

# Baltika Group



**AS BALTIKA ANNUAL REPORT 2012** 



# **AS BALTIKA**

# **2012 CONSOLIDATED ANNUAL REPORT**

(Translation of the Estonian original)

AS BALTIKA Commercial name

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Design, development, production and sales arrangement of the fashion brands of clothing Main activities

Auditor AS PricewaterhouseCoopers

Beginning and end of financial year 01.01.2012 - 31.12.2012



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## **BALTIKA GROUP IN BRIEF**

Baltika Group is a fashion retailer that operates the Monton, Mosaic, Baltman, Bastion 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 113 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 the markets
- Brand portfolio covering a broad customer base

# **KEY FIGURES AND RATIOS**

	2012	2011	2010	2009	2008	2007
Comprehensive income data, in million	ons					
Revenue	56.3	53.4	52.2	56.3	76.3	73.6
Gross profit	30.7	28.4	27.0	27.0	40.5	40.7
EBITDA	3.7	-1.4	-1.2	-6.8	1.5	6.7
Operating profit	2.0	-4.5	-4.7	-9.9	-0.4	4.1
Profit before income tax	1.1	-5.8	-5.9	-11.1	-1.3	3.4
Net profit	0.8	-5.9	-6.3	-10.2	-1.2	2.6
Financial position data, in millions						
Total assets	23.5	34.8	39.5	44.9	49.9	41.9
Interest-carrying liabilities	6.3	18.3	19.8	22.2	17.4	11.8
Shareholders' equity	10.2	9.6	12.4	11.9	19.1	21.7
Other data						
Number of stores	113	115	120	133	134	128
Sales area in the end of period, sqm	22,210	23,111	24,424	26,900	27,068	24,290
Number of employees (31 Dec)	1,288	1,363	1,419	1,697	1,988	1,983
Key ratios						
Revenue growth	5.5%	2.3%	-7.2%	-26.3%	3.7%	28.0%
Retail sales growth	5.2%	5.2%	-5.9%	-23.6%	7.3%	34.1%
Share of retail sales in revenue	93%	94%	93%	92%	89%	86%
Share of exports in revenue	68%	70%	73%	75%	76%	74%
Gross margin	54.5%	53.1%	51.8%	48.0%	53.1%	55.3%
Operating margin	3.5%	-8.3%	-9.0%	-17.6%	-0.5%	5.6%
EBT margin	1.9%	-10.8%	-11.3%	-19.6%	-1.7%	4.6%
Net margin	1.4%	-11.0%	-12.2%	-18.1%	-1.6%	3.5%
Current ratio	1.8	1.3	1.6	0.9	1.3	1.6
Debt to equity ratio	61.6%	190.3%	160.4%	186.3%	91.1%	54.4%
Net gearing ratio	41.2%	181.3%	153.8%	183.1%	88.2%	45.1%
Inventory turnover	5.22	4.54	4.74	3.77	4.55	5.30
ROE	8.9%	-54.8%	-52.6%	-73.8%	-5.7%	13.1%
ROA	2.8%	-15.1%	-14.9%	-21.2%	-2.6%	6.5%



Key s	hare	data,	EUR
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Number of shares outstanding						
(31 Dec)	35,794,850	35,794,850	27,494,850	18,644,850	18,644,850	18,644,850
Weighted average number of						
shares	35,794,850	31,629,918	23,348,686	18,644,850	18,644,850	18,644,850
Share price (31 Dec)	0.57	0.30	1.14	0.73	1.15	3.90
Market capitalisation, in millions (31 De	ec) 20.5	10.7	31.3	13.6	21.4	72.7
Earnings per share (EPS)	0.02	-0.19	-0.27	-0.55	-0.06	0.14
Change in EPS, %	111%	32%	50%	-737%	-146%	-55%
P/E	28.7	Neg.	Neg.	Neg.	Neg.	27.9
Book value per share	0.28	0.27	0.45	0.64	1.02	1.16
P/B	2.1	1.1	2.5	1.1	1.1	3.4
Dividend per preference share	0	0.05	0.07	0.01	0	0
Interest rate	0%	10%**	10%**	10%**	0%	0%
Preference share dividend payout						
ratio	0%	Neg.	Neg.	Neg.	0%	0%
Dividend per share (DPS)	0*	0	0	0	0	0
Dividend yield	0%*	0%	0%	0%	0%	0%
Dividend pay-out ratio	0%*	0%	0%	0%	0%	0%

<sup>\*</sup>Proposal to the annual 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-fixed asset write-down

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-carrying liabilities/Equity

Net gearing ratio = (Interest-carrying liabilities-Cash and cash equivalents)/Equity

Inventory turnover = Revenue/Average inventories<sup>1</sup>

ROE (return on equity) = Net profit (attributable to parent)/Average equity<sup>1</sup>

ROA (return on assets) = Net profit (attributable to parent)/Average total assets<sup>1</sup>

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)

<sup>1</sup>Based on 12-month average

<sup>\*\*</sup>Preference share dividend interest per annum



# MANAGEMENT BOARD'S CONFIRMATION OF MANAGEMENT REPORT

The Management Board confirms that the management report presented on pages 6 to 30 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

26 March 2013

Andrew J. D. Paterson

Member of the Management Board

26 March 2013

Kati Kusmin

Member of the Management Board

26 March 2013

Maigi Pärnik-Pernik

Member of the Management Board

26 March 2013

Maire Milder

Member of the Management Board

26 March 2013



# **MANAGEMENT REPORT**

Baltika Group achieved profit in 2012 – profit before tax was 1.1 million euros and net profit 0.8 million euros. The results were reached owing to increase in efficiency, in which Russia showed in addition to Baltic countries good improvement (sales efficiency in Russia grew 15% in 2012 compared to Group average 14%). In addition to gross margin improved another contributing factor continued to be effective cost control – operating expense to sales ratio improved by 5 percentage points.

The year 2012 was pivotal in both returning to profit and strengthening the financial position. By divesting real estate, considerably reducing the loan burden and improving its investment capabilities, Baltika has created a solid basis and opened up new opportunities for future development.

#### YEAR 2012 HIGHLIGHTS

- In February, the company opened a new sales channel, the Monton e-store, by which the Monton collection has been dispatched to 24 European countries in 2012.
- Important changes have taken place in Russia. In the first quarter of the year 2012 according to earlier plans the last important changes took place in restructuring retail network. In Russia during 2012 six stores were closed. The emphasis in 2012 has been on making the market organisation operations more efficient office was moved from Moscow to St. Petersburg, importing goods logistics was changed, new market director commenced. Changes are showing in the market's significantly improved financial results of 2012.
- Annual general meeting of shareholders on 20 April elected Supervisory Council composition: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. The Supervisory Board meeting on 23 May elected Jaakko Sakari Mikael Salmelin as the chairman of the Supervisory Board.
- In July AS Baltika subsidiary OÜ Baltika TP sold Veerenni 24 property to AS Kawe Group. The transaction amounts to 13.6 million euros and as the sale price is equal to the book value of the assets the sale transaction has no significant impact on the income statement. AS Baltika made an early repayment of loan from the proceeds of the sale. Baltika Group will continue to rent the space for its head office and Moetänav store space at the site.
- In accordance with the change made in loan agreement in July with AS Swedbank Baltika receives 3 million euros investment loan. The maturity date was prolonged for both new and the outstanding loan balance of 0.6 million euros. No changes were made to the interest margin.
- In August, Monton as the sponsor of the Estonian Olympic Committee dressed the Estonian delegation to the London Olympics. Successful sale of the Olympic fan collection supported the brand's sales results.
- Kati Kusmin joined the board 1 October 2012 as a member in charge of the Group's sales and marketing division. She is responsible for the sales and marketing strategies of the Monton, Mosaic, Ivo Nikkolo and Baltman brands and development of Baltika's new sales channels.
- On 29 November 2012, Baltika signed an agreement for the purchase of the Bastion trademark and the acquisition of retail stores operated under the Bastion trade name. 2012 already includes Bastion 7 stores one month sales results.

