholders, currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 2.2.1.

The chairman of the supervisory council shall conclude a contract of service with each member of the Management Board for discharge of their functions.

Contract of service is concluded with the three members of the Management Board for chairman or member functions as relevant. One member of Management Board, Andrew Paterson, serves the company under a consulting services agreement entered into with his company Keel Consulting Associates Ltd.

CGC Article 2.2.7.

The basic salary, performance pay, severance package, and other benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the issuer and in the corporate governance report. Information shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.

The remuneration and other benefits provided to members of the Management Board are set out in their employment contracts. Owing to the confidentiality of the contracts, Baltika does not disclose the remuneration and benefits provided to each member of the Management Board. However, Baltika discloses the total amount of remuneration provided to members of the supervisory council and Management Board in the management report section of its interim and annual reports. In 2011, the figure amounted to 0.3 million euros. The contractual severance benefits of members of the Management Board range from 3- to 18-fold monthly remuneration.

Members of the Management Board, like other employees, are eligible to performance pay in accordance with the Group’s bonus scheme, which is based on the performance of profit centres. The maximum bonus level for the chairman of the Management Board/CEO is 2.5% of the Group’s net profit for the financial year and 1% for other members of the Management Board. The maximum amount of prepayments of annual bonuses can be 50% of expected amount, the final one is calculated and made after the financial statements have been audited. The bonus of the chairman of the Management Board/CEO is determined by the Supervisory Council. The bonuses of members of the Management Board are determined by the chairman of the supervisory council based on a proposal made by the chairman of the Management Board. Due to the loss incurred, members of the Management Board did not receive any performance pay in 2011.

Members of the Management Board, similarly to all executives working under a director's contract in the Group, can receive one funded pension contribution of up to one month's salary per year, provided they have worked in the director's position for at least three years. Members of the Management Board may use a company car and are eligible to other benefits provided for in the company's internal rules. Members of the Management Board have participated in the convertible bond (option) programs arranged for Group's employees and are eligible to do so in the future.

CGC Article 3.2.5.

The remuneration of a member of the supervisory council (amount and disbursement procedure) shall be disclosed in the issuer's corporate governance report. Basic and additional remuneration (severance and other monetary benefits) shall be disclosed separately.

The annual general meeting of 2009 passed the motion that the emoluments of members of the supervisory council should remain the same as decided by the extraordinary general meeting of 8 December 2004. The remuneration of the chairman of the supervisory council amounts to 639 euros per month and the remuneration of a member of the supervisory council to 383 euros per month. A member of the supervisory council is not eligible to severance compensation or any other monetary benefits.

CGC Article 3.3.2.

A member of the supervisory council shall promptly inform the chairman of the supervisory council and the Management Board of any business offer related to the business activity of the issuer made to the member of the supervisory council or a person close or connected to the member of the supervisory council. All conflicts of interests that have arisen during the reporting year shall be disclosed in the Corporate Governance Report along with their resolutions.

In 2011 nor 2010 no conflicts of interests occurred.

CGC Article 5.6.

The issuer shall disclose the dates and places of meetings with analysts, and presentations and press conferences organized for analysts, investors or institutional investors on its website. The issuer shall enable shareholders to attend the above meetings and shall make the texts of the presentations available on its website.

In accordance with the rules of the Tallinn Stock Exchange, Baltika first discloses all material and price sensitive information through the stock exchange system. The information disseminated at meetings and press conferences is limited to previously disclosed data. All information which has been made public, including presentations made at meetings, is available on the Group's website (www.baltikagroup.com), which lists the contacts of persons who can provide further information. Presenting a schedule of meetings on the corporate website is not currently relevant.

As a rule, the issuer cannot enable other shareholders to attend the meetings held with institutional investors and analysts. To ensure the objectivity and unbiased nature of the meetings, institutional investors observe internal rules which do not allow third parties to attend such meetings.

CGC Article 6.2.

Election of the auditor and auditing of the annual accounts

In accordance with the Baltika's Articles of Association, the auditor(s) is (are) appointed by the general meeting for the performance of a single audit or for a specific term. The annual general meeting which convened on 11 May 2011, appointed the auditor of the annual financial statements for 2011. According to the audit agreement, the engagement partner is Ago Vilu and the engagement manager Eva Jansen-Diener. AS Baltika ensures the auditor's independence by rotating the engagement partner and engagement manager in accordance with the rules of Financial Supervision Authority.

The audit fee is fixed in an agreement which is concluded by the Management Board. In the notice of the annual general meeting, Baltika publishes the information required by the Commercial Code (Section 294 Subsection 4) that does not include the auditor's fee. Baltika does not disclose the auditor's fee because the disclosure of such sensitive information would damage the competitive position of the audit firm (CGC Article 6.2.1.).

Under the law, the agreement entered into by an audit firm is governed by International Standards on Auditing, the Estonian Auditing Guidelines and the risk management policies of the audit firm that do not require the auditor to submit a memorandum on the issuer's non-compliance with the Corporate Governance Code. Accordingly, the agreement signed between Baltika and its audit firm does not include a corresponding article and the auditor does not submit such a memorandum (CGC Article 6.2.4.).

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

AS Baltika is a public limited company whose governing bodies are the shareholders' general meeting, the supervisory council and the Management Board.

General meeting

The general meeting is the Baltika's highest governing body. General meetings may be annual or extraordinary. The annual general meeting convenes once a year within six months after the end of the Baltika's financial year. An extraordinary general meeting is called by the Management Board when the Baltika's net assets based on audited results have declined below the level required by the law and there is over 2 months to annual general meeting of shareholders or when calling of a meeting is demanded by the supervisory council, the auditor, or shareholders whose voting power represents at least one tenth of the Baltika's share capital. A general meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a general meeting is determined at 8 a.m. at the date of the general meeting.

The annual general meeting of 2011 was held on 11 May at 24 Veerenni in Tallinn, Estonia. A total of 16,402,855 shares were represented i.e. 59.66% of the voting stock. The meeting approved the company's annual report and profit allocation proposal for 2010 and appointed AS PricewaterhouseCoopers as the company's auditor. Decision was taken to cancel preference shares and issue ordinary shares instead. Amended Articles of Association was approved, which allows share nominal amount conversion from kroon to euros, that was decided on with a decision to increase share capital from equity that required changes to G Bond issuance terms. In addition it was decided to issue share capital through ordinary share issuance. Detailed numbers of share capital changes are in section "Share capital".

Supervisory council

The supervisory council plans the activities of the Baltika, organises the management and supervises the activities of the Management Board. The supervisory council meets according to need but not less frequently than once every three months. A meeting of the supervisory council has a quorum when more than half of the members participate. A resolution of the supervisory council is adopted when more than half of the members of the supervisory council who participate in the meeting vote in favour. Each member of the supervisory council has one vote. In 2011, the supervisory council met seven times. All members of the supervisory council attended all or most of the meetings of the supervisory council.

According to the Articles of Association, Baltika's supervisory council has three to seven members. The members are elected by the general meeting for a period of three years. Five members of the current council were elected by the annual general meeting in 2009. The annual general meeting of 2010 elected two additional supervisory council members.

The members of the supervisory council were Tiina Mõis (chairman), Reet Saks, Allan Remmelkoor, Andres Erm, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin and Edoardo Miroglio. The two latter ones were elected by the annual general meeting in 2010. In December 2011 Edoardo Miroglio gave notice of his resignation from the Supervisory Council. Tiina Mõis is the director of the investment firm AS Genteel and a member of the councils of several Estonian companies. Reet Saks is an attorney with Law Office Raidla Lejins & Norcous, a long-term partner of Baltika. Reet Saks has been a member of Baltika's supervisory council since 1997. Allan Remmelkoor, the chief executive of AS Täismaja which operates the Kristiine Centre in Tallinn, Estonia, contributes valuable retail expertise. Andres Erm has extensive experience with emerging markets in Eastern Europe which are also targeted by Group. Lauri Kustaa Äimä is a managing director of Kaima Capital Oy and a member of the councils of several Baltic companies. Mr Äimä has long-term experience in advising potential investors on matters related to investing in the companies of the Baltic countries. Jaakko Sakari Mikael Salmelin is a partner of KJK

Capital Oy; he has managed various Eastern European funds focusing mainly on the Baltic and Balkan markets.

One council member owns Baltika's shares: Tiina Mõis owns 977,837 ordinary shares i.e. 2.73% of share capital through the company under her control as at the end of 2011.

Six of the seven members of Baltika's supervisory council were independent. The dependent member is Reet Saks who has been a member of Baltika's supervisory council for more than ten years.

Audit committee

To ensure conformance with the Auditors Activities Act, on 16 August 2010 the supervisory council of Baltika decided that an audit committee should be formed for the company and approved its rules of procedure. The audit committee is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, and the external audit of the consolidated financial statements. The committee is also responsible for making recommendations in relation to the above issues to prevent or eliminate problems and inefficiency.

The audit committee reports to the supervisory council and its members are appointed and removed by the supervisory council. The committee has two to five members whose term of office is three years. The members of the audit committee are not remunerated for serving on the committee. Baltika's audit committee is chaired by Reet Saks. Members of the committee are Tiina Mõis and Jaakko Sakari Mikael Salmelin.

In 2011 the audit committee had three meetings. In the beginning of 2011 the committee met with the representatives of the audit firm PricewaterhouseCoopers to obtain an overview of the audit of the consolidated financial statements for 2010. In September the terms of the service contracts to be signed with members of the Management Board and changes to internal policies and procedures were discussed. In December the committee met with with the representatives of the audit firm PricewaterhouseCoopers to obtain overview of the observations made during 2011 audit interim work.

Management board

The Management Board is a governing body which represents and manages Baltika in its daily activity in accordance with the law and the Articles of Association. The Management Board has to act in the best economic interests of the company. The members of the Management Board elect a chairman from among themselves who organises the activities of the Management Board. Every member of the Management Board may represent the company in all legal acts.

According to the Articles of Association, Baltika's Management Board may have three to seven members who are elected by the Supervisory Council for a period of three years. The supervisory council may also remove a member of the Management Board.

Baltika's management board has four members: chairman Meelis Milder and members Maigi Pärnik-Pernik, Maire Milder and Andrew Paterson. On 30 March 2011 Supervisory Council decided to recall as Management Board member then current financial director Ülle Järv and appoint Maigi Pärnik-Pernik to Management Board. Supervisory Council called back Boriss Loifenfeld from the Management Board effective from 1 November 2011, who continues to work as Wholesale and Eastern Markets Director of AS Baltika.

The Chairman of the Management Board Meelis Milder is the company's CEO, Maigi Pärnik-Pernik the CFO, Maire Milder the Branding and Retail Developing Director and Andrew Patterson Commercial Director.

Management board members Meelis and Maire Milder own Baltika's shares also through the holding company OÜ BMIG, which at the end of 2011 held 13.27% of Baltika's share capital. Latter hold 80.5% of OÜ BMIG shares. In addition, Management Board members have their individual shareholdings. Consequently, through their direct and indirect holdings, at the end of 2011 Management Board members, their close family members and entities under their control owned 16.24% of Baltika share capital.

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

Shareholdings of members of the Management Board at 31 December 2011

	Ordinary shares (listed)	
	No of shares	**Holding**
OÜ BMIG	4,750,033	13.27%
Meelis Milder	726,336	2.03%
Maire Milder	316,083	0.88%
Andrew Paterson	11,000	0.03%
Close family members of Management Board members	8,100	0.02%
Total OÜ BMIG and Management Board members	**5,811,552**	**16.24%**
Baltika share capital	**35,794,850**	**100%**

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's 2011 consolidated financial statements as presented on pages 29 to 72.

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. the Group is going concern.

Meelis Milder Chairman of the Management Board 23 March 2012	Maigi Pärnik-Pernik Member of the Management Board 23 March 2012
Andrew J. D. Paterson Member of the Management Board 23 March 2012	Maire Milder Member of the Management Board 23 March 2012

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Current assets			
Cash and cash equivalents	4	863	823
Trade and other receivables	5	2,189	3,119
Inventories	6	10,048	10,804
Total current assets		**13,100**	**14,746**
Non-current assets			
Deferred income tax asset	7	838	838
Other non-current assets	8	629	780
Investment property	9	8,549	7,069
Property, plant and equipment	10	8,031	12,121
Intangible assets	11	3,665	3,898
Total non-current assets		**21,712**	**24,706**
TOTAL ASSETS		**34,812**	**39,452**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	13	3,178	2,125
Trade and other payables	14	6,785	6,981
Total current liabilities		**9,963**	**9,107**
Non-current liabilities			
Borrowings	13	15,144	17,953
Other liabilities	14	83	37
Total non-current liabilities		**15,227**	**17,990**
TOTAL LIABILITIES		**25,190**	**27,096**
EQUITY			
Share capital at par value	15	25,056	20,129
Share premium		89	1,332
Reserves	15	2,494	2,784
Retained earnings		-11,592	-4,961
Net loss for the period		-5,863	-6,344
Currency translation differences		-727	-747
Total equity attributable to equity holders of the parent		**9,457**	**12,194**
Non-controlling interest		165	162
TOTAL EQUITY	15	**9,622**	**12,356**
TOTAL LIABILITIES AND EQUITY		**34,812**	**39,452**

The Notes to the financial statements presented on pages 34-72 are an integral part of the Financial Statements.

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2011	2010
Revenue	16,17	53,409	52,207
Cost of goods sold	18	-25,042	-25,171
Gross profit		**28,367**	**27,036**
Distribution costs	19	-27,095	-28,446
Administrative and general expenses	20	-2,864	-2,928
Other operating income	22	59	646
Other operating expenses	22	-2,917	-1,027
Operating loss		**-4,450**	**-4,719**
Finance income	23	3	201
Finance costs	23	-1,344	-1,406
Loss before income tax		**-5,791**	**-5,925**
Income tax expense	24	-69	-407
Net loss		**-5,860**	**-6,332**
Profit (loss) attributable to:			
Equity holders of the parent company		-5,863	-6,344
Non-controlling interest		3	12
Other comprehensive income (loss)			
Currency translation differences		20	-145
Total comprehensive loss		**-5,840**	**-6,477**
Comprehensive income (loss) attributable to:			
Equity holders of the parent company		-5,843	-6,490
Non-controlling interest		3	12
Basic earnings per share, EUR	25	-0.19	-0.27
Diluted earnings per share, EUR	25	-0.19	-0.27

The Notes to the financial statements presented on pages 34-72 are an integral part of the Financial Statements.

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2011	2010
Operating activities			
Operating loss		-4,450	-4,719
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	10,11	2,422	2,983
Loss from disposal of PPE		160	518
Revaluation of investment property	9	500	0
Impairment of trade receivables	22	699	0
Change in cost price estimates of finished goods and goods purchased for sale	22	1,176	0
Other non-monetary expenses		29	-293
Changes in working capital:			
Change in trade and other receivables	5	174	-61
Change in inventories	6	-420	1,223
Change in trade and other payables	14	-221	-3,201
Interest paid		-1,239	-1,391
Income tax paid		-143	-57
Net cash used in operating activities		**-1,313**	**-5,000**
Investing activities			
Acquisition of property, plant and equipment, intangibles, thereof	10,11	-142	-402
Under the finance lease terms	12	5	43
Proceeds from disposal of property, plant and equipment	10	71	1,548
Interest received		0	1
Net cash generated from (used in) investing activities		**-66**	**1,190**
Financing activities			
Received borrowings	13	2,193	1,884
Repayments of borrowings	13	-2,336	-2,797
Change in bank overdraft	13	-1,150	-1,275
Repayments of finance lease	12,14	-218	-248
Receipts from contributions into share capital	15	3,010	6,787
Dividend paid for preference shares	15	-49	-291
Treasury stock transactions		0	-5
Redemption of bonds	13	-1	0
Net cash generated from financing activities		**1,449**	**4,055**
Effect of exchange gains (losses) on cash and cash equivalents	23	-30	193
Total cash flows		**40**	**438**
Cash and cash equivalents at the beginning of the period	4	**823**	**385**
Cash and cash equivalents at the end of the period	4	**863**	**823**
Change in cash and cash equivalents		**40**	**438**

The Notes to the financial statements presented on pages 34-72 are an integral part of the Financial Statements.

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent							
	Share capital	Share premium	Reserves	Retained earnings	Currency translation differences	Total	Non-controlling interest	Total equity
Balance as at 31 December 2009	**14,473**	**67**	**2,784**	**-4,961**	**-601**	**11,762**	**162**	**11,924**
Profit (loss) for the period	0	0	0	-6,344	0	-6,344	12	-6,331
Other comprehensive income (loss)	0	0	0	0	-145	-145	0	-145
Total comprehensive income (loss)	0	0	0	-6,344	-145	-6,490	12	-6,477
Equity-settled share-based transactions (Note 26)	0	134	0	0	0	134	0	134
Increase of share capital (Note 15)	5,656	1,131	0	0	0	6,787	0	6,787
Change in non-controlling interest	0	0	0	0	0	0	-12	-12
Balance as at 31 December 2010	**20,129**	**1,332**	**2,784**	**-11,305**	**-747**	**12,194**	**162**	**12,356**
Profit (loss) for the period	0	0	0	-5,863	0	-5,863	3	-5,860
Other comprehensive income (loss)	0	0	0	0	20	20	0	20
Total comprehensive income (loss)	0	0	0	-5,863	20	-5,843	3	-5,840
Equity-settled share-based transactions (Note 26)	0	134	0	0	0	134	0	134
Equity instrument (Note 15)	0	0	250	0	0	250	0	250
Conversion of share capital to euros (Note 15)	1,917	-1,377	-540	0	0	0	0	0
Increase of share capital (Note 15)	3,010	0	0	-287	0	2,723	0	2,723
Balance as at 31 December 2011	**25,056**	**89**	**2,494**	**-17,455**	**-727**	**9,457**	**165**	**9,622**

Additional information on share capital and changes in equity is provided in Note 15.

The Notes to the financial statements presented on pages 34-72 are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 General information and summary of significant accounting policies

General information

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer operating Monton, Mosaic, Baltman and Ivo Nikkolo retail concepts. The Baltika Group employs a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, logistics and retailing. As of the end of 2011, there were 115 Baltika stores on five markets in the Baltics and Eastern Europe (2010: 120 stores on six markets). Baltika also sells its collections through wholesale. As at 31 December 2011, the Baltika Group employed 1,363 people (31 December 2010: 1,419).

AS Baltika's shares are listed on the Tallinn Stock Exchange. The largest shareholder and the only company holding above 20% of shares (Note 15) of AS Baltika is KJK Fund Sicaf-SIF (on ING Luxembourg S.A. account).

AS Baltika (the Parent company) (registration number: 10144415, address: Veerenni 24, Tallinn, Estonia) is a company registered in the Republic of Estonia and during 2011 was operating in Estonia, Latvia, Lithuania, Russia, Ukraine and Poland. The consolidated financial statements prepared for the financial year ended at 31 December 2011 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group): Baltika Poland Sp.z.o.o., OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, AS Virulane, OÜ Baltika TP and OÜ Baltika Retail and its subsidiaries OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva, OOO Kompania "Baltman RUS" and Baltika Ukraina Ltd.

The Management Board of AS Baltika authorised these consolidated financial statements at 23 March 2012. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the supervisory council of the Parent company and the general meeting of shareholders.

Basis of preparation

The Group's 2011 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The financial statements have been prepared under the historical cost convention, except investment property, which has been revalued and accounted for at fair value as disclosed in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. See also section "Comparability" below.

Adoption of euro as national currency on 1 January 2011

On 1 January 2011, the Republic of Estonia joined the Euro area and adopted the Euro as its national currency, replacing the Estonian kroon. Consequently, starting from 2011, Baltika and its Estonian subsidiaries' functional currency is Euro and the statutory consolidated financial statements of 2011 and later periods will be presented in Euros. Comparative figures were recalculated to euros using the conversion rate EUR 1=EEK 15.6466. The exchange rate has been the same during previous periods.

All information in the financial statements is presented in thousands of euros, unless otherwise stated. In 2010 the financial statements were prepared also in euro, the Estonian kroon was pegged to the euro at the rate of EUR 1=EEK 15.6466. Due to rounding of euros to the nearest thousand arithmetical inaccuracies up to 1 thousand euros may occur in 2010.

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 respective notes. When presentation of items in the financial statements or their classification method has been amended, then the comparative information of previous periods has also been restated.

New International Financial Reporting Standards, amendments to published standards and interpretations by the International Financial Reporting Interpretations Committee

Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations that are relevant and became effective for the Group from 1 January 2011:

Improvement to International Financial Reporting Standards issued in May 2010 (effective for annual periods beginning on or after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008). The above amendments resulted in changed disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The amendment had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have material impact to the Group.

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group´s annual periods beginning on or after 1 January 2012, and which the Group has not early adopted.

IFRS 12 Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013, not yet adopted by theEU), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

Disclosures– Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact to the Group.

Principles of consolidation, accounting for business combinations and subsidiaries

A subsidiary is an entity in which the Group, directly or indirectly, has interest of more than 50% of the shares with voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. All subsidiaries have been consolidated in the Group's financial statements.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date on which control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments into subsidiaries are reported at cost (less any impairment losses) in the separate primary financial statements of the Parent company.

Non-controlling interest

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

Transactions with non-controlling interest

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is the local currency. The functional currency of the Parent company and subsidiaries located in Estonia is euro. The consolidated financial statements have been prepared in euros, which is the Parent company's functional and the Group's presentation currency.

Financial statements of foreign operations

The results and financial position of the foreign subsidiaries of the Group are translated into presentation currency as follows:
- assets and liabilities are translated into euros at the closing rate at the date of the balance sheet;

- income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate of the balance sheet date.

When a subsidiary is partially or wholly disposed through sale, liquidation, repayment of share capital or abandonment, the exchange differences deferred in equity are reclassified to profit or loss.

Foreign currency transactions and balances

During the year, all foreign currency transactions of the Group have been translated to functional currencies based on the foreign currency exchange rates of the applicable Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the applicable Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses, including arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognised in the income statement as income or expenses of that period.

Gains and losses arising from trade receivables and payables denominated in foreign currencies are recognised net under "Other operating income (expenses)" (Note 22). Gains and losses arising from cash, cash equivalents and borrowings are recognised under net method in financial expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand as well as bank account balances, and term deposits with original maturities of three months or less. Bank overdrafts are shown under current or non-current borrowings (depending on the nature and term of the contract) in the balance sheet. Cash and cash equivalents are measured at amortised cost.

Financial assets

The purchases and sales of financial assets are recognised at the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Depending on the purpose for which financial assets were acquired as well as management's intentions, financial assets are classified into the following categories at initial recognition:
- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

As at 31 December 2011 (and 31 December 2010) the Group had no other classes of financial assets than those classified under the category of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at fair value plus transaction costs. After initial recognition, loans and receivables are accounted for at amortised cost using the effective interest rate method. This method is used for calculating interest income on the receivable in the following periods.

When it is probable that the Group is unable to collect all amounts due according to the original terms of receivables, an allowance is set up for the impairment of these receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognised in the income statement within "Other operating expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Other receivables are assessed based on their collectible amounts. The collection of each receivable is assessed separately, taking into consideration all known information on the solvency of the debtor. Doubtful receivables are written down in the balance sheet to the collectible amount. Irrecoverable receivables are derecognised.

Receivables are generally included in current assets when they are due within 12 months after the balance sheet date. Such receivables whose due date is later than 12 months after the balance sheet date are reported as non-current assets.

Inventories

Inventories are recorded on the balance sheet at cost, consisting of the purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their present location and condition.

Purchase costs include the purchase price, customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct materials and packing material costs, unavoidable storage costs related to work in progress, direct labour) and also a systematic allocation of fixed and variable production overheads (such as depreciation and maintenance of factory buildings and equipment, overhaul costs, and the labour cost of factory management).

The FIFO method is used to account for the cost of inventories. Inventories are measured in the balance sheet at the lower of acquisition/production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Investment property

Real estate properties (land, buildings) that the entity owns or leases under finance lease terms to earn lease income or for capital appreciation, or both, and which are not occupied by the Group are recorded under investment property. An investment property is initially recognised at its acquisition cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. It is subsequently re-measured at its fair value which is based on the market value determined annually by external valuers or the management's judgement. Earned lease income is recorded in profit or loss within revenue. Gains and losses resulting from changes in the fair value of investment property are recognised under "Other operating income (expenses)".

If non-current assets used in operating activities are reclassified as investment property, the difference between the carrying amount of reclassified asset and the fair value is recognised as revaluation surplus in other comprehensive income. Investment property is not reclassified as non-current assets used in operating activities if the usage in operating activities is of temporary substance and the effect of the change in m^2 remains less than 10% of the total area of the object. Gains and losses resulting from changes in the fair value of investment property were recognised in income statement, under "Other operating income (expenses)". The revaluation surplus included in equity is transferred to retained earnings on the subsequent disposal of investment property.

Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the Group with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

An item of property, plant and equipment is subsequently stated at cost less any accumulated depreciation and any impairment losses. Subsequent expenditure incurred for an item of property, plant and equipment is recognised as a non-current asset when it is probable that the Group will derive future economic benefits from it and its cost can be measured reliably. The cost of reconstruction carried out on leased premises is depreciated over the shorter of the useful life of the asset and the lease term. Other maintenance and repair costs are expensed when incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- buildings and structures 5-60 years;
- machinery and equipment 2-7 years;
- other fixtures 2-10 years.

At each balance sheet date, the appropriateness of depreciation rates, methods and the residual value is assessed. When the residual value of the asset exceeds its carrying amount, the depreciation of the asset is ceased.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss in the income statement item "Other operating income (expenses)".