#### **MEETING THE OBJECTIVES OF 2012**

- Sales revenue growth through increased sales efficiency
  - Baltika achieved the objective. Financial target was sales growth 5% and sales efficiency growth 10%. Group reached the 5% sales growth and with the excellent results in Russia and Latvia exceeded with the sales efficiency of 14% by four percentage points the target.
- Development of multi-brand stores strategy, including starting with concessions
  - In prior year Monton mixed brand concept stores percentage was increased and the 16% sales efficiency increase proves the strategy has been paying off. Example of achieving the target is



the start of selling under a concession agreement the products of the German lifestyle brand Stones in eight of its Baltic Baltman and mixed brand stores in February.

Gradual implementation of Monton and Mosaic brand new store concept upgrades

On 28 December 2012, Baltika launched a revamped Monton concept flagship store in the Piterland shopping centre in St Petersburg. Implementation of new store concept will continue on a larger scale in 2013. In February a renewed Monton concept flagship store was opened in Tallinn and in Riga and in March in Vilnius.

Additional increase in sales revenue through additional sales channels: multi-channel strategy, development of Monton e-store

Monton e-store was opened in February that extends the shopping possibility to all European Union countries. Wholesale and e-com sales growth of 12% in 2012 shows the results of work outside the retail network.

Continued cost control and savings with the emphasis in 2012 on supply chain (customs, transportation, logistics)

The financial target was to decrease operating expenses to revenue by at least 4 percentage points. In addition to retail network efficiency growth, reaching the target was supported by cost control and work done with supply chain, above all in Russia (distribution cost to sales improved by 5 percentage points, goods additional costs like transportation ratio to sales improved by 1 percentage point). The operating expense to revenue ratio of 2012 of 51% is 5 percentage points better than that of prior year (2011: 56%).

Continuing with improvements to collection quality

Increase in revenue and sales efficiency of all brands shows the results of work done. Formal collection offering was increased in Mosaic collection for women and the brand achieved excellent results – sales efficiency grew by 17%. Similar change was made in Monton collection for men, which increased sales by 8% although Monton sales area decreased by 9%, showing client satisfaction with the choice.

Improving service standards in stores

In the first half of 2012, an extensive survey was again conducted at all of the Group's stores to evaluate customer service using the mystery shopping technique. The findings showed the strengths and weaknesses of the sales and service process as well as the trends compared to 2011. The service index rose by 7 percentage points, year over year. As regards markets, according to the results of mystery shopping the best service was provided in Latvia while the greatest improvement was achieved in Ukraine (average results improved by 20%). The findings of mystery shopping are a key input for training and development activities that focus on enhancing the sales and service process, particularly creating contact with the customer, providing fitting room service and making additional sales.

Improving net debt to equity ratio

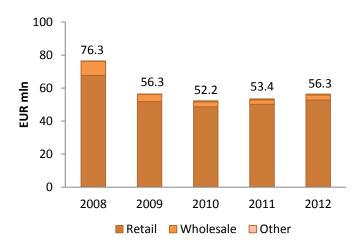
By divesting real estate, considerably reducing the loan burden and through operating results the Group has significantly strengthened its financial position. As at 31 December Group's net debt to equity ratio as at 31 December was 41.2% that is 4 times lower year-over year (31 December 2011: 181.3%). With this, solid basis and opportunities for investment capabilities and future development have been created.



## **REVENUE**

EUR million	2012	2011	+/-
Retail	52.7	50.1	5.2%
Wholesale and e-com	3.0	2.7	11.6%
Other	0.6	0.6	0%
Total	56.3	53.4	5.4%

## Revenue 2008-2012



#### **RETAIL**

Retail revenue increased 5% i.e. 2.6 million euros in 2012 compared to previous year. In the same period average operating area decreased 8% and sale efficiency increased 14%. In Baltics all three countries continued to show good results. In Lithuania sales efficiency grew in second half-year, but in Estonia and Latvia sales efficiency growths were higher in first half-year.

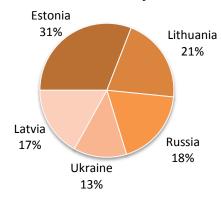
Baltika Group's biggest retail market continues to be Estonia. Mainly due to large reduction of operating area in Russia the percentage of Baltic countries from total retail sales has increased – 69% in 2012 is five percentage points more than in prior year (2011: 64%).

# Retail sales by market

EUR million	2012	2011	+/-
Estonia	16.3	14.7	11%
Lithuania	10.9	9.9	10%
Russia	9.8	10.5	-6%
Latvia	8.9	7.6	17%
Ukraine	6.7	6.7	1%
Poland	0.0	0.7	-100%
Total	52.7	50.1	5%



## Breakdown of retail sales by market - 2012



# Sales efficiency by market

EUR/m <sup>2</sup>	2012	2011	+/-
Estonia	234	213	10%
Lithuania	163	148	10%
Russia	208	181	15%
Latvia	229	190	21%
Ukraine	173	165	5%
Poland	0	99	-100%
Total	202	178	14%

#### Sales efficiency trends by market

	Q1	Q2	Q3	Q4	2012
Estonia	20%	12%	8%	4%	10%
Lithuania	11%	4%	13%	13%	10%
Russia	16%	8%	18%	18%	15%
Latvia	26%	21%	21%	16%	21%
Ukraine	2%	5%	15%	5%	5%
Total	16%	12%	15%	12%	14%

#### STORES AND SALES AREA

At the end of 2012, Baltika Group had 113 stores in five countries with a total sales area 22,210 m², two stores and 901 m² i.e. 4% less than at the end of the previous year. Shops (mostly in Russia) were closed during first months of the year. New Bastion brand shops were opened not until last month of the year, therefore the average operating area of the year 2012 decreased 8% compared to previous year.

First flagship store with new Monton concept was opened in Russia. In December 2012 Monton store was opened in Piterland shopping centre in St Petersburg.

In 2012 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 in sales and sales effciciency, service index. The purpose of the competition is to recognise employees and value their contribution and commitment to achieving their sales targets. The best Baltman store was Kristiine in Tallinn, Ivo Nikkolo store Rocca al Mare in Tallinn, Monton store was Siauliai Akropolis in Lithuania and Mosaic store was Riga Alfa in Latvia and the best mixed brand title went in a consecutive year to Moetänav in Tallinn.