Non-current assets held for sale

Assets classified as assets held for sale are recognised in the balance sheet at the lower of carrying amount and fair value (less costs to sell). Assets are classified as held for sale, when the carrying amount is principally recovered through a sale transaction rather than through continuing use. Non-current assets held for sale are items of property, plant and equipment and intangible assets which the management intends to sell within the next 12 months and with regard to which the management has started active marketing activities and the assets are offered for sale at a realistic price as compared to their fair value. The depreciation of assets held for sale is ceased. Assets held for sale are reported in the balance sheet as a separate item "Non-current assets held for sale".

Intangible assets (excluding goodwill)

An intangible asset is initially recognised at its acquisition cost, comprising its purchase price, any directly attributable expenditure on preparing the asset for its intended use and borrowing costs that relate to assets that take a substantial period of time to get ready for use. After initial recognition, an intangible asset is carried at its acquisition cost less any accumulated amortisation and impairment losses.

Trademarks and licenses

Acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (5-20 years).

Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3-10 years).

Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of non-controlling interest in the acquiree. Goodwill which arose in the acquisition of a business is recognised as an intangible asset in the consolidated financial statements. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is immediately recognised under "Other operating income".

At the transaction date, goodwill is recognised in the balance sheet at its acquisition cost. Goodwill is subsequently carried at its cost less any impairment losses. Goodwill is not amortised. Goodwill is allocated to CGUs (cash generating units) for the purpose of impairment testing.

At each balance sheet date (or more frequently when an event or change in circumstances indicates that the fair value of goodwill may have become impaired), an impairment test is performed and if necessary, goodwill is written down to its recoverable value (if it is lower than its carrying amount).

Goodwill which arose in the acquisition of foreign businesses is translated using the foreign exchange rate of the applicable Central bank prevailing on the balance sheet date.

Impairment of non-current assets

Intangible assets with indefinite useful lives (goodwill) are not subject to amortisation but are tested annually for impairment, by comparing their carrying amount with the recoverable amount.

Assets that are subject to amortisation and depreciation and assets with infinite useful life (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such circumstances exist, the recoverable amount is compared with the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU or cash generating unit).

Assets which were written down are reviewed on each balance sheet date to determine whether their recoverable value has arisen. The reversal of the impairment loss is recorded in the income statement of the financial year as a reduction of the impairment losses. Impairment loss recognised for goodwill is not reversed.

Finance and operating leases

Leases in the case of which the lessor retains substantially all the risks and rewards of ownership, are classified as operating leases. Other leases are classified as finance leases.

The Group is the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets leased under finance leases are depreciated similarly to acquired non-current assets whereas the depreciation period is the lower of the asset's expected useful life or the duration of the lease term (when the transfer of ownership is not sufficiently certain).

Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

The future minimum lease payments under non-cancellable operating leases are calculated based on the non-cancellable periods of the leases taking into account the following criteria:
- agreements without term are expected to be valid for five years;
- should the termination of the agreement require a mutual agreement, lease payments for the six-month period are taken into consideration;
- should the termination of the agreement require an advance notice, lease payments due within the advance notice period are taken into consideration.

The Group is the lessor

Assets leased out under operating leases are recognised similarly to non-current assets. Operating lease payments are recognised as income on a straight-line basis over the lease term.

Payables to employees

Payables to employees contain the contractual right arising from employment contracts with regard to performance-based pay which is calculated on the basis of the Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is to be paid in the next financial year. In addition to the performance-based pay, this liability also includes accrued social and unemployment taxes calculated on it.

Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability at the balance sheet date. In addition to the holiday pay, this liability also includes accrued social and unemployment taxes.

Provisions and contingent liabilities

Provisions for liabilities and charges resulting from environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A financial guarantee contract is initially recognised at fair value and is subsequently measured at the higher of (i) the best estimate of the expenditure required to settle any financial obligation arising on the balance sheet date and (ii) the amount initially recognised less, when appropriate, cumulative amortisation. Consequently, any financial guarantees issued on behalf of parties outside of the Group will result in recognition of a liability, unless the likelihood of occurrence is zero.

Financial liabilities

All financial liabilities (trade payables, borrowings, bonds and other current and non-current borrowings) are initially recorded at the proceeds received, net of transaction costs incurred on trade date. The amortised cost of current liabilities normally equals their nominal value; therefore current liabilities are stated in the balance sheet in their redemption value. Non-current liabilities are initially recognised at the fair value of the consideration receivable (less transaction costs) and are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is classified as current when it is due within 12 months after the balance sheet date or the Group does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date of 12 months or less after the balance sheet date that are refinanced into non-current borrowings after the balance sheet date but before the approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract are also classified as current liabilities.

Offsetting

Financial assets and financial liabilities are offset only when there exists a legally enforceable right and these amounts are intended to be settled simultaneously or on a net basis.

Share capital

Ordinary shares are classified in equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity item “Share premium” or in cace of absence of share premium as a reduction of the equity item “Retained earnings”. Preference shares are classified in equity in case they meet the definition of equity instrument or if they form a compound financial instrument which includes a component that meets the definition of equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity by the equity instrument and as a reduction of the liability and equity in proportion by the compound financial instrument.

Compound financial instruments

Compound financial instruments issued by the Group can comprise of (i) convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value and (ii) preference shares which entitle the holder a guaranteed interest and subsequent conversion of the instrument into ordinary shares. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Other reserves

Reserves are set up in accordance with the resolution of the general meeting of shareholders and they can be used to offset losses from prior periods as well as to increase share capital. Payments shall not be made to shareholders from reserves.

Borrowings for which there is no contractual obligation to deliver cash or another financial asset, but which will be settled by issuing equity instruments, are recorded within equity. Until issuance of shares, the amount is presented in other reserves.

Statutory reserve

In accordance with the Commercial Code, statutory reserve has been set up from annual net profit allocations. During each financial year, at least one-twentieth of the net profit should be transferred to reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Revaluation surplus

The reserve has arisen upon reclassification of property, plant and equipment to investment property carried at fair value. For additional information regarding accounting policies for investment property see section “Investment property” in the current note.

Share-based payments

The fair value of services (work contribution) supplied by the employees to the Group in exchange for the shares is recognised as an expense in the income statement and in share premium in equity during the vesting period (from the grant date of convertible bonds until the vesting date). The fair value of the services received is determined by reference to the fair value (market value) of equity instruments granted to the employees at the grant date. For the employee to receive the right to be able to convert the convertible bond into shares under the share-based payment agreement, there must be an existing employment relationship and therefore at each balance sheet date, the number of estimated convertible bonds expected to be vested is assessed and personnel expenses as well as share premium items are adjusted to reflect the change in the number of bonds expected to be converted. The amounts received for shares upon the conversion of a convertible bond less direct transaction costs is recognised in the items “Share capital” and “Share premium” in equity.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable, taking into consideration all discounts and concessions made. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer and the amount of revenue and costs incurred in respect of the transaction can be measured reliably.

Retail sales

Revenue from the sale of goods is recognised at the time of selling the goods to the customer at the retail store, generally for cash or by card payment. The sales price also includes fees for card transactions recognised as distribution costs. Past experience is used to estimate and provide for sales returns at the time of sale.

Wholesale

Revenue from the sale of goods is recognised when the risks and returns have been passed to the customer according to delivery terms. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

Other

Revenue from the rendering of services is recorded in the accounting period in which the services are rendered. If a service is rendered over a longer period of time, revenue from the rendering of a service is recorded using the stage of completion method. Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably.

See section “Interest income and expenses” for further information. Dividend income is recognised when the right to receive payment is established.

Revenue from the sale of goods and services is included in the income statement line “Revenue” and revenue from the sale of investments in the line “Finance income”.

Interest income and expenses

Interest income/expenses have been recognised in the income statement for all financial instruments that are measured at amortised cost using the effective interest rate method. The effective interest rate is a method for calculating the amortised cost of a financial asset or a financial liability or the method for allocating interest income/expenses to the respective period. The effective interest rate is the rate that discounts the expected future cash receipts/payments over the expected useful life of the financial asset or the financial liability to its carrying amount. In calculating the effective interest rate, the Group assesses all contractual terms of the financial instrument but does not consider future credit losses. All contractual major service fees paid or received between the parties that are an integral part of the effective interest rate, transaction costs and other additional taxes or deductions are used in the calculation. If a financial asset or a group of similar financial assets has been written down due to impairment, interest income is calculated on them using the same interest rate as was used for discounting the future estimated cash receipts in order to determine the impairment loss.

Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of income can be measured reliably. When the receipt of interest is uncertain, interest income is recognised on a cash basis. Interest income is recognised in the line “Finance income”.

Segment reporting

Business segments are components of The Group that engage in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Management Board of the Parent company AS Baltika.

Segment results include revenues and expenses directly attributable to the segment and the relevant part that can be allocated to the particular segment either from external or internal transactions. Segment assets and liabilities include those operating assets and liabilities directly attributable to the segment or those that can be allocated to the particular segment.

Current and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is from subject to income tax of 21/79 of the amount paid out as dividends from which income tax paid before 1 January 2000 can be deducted using a respective coefficient. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which dividends are paid.

Corporate income tax in other countries

In accordance with the local income tax laws, the net profit of companies located in Latvia, Lithuania, Poland, Ukraine and Russia that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax.

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Corporate income tax rates

	2012	2011	2010
Latvia	15%	15%	15%
Lithuania	15%	15%	15%
Poland	19%	19%	19%
Ukraine	21%	23%*	25%
Russia	20%	20%	20%

* The corporate income tax rate in Ukraine was 25% until 31 March 2011.

Deferred income tax is provided using the liability method. Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. The main temporary differences arise from depreciation and tax loss carry-forwards. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year by the period’s weighted average number of shares outstanding. Diluted earnings per share are determined by dividing the net profit for the financial year by the weighted average number of shares taking also into consideration the number of dilutive potential shares.

NOTE 2 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include: valuation of trade receivables (Note 5), valuation of inventory (Note 6), valuation of deferred income tax assets (Note 7), valuation of investment property (Note 9), determination of the useful life of property, plant and equipment (Note 10) and valuation of goodwill (Note 11).

Trade receivable valuation (Note 5)

Management evaluates the probability that the Group is unable to collect all amounts due recorded as trade receivables. Management estimate of trade receivables collection probability, based on credit risk, is described in Note 5. In 2011 Baltika recognised allowance for the trade receivables from a wholesale partner, refer to Note 22.

Inventory valuation (Note 6)

Upon valuation of inventories, the management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered (carrying amount net of allowances of 8,348 thousand euros as at 31 December 2011 and 9,090 thousand euros as at 31 December 2010), upon valuation of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount net of allowances of 1,474 thousand euros as at 31 December 2011 and 1,331 thousand euros as at 31 December 2010); upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 62 thousand euros as at 31 December 2011 and 72 thousand euros as at 31 December 2010).

Deferred income tax (Note 7)

Deferred income tax asset has mostly arisen through tax loss carry-forwards from subsidiaries operating in foreign markets and is recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future the management makes judgements and applies estimation based on the future development of the market and its outcomes to evaluate future expected revenue. The profit assumption is based on the attainment of the Group's strategic goals. The carrying amount of net deferred income tax asset recognised in the balance sheet amounts to 838 thousand euros as at 31 December 2011 and 838 thousand euros as at 31 December 2010.

Valuation of investment property (Note 9)

Investment property is initially recognised at the acquisition cost and subsequently measured at fair value in the statement of financial position. The management uses the estimate of an asset's market value provided by an independent expert as a basis for fair value estimation. In its absence, the management uses alternative measurement methods, such as estimated discounted cash flows.

Because of lack of transactions in the real estate market, the quoted prices are not always reliable. For evaluating investment property the management used also other techniques to support the sales comparison method. Independent expert valuation was obtained in 2010. The same valuation model was used for buildings valuation in 2011. At 31 December 2011 the management used for evaluation a discount rate of 9.5% (31 December 2010: 9.5%) and capitalisation rate of 9.0% (31 December 2010: 9.0%) which are comparable to the average indicators used by real estate operating companies in Estonia. The fair value calculations use detailed cash flow projections covering a three-year period – three years of rental income according to rental contracts and profit from sale of investment property at the price of value-in-use at the end of the third year. Cash flow projections comprise factors that depend on the state of the global financial markets and that affect future cash flows, such as vacancy rate, loan interest rate, growth of costs and revenues. Management estimated the fair value of the land and buildings located at Veerenni 24, Tallinn, Estonia (carrying amount of 8,549 thousand euros as at 31 December 2011 and 7,069 thousand euros as at 31 December 2010). The estimation of buildings fair value was materially close to carrying amount. Land market value has been determined in 2011 using value in use calculations based on cash flow projections and sales comparison method (2010 sales comparison method). During 2011 the difference between the fair value and the carrying amount of the investment property amounting to 500 thousand euros that was mainly from land revaluation due to changed valuation method was recognised as loss under "Other operating expenses". In 2010 no gains or losses were recorded from the change in fair value.

Determination of the useful life of property, plant and equipment (Note 10)

The management has evaluated the economic lives of production equipment and other non-current assets related to production depending on their estimated useful lives. The estimation of economic lives is based on historical experience and takes into consideration production capacity and conditions. The estimation of economic lives of non-current assets used in retail trade is based on the period over which the asset is expected to participate in the generation of revenue as well as the contractual duration of lease agreements. The total carrying amount of property, plant and equipment with a limited useful life is 8,031 thousand euros as at 31 December 2011 and 12,121 thousand euros as at 31 December 2010.

Valuation of goodwill (Note 11)

The management has performed an impairment test for goodwill that arose on the acquisition of the subsidiary OOO Kompania "Baltman RUS", subsidiary SIA Baltika Latvija " and the subsidiary OÜ Baltika Tailor. Future expected cash flows based on the budgeted sales and production volumes respectively have been taken into consideration in determining the recoverable amount of the investments. The future expected cash flows have been discounted using the expected rate of return in the particular market within the similar industry. If the recoverable amount of cash generating unit is lower than its carrying amount, an impairment loss is recognised. Valuation of goodwill refer to Note 11.

NOTE 3 Financial risks

In its daily activities, the Group is exposed to different types of risks. Risk management is an important and integral part of the business activities of the Group. The Group'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, interest rate risk and price risk), credit, liquidity and operational risks. Due to the macroeconomic and Group´s situation the management of the Group's Parent company considers all the risks as significant risks for the Group.

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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 company's internal regulations and risk policies. Overall risk management includes identification, measurement and control of risks. The management of the Parent company plays a major role in managing risks and approving risk procedures. The Supervisory Council of the Group's Parent company monitors the management's risk management activities.

Market risk

Foreign exchange risk

Sales in foreign currencies constituted 66% of the revenues of the Group (2010: 73%) and are denominated in LVL (Latvian lat), LTL (Lithuanian lit), RUB (Russian rouble), UAH (Ukrainian hryvnia) and PLN (Polish zloty) for the foreign subsidiaries of the Group. The majority of raw materials used in production are acquired from countries located outside of the European Union. The major currencies for purchases are EUR (euro) and USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled only in euros. As the Group's main revenues arise from retail sales, the prices of goods in the markets are fixed in a local currency and consequently, changes in foreign currency exchange rates directly affect the Group's revenue through the pricing of goods at the stores in those markets. In addition, 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 Group´s results are open to fluctuations in foreign currency rates against euro in those countries where AS Baltika has subsidiaries. The changes in average foreign currency rates against euro[i] in the reporting period were the following: Russian rouble -1.54% (2010: +8.78%), Polish zloty -3.15% (2010: +7.69%), Ukrainian hryvnia -5.54% (2010: +5.89%) and Latvian lat +0,34% (2010: -0.43%). The Lithuanian lit is pegged to the euro. The change in average rate of the US dollar in the reporting period was -5.00% (2010: +4.95%).

Foreign exchange risk arises from cash and cash equivalents (Note 4), trade receivables (Note 5) and trade payables (Note 14) denominated in currencies other than euro (2010: Estonian kroon and euro). If the foreign exchange rates in relation to the euro as at 31 December 2011 had been 2%-8% higher (lower), the impact on the net loss for the year would have been +/-59 thousand euros (2010: 13 thousand euros). The assessment of foreign exchange rate sensitivity to the 2011 result is based on the assumptions that the reasonably possible fluctuations in foreign currency exchange rates of the main trading currencies of the Group are the following: Russian rouble, Ukrainian hryvnia do not exceed +/-8%, Polish zloty does not exceed +/-6%, US dollar does not exceed +/-7% and that the exchange rates of the Latvian lat and other currencies is not expected to fluctuate more than 2%. The assessment of foreign exchange rate sensitivity to the 2010 profit were based on the assumptions that the fluctuations in foreign currency exchange rates of Russian rouble, Ukrainian hryvnia did not exceed +/-8% and +/-7% respectively, Polish zloty did not exceed +/-3.5% and US dollar did not exceed +/-8% and that the exchange rates of the Latvian lat and other currencies did not exceed not more than 2%. Lithuanian lit is pegged to the euro, there is no foreign exchange risk arising from cash and cash equivalents, trade receivables and trade payables denominated in this currency.

Impact of the potential change in the currency exchange rates on the net profit arising from the translation of monetary assets and liabilities

	Impact 2011	**Impact 2010**
Cash and cash equivalents	36	26
Trade and other receivables	6	3
Trade and other payables	-101	-15
Total	**-59**	**13**

The Group's non-current borrowings carrying floating interest rate were denominated in euros, therefore no currency risk arises.

[i]Until 31 December 2010, the changes in average foreign currency rates were reported against Estonian kroon based on Estonian Bank exchange rates.

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No instruments were used to hedge foreign currency risks in 2011 and 2010. Based on the management's assessment, the effect of losses resulting from changes in foreign currencies does not exceed the risk tolerance determined by the Group, except in the case if the currencies were devaluated in the countries where AS Baltika has subsidiaries. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency. Additionally the Group uses the possibilities to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions.

Interest rate risk

As the Group's cash and cash equivalents carry fixed interest rate and the Group has no other 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 mainly from current and non-current borrowings issued at floating interest rate and thus exposing the Group to cash flow interest rate risk. There is no fair value interest rate risk as the Group has no interest bearing financial instruments, which are recognised at fair value. Interest rate risk is primarily caused by the potential fluctuations of Euribor and the changing of the average interest rates of banks. The Group's risk margins have not changed significantly and correspond to market conditions.

All non-current borrowings as at 31 December 2011 and 31 December 2010 were subject to a floating interest rate based on Euribor, which is fixed every month or six months (Note 13). The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

If for the reporting period, floating interest rates on borrowings had been one percentage point higher with all other variables held constant, the post-tax loss for the year would have been 192 thousand euros (2010: 160 thousand euros) higher and if 0.1 percentage point lower, the post-tax loss for the year would have been 19 thousand euros lower (2010: 16 thousand euros).

The Group uses no hedging instruments to manage the risks arising from fluctuations in interest rates.

Price risk

The Group is not exposed to the price risk with respect to financial instruments as it does not hold any equity securities.

Credit risk

Credit risk arises from cash and cash equivalents, deposits (recognised as other receivables) with banks and financial institutions as well as outstanding receivables.

Cash and cash equivalents

For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted for operations in the Baltic and Central European region as long-term counterparties. For Eastern Europe the "B" rating is considered acceptable. The Group has chosen banks with "A" rating to be the main partners for managing the cash and cash equivalents and financing the Group's operations in Estonia and overseas.

Cash and cash equivalents at bank classified by credit rating[1]

	31.12.2011	**31.12.2010**
A	274	478
B	198	41
Other banks	0	4
Total	**472**	**522**

[1]The credit rating applies on long-term deposits as published by Moody's Investor Service website.

Receivables

As at 31 December 2011 the maximum exposure to credit risk from trade receivables (Note 5) and other non-current assets (Note 8) amounted to 795 thousand euros (31 December 2010: 1,643 thousand euros) on a net basis after the allowances.

Sales to retail customers are settled in cash or using major credit cards, thus no credit risk is involved except the risk arising from financial institutions selected as approved counterparties.

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Liquidity risk

Liquidity risk is the potential risk that the Group has limited or insufficient financial (cash) resources to meet the obligations arising from the Group's activities. The reduced volume of financing between banks or changes of credit conditions for the Group, may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Management monitors the sufficiency of cash and cash equivalents to settle the liabilities and finance the Group's strategic goals on a regular basis using rolling cash forecasts.

To manage liquidity risks, the Group uses different financing instruments such as bank loans, overdrafts, commercial bond issues, and monitors receivables and purchase contracts. A Group current account/overdraft facility is in use for more flexible management of liquid assets, enabling Group companies to use the Group's resources up to the limit established by the Parent company (Note 13).

Financial liabilities by maturity as at 31 December 2011

		Undiscounted cash flows[1]			
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
Loans (Note 13)[2]	18,166	432	3,763	16,627	20,822
Finance lease liabilities (Note 13)	146	45	81	28	154
Trade payables (Note 14)	3,945	3,945	0	0	3,945
Other financial liabilities (Note 13,14)[3]	129	129	0	0	129
Total	**22,386**	**4,551**	**3,844**	**16,655**	**25,050**

Financial liabilities by maturity as at 31 December 2010

		Undiscounted cash flows[1]			
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
Loans (Note 13)[2]	19,444	561	2,237	20,149	22,947
Finance lease liabilities (Note 13)	377	72	179	152	403
Trade payables (Note 14)	4,355	4,355	0	0	4,355
Other financial liabilities (Note 13,14)[3]	300	105	195	0	300
Total	**24,476**	**5,093**	**2,611**	**20,301**	**28,005**

[1]For interest bearing borrowings carrying floating interest rate based on Euribor, the spot rate has been used.
[2]Overdraft facilities are shown under loans payable within 1-5 years based on the contractual date of payment.
[3]Other financial liabilities include accrued expenses in amount of 119 thousand euros (31 December 2010: 105 thousand euros) and component of G-bonds in amount of 10 thousand euros (31 December 2010: 195 thousand euros dividends liabilities of preference shares).

Operational risk

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

To manage the 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 makes 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 market organisation in each target market enabling the Group to obtain fast and direct feedback on market developments on one hand and adequately consider local conditions 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.

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.

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To ensure good collections, the Group employs a strong team of designers who monitor and are 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 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 timing of sales is planned under the assumption that regular weather conditions prevail in the target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may significantly differ from the budget.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with industry practice, the Group monitors capital on the basis of the capital to net debt ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated statement of financial position and net debt. The Group's strategy is to maintain the capital to net debt ratio within the range of 30% to 35% but due to macroeconomic and Group´s situation it was not achieved in 2011 and 2010. In 2011, the capital to net debt- ratio was influenced by the earned comprehensive loss in the amount of 5,840 thousand euros and also increase of the share capital. In 2010, the capital to net debt ratio was influenced by the earned comprehensive loss in the amount of 6,477 thousand euros and increase of the share capital.

	31 Dec 2011	**31 Dec 2010**
Total borrowings (Note 13)	18,312	19,821
Cash and cash equivalents (Note 4)	-863	-823
Net debt	17,449	18,998
Total equity	9,622	12,356
Total capital	27,071	31,354
Total capital to net debt ratio	**64%**	**61%**

As at 31 December 2011 AS Baltika´s net asset position is not compliant with Commercial Code as net assets are not half of share capital, refer to Note 28.

Fair value

The Group estimates that the fair values of the financial assets (Notes 4-5) and liabilities (Notes 13-14) denominated in the statement of financial position at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated statement of financial position at 31 December 2011 and 31 December 2010. The carrying amount less an impairment provision of trade receivables and payables is estimated by management to approximate their fair values as trade receivables and payables are short-term. As the Group's long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. The Group's risk margins have not changed considerably since changing the loan terms in 2010 and are reflecting the market conditions. Based on that, the management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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NOTE 4 Cash and cash equivalents

	31 Dec 2011	31 Dec 2010
Cash on hand	391	301
Cash at bank and overnight deposits	472	522
Total	**863**	**823**

Cash and cash equivalents by currency

	31 Dec 2011	31 Dec 2010
RUB (Russian rouble)	277	114
EUR (euro)	221	97
LTL (Lithuanian lit)	162	94
UAH (Ukrainian hryvnia)	155	164
LVL (Latvian lat)	46	53
PLN (Polish zloty)	2	146
EEK (Estonian kroon)	0	155
Total	**863**	**823**

NOTE 5 Trade and other receivables

	31 Dec 2011	31 Dec 2010
Trade receivables, net	533	1,253
Other prepaid expenses[1]	881	888
Tax prepayments and tax reclaims, thereof	675	684
Value added tax	656	662
Prepaid income tax	14	0
Other taxes	5	22
Other prepayments	100	294
Total	**2,189**	**3,119**

[1]Other prepaid expenses include prepaid lease expense of the stores and insurance expenses, prepayment for information technology services and other expenses of similar nature.

Trade receivables by region (client location) and by due date

31 December 2011	Baltic region	Eastern European region	Other regions	Total
Not due	380	695	37	1,112
Up to 1 month past due	30	0	13	43
1-3 months past due	26	0	6	32
3-6 months past due	6	0	0	6
Over 6 months past due	10	0	0	10
Total trade receivables, gross	**452**	**695**	**56**	**1,203**
Allowance for impairment of trade receivables (Note 22)	-22	-646	-2	-670
Total	**430**	**49**	**54**	**533**

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31 December 2010	Baltic region	Eastern European region	Other regions	Total
Not due	299	878	29	1,206
Up to 1 month past due	9	5	27	41
1-3 months past due	3	0	0	3
3-6 months past due	0	0	0	0
Over 6 months past due	37	0	0	37
Total trade receivables, gross	**348**	**883**	**56**	**1,287**
Allowance for impairment of trade receivables (Note 22)	-34	0	0	-34
Total	**314**	**883**	**56**	**1,253**

In 2011, irrecoverable receivables in amount of 12 thousand euros were derecognised (2010: 91 thousand euros) and doubtful receivables in amount of 648 thousand euros were recognised under allowance for impairment of trade receivables (2010: 22 thousand euros) as Management considers the likelihood of repayment lower than previously for the renegotiated receivables , although they are not due. Also 53 thousand euros were booked as irrecoverable receivables in 2011 (2010: 0 thousand euros).