## Stores by market

	31 December 2012	31 December 2011	+/-
Estonia	36	29	7
Lithuania	27	29	-2
Russia	18	23	-5
Latvia	16	16	0
Ukraine	16	18	-2
Total stores	113	115	-2
Total sales area, sqm	22,210	23,111	-901

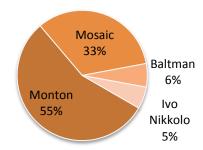
## Retail network by market and brand, 31 December 2012

	Monton	Monton Mixed brands	Mosaic	Baltman	Ivo Nikkolo	Bastion	Total	m²
Estonia	7	3	10	5	5	6	36	6,387
Lithuania	6	5	9	5	2	0	27	5,515
Russia	9	6	3	0	0	0	18	3,924
Latvia	3	4	4	2	2	1	16	3,339
Ukraine	6	3	7	0	0	0	16	3,045
Total	31	21	33	12	9	7	113	22,210
+/- vs 2011	-8	7	-7	-1	0	7	-2	-901

#### **OVERVIEW OF BRANDS**

In terms of brands, most of Baltika Group retail revenue is continued to be contributed by Monton, whose sales for 2012 accounted for 55% of the total retail revenue. The second largest brand is Mosaic with 33%, Baltman and Ivo Nikkolo share is 6% and 5% accordingly. In 2011, contribution of Monton was 53%, Mosaic 31%, Baltman and Ivo Nikkolo both 8% of the Group's retail revenue. All brands increased sales efficiency in 2012, Mosaic with 17% and Monton with 11% had highest increase in sales per square meter.

# Breakdown of retail sales by brand - 2012



# Sales efficiency by brand

EUR/m <sup>2</sup>	2012	2011	+/-
Monton	188	168	12%
Mosaic	188	161	17%
Baltman	304	275	10%
Ivo Nikkolo	302	289	5%
Total	201	178	14%

#### **Monton**

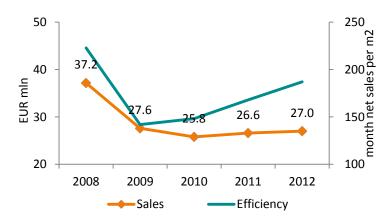
In 2012 retail sales of Monton totalled 27.0 million euros. Compared to 2011, sales increased by 2% while the retail area decreased by 9%. Sales area decreased mostly in Russia -16%. Sales revenue growth was achieved in all Baltic markets, the most notable increase was in Latvia 17% and Lithuania 11%.



Monton's largest market continues to be Russia, which accounts for 27% of retail sales of the brand.

Sales efficiency growth of 12% was achieved by closing inefficient stores, and by making changes in collection and brand team. Monton achieved increase of sales efficiency in all markets. Sales revenue per square meter grew most in Latvia by 18% and in Russia by 15%. Highest sales efficiency was in Russia.

#### Monton retail sales



Very good result was achieved in 2012 with Monton collection for men, which gross profit increased compared to last year by 13%. Formal collection offering was increased in the autumn collection (suits and shirts) and the efficiency of the decision is proved with sales increase of suits by 35% and shirts by 62%.

Year 2012 was important for Monton for various reasons: it was 10-th anniversary year that brought various interesting events in all markets. In addition 2012 was year of the Olympics and a successful Olympic fan collection sale supported Monton sales results. The collection for the next Olympics, Sochi 2014, is already in the making and the collection will be available at the stores in Estonia in December 2013.

The visual style and identity, creation of new store concept is a very important step for the development of the brand and in increasing export potential. Baltika developed Monton

brand visual identity and store concepts with the assistance of international creative agency Dan Pearlman.

New branding was fully implemented in 2012 and new sales discount design was implemented in spring. The new-concept store was opened in St Petersburg in December. In first quarter of 2013 new-concept flagship stores will be opened in all Baltic countries and the gradual renovation will continue in other stores.

The new Monton store concept, which is inspired by the decor and atmosphere of urban loft living, offers the customers a convenient and attractive shopping environment complete with functional furniture, which provides more playful





opportunities for presenting Monton's collection and the season's trendiest outfits. The key features of the new concept include furniture components that resemble the brand logo, logo-patterned wallpaper, suitcase-style wall furniture, focus points in window openings in a brick wall, a lounge-style sitting section, a cosy fitting room area, mannequin groups on floor podiums, a branded cash desk and image photos depicting the mullioned windows of a loft.

In the beginning of 2012 new structure was implemented for the two largest brands: Monton and Mosaic management was integrated. With this better collection distinction and suitability to target client was achieved.

One of the larger changes in 2013 is to increase the offering of accessories through new product groups.

#### Mosaic

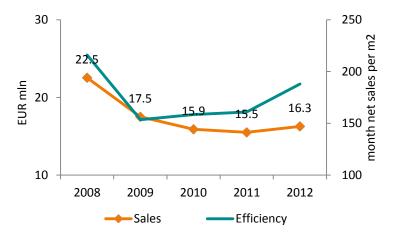
Mosaic's retail revenue for 2012 was 16.3 million euros that is 5% better result than in previous year. Average sales area decreased by 10%, most of it in Russia, where several inefficient stores were closed.

Sales revenue growth was achieved in all markets, except in Russia (decrease of sales area by 27% as a result of closing stores). In all other markets sales increase was in the range of 8%-10%.

Mosaic's largest market is Estonia, which accounts for 32% of retail sales of the brand.

Main target for Mosaic in 2012 was sales efficiency growth. The result, growth by 17%, was above expectations.

#### Mosaic retail sales



Mosaic collection for women showed very good results in 2012 – gross profit increased by 10%. This shows that the changes were made for the better and well accepted by the clients. Important change in autumn 2012 collection for women was reduction of smart casual and casual proportion and increasing formal offering.

2012 was important for Mosaic as new branding was fully taken to use and new sales discount design launched.

New Mosaic shop was opened in Magistrali shopping centre in Tallinn in spring 2012 that used the style of new-concept. Implementation of new store concept on a larger scale will start in second half of 2013. First new flagship store will be opened in Spice shopping center in Riga in second half of 2013 and existing stores will be renovated





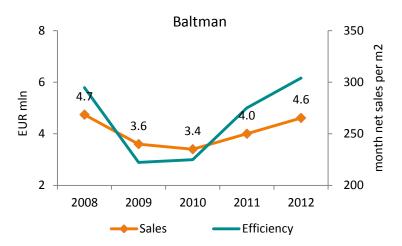
based on new store concept.

Mosaic plays an important role in the Group's wholesale revenue, accounting for 72% of it in 2012. Cooperation with important wholesale partners continued, including Stockmann department stores and Peek & Cloppenburg, a leading European department store chain. Mosaic expanded through new potential wholesale partners to new markets – Belarus and Israel.

#### **Baltman**

For Baltman 2012 was a very successful and important year in many ways. The most important was increase of retail sales by 14% totalling 4.6 million euros. Sales revenue growth was achieved in all markets and was highest in Latvia. The brand was not only able to increase retail sales but profitability at the same time. Improvement compared to previous year was 18% due to better inventory management and considerably lower markdown rates. Baltman's sales efficiency growth in 2012 was 10% and Baltman is the brand who had highest sales revenue per square meter in Baltika Group.

#### Baltman retail sales



German men's quality clothing brand Stones was added to Baltman stores to offer to clients even wider selection of smart casual products.

The year 2012 was exceptional also in the sense that Baltman's activity on men's fashion scene was recognised in various ways. In early spring, Baltman's designer Aivar Antonio Lätt was nominated for the most prestigious Estonian fashion award Kuldnõel (Golden Needle) and his dignified sharp-lined special collection was praised by both fashion critics and professionals. In autumn, Baltman presented its special collection, Baltman Limited Edition by Antonio, at Estonia's most awaited fashion event, Tallinn Fashion Week. The fabrics of the male collection that blended the southern colour spectrum with the Nordic cuts were specially ordered from Italy and all articles were one-off designer pieces.



Baltman design is also worn by Estonian football team, who received in line with continued cooperation in 2012 high-quality special order coats.