The most significant credit risk concentration to the Group arose from the wholesale activities in Eastern Europe (Note 3). Currently from new clients from Eastern Europe prepayments are required. For the wholesale customers, their financial position, past experience and other factors are taken into consideration as the basis for credit control. According to the Group's credit policy, for new clients prepayments are required and for long-term contractual clients no collaterals to secure the trade receivables are required but instead, deliveries, outstanding credit amount and adherence to agreed dates are monitored continuously.

Trade receivables (net) in denominated currency

	31 Dec 2011	31 Dec 2010
EUR (euro)	358	901
LVL (Latvian lat)	90	57
RUB (Russian rouble)	49	28
LTL (Lithuanian lit)	36	36
EEK (Estonian kroon)	0	220
PLN (Polish zloty)	0	6
UAH (Ukrainian hryvnia)	0	5
Total	**533**	**1,253**

NOTE 6 Inventories

	31 Dec 2011	31 Dec 2010
Fabrics and accessories	1,487	1,344
Allowance for impairment of fabrics and accessories (Note 18)	-13	-13
Work-in-progress	62	72
Finished goods and goods purchased for resale	8,798	9,409
Allowance for impairment of finished goods and goods purchased for resale (Note 18)	-450	-320
Prepayments to suppliers	164	312
Total	**10,048**	**10,804**

The allowance for finished goods as at 31 December 2011 compared to previous balance sheet date has increased, due to larger expected sales discounts in Ukraine due to lower consumption in December and January and taking into account that some stores in Russia are going to be closed (high discount sales were made after the balance sheet date).

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NOTE 7 Deferred income tax

Deferred income tax as at 31 December 2011

	Baltic region	Eastern European region	Central European region	Total
Deferred income tax asset				
On property, plant and equipment and other tax based differences[1]	-51	206	0	155
On tax loss carry-forwards	624	59	0	683
Total	**573**	**265**	**0**	**838**
Deferred income tax asset, net, thereof	**573**	**265**	**0**	**838**
Non-current portion	573	265	0	838
Deferred income tax expense (income (-)) (Note 24)	**-259**	**259**	**0**	**0**

[1]Income tax liability can be settled against deferred tax assets in one country/company, therefore a deferred tax asset is recognised.

Deferred income tax as at 31 December 2010

	Baltic region	Eastern European region	Central European region	Total
Deferred income tax assets				
On property, plant and equipment and other tax base differences	0	26	0	26
On tax loss carry-forwards	314	498	0	812
Total	**314**	**524**	**0**	**838**
Deferred income tax assets, net, thereof	**314**	**524**	**0**	**838**
Non-current portion	314	524	0	838
Deferred income tax expense (Note 24)	**0**	**-186**	**-30**	**-215**

The recovery of the deferred income tax asset arising from tax loss carry-forwards is dependent on future taxable profits of subsidiaries that have to exceed the existing losses to be carried forward. An analysis of expected future profits was carried out when preparing the financial statements. The presumption of profit is dependable on attainment of each respective company strategic goals. The deferred tax asset resulting from losses carried forward is recognised to the extent that the realisation of the related tax benefit through the future profits is probable.

The Group did not recognise in the statement of financial position deferred income tax assets of 1,050 thousand euros (2010: 328 thousand euros) in respect of losses amounting to 4,503 thousand euros (2010: 2,013 thousand euros) that can be carried forward against future taxable income. Losses amounting to 4,503 thousand euros expire within the following ten years after the balance sheet date (2010: 2,013 thousand euros respectively within nine years after the balance sheet date).

NOTE 8 Other non-current assets

	31 Dec 2011	31 Dec 2010
Non-current portion of lease prepayments[1]	367	390
Other long-term receivables[2]	262	390
Total other non-current assets	**629**	**780**

[1]Non-current portion of lease prepayments arise from lease agreements of the Group's retail subsidiaries operating in the Latvian, Lithuanian and Russian markets.

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[2]Other long term receivables consist of the receivables for the sale of trademarks MasCara and Herold, for the property and assets.

Credit risk arises from other long-term receivables (Note 3). The Group monitors continuously outstanding credit amount and the adherence to agreed dates. All receivables are paid according to contractual schedule.

NOTE 9 Investment property

	2011	2010
Balance as at 1 January	**7,069**	**6,602**
Reclassification from property, plant and equipment (Note 10)	1,980	468
Change in fair value (Note 2, 22)	-500	0
Balance as at 31 December	**8,549**	**7,069**

	2011	2010
Lease revenue from investment properties (Note 17)	483	385
Direct operating expenses from investment properties (Note 12)	60	72
Net lease revenue from investment properties	**423**	**312**

As at 31 December 2011 and 2010, investment property consists of two buildings and land plot located at Veerenni 24, Tallinn, Estonia. According to its usage the property was classified partly under property, plant and equipment and partly under investment property. During 2011 due to change in space used as property, part of the property, plant and equipment was reclassified to investment property in amount of 1,980 thousand euros (2010: 468 thousand euros). Both buildings classified under investment property are rented out as office and business spaces.

Management estimates are described in Note 2.

NOTE 10 Property, plant and equipment

	Land and construction rights	Buildings and structures	Machinery and equipment	Other fixtures	Construc-tion in progress	Pre-pay-ments	Total
31 December 2009							
Acquisition cost	**11**	**14,524**	**6,375**	**7,728**	**7**	**11**	**28,656**
Accumulated depreciation	0	-2,784	-4,494	-4,559	0	0	-11,837
Net book amount	**11**	**11,741**	**1,881**	**3,169**	**7**	**11**	**16,819**
Additions	0	23	144	120	11	1	299
Disposals (Note 22)	-11	-1,628	-81	-84	0	0	-1,804
Reclassifications to investment property (Note 9)	0	-468	0	0	0	0	-468
Impairment (Note 22)	0	-115	-62	-67	0	0	-245
Depreciation (Note 18-20)	0	-1,010	-494	-1,155	0	0	-2,659
Currency translation differences	0	58	28	90	0	1	177
31 December 2010							
Acquisition cost	**0**	**11,607**	**5,861**	**6,979**	**19**	**13**	**24,478**
Accumulated depreciation	0	-3,005	-4,445	-4,908	0	0	-12,357
Net book amount	**0**	**8,602**	**1,416**	**2,071**	**19**	**13**	**12,121**

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Additions	0	48	42	40	0	0	130
Reclassifications from inventories	0	0	0	5	0	0	5
Reclassifications to inventories	0	0	-28	-38	0	0	-66
Disposals (Note 22)	0	-51	-4	-12	-8	-11	-86
Reclassifications to investment property (Note 9)	0	-1,980	0	0	0	0	-1,980
Reclassification	0	11	-64	64	-10	-1	0
Impairment (Note 22)	0	-10	0	0	0	0	-10
Depreciation (Note 18-20)	0	-729	-376	-925	0	0	-2,030
Currency translation differences	0	-20	-8	-23	-1	-1	-53
31 December 2011							
Acquisition cost	**0**	**9,231**	**5,633**	**6,691**	**0**	**0**	**21,555**
Accumulated depreciation	0	-3,360	-4,655	-5,509	0	0	-13,524
Net book amount	**0**	**5,871**	**978**	**1,182**	**0**	**0**	**8,031**

Details of assets acquired under finance lease terms are shown in Note 12.

NOTE 11 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
31 December 2009					
Acquisition cost	**2,700**	**643**	**0**	**1,895**	**5,238**
Accumulated amortisation	-1,160	-107	0	0	-1,267
Net book amount	**1,540**	**536**	**0**	**1,895**	**3,971**
Additions	80	0	23	60	163
Disposals	-18	0	0	0	-18
Amortisation (Note 18-20)	-292	-32	0	0	-324
Currency translation differences	11	0	0	94	105
31 December 2010					
Acquisition cost	**2,774**	**643**	**23**	**2,048**	**5,488**
Accumulated amortisation	-1,451	-139	0	0	-1,590
Net book amount	**1,323**	**504**	**23**	**2,048**	**3,898**
Additions	12	0	0	194	206
Disposals	-76	0	0	0	-76
Reclassification	13	0	-13	0	0
Amortisation (Note 18-20)	-302	-32	0	0	-334
Currency translation differences	-5	0	0	-24	-29
31 December 2011					
Acquisition cost	**2,187**	**643**	**10**	**2,218**	**5,058**
Accumulated amortisation	-1,222	-171	0	0	-1,393
Net book amount	**965**	**472**	**10**	**2,218**	**3,665**

For additions of goodwill see Note 27.

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Impairment tests for goodwill

Goodwill, carrying value as at 31. December 2011 2,218 thousand euros (31 December 2010: 2,048 thousand euros) is tested for impairment at each balance sheet date. The carrying amount of goodwill applicable to CGUs (cash generating units) of Baltman RUS, Baltika Tailor and SIA Baltika Latvija was tested for impairment at 31 December 2011. The recoverable amount of CGU is determined based on value-in-use calculations. The value-in-use calculations use detailed pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

Key assumptions used for value-in-use calculations

	Baltika Tailor CGU		**Baltman RUS CGU**		**Baltika Latvija CGU**	
Balance as at 31 December	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Carrying amount of goodwill	355	355	1,708	1,541	155	152
Growth in revenue[1]	1.98%	2.43%	7.86%	8.46%	4.72%	6.90%
Growth rate[2]	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Discount rate[3]	9.64%	7.67%	13.68%	14.34%	12.66%	11.92%
Difference between recoverable and carrying amount	1,756	570	3,678	4,099	13,461	16,442

[1]Management determined average annual growth in revenue for Baltika Tailor and sales efficiency per square metre for Baltman RUS and Baltika Latvija (decreasing growth trend over the period of cash flow projections) for the five-year period.
[2]Growth rate used to extrapolate cash flows beyond the year 2016.
[3]Pre-tax discount rate applied to the cash flow projections (WACC). The change in discount rates results from changes in industry indicators for the specific region.

The growth rates used for projections have been derived from the past experience of the growth in respective industry and the management's expectations of the respective growth rates in the projected future years in the respective region. The weighted average cost of capital (WACC) used was pre-tax and reflects specific risks applicable to the specific market and industry sector.

The tests resulted in recoverable value exceeding the carrying amount of the cash generating unit and consequently no impairment losses have been recognised. If the average annual growth in sales efficiency were 6.3% and -3.8% for Baltman RUS and SIA Baltika Latvija respectively the recoverable amount would have been be equal to the carrying amount (31 December 2010: respectively 7.0% and -3.0%). If the average annual growth in sales for Baltika Tailor were 1.3% (31 December 2010 2.0%) the recoverable amount would have been equal to the carrying amount. If the average annual gross profit margin were lower by 28.9%, 5.4% and 25.6% for SIA Baltika Latvija, Baltman RUS and Baltika Tailor respectively the recoverable amount would have been equal to the carrying amount (31 December 2010: respectively 34.0%, 4.4%, 8.4%). If the discount rate were 503.3%, 26.6% and 24.0% for SIA Baltika Latvia, Baltman RUS and Baltika Tailor respectively the recoverable amount would have been equal to the carrying amount (31 December 2010: respectively 255.1%, 23.0%, 11.0%).

NOTE 12 Accounting for leases

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

	31 Dec 2011	**31 Dec 2010**
Up to 1 year	4,400	5,744
1-5 years	4,466	4,500
Over 5 years	681	1,807
Total	**9,547**	**12,050**

Operating lease expenses arise from lease of stores and production facility. The lease agreements for stores are predominantly not binding for long-term in Estonia, Latvia and Lithuania and can be terminated in a two to six months notice.

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The lease agreements concluded with a term are subject to renewal on market conditions. The Group has signed a number of contingent lease agreements which stipulate the increase in lease payments within the lease term based on changes in consumer price index or inflation. In 2011, operating lease payments amounted to 10,979 thousand euros (2010: 11,678 thousand euros) (Note 18-20).

Operating lease – the Group as the lessor

Future minimum lease receivables from non-cancellable leases

	31 Dec 2011	31 Dec 2010
Up to 1 year	332	212
1-5 years	582	0
Over 5 years	65	0
Total	**979**	**212**

In 2011, the Group earned operating lease income in the amount of 483 thousand euros (2010: 385 thousand euros) (Note 17, Note 9) from assets (business premises) leased to third parties under operating lease agreements. Direct expenses attributable to lease income amounted to 60 thousand euros (2010: 72 thousand euros).

As at 31 December 2011 the net book value of the assets leased out under operating leases (investment property) was 8,549 thousand euros (31 December 2010: 7,069 thousands euros).

Finance lease – the Group as the lessee

	Machinery and equipment	Other fixtures	Total
31 December 2010			
Acquisition cost	**1,008**	**267**	**1,275**
Accumulated depreciation	-684	-44	-728
Net book amount	**324**	**224**	**547**
31 December 2011			
Acquisition cost	**1,008**	**274**	**1,282**
Accumulated depreciation	-774	-71	-845
Net book amount	**234**	**203**	**437**

Detailed information on minimum finance lease payments by maturity is disclosed in Note 3. The carrying amounts of finance lease liabilities at the balance sheet date are disclosed in Note 13.