#### Ivo Nikkolo

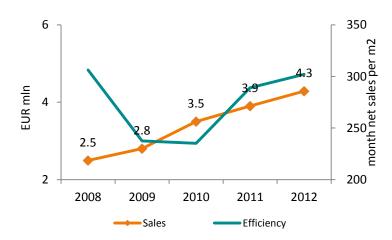
Stable growth of Ivo Nikkolo continued in 2012. The brand's sales for 2012 totalled 4.7 million euros, from which 4.3 million euros were earned from sales through retail system and 0.4 million euros from sales to wholesale partners.

Compared to 2011 Ivo Nikkolo achieved a 9% growth in total sales, while growth in sales through retail system was 11%. Due to growing interest, Ivo Nikkolo expanded its collection sales in mutibrand stores, resulting in sales revenue growth, highest in Ukraine (+53%) and in Latvia (+23%).

Sales efficiency increased by 7% in 2012. In largest market – Estonia – growth was 17%.



#### Ivo Nikkolo retail sales



The continued stable growth was based on spring-summer season sales results above expectation, which were due to a number of activities aimed to improve the collection. In spite of relatively mild winter outerwear, that product group forms 36% of total, achieved sales growth of 13%.

The target for the year 2013 is to open new store of the concept in Riga and grow sales through partners in Finland and Russia. The growth shall be supported by balanced collection taking into account the client needs and markets that are operated in and more detailed description of brand identity with the help of partners.

In 2012 the charity project "Estonian Women to Ivo Nikkolo" became more international when Latvian actress, singer, director and choreographer Laima Vaikule designed an exclusive costume for Ivo Nikkolo. Profits made from the sales of Laima Vaikule costume were donated to charity.

#### **Bastion**

The purchase of Bastion is part of strategy to strengthen Baltika brand portfolio and the additional trademark helps to expand its target customer base, offer a wider product range and increase its market share. The Estonian fashion brand with 25 years of history has strong offering of formal and special occasion clothing, fitting for feminine figure and larger models for the size 34-48. The collection is designed by Monika Randloo and Triinu Jõhve, the founder of the brand Merike Pääro contributes as a consultant.

Baltika aims to retain the positioning and style of the collection and develop the brand export potential. Company believes that Bastion has strong retail and wholesale potential in the Group's home market, the Baltics, as well as in





Scandinavia and Eastern Europe. All 7 stores have been successfully integrated to Baltika retail network and brand is performing as planned.

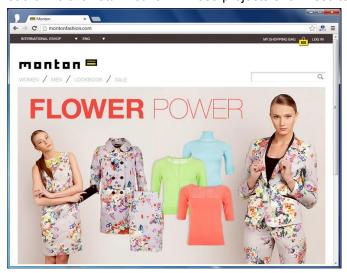
#### WHOLESALE AND E-COM

The Group's wholesale and e-com revenue for 2012 amounted to 3.0 million euros, increasing by 0.3 million euros i.e. 12% compared to the previous year. The biggest volume of wholesale belongs to sales of Mosaic brand collections that make up approximately three quarters of traditional wholesale. Only Monton brand is currently sold through E-store.

Good cooperation with large partners has continued in 2012 (Peek & Cloppenburg, Tallinna Kaubamaja and Stockmann). The year has brought a number of new wholesale partners' thorugh which the collections have also reached new countries like Belorussia and Israel. The offering of Olympic fan collection was extended through wholesale partners. Baltika won the public procurement tender for the purchase of the indoor uniform and indoor uniform fabric for the Police and Border Guard Board. The first items under the three-year contract were delivered in 2012. With the target to increase Mosaic wholesale to Finland, brand showroom was opened in Helsinki. Effort had been put into finding franchise partners to offer products outside areas of Baltika retail network. These projects show results

in the second half of year 2013.

Monton e-store, the new sales channel opened in February, has dispatched the collection to 24 European countries in 2012. In addition to the opportunities provided by the e-store, the group strives to offer excellent customer experiences through pre-shopping. In 2012, a lot of work was done to improve the availability of quality visual information — most products were photographed and the photos were uploaded to the website as soon as they were completed. The results are tangible — Monton's website traffic has doubled and the number of pages viewed on the website has increased significantly.



#### **OPERATING EXPENSES AND NET PROFIT**

Changes in collections increased the gross margin. The Group's gross margin rose by 1.4 percentage point to 54.5% (2011: 53.1%). Gross profit for 2012 totalled 30.7 million euros increasing by 2.4 million euros i.e. 8% and that in spite of decreased average sales area by 8%.

Due to restructuring retail system and in spite of inflation pressure to the expenses, Group has managed to decrease distribution expenses in 2012. Distribution expenses, amounted to 26.2 million euros, decreased 0.9 million euros compared to previous year. Cost savings were made in rents and communication expenses. Payroll costs remained at the same level due to bonuses paid for good results.

Administrative expenses decreased by 0.1 million euros, although it included additional rent expense from August due to sale of Baltika Quarter. Due to distribution and administrative expense decrease Group achieved the target to decrease operating expenses to revenue by at least 4 percentage points. 2012 year total ratio of 51% was even 5 percentage points better than that of prior year.

Other net operating income- and expense was 0.2 million euros, which resulted in operating profit of 2.0 million euros in 2012. Operating profit increased due to growth of sales efficiency, improved gross margin and cost savings by 6.4 million euros compared to previous year.

With the decrease of borrowings in the third quarter the interest expense has continued to be significantly lower, which results in net financial expense 0.9 million euros that is 0.4 million euros lower than in prior year. In 2012 Groups profit before taxes amounted to 1.1 million euros.



Baltika Group and most of its companies made profit in the year 2012. Accordingly tax expense in the amount of 0.3 million euros was recognized, which is mainly non-pecuniary as the deferred tax assets from previous losses can be used at first.

Baltika ended the year with 0.8 million euros net profit.

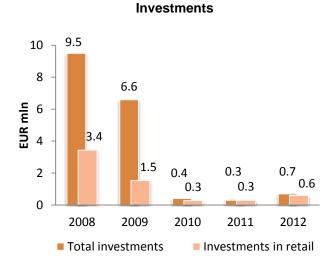
#### **FINANCIAL POSITION**

With the improvement of financial position, there are many changes in assets, liabilities and equity in 2012

As at 31 December 2012 Group inventories totalled 11.5 million euros that is 1.4 million euros more than at the end of 2011. Increase includes that of finished goods and goods purchased for resale in the amount of 0.5 million euros i.e. 6% (due to general increase in volume and addition of Bastion inventories). Main increase comes from fabrics and accessories that have increased by 0.8 million euros compared to prior year end. Required materials have been purchased earlier to ensure effective production and increase of own production share.

In July AS Baltika subsidiary OÜ Baltika TP sold Veerenni 24 property to AS Kawe Group. The transaction amounts to 13.6 million euros and as the sale price is equal to the book value of the assets the sale transaction has no significant impact for the income statement, but volume of long term assets has changed. Due to sale of property, fixed assets decreased by 5.0 million euros and real estate investments by 8.5 million euros. Proceeds from the sale were used to repay 13.0 million euros of loan and 0.6 million euros the buyer will pay in equal instalments over the next 5 years.

In July AS Baltika and Swedbank made the change in loan agreement, according to what Baltika receives 3 million euros investment loan during 1-year period. The maturity date was prolonged for both new and the outstanding loan balance of 0.6 million euros. No changes were made to the interest margin. As at 31 December 2012 Baltika has received 2 million euros of investment loan. In 2012, investing to retail system started – the first Monton new concept store was opened in St Petersburg, Russia. Investment amount in 2012 remained at low level, 0.7 million euros. The main investments of the first phase will be in first quarter of 2013 due to opening new flagship stores in the capitals of Baltics. In 2013 investments will be made according to the investment plan – renovation of 20 stores, opening approximately 10 new stores mainly in Latvia, Russia and Ukraine in total amount of 3 million euros.