In 2011, the Group settled finance lease payments in the amount of 213 thousand euros (2010: 248 thousand euros).

NOTE 13 Borrowings

	31 Dec 2011	31 Dec 2010
Current borrowings		
Current portion of long-term bank loans (Note 3)	2,047	1,697
Current portion of finance lease liabilities (Note 3)	121	233
Other current loans (Note 3)	1,000	0
Convertible bonds (Note 26) and liability component of preference shares (Note 3)	10	195
Total	**3,178**	**2,125**

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Non-current borrowings		
Non-current bank loans (Note 3)	15,119	17,747
Non-current finance lease liabilities (Note 3)	25	144
Convertible bonds (Note 26) and liability component of preference shares (Note 3)	0	62
Total	**15,144**	**17,953**
Total borrowings	**18,322**	**20,078**

As at 31 December 2011 the unamortised transactions costs amounted to 47 thousand euros (31 December 2010: 88 thousand euros).

During the reporting period, the Group made loan repayments in the amount of 2,336 thousand euros (2010: 2,797 thousand euros). Interest expense of the reporting period amounted to 1,236 thousand euros (2010: 1,406 thousand euros), thereof the interests on bank loans were 1,219 thousand euros (2010: 1,153 thousand euros) (Note 23).

The Group received a loan on 16th December 2011 from a related party in the amount of 1,000 thousand euros with 10% interest rate (Note 26). The agreement includes lenders obligation to convert the loan to convertible bonds should ordinary annual general meeting approve their issuance. If the annual general meeting does not approve issuance of convertible bonds, the loan should be repaid on 29 June 2012.

For the possible sale of real estate the consent has been received from banks and changes in payment schedule agreed.

Borrowings at nominal value in denominated currency

	31 Dec 2011	31 Dec 2010
EUR (euro)	18,319	19,968
Other currencies	3	110
Total	**18,322**	**20,078**

Interest carrying loans of the Group as at 31 December 2011

	Balance	Average risk premium
Borrowings at floating interest rate (based on1-month and 6-month Euribor)	17,166	4.60%
Borrowings at fixed interest rate	1,000	10.00%
Total	**18,166**	

Interest carrying loans and the liability component of preference shares of the Group as at 31 December 2010

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor)	19,444	4.57%
Liability component of preference shares	195	10.00%
Total	**19,639**	

The used limit of the Group's overdraft facilities with the banks as at 31 December 2011 amounted to 382 thousand euros (31 December 2010: 1,532 thousand euros).

The loan contracts of Baltika include several covenants that may require early repayment of loans if the borrower does not fulfil the terms specified in the contract including:
- requirement to equity level;
- limited rights for incurring additional liabilities;
- limited rights for paying dividends and deciding to issue share capital;
- required ratios calculated on financial data etc.

As of the balance sheet date, there could have risen a conflict with the levels established for certain financial ratios, but before the balance sheet date agreements were reached with banks, according to which the conflict with financial ratios does not qualify as breach of the loan agreement.

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The Group's collaterals for bank borrowings

As at 31 December 2011 the bank borrowings were secured with following asset types:
- mortgage to real estate located at Veerenni 24, Tallinn;
- commercial pledge to movables;
- trademarks;
- shares of the subsidiaries;
- cash equivalents on the bank accounts

As at 31 December 2010 the bank borrowings were secured with following asset types:
- mortgage to real estate located at Veerenni 24, Tallinn;
- commercial pledge to movables;
- trademarks;
- shares of the subsidiaries;
- cash equivalents on the bank accounts.

As at 31 December 2011 carrying amount of assets pledged was 28,075 thousand euros, including inventories in amount of 9,884 thousand euros, property, plant and equipment in amount of 8,018 thousand euros, intangible assets in amount of 1,447 thousand euros, investment property in the amount of 8,549 thousand euros and cash on the bank accounts 177 thousand euros. The carrying amount of assets pledged as at 31 December 2010 amounted to 29,784 thousand euros, including inventories in amount of 10,131 thousand euros, property, plant and equipment in amount of 11,301 thousand euros, intangible assets in amount of 966 thousand euros, investment property in amount of 7,069 thousand euros and cash on the bank accounts 317 thousand euros.

NOTE 14 Trade and other payables

	31 Dec 2011	31 Dec 2010
Trade payables (Note 3)	3,945	4,355
Tax liabilities, thereof	1,567	1,610
Personal income tax	177	158
Social security tax and unemployment insurance premium	443	429
Value added tax	849	840
Corporate income tax liability	51	117
Other taxes	47	66
Payables to employees[1]	921	767
Other accrued expenses[2] (Note 3)	119	105
Customer prepayments	26	40
Other current payables	207	104
Total	**6,785**	**6,981**
Non-current liabilities		
Other liabilities[3]	83	37

[1]Payables to employees consist of accrued wages, salaries and vacation accrual.
[2]Accrued expenses includes interest payable in the amount of 21 thousand euros (31 December 2010: 28 thousand euros). As at 31 December 2010 other accrued expenses also included dividend payable in the amount of 1 thousand euros.
[3]Other non-current liabilities consist of deferred income.

Tax authorities are entitled to check the Group's tax accounting up to within 6 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. The tax legislation of the countries the Group is operating which was enacted or substantively enacted at the end of the reporting period may be subject to varying interpretations. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Group.

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Trade payables and other accrued expenses in denominated currency

	31 Dec 2011	31 Dec 2010
EUR (euro)	2,486	961
USD (US dollar)	1,270	1,705
PLN (Polish zloty)	95	219
LTL (Lithuanian lit)	75	91
RUB (Russian rouble)	53	125
LVL (Latvian lat)	56	56
EEK (Estonian kroon)	0	1,281
Other currencies	29	22
Total	**4,064**	**4,460**

NOTE 15 Equity

Share capital

	31 Dec 2011	31 Dec 2010
Share capital	25,056	20,129
Number of shares (pcs)	35,794,850	31,494,850
Nominal value of share (EUR)	0.70	0.64

As at 31 December 2011 shares comprise only ordinary shares, which are listed on the Tallinn Stock Exchange.As at 31 December 2010 shares comprised ordinary shares and preference shares of 27,494,850 pieces and 4,000,000 pieces respectively. The 27,494,850 ordinary shares were listed on the Tallinn Stock Exchange, the preference shares were unlisted.

Change in the number of shares

	Issue	Number of shares
Number of shares 31 December 2009		**22,644,850**
Ordinary shares		18,644,850
Preference shares		4,000,000
Issued at 21 June 2010	Issue of ordinary shares	8,850,000
Number of shares 31 December 2010		**31,494,850**
Ordinary shares		27,494,850
Preference shares		4,000,000
Cancelled at 31 May 2011	Cancelling of preference shares	-4,000,000
Issued at 31 May 2011	Issue of ordinary shares	4,000,000
Issued at 03 August 2011	Issue of ordinary shares	4,300,000
Number of shares 31 December 2011		**35,794,850**

Under the Articles of Association, the company's minimum share capital is 10,000 thousand euros and the maximum share capital is 40,000 thousand euros. All shares have been paid for.

The annual general meeting of the shareholders of AS Baltika that convened on 11 May 2011 decided to convert the share capital of the Company and the par value of the shares from kroons to euros as on 1 January 2011, the Republic of Estonia joined the Euro area. In order to undertake the conversion of the share capital to euros, the general meeting decided to increase the share capital without making any additional contributions (through a bonus issue) by 1,917 thousand euros from share premium 1,377 thousand euros and reserves 540 thousand euros. Concurrently with the conversion of the share capital of the Company into euros, the general meeting resolved to undertake the conversion of the present nominal value of 10 kroons into euros and the increase of the nominal value by 0.06 euros for each share. The new nominal value of the share is 0.70 euro.

During 2011 the Company cancelled 4,000,000 preference shares and issued 4,000,000 ordinary shares instead, also issued additional 4,300,000 ordinary shares. As a result of the issuing shares the Group received additional cash in amount of 3,010 thousand euros. Costs related to issue were 287 thousand euros. Refer also to Note 26.

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Costs related to issue were shown as a reduction of "Retained earnings" and had no impact on profit (loss) of the reporting period.

In 2011, dividends disbursed for the preference shareholders amounted to 0.05 euros per share equalling a total of 199 thousand euros (2010: 0.07 euros and 291 thousand euros respectively). Corporate income tax expense on dividends amounted to 53 thousand euros (2010: 77 thousand euros). The interest expense of preference shares amounted to 4 thousand euros (2010: 19 thousand euros), dividends payable on preference shares was recognised in the statement of financial position as liability as at 31 December 2010.

The annual general meeting of Baltika's shareholders that convened on 21 June 2010 resolved to increase the share capital of AS Baltika by issuing 8,850,000 additional registered ordinary shares with a par value of 0.64 euro each at a premium of 0.13 euro per share. The share capital of AS Baltika was increased in 2010 by 5,656 thousand euros to 20,129 thousand euros. The shares were paid for with monetary contributions of 4,487 thousand euros and with a non-monetary contribution of 2,300 thousand euros. E. Miroglio S.A. paid with a non-monetary contribution consisting of a receivable of 2,300 thousand euros arising from a loan agreement signed between E. Miroglio S.A. and the company on 3 May 2010. The new shares entitle the holder to a dividend from the financial year in which the share capital was increased. As a result of the issuing shares the Group received additional cash in amount of 6,787 thousand euros.

Reserves

	31 Dec 2011	Change	31 Dec 2010	Change	31 Dec 2009
Statutory reserve	652	-540	1,192	0	1,192
Revaluation surplus (Note 9)	1,592	0	1,592	0	1,593
Other reserves[1](Note 26)	250	250	0	0	0
Total	**2,494**	**-290**	**2,784**	**0**	**2,784**

[1]On 30 November 2011 an agreement was signed with a related party that existing liabilities (dividends from preference shares and emission guarantee costs) were converted to loan that carries no interest. The lender also takes the obligation to convert the loan to convertible bonds if the ordinary annual general meeting resolves to issue them. Based on the agreement the loan has been classified as an equity instrument in reserves.

Shareholders as at 31 December 2011

	Number of shares	Holding
1. ING Luxembourg S.A.	7,590,914	21.21%
2. E. Miroglio S.A.	4,968,330	13.88%
3. BMIG OÜ	4,750,033	13.27%
4. Skandinaviska Enskilda Banken Ab clients	3,591,060	10.03%
5. Svenska Handelsbanken clients	1,895,000	5.29%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	726,336	2.03%
Maire Milder	316,083	0.88%
Andrew Paterson	11,000	0.03%
Persons related to members of management	8,100	0.02%
7. Other shareholders	11,937,994	33.36%
Total	**35,794,850**	**100.00%**

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Shareholders as at 31 December 2010 (ordinary shares)

	Number of shares	Holding
1. BMIG OÜ	4,624,860	16.82%
2. ING Luxembourg S.A.	3,250,000	11.82%
3. E. Miroglio S.A.	3,000,000	10.91%
4. Skandinaviska Enskilda Banken Ab clients	2,967,347	10.79%
5. Svenska Handelsbanken Clients	1,965,000	7.15%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	726,336	2.64%
Maire Milder	316,083	1.15%
Boriss Loifenfeld	200,366	0.73%
Ülle Järv	13,850	0.05%
Andrew Paterson	11,000	0.04%
7. Other shareholders	10,420,008	37.90%
Total	**27,494,850**	**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 the Parent company.

NOTE 16 Segments

The Group's chief operating decision maker is the Management Board of the Parent company AS Baltika. The Parent company's Management Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management Board has determined the operating segments based on these reports.

Parent company's Management Board assesses the performance from operations area perspective i.e. the performance of retail, wholesale and real estate management is assessed. Retail is further evaluated on a geographic basis. The retail segments are countries which have been aggregated to reportable segments by regions which share similar economic characteristics and meet other aggregation criteria provided in IFRS 8:
- Baltic region consists of operations in Estonia, Latvia and Lithuania;
- Eastern European region consists of operations in Russia and Ukraine;
- Central European region consists of operations in Poland (Baltika Poland Sp.z.o.o.ended its business activities in 2011).

The Parent company's Management Board assesses the performance of the operating segments based on a measure of external revenue and segment profit. External revenue amounts provided to Management Board are measured in a manner consistent with that of the financial statements. The segment profit is an internal measure used in the internally generated reports to assess the performance of the segments and comprises segment's gross profit less operating expenses directly attributable to the segment, except for other operating income and expenses. The amounts provided to Management Board with respect to inventories are measured in a manner consistent with that of the financial statements. The segment inventories include those operating inventories directly attributable to the segment or those that can be allocated to the particular segment based on the operations of the segment and the physical location of the inventories.

The segment information provided to the Management Board for the reportable segments for the year ended at 31 December 2011 and at 31 December 2010

	Retail Baltic region	Retail Eastern Europe	Retail Central Europe	Whole-sale[1]	Real estate manage-ment	Total segments
2011 and at 31 December 2011						
Revenue (from external customers)	32,208	17,126	738	2,854	483	53,409
Segment profit (loss)[2]	6,045	-518	-374	834	423	6,410
Incl. depreciation and amortisation	-989	-659	-11	0	0	-1,659
Inventories of segments	3,512	2,195	0	0	0	5,707

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2010 and at 31 December 2010						
Revenue (from external customers)	29,341	17,794	1,508	3,179	385	52,207
Segment profit (loss)[2]	3,841	-244	-610	706	312	4,006
Incl. depreciation and amortisation	-1,231	-853	-122	-18	0	-2,224
Inventories of segments	2,957	1,931	155	0	0	5,043

[1]The wholesale revenue includes the sale of goods, materials and sewing services.
[2]The segment profit (loss) is the segment operating profit (loss), excluding other operating expenses and income. The segment profit also includes restructuring costs that can be allocated to segments.

Due to change in management reporting how the expenses are allocated, the comparative numbers of 2010 segment profit (loss) were changed.

Reconciliation of segment operating profit to consolidated operating profit

	2011	2010
Total segment profit	6,410	4,006
Unallocated expenses[1]:		
Costs of goods sold and distribution costs	-5,138	-5,416
Administrative and general expenses	-2,864	-2,928
Other operating income (expenses), net	-2,858	-381
Operating loss	**-4,450**	**-4,719**

[1]Unallocated expenses include the expenses of the parent company and production companies which are not allocated to the reportable segments in internal reporting.

Reconciliation of segment inventories to inventories on consolidated statement of financial position

	31 Dec 2011	31 Dec 2010
Total inventories of segments	5,707	5,043
Inventories in Parent company and production companies	4,341	5,761
Inventories on consolidated statement of financial position	**10,048**	**10,804**

Distribution of non-current assets (except for financial assets and deferred tax assets) by location of assets

	31 Dec 2011	31 Dec 2010
Estonia	16,714	18,225
Other countries	3,531	4,862
Total	**20,245**	**23,088**

The significant noncurrent assets located outside Estonia are mainly represented by the following:

1. goodwill associated with CGU retail segment in Russia in the amount of 1,708 thousand euros as at 31 December 2011 (31 December 2010: 1,541 thousand euros);
2. goodwill associated with CGU retail segment in Latvia in the amount of 155 thousand euros as at 31 December 2011 (31 December 2010: 152 thousand euros);
3. property, plant and equipment (excluding prepayments for property and equipment) associated with retail segments in the amount of 1,537 thousand euros as at 31 December 2011 (31 December 2010: 2,941 thousand euros). The property, plant and equipment of the Baltic region is 824 thousand euros, of the Eastern Europe region 713 thousand euros (31 December 2010: 1,501 thousand euros, 1,376 thousand euros respectively and 64 thousand euros of the Cental Europe region).
4. intangible assets (except goodwill) associated with retail segments in Baltic region as at 31 December 2011 amounted to 43 thousand euros, of the Eastern Europe region 88 thousand euros (2010:75 thousand euros, 115 thousand euros respectively and 38 thousand euros of the Central Europe region)

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NOTE 17 Revenue

	2011	2010
Sale of goods	52,776	51,650
Lease revenue (Note 12)	483	385
Sale of sewing services	101	127
Other	49	45
Total	**53,409**	**52,207**

NOTE 18 Cost of goods sold

	2011	2010
Materials and supplies	20,745	20,775
Payroll costs in production	2,856	3,022
Operating lease expenses (Note 12)	685	641
Other production costs	373	381
Depreciation of assets used in production (Note 10,11)	229	249
Change in allowance for inventories (Note 6)	130	0
Change in inventories	24	104
Total	**25,042**	**25,171**

NOTE 19 Distribution costs

	2011	2010
Operating lease expenses (Note 12)	10,252	10,974
Payroll costs	10,179	9,955
Depreciation and amortisation (Note 10,11)	1,806	2,376
Advertising expenses	1,152	1,192
Fuel, heating and electricity costs	717	688
Fees for card payments	389	370
Municipal services and security expenses	279	374
Financial consultation and management fees	279	266
Freight costs	250	234
Information technology expenses	188	208
Travel expenses	185	173
Communication expenses	161	177
Bank fees	98	126
Renovation expenses of retail outlets	97	84
Packaging costs	92	106
Training expenses	54	47
Expenses for uniforms	25	52
Other sales expenses[1]	892	1,044
Total	**27,095**	**28,446**

[1]Other sales expenses mostly consist of insurance and customs expenses and service fees connected to administration of market organisations.

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NOTE 20 Administrative and general expenses

	2011	2010
Payroll costs[1]	1,300	1,332
Depreciation and amortisation (Note 10,11)	374	368
Information technology expenses	259	267
Bank fees	256	223
Fuel, heating and electricity costs	92	87
Sponsorship	53	22
Training expenses	45	26
Operating lease expenses (Note 12)	42	63
Communication expenses	40	45
Management and consulting fees	31	96
Municipal services and security expenses	26	25
Travel expenses	11	4
Other administrative expenses[2]	335	370
Total	**2,864**	**2,928**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount of 134 thousand euros (2010: 134 thousand euros), see Note 26.
[2]Other administrative expenses consist of insurance and office expenses and fees connected to auditing, accounting and other services.

NOTE 21 Wages and salaries

	2011	2010
Payroll costs	10,708	10,732
Social security costs	3,493	3,443
Payroll expenses related to share options	134	134
Total	**14,335**	**14,309**

NOTE 22 Other operating income and expenses

Other operating income

	2011	2010
Foreign exchange gain	0	167
Profit from sale of non-current assets	4	20
Other income[1]	55	459
Total	**59**	**646**

[1]Other income includes the profit from the sale of trademarks MasCara and Herold in amount of 256 thousand euros in 2010.

Other operating expenses

	2011	2010
Foreign exchange losses	92	0
Loss from disposals of non-current assets[1] (Note 10,11)	164	484
Change in fair value of investment property (Note 9)	500	0
Fines, penalties and tax interest	59	101
Effect of changes in estimates[2]	1,176	0
Other operating expenses[3]	926	442
Total	**2,917**	**1,027**

[1]Loss from disposal of non-current assets arised mainly due to the closures of ineffective stores in 2011 and 2010.

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[2]Effect of changes in estimates in amount of 1,176 thousand euros is resulted from the change in estimates used to assess the cost of finished goods and goods purchased for sale (the impact to cost, if the same estimates had been used last year).

[3]Other operating expenses include 699 thousand euros resulting from the impairment of trade receivables in 2011 (Note 5).

NOTE 23 Finance income and costs

	2011	2010
Interest income	1	1
Interest costs, thereof	-1,236	-1,407
Loan interests	-1,219	-1,153
Other interests	-17	-253
Foreign exchange income (losses)	-30	193
Other finance income	2	7
Other finance costs	-78	0
Total	**-1,341**	**-1,206**

NOTE 24 Income tax

	2011	2010
Income tax expense	69	192
Deferred income tax expense (income) (Note 7)	0	215
Total income tax expense (income)	**69**	**407**

Income tax calculated on the profits of the Group's subsidiaries based on the nominal tax rate differs from effective income tax expense for the reasons presented below.

Income tax by regions for the year ended at 31 December 2011

	Baltic region	Eastern European region	Central European region	Total
Profit (loss) before tax	-4,548	-877	-366	-5,791
Average nominal tax rate	0-15%	20-25%[2]	19%	0-25%
Tax calculated from profit (loss) at the nominal tax rate	114	-182	-70	-138
Income tax on dividends[1]	53	0	0	53
The effect of income/expenses not deductible for tax purposes	49	111	0	160
Utilisation of tax losses carried forward/additions of tax profits	-160	85	70	-5
Changes in recognised balance sheet deferred tax assets[3]	-259	259	0	0
Changes in currency rates	-3	2	0	-1
Income tax expense	**53**	**16**	**0**	**69**
Deferred income tax expense (income) (Note 7)	**-259**	**259**	**0**	**0**
Changes in off balance sheet deferred tax assets	-234	470	0	236

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Income tax by regions for the year ended at 31 December 2010

	Baltic region	Eastern European region	Central European region	Total
Profit (loss) before tax	-5,283	388	-1,030	-5,925
Average nominal tax rate	0-15%	20-25%	19%	0-25%
Tax calculated from profit (loss) at the nominal tax rate	-178	149	-196	-225
Income tax on dividends[1]	77	0	0	77
The effect of income/expenses not deductible for tax purposes	0	-68	0	-68
Utilisation of tax losses carried forward	0	-171	0	-171
Changes in recognised and off balance sheet deferred tax assets	178	393	226	797
Changes in currency rates	0	-3	0	-3
Income tax expense	**77**	**115**	**0**	**192**
Deferred income tax expense (Note 7)	**0**	**186**	**30**	**215**

[1]The income tax on dividends is the income tax for dividends paid to the holders of preference shares.
[2]The corporate income tax rate in Ukraine was 25% until 31 March 2011, from 1 April 2011 23%.
[3]In 2011 as well as 2010 the change in deferred tax assets constituted mainly of change in the estimates of the extent that realisation of tax benefit is probable.

NOTE 25 Earnings per share

Basic earnings per share

		2011	2010
Weighted average number of ordinary shares	pcs	31,629,918	23,348,686
Net profit (loss) attributable to equity holders of the parent	EUR '000	-5,863	-6,344
Basic earnings (loss) per share	**EUR**	**-0.19**	**-0.27**

Diluted earnings per share

		2011	2010
Weighted average number of ordinary shares	pcs	31,629,918	23,348,686
Net profit (loss) attributable to equity holders of the parent	EUR '000	-5,863	-6,344
Diluted earnings (loss) per share	**EUR**	**-0.19**	**-0.27**

In view of the fact that the Group does not have dilutive potential ordinary shares or dilutive adjustments to losses as at the end of 2011 and 2010, diluted losses per share equal basic losses per share.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2011 was 0.81 euros (2010: 0.82 euros).

NOTE 26 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 the reporting purposes in consolidated annual statements of the 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 (Note 15);
- members of the Management Board and the Supervisory Council;
- close family members of the persons stated above;

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- entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members;

Only members of the Parent company´s Management Board and Supervisory Council are considered as related parties, as only they have responsibility for planning, directing and controlling Group activities.

Transactions with related parties

	2011		2010	
	Purchases	**Sales**	**Purchases**	**Sales**
Goods	152	1	297	0
Services	476	0	224	0
Total	**628**	**1**	**521**	**0**

AS Baltika has purchased materials for production, sold goods and also bought management and other services (Notes 15, 17, 18, 19, 20, 23).

Balances with related parties

	31.12.2011	**31.12.2010**
Other current loans and interests (Note 13)	1,003	0
Trade payables	233	86
Balances from issuance of equity instrument	250	0
Total	**1,486**	**86**

All transactions in 2011 as well as in 2010 and balances with related parties as at 31. December 2011 and 31. December 2010 were with entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members. As at 31. December 2011 the balances from current loans, interest and issuance of equity instrument are with counterparty, who is also an owner, that has significant influence.

Compensation for the members of the Management Board and Supervisory Council

	2011	**2010**
Salaries of the members of the Management Board (6 members)[1]	304	278
Remuneration of the members of the Supervisory Council (7 members)[2]	29	31
Total	**333**	**309**

[1]In 2011, two members resigned and one member joined the Management Board. As at 31 December 2011 there were four members in the Management Board.
[2]In 2011 one member resigned the Supervisory Council (2010: two members joined the Supervisory Council). As at 31 December 2011 there were six members in the Supervisory Council.

No compensations for terminating Management Board or Supervisory Council status were paid.

The termination benefits for the members of the Management Board are limited to 3-18 month's salary expense in the amount that is approximately 168 thousand euros in total in case of premature termination.

Convertible bonds

The annual general meeting held on 18 June 2009 decided that 1,850,000 convertible bonds (G-bonds) with a par value of 0.006 euro should be issued within the framework of the Group's management incentive program. Each bond entitles its holder to subscribe for one share of the company with a nominal value of 0.64 euro. The share subscription period for G-bonds shall be from 1 July 2012 until 31 December 2012. The share subscription price is 0.77 euro.

Totally were subscribed 1,842,500 bonds. The cash consideration received in the amount of 10 thousand euros is recognised under "Borrowings" of the current liabilities as at 31 December 2011 (31 December 2010: 12 thousand euros). The accounting policies described in IFRS 2 have been applied to account for the G-bonds. During the year of 2011, 134 thousand euros as the fair value of employee services received under the share options programme were recognised as payroll expenses and a respective increase of share premium in owner's equity (2010: 134 thousand euros).

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The fair value of the services (employee contribution) received by the entity from the employees in exchange for the shares was determined by reference to the fair value of the convertible bonds granted and was valued by an independent expert at 0.26 euro per one convertible bond. The Black-Scholes option pricing model was used in valuing the convertible bond. The following parameters were used in determination of the price of the instrument: share price at the date prior to the grant date, exercise price, weighted average share price, expected volatility by a reference to the history of volatility based on the history of fluctuations of the market prices of the share and the expected life of the option.