Based on 20 April 2012 annual general meeting of shareholders decision the company issued on 10 May 2012 1.5 million euros H-bonds which carry 7.5% interest. KJK Fund Sicav-SIF used for the subscription previously given loans and accrued interest in the amount of 1.3 million euros and paid 0.2 million euros in addition.

In addition based on 20 April 2012 annual general meeting of shareholders decision the company issued 23.5 thousand euros I-bonds that carry no interest to the management of Baltika Group's



companies. Each bond gives the owner the right to subscribe for one company share in three years' time with the subscription price 0.36 euros.

As at 31 December Group's net debt (interest-carrying liabilities less cash and cash equivalents) was 4.2 million euros, which has decreased by 13.3 million euros compared to the end of year 2011. The Group's net debt to equity ratio as at 31 December was 41% (31 December 2011: 181%).

In accordance with the decision taken to decrease share capital on the Annual general meeting of shareholders new share capital of AS Baltika was registered in the Commercial Register on 11 May 2012 and the new share capital is 7.2 million euros.

In May 2012 AS Baltika acquired 6.2% of shares of AS Virulane from minority shareholder. In June AS Baltika and AS Virulane executed a merger agreement, according to which AS Baltika merged AS Virulane with the balance date of 1 January 2012.

As at 31 December 2012 total equity attributable to equity holders of the parent was 10.2 million euros (31 December 2011: 9.5 million) and net profit for year 2012 was 0.8 million euros, which is 8.9% return on equity.

## **CASH FLOWS**

In 2012 Baltika achieved positive cash flow from operating activities amounting to 1.3 million euros, improvement compared to last year was 2.7 million euros. 2012 cash flow includes financing of working capital, mainly due to bringing future production cycle earlier, total of 1.6 million euros.

In 2012 Baltika received first 2 million euros of investment loan and received also 0.2 million euros from emission of bonds. In same time Baltika has made loan repayments and totalled cash flow from financing activities amounts to 0.6 million euros of which 0.7 million euros was already invested in 2012.

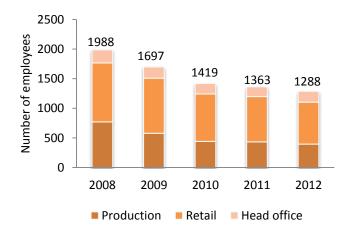
As at 31 December 2012 Baltika did not use bank overdraft and had cash balance 2.1 million euros, which provides the base for implementing investment plan.

#### **PEOPLE**

As at 31 December 2012, Baltika Group employed a total of 1,288 people that is 75 people less than 31 December 2011 (1,363): 709 (2011: 765) in the retail system, 394 (2011: 433) in manufacturing and 185 (211: 165) at the head office and logistics centre. The 2012 yearly average number of staff was 1,288 (2011: 1,405). The proportion of staff employed outside Estonia was 41%, i.e. 526 people (2011: 44%, 595).

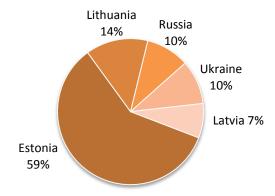
Employee remuneration expense in 2012 amounted to 10.6 million euros (2011: 10.5 million euros). The remuneration expense with taxes, including performance based fee, of the members of the Supervisory Council and Management Board totalled 0.4 million euros (2011: 0.3 million euros).

# **Number of employees**





## Breakdown of personnel by country at 31 December 2012



The implementation of new structure that was planned already in 2011 was finalised in the end of 2012. More efficient and specific structure creates a better balance between product/collection creation and sales management and will help the teams to focus on their main goals. Sales and marketing division was formed and prior commercial division reorganised to product division.

The company strengthened in 2012 its top management and key business line expertise in sales and marketing.

Kati Kusmin, a highly recognised retail and wholesale manager joined the board in October as a member in charge of the Group's sales and marketing division. Kati Kusmin is responsible for the sales and marketing strategies of all Baltika's brands and development of Baltika's new sales channels.

In July Baltika hired Andres Käär as sales director responsible for increasing the wholesale revenues of the brands and the Group's franchise and concession concepts.

Oksana Lemish who has over 10 years' experience in retail business with known international trademarks commenced work in June for Russian market organisation as market director. In addition to market director the Russian market organisation was complemented by a number of specialists and leaders with a target to increase sales and efficiency.

In 2012, Baltika launched Retail Reality, an internal training programme, which allows the head office and retail staff to switch places for at least one day per year so that the head office people can get hands-on sales experience and the retail staff can get insights into office work through job shadowing. The head office staff will work for at least one day a year as customer service attendants to gain better understanding of retail work and to experience the service process along with the work done to achieve the sales targets. Direct contact with the customer gives insights about the clientele and their needs and valuable feedback that can be used to improve the processes. Retail Reality offers new experience also for the retail staff. Through job shadowing they can learn about the work done in different departments of the head office, from fashion design to IT and finance.

## SOCIAL RESPONSIBILITY AND ENVIRONMENT

Baltika 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.

Baltika Group sourcing principles are based upon Ethical Trading Initiatives (ETI) Base Code that are designed to be ethical and responsible and are applied throughout the supply chain:

- All workers have decent working conditions and their rights are preserved,
- Environmental damages are minimised.

The provision of the principles constitutes minimum standards. Suppliers and subcontractors are expected to fully comply with all applicable local, national, federal and international laws, rules and regulations as well as identify and correct any activities that conflict with the applied principles. If the



provision of law and these principles address the same subject, suppliers are expected to apply the provision which affords the greater protection.

Baltika's daughter company Baltika Lietuva office was certificated in 2012 as a green office – company joined the project "Green Office", implemented by business centre managing company. The goal of "Green Office" program is to promote "live green, consume less" conception. Companies and workers are encouraged to save on electricity – to consume and pay less. Baltika Lietuva's electricity consumption has reduced thanks to the project by 15-20%.



# **Baltika Group CSR projects**

As the biggest fashion company in the region, 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.

In 2012 Baltika was the nominee at Swedish Business Awards 2012 in the category of Corporate Social Responsibility Initiative of the Year. Baltika was nominated for its co-operation with Estonian universities and contribution to the clothing industry and fashion education.

Cooperation with schools involves also support with organising it's fashion shows. Baltika provided the grand prize for two fashion shows: Rocca al Mare School event Pink Scissors and Moelennuk event of G5 schools. The winner(s) got on both occasion an internship in Baltika with the brand and specialty of their choice.

In addition, every year Baltika dresses students that represent Estonia at the International Chemistry Olympiad. 72 countries and 300 contestants were participating in the International Chemistry Olympiad that took place in Washington in July 2012.





Baltika is also dressing the members of the best Estonian student company that represent Estonia at the Junior Achievement Young Enterprise Europe competition. In 2012 the company was Student Network, offering a smart service – teaching basic school students in need of support and tutoring, especially in sciences but also in humanities.



#### Baltika brands' CSR projects

In 2012 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. In the autumn of 2012 Baltman provided the football team with weather proof special order coats.

In Lithuania Baltman has been sponsoring Lithuanian basketball tournament Baltman Cup for already six years. Baltman Cup is for best basketball teams of Lithuanian public institutions.

Based on a sponsoring agreement signed with the Estonian Olympic Committee in 2005, Baltika's fashion brand Monton will supply formal and casual wear to all Olympic and young athletes that represent Estonia at international competitions. The parade and fan collections for the 2012 London Olympics were inspired by Kihnu patterns and retro design. The designer of Montoni olympic collections is Kaire Kivari.



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 2012 the project became more international when Latvian actress, singer, director and choreographer Laima Vaikule designed an exclusive costume for Ivo Nikkolo. Profits made from the sales of Laima Vaikule costume were donated to charity.

#### **OUTLOOK AND OBJECTIVES FOR 2013**

In 2012, the Baltic markets continued to post strong retail sales and Lithuania, where prior period recovery had lagged behind Estonia and Latvia, achieved the highest growth figures in the second half-year. Estonia and the other Baltic countries have small open economies that are highly exposed to developments in the external environment, particularly the euro area. According to forecasts, the crisis in Europe should be slowly resolved but uncertainties about the future remain extensive. Accordingly, the overall growth rate projected for the Baltics is low although still higher than the average for the euro area (expectations range from 3% to 5%).

The economic growth expectations for Eastern Europe do not differ substantially from those of the Baltic countries. The region's economic indicators are highly dependent on commodity prices. In Ukraine, a critical factor is also political stability (or the lack thereof). However, the inflation rates forecast for Russia and Ukraine are considerably higher than those for the euro area and the Baltics.

In light of the above, Baltika expects a notable improvement in efficiency in the Russian market but has more modest expectations regarding growth in Ukrainian revenues.

Baltika's retail growth expectations for the Baltic countries are around 10%. The biggest improvement in efficiency is expected from the Lithuanian market where retail sales have not yet recovered to the level of its Baltic neighbours.

# **Baltika Group**

Year 2013 will be the 85th anniversary of Baltika, for which various events and activities for celebration will take place.



The strategic plan of action until 2015 is in completion. The target for the 2015 strategy is profitable growth: to increase in next 3 years significantly sales and profit. Compared to prior growth strategies the plan is somewhat more balanced, with less turnarounds and changes and using more various sources to generate growth.

The largest growth in the coming three years should come from like-for like sales and new shops in existing markets of current brands. Baltika foresees possibilities for growth in retail in the Baltic home market, with opening new stores in Russia in regions with current brand awareness and keeping the market share in Ukraine. With the addition of Bastion in the end of last year new niche market in women premium sector has been established.

Next in generating growth should be multi-channels, where growth is foreseen from both traditional wholesale, franchise agreements with new partners and fast growth of e-store. Wholesale targets in addition to Russia also Finland and in general Scandinavia; Central-Europa: Austria, Germany. Company is willing to cooperate under franchise agreements regardless of the geographical location. Baltika as an efficient retail network operator also sees possibilities for growth in selling new brands under franchise agreements in the current markets. Different alternatives are considered and when a right opportunity is found, effort will be put into this line of business.

Taking into account the long-term strategy the main objectives for 2013 is business expansion and increasing sales:

- Implement investment plan: renovation of almost 20 stores and the launch of around ten new stores, primarily in Latvia, Russia and Ukraine will be made in 2013. The new stores in Russia will be opened in regions where there is brand awareness;
- Open Monton new-concept (including flagship) stores and in the second half of 2013 will open the first new-concept Mosaic stores;
- Develop additional sales channels and grow sales through both wholesale and franchise;
- Increase E-store sales:
- Increase international competitiveness of all brands in Baltika Group brand portfolio.

Management's targets for 2013 are to increase total sales over 10% and to at least double the Group's net profit (target of 1.6 million euros). The targets are in line with the budget approved by the company's Supervisory Council on 13 February 2013.



## **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 3,900 companies, it is number one in worldwide listings among major markets.

Baltika's share does not have an official market maker. 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.

## **SHARES**

AS Baltika has 35,794,850 ordinary shares.

#### **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: 0.2 euros

Votes per share: 1

#### SHARE PRICE AND TRADING

In 2012 the price of the Baltika share increased by 91% to 0.573 euros and the Group's year-end market capitalisation to 20.51 million euros. During the same period, the OMX Tallinn All-Share Index increased by 38.2%.

# Share price and turnover





## **Share trading history**

EUR	2008	2009	2010	2011	2012
High	3.95	1.27	1.23	1.52	0.65
Low	0.73	0.44	0.54	0.30	0.28
Average	2.09	0.70	0.82	0.81	0.43
Year-end price	1.15	0.73	1.14	0.30	0.57
Change, %	-71%	-37%	56%	-74%	91%
Traded volume	12,572,468	10,671,279	9,389,183	6,663,797	4,067,574
Turnover, in millions	23.62	7.57	7.84	5.51	1.75

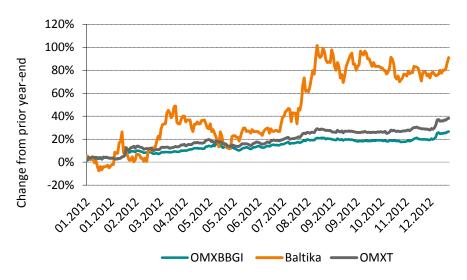
#### **INDICES**

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 March 2013 Baltika share was part of the following all share indexes:

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

# Yearly change of Baltika share and gross indexes



# SHAREHOLDER STRUCTURE

At the end of 2012, AS Baltika had 2,002 shareholders. The number of shareholders increased by 1% 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 2012. 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 2012

	Number of shares	Holding
ING Luxembourg S.A. client	7,590,914	21.21%
Clearstream Banking Luxembourg S.A. clients	6,556,115	18.32%
BMIG OÜ	4,750,033	13.27%
Skandinaviska Enskilda Banken Ab clients	3,407,532	9.52%
Svenska Handelsbanken clients	1,690,000	4.72%
AS Genteel	977,837	2.73%
Meelis Milder	743,531	2.08%
Central Securities Depository of Lithuania	709,593	1.98%
Tõnis Kotkas	442,503	1.24%
Other	8,926,792	24.93%
Total	35,794,850	100%

Largest shareholders besides the Management Board include international investment funds and other legal entities who own approximately 80% of the shares. Individuals hold approximately 20% of the shares.

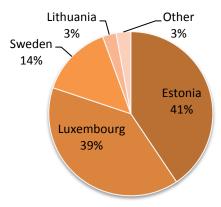
#### Shareholder structure by shareholder type as at 31 December 2012

	Number of shares	Holding
Management Board members, close family members and entities under their contro	5,828,747	16.28%
Legal persons	23,942,820	66.89%
Individuals	6,023,283	16.83%
Total	35.794.850	100%

#### Shareholder structure by size of holding as at 31 December 2012

	Number of	Percentage of		Percentage of
Holding	shareholders	shares	Number of shares	voting rights
> 10%	3	0.15%	18,897,062	52.79%
1,0 - 10,0%	8	0.40%	8,754,296	24.46%
0,1 - 1,0%	39	1.95%	3,091,000	8.64%
< 0,1%	1,952	97.50%	5,052,492	14.11%
Total	2.002	100%	35.794.850	100%

# Shareholder structure by country at 31 December 2012



# **SHARE CAPITAL**

Nominal value of share was decreased in 2012. Based on 20 April 2012 the annual general meeting of shareholders the nominal value was decreased from 0.7 euros to 0.2 euros. Share capital decreased to 7.2 million euros: retained earnings increased by 16.7 million euros and statutory reserve increased by 1.2 million euros.