	Issue date	Bond conversion period	Number of convertible bonds 31 Dec 2011	Number of convertible bonds 31 Dec 2010
G-bond	30.06.2009	01.07.2012-31.12.2012	1,842,500	1,842,500

NOTE 27 Business combinations

Overtaking of the operation of stores in the Ural region

In September 2011, in line with an agreement, Baltika took over the operation of three stores belonging to its Russian wholesale partner in the Ural region. As a result of the takeover the goodwill increased by 194 thousand euros (Note 11). This amount was settled with existing receivables from wholesale partner. In 2010, Baltika took over the operation of one store, as a result of the takeover the goodwill increased by 60 thousand euros.

The factors that make up the goodwill recognised are that the stores are well-established and fully operational with their loyal customer-base. These are intangible assets that do not qualify for separate recognition.

NOTE 28 Net asset position and events after the balance sheet date

As at 31 December 2011 the Group had net assets of 9,622 thousand euros. AS Baltika is not compliant with Commercial Code as net assets are not half of share capital of 25,056 thousand euros. In accordance with Supervisory Council approved plan the ordinary general meeting of shareholders will be proposed to reduce the nominal value of the share, which will ensure compliance with Commercial Code.

Baltika has already taken steps to improve operating cash flows by restructuring retail network – closing loss-making stores, focusing on cost control and improving internal processes. In addition to continued work on improving operating and financial results the following decision relating to financial position have been taken.

After the balance sheet date AS Baltika decided to exit real estate business and sell office property and land in Tallinn, located on Veerenni Street 24. With the sale of property the Group will focus on its main activity – fashion retailing, repay loans and improve its investing capability. AS Baltika has chosen as the property transaction advisor Catella Corporate Finance. AS Baltika plans to continue renting the space currently in use.

In accordance with Supervisory Council approved plan the ordinary general meeting of shareholders will be proposed to issue convertible bonds with 2 years maturity for approximately 1,500 thousand euros from which 1,250 thousand euros has been received as loan as at 31 December 2011 and lender has taken the obligation to convert to convertible bonds.

NOTE 29 Supplementary disclosures on the parent company of the Group

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

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Statement of financial position of the parent company

	31.12.2011	31.12.2010
ASSETS		
Current assets		
Cash and cash equivalents	98	164
Trade and other receivables	12,900	11,287
Inventories	4,247	5,639
Total current assets	**17,245**	**17,090**
Non-current assets		
Investments in subsidiaries	3,898	3,893
Other non-current receivables	14,365	17,188
Property, plant and equipment	435	533
Intangible assets	1,142	1,409
Total non-current assets	**19,840**	**23,023**
TOTAL ASSETS	**37,085**	**40,113**
EQUITY AND LIABILITIES		
Current liabilities		
Borrowings	3,101	2,001
Trade and other payables	16,993	12,516
Total current liabilities	**20,094**	**14,517**
Non-current liabilities		
Borrowings	15,125	17,811
Total non-current liabilities	**15,125**	**17,811**
TOTAL LIABILITIES	**35,219**	**32,328**
EQUITY		
Share capital at par value	25,056	20,129
Share premium	89	1,332
Statutory reserve	651	1,192
Other reserves	729	479
Retained earnings (losses)	-24,659	-15,347
TOTAL EQUITY	**1,866**	**7,785**
TOTAL LIABILITIES AND EQUITY	**37,085**	**40,113**

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

Statement of comprehensive income of the parent company

	2011	2010
Revenue	28,843	26,906
Cost of goods sold	-25,426	-23,042
Gross profit	**3,417**	**3,864**
Distribution costs	-4,476	-4,379
Administrative and general expenses	-3,051	-3,064
Other operating income	96	75
Other operating expenses	-2,662	-4,172
Operating profit (loss)	**-6,676**	**-7,676**
Impairment of investments and receivables from subsidiaries	-1,293	-696
Interest expenses and income	-941	-1,035
Foreign exchange loss, net	-135	93
Other financial expenses, net	72	7
Income tax	-53	-77
Net loss for the financial year	**-9,026**	**-9,385**
Total comprehensive loss	**-9,026**	**-9,385**

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

Cash flow statement of the parent company

	2011	2010
Operating activities		
Operating loss	-6,676	-7,676
Depreciation, amortisation and impairment losses	380	332
Other non-monetary expenses	321	4,041
Changes in trade and other receivables	437	594
Changes in trade and other payables	3,952	-2,371
Changes in inventories	1,392	232
Interest paid	-1,412	-1,118
Income tax paid	-13	-56
Net cash generated from operating activities	**-1,619**	**-6,023**
Investing activities		
Acquisition of non-current assets and investment property	-15	-126
Investments in subsidiaries	-5	-2
Interest received	18	0
Loans granted	0	-9,063
Net cash used in investing activities	**-2**	**-9,191**
Financing activities		
Received borrowings	2,193	12,813
Repayments of borrowings	-2,336	-2,562
Change in bank overdraft	-1,150	-1,275
Repayments of finance lease	-112	-123
Receipts from contributions into share capital	3,010	6,787
Dividend paid for preference shares	-49	-291
Transactions with bonds	-1	0
Net cash generated from financing activities	**1,555**	**15,349**
Total cash flows	**-66**	**135**
Cash and cash equivalents at beginning of year	**164**	**29**
Cash and cash equivalents at end of year	**98**	**164**
Change in cash and cash equivalents	**-66**	**135**

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2009	**14,473**	**67**	**1,670**	**-5,963**	**10,247**
Total comprehensive income (loss)	0	0	0	-9,385	-9,385
Increase of share capital	5,656	1,131	0	0	6,787
Equity-settled share-based transactions	0	134	0	0	134
Balance at 31 December 2010	**20,129**	**1,332**	**1,670**	**-15,347**	**7,784**
Book value of holdings under control or significant influence					-3,893
Value of holdings under control or significant influence, calculated under equity method					8,303
Adjusted unconsolidated equity at 31 December 2010					**12,194**
Total comprehensive income (loss)	0	0	0	-9,026	-9,026
Equity instrument	0	0	250	0	250
Conversion of share capital to euros	1,917	-1,377	-540	0	0
Increase of share capital	3,010	0	0	-287	2,723
Equity-settled share-based transactions	0	134	0	0	134
Balance at 31 December 2011	**25,056**	**89**	**1,380**	**-24,659**	**1,865**
Book value of holdings under control or significant influence					-3,898
Value of holdings under control or significant influence, calculated under equity method					11,490
Adjusted unconsolidated equity at 31 December 2011					**9,457**

According to the Estonian Accounting Law, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Baltika

We have audited the accompanying consolidated financial statements of AS Baltika and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation, and true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation, and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

We draw attention to the fact that the equity of AS Baltika as of 31 December 2011 was lower than the minimum as set in the Commercial Code. The management has disclosed its activity plan to restore the compliance of equity with the Commercial Code and to ensure its ability to continue as going concern in Note 28 of the consolidated financial statements. Our opinion is not qualified in respect of this matter.

AS PricewaterhouseCoopers

Ago Vilu	Eva Jansen-Diener
Auditor's Certificate No.325	Auditor's Certificate No.501

26 March 2012

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

LOSS ALLOCATION RECOMMENDATION

The Management Board of AS Baltika recommends the net loss for the year ended at 31 December 2011 in the amount of 5,863 thousand euros to be allocated as following:

Share premium	-89
Statuory reserve	-652
Retained earnings	-5,122
Total	**-5,863**

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISORY COUNCIL

The Management Board has prepared the management report and the consolidated financial statements of AS Baltika for the year ended at 31 December 2011.

The supervisory council of AS Baltika has reviewed the annual report, prepared by the Management Board, consisting of the management report, the consolidated financial statements, the Management Board's recommendation for profit distribution and the independent auditor's report, and has approved the annual report for presentation on the annual shareholders meeting.

Meelis Milder Chairman of the Management Board 28 March 2012	Tiina Mõis Chairman of the Supervisory Council 28 March 2012
Maigi Pärnik-Pernik Member of the Management Board 28 March 2012	Lauri Kustaa Äimä Member of the Supervisory Council 28 March 2012
Andrew J. D. Paterson Member of the Management Board 28 March 2012	Reet Saks Member of the Supervisory Council 28 March 2012
Maire Milder Member of the Management Board 28 March 2012	Allan Remmelkoor Member of the Supervisory Council 28 March 2012
	Andres Erm Member of the Supervisory Council 28 March 2012
	Jaakko Sakari Mikael Salmelin Member of the Supervisory Council 28 March 2012

AS BALTIKA SUPERVISORY COUNCIL

TIINA MÕIS
Chairman of the Supervisory Council since 07.06.2006, Member of the Supervisory Council since 03.05.2006
Chairman of the Management Board of AS Genteel
Born in 1957
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
- Member of the Supervisory Council of AS Nordecon International,
- Member of the Supervisory Councils of AS Rocca al Mare Kool,
- Member of the Supervisory Council of AS Haabersti Jäähall,
- Member of the Supervisory Councils of AS LHV Pank and AS LHV Group,
- Member of the Board of Estonian Chamber of Commerce and Industry,
- Member of Estonian Accounting Standards Board.

Baltika shares held on 31.12.2011: 977,837ordinary shares[1]

REET SAKS
Member of the Supervisory Council since 25.03.1997
Attorney at Raidla Lejins & Norcous Law Office
Born in 1962
Degree in Law, University of Tartu
Other assignments:
- Member of the Management Board of MTÜ International Association for the Protection of Intellectual Property (AIPPI) Estonian National Group.

Baltika shares held on 31.12.2011: 0

ALLAN REMMELKOOR
Member of the Supervisory Council since 03.05.2006
Member of the Management Board of AS Pro Kapital Grupp, Member of the Management Board and Managing Director of AS Täismaja
Born in 1971
Degree in Business Administration, Tallinn University of Technology
Other assignments:
- Member of the Management Board of AS Pro Kapital Eesti,
- Member of the Management Board of Pro Haldus Aktsiaselts
- Member of the Management Board of AS Tondi Kvartal,
- Member of the Management Board of OÜ Ilmarise Kvartal,
- Member of the Management Board of AS Tallinna Moekombinaat.

Baltika shares held on 31.12.2011: 0

ANDRES ERM
Member of the Supervisory Council since 03.05.2006
Director of OÜ HT Project Management
Born in 1960
Degree in Economics, Tallinn University of Technology
Baltika shares held on 31.12.2011: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Council since 18.06.2009
Managing Director of Kaima Capital Oy
Born in 1971
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Council of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the Supervisory Council of Salva Kindlustuse AS,
Member of the Supervisory Council of AS Premia Foods,
Member of the Supervisory Council of AS PKL,
Vice-chairman of the Board of AAS BAN,
Member of the Board of UAB Litagra,
Vice-chairman of the Management Board of Amber Trust Management SA,
Chairman of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund SICAV-SIF,
Chairman of the Board of Directors, KJK Management SA
Chairman of the Board of Directors, KJK Capital Oy
Member of the Board of Cumulant Capital Fund Management Oy,
Chairman of the Audit Committee of AB Snaige,
Member of the Audit Committee of AB Sanitas,
Member of the Nominations Committee of Kitron ASA.
Baltika shares held on 31.12.2011: 0

JAAKKO SAKARI MIKAEL SALMELIN
Member of the Supervisory Council since 21.06.2010
Partner, KJK Capital Oy
Born in 1980
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy.
Baltika shares held on 31.12.2011: 0

[1]Member of the Supervisory Council of AS Baltika owns shares through the company AS Genteel (see Corporate governance report section “Supervisory Council”).

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Born in 1958
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31.12.2011: 726,336 ordinary shares[1]

MAIGI PÄRNIK-PERNIK
Member of the Management Board, Chief Financial Officer
Member of the Board since 2011, in the Group since 2011,
Born 1974
Degree in Economics, Tallinn University of Technology, Master of Business Administration, Concordia International University
Baltika's shares 31.12.2011: 0

MAIRE MILDER
Member of the Management Board, Branding and Retail Developing Director
Member of the Board since 2000, in the Group since 1999
Born in 1958
Degree in Biology and Geography, University of Tartu
Baltika shares held on 31.12.2011: 316,083 ordinary shares[1]

ANDREW J. D. PATERSON
Member of the Management Board, Commercial Director
Member of the Board since 2008, in the Group since 2003
Born in 1969
Baltika shares held on 31.12.2011: 11,000 ordinary shares

[1]The members of the Management Board of AS Baltika also own shares through the holding company OÜ BMIG (see Corporate governance report section "Management Board").

AS Baltika 2011 Consolidated Annual Report (in thousands of euros)

Revenues by EMTAK (the Estonian classification of economic activities)

Code	**Definition**	**2011**	**2010**
46421	Wholesale of clothing and footwear	28,780	26,906
14131	Other sewing services	47	0
46191	Wholesale of other products	16	0
Total		**28,843**	**26,906**