According to the Articles of Association, AS Baltika maximum share capital is 20 million euros.



# Changes in share capital

		Issue	Number	Total	Share capital	Share
		price	of shares	number	at par value	premium
Date	Issue type	EUR	issued	of shares	EUR '000	EUR '000
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 e	euros			1,918	-1,377
31.05.2011	Cancelling of preference sh	nares	-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	0.70	4,300,000	35,794,850	3,010	0
31.12.2011				35,794,850	25,057	89
11.05.0212	Decrease of share nominal va	lue			-17,898	0
31.12.2012				35,794,850	7,159	63

# **DIVIDENDS**

The Group ended 2012 with a consolidated net profit of 0.8 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 2012, 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 four members of the Management Board for chairman or member functions as relevant.

#### 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 expense with taxes to members of the supervisory council and Management Board in the management report section of its interim and annual reports. In 2012, the figure amounted to 0.4 million euros. The contractual severance benefits of members of the Management Board range from 3- to 18-fold monthly remuneration depending on the period of service.

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. Accordingly bonus has been accrued for 2012 in the amount of 0.06 million euros, that will be paid after the approval of audited annual report.

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 participated together with other employees of the Group in the I-Bond (option) program.

#### 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 2012 nor 2011 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 20 April 2012, appointed AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2012. According to the audit agreement, Independent Auditor's Report is signed by Ago Vilu. AS Baltika ensures the auditor's independence by rotating the signing partner 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 2012 was held on 20 April at 24 Veerenni in Tallinn, Estonia. A total of 26,098,101 shares were represented i.e. 72.91% of the voting stock. In accordance with good practise the shareholders had the possibility to ask questions in addition to Management Board members also from the auditor. The meeting approved the company's annual report and covering loss proposal for 2011, appointed the auditor, appointed new Supervisory Council, decided the reduction of share nominal value and approved according Articles of Association amendments, resolved to issue H- and I-Bonds.

#### **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 2012, the supervisory council met six times. Most of the Supervisory Council members attended meetings of the Supervisory Council. Lauri Kustaa Aimä was not able to travel to half of the meetings, but is informed of the topics discussed and the activities of the Group through periodic detailed information that is sent. Other Supervisory Council members participated in most of the meetings.

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.

Annual general meeting of shareholders on 20 April elected Supervisory Council composition: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. The Supervisory Board meeting on 23 May elected Jaakko Sakari Mikael Salmelin as the chairman of the Supervisory Board.

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. 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. Lauri Kustaa Äimä is a managing director of Kaima Capital Oy and a member of the councils of several Baltic companies and he has long-term experience in advising potential investors on matters related to investing in the companies of the Baltic countries. Valdo Kalm is the chairman of AS EMT Management Board and has specialised knowledge in technology and telecommunications industry.



Two council members owns Baltika's shares: Tiina Mõis owns 977,837 ordinary shares i.e. 2.73% of share capital through the company under her control and Lauri Kustaa Äimä 24 590 ordinary shares i.e. 0.5% as at the end of 2012.

Supervisory Board members did not have in addition to those indicated in related party disclosure in the financial statements any investments above 5% that is a business partner of Baltika.

Four out of the five 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**

AS Baltika has an audit committee, with rules of procedure approved by Supervisory Council. 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 2012 the audit committee gathered one time. The committee met in December with the representatives of the audit firm PricewaterhouseCoopers to obtain overview of the observations made during 2012 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 five members: Chairman Meelis Milder and members Andrew Paterson, Kati Kusmin, Maigi Pärnik-Pernik and Maire Milder. Kati Kusmin joined the board 1 October 2012 as a member in charge of the Group's sales and marketing division.

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, Kati Kusmin Sales and Marketing Director and Andrew Patterson Product division Director.

Management board members Meelis and Maire Milder own Baltika's shares also through the holding company OÜ BMIG, which at the end of 2012 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 2012 Management Board members, their close family members and entities under their control owned 16.28% of Baltika share capital.

Management Board members did not have in addition to those indicated in related party disclosure in the financial statements any investments above 5% that is a business partner of Baltika.



# Shareholdings of members of the Management Board at 31 December 2012

# Ordinary shares (listed)

	No of shares	No of shares	
OÜ BMIG	4,750,033	13.27%	
Meelis Milder	743,531	2.08%	
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	5,828,747	16.28%	
Baltika share capital	35,794,850	100%	



# **CONSOLIDATED FINANCIAL STATEMENTS**

## MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Baltika's 2012 consolidated financial statements as presented on pages 31 to 75.

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

26 March 2013

Andrew J. D. Paterson

Member of the Management Board

26 March 2013

Kati Kusmin

Member of the Management Board

26 March 2013

Maigi Pärnik-Pernik

Member of the Management Board

26 March 2013

Maire Milder

Member of the Management Board

26 March 2013



# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Current assets			
Cash and cash equivalents	4	2,078	863
Trade and other receivables	5	1,836	2,189
Inventories	6	11,471	10,048
Total current assets		15,385	13,100
Non-current assets			
Deferred income tax asset	7	637	838
Other non-current assets	8	1,088	629
Investment property	9	0	8,549
Property, plant and equipment	10	2,256	8,031
Intangible assets	11	4,150	3,665
Total non-current assets		8,131	21,712
TOTAL ASSETS		23,516	34,812
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	13	1,598	3,178
Trade and other payables	14	7,005	6,785
Total current liabilities		8,603	9,963
Non-current liabilities		·	,
Borrowings	13	4,702	15,144
Other liabilities	14	25	83
Total non-current liabilities		4,727	15,227
TOTAL LIABILITIES		13,330	25,190
EQUITY			
Share capital at par value	15	7,159	25,056
Share premium		63	89
Reserves	15	1,182	2,494
Retained earnings		1,667	-11,592
Net profit (loss) for the period		804	-5,863
Currency translation differences		-689	-727
Total equity attributable to equity holders of the parent		10,186	9,457
Non-controlling interest		0	165
TOTAL EQUITY		10,186	9,622
TOTAL LIABILITIES AND EQUITY			



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2012	2011
Revenue	16,17	56,332	53,409
Cost of goods sold	18	-25,615	-25,042
Gross profit	10	30,717	28,367
Cross pront		30,717	20,001
Distribution costs	19	-26,193	-27,095
Administrative and general expenses	20	-2,722	-2,864
Other operating income	22	341	59
Other operating expenses	22	-184	-2,917
Operating profit (loss)		1,959	-4,450
Finance income	23	61	3
Finance costs	23	-964	-1,344
Profit (loss) before income tax		1,056	-5,791
Income tax expense	24	-251	-69
Net profit (loss)		805	-5,860
Profit (loss) attributable to:			
Equity holders of the parent company		804	-5,863
Non-controlling interest		1	3
Other comprehensive income		00	00
Currency translation differences		38	20
Total comprehensive income (loss) Comprehensive income (loss) attributable to:		843	-5,840
Equity holders of the parent company		842	-5,843
Non-controlling interest		1	3
rion controlling interest		,	3
Basic earnings per share, EUR	25	0.02	-0.19
Diluted earnings per share, EUR	25	0.02	-0.19
=	<del></del> -	···-	5.76



# **CONSOLIDATED CASH FLOW STATEMENT**

	Note	2012	2011
Operating activities			
Operating profit (loss)		1,959	-4,450
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	10,11	1,715	2,422
Profit/loss from disposal of PPE		34	160
Revaluation of investment property	9	0	500
Impairment of trade receivables	22	0	699
Change in cost price estimates of finished goods and goods purchased for sale	22	0	1,176
Other non-monetary expenses	22	94	29
Changes in working capital:		34	29
Change in trade and other receivables	5	445	174
Change in inventories	6	-1,096	-420
Change in trade and other payables	14	-899	-221
Interest paid	17	-826	-1,239
Income tax paid		-89	-143
Net cash generated from (used in) operating activities		1,337	-1,313
and the second s			
Investing activities	40.44	745	407
Acquisition of PPE, intangibles	10,11	-715 -72	-137
Proceeds from disposal of PPE	10	73	71
Acquisition of non-controlling interest	28	-91 <b>7</b> 22	0
Net cash used in investing activities		-733	-66
Financing activities			
Received borrowings	13	2,000	2,193
Repayments of borrowings	13	-1,091	-2,336
Change in bank overdraft	13	-382	-1,150
Repayments of finance lease	12	-131	-218
Receipts from contributions into share capital	15	0	3,010
Dividend paid for preference shares	15	0	-49
Redemption of bonds		0	-1
Proceeds from bond issue	15	212	0
Net cash generated from financing activities		608	1,449
Total cash flows		1,212	70
Cash and cash equivalents at the beginning of the period	4	863	823
Effect of exchange gains (losses) on cash and cash equivalents		3	-30
Cash and cash equivalents at the end of the period	4	2,078	863
Change in cash and cash equivalents		1,215	40



# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

# Attributable to the equity holders of the parent

	Share capital	Share pre- mium	Reser- ves	Re- tained ear- nings	Currency transla- tion differen- ces	Total	Non- controlling interest	Total equity
Balance as at 31 December 2010	20,129	1,332	2.784	-11,305	-747	12,194	162	12,356
Loss for the period	0	0	0	-5,863	0	-5,863	3	-5,860
Other comprehensive income	0	0	0	0,000	20	20	0	20
Total comprehensive income		0	0	-5,863	20	-5,843	3	-5,840
	(1033) 0			-5,005	20	-5,045		-5,040
Equity-settled share-based	0	134	0	0	0	134	0	134
transactions (Note 15)	0	0	250	0		250		250
Equity instrument (Note 15) Conversion of share capital	U	U	250	U	0	250	0	250
to euros (Note 15)	1,917	-1,377	-540	0	0	0	0	0
Increase of share capital	1,011	1,011	0.10	Ū	ŭ	Ū	ŭ	ŭ
(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
Profit for the period	0	0	0	804	0	804	1	805
Other comprehensive income	0	0	0	0	38	38	0	38
Total comprehensive income	0	0	0	804	38	842	1	843
Offsetting losses (Note 15) Decrease of the nominal	0	-89	-651	740	0	0	0	0
value of share (Note 15) Equity-settled share-based	-17,897	0	1,182	16,715	0	0	0	0
transactions (Note 15) Equity instrument classificatio	0 n	63	0	0	0	63	0	63
to liability (Note 15) Acquisition of non-controlling	0	0	-250	0	0	-250	0	-250
interest (Note 28) Sale of investment property:	0	0	0	75	0	75	-166	-91
revaluation reserve (Note15)  Balance as at	0	0	-1,592	1,592	0	0	0	0
31 December 2012	7,159	63	1,182	2,471	-689	10,186	0	10,186

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



#### 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, Bastion 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 2012, there were 113 Baltika stores on five markets in the Baltics and Eastern Europe (2011: 115 stores). Baltika also sells its collections through wholesale. As at 31 December 2012 Baltika Group employed 1,288 people (31 December 2011: 1,363).

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 2012 was operating in Estonia, Latvia, Lithuania, Russia and Ukraine. The consolidated financial statements prepared for the financial year ended at 31 December 2012 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group):OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, AS, 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 26 March 2013. 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 2012 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.

## 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

There are no new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 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 2013, and which the Group has not early adopted.



Presentation of Items of Other Comprehensive Income, amendments to IAS 1 (effective for annual periods beginning on or after 1 July 2012). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income. The amended standard results in changing presentation of the Group's financial statements, but have no impact on measurement of transactions and balances.

IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014). Applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and 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.

Improvements to International Financial Reporting Standards, issued in May 2012 (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. The Group is currently assessing the impact of the standard on 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 statement of financial position. 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 2012 (and 31 December 2011) 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<sup>2</sup> remains less than 10% of the total area of the object. Gains and losses resulting from changes in the fair value of investment property are 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

rental space-related assets
 buildings
 machinery and equipment
 other fixtures
 5-7 years;
 years;
 years;
 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)".

## 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 (5-50 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 statement of financial position 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).



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:

- should the termination of the agreement require a mutual agreement, lease payments for the three-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.

## Sale and leaseback transaction

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately.

## 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 statement of financial position 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 case 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. For further information see section "Interest income and expenses". 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, Ukraine and Russia that has been adjusted for the permanent and temporary differences as stipulated by law is subject to corporate income tax.

#### Corporate income tax rates

	2013	2012
Latvia	15%	15%
Lithuania	15%	15%
Ukraine	19%	21%
Russia	20%	20%

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 inventory (Note 6), valuation of deferred income tax assets (Note 7) and valuation of goodwill (Note 11).

## **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 8,870 thousand euros as at 31 December 2012 and 8,348 thousand euros as at 31 December 2011), upon valuation of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount net of allowances of 2,281 thousand euros as at 31 December 2012 and 1,474thousand euros as at 31 December 2011); upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 69 thousand euros as at 31 December 2012 and 62 thousand euros as at 31 December 2011).

# 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 637 thousand euros as at 31 December 2012 and 838 thousand euros as at 31 December 2011.

#### 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. Management of the Group's Parent company considers all the risks as significant risks for the Group.

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 65% of the revenues of the Group (2011: 66%) and are denominated in LVL (Latvian lat), LTL (Lithuanian lit), RUB (Russian rouble), UAH (Ukrainian hryvnia) and in 2011 also 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 mainly 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 in the reporting period were the following: Russian rouble +2.34% (2011: -1.54%), Ukrainian hryvnia +7.60% (2011: -5.54%) and Latvian lat +1,27% (2011: +0.34%). The Lithuanian lit is pegged to the euro. The change in average rate of the US dollar in the reporting period was +7.70% (2011: -5.00%).

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. If the foreign exchange rates in relation to the euro as at 31 December 2012 had been 1%-8% higher (lower), the impact on the net profit for the year would have been +/-16 thousand euros (2011: +/-59 thousand euros on the net loss). The assessment of foreign exchange rate sensitivity to the 2012 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%, US dollar does not exceed +/-6% and that the exchange rates of the Latvian lat and other currencies is not expected to fluctuate more than 1%.

The assessment of foreign exchange rate sensitivity to the 2011 profit were based on the assumptions that the fluctuations in foreign currency exchange rates of Russian rouble and Ukrainian hryvnia did not exceed +/-8%, US dollar did not exceed +/-7% 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/loss arising from the translation of monetary assets and liabilities

	Impact 2012	Impact 2011
Cash and cash equivalents	54	36
Trade receivables	9	6
Trade payables	-79	-101
Total	-16	-59

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

No instruments were used to hedge foreign currency risks in 2012 and 2011. The Management monitors changes of foreign currency constantly and assesses if the changes 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-carrying 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 carrying 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 2012 and 31 December 2011 were subject to a floating interest rate based on Euribor, which is fixed every month or six months or had a fixed interest rate (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 profit for the year would have been 124 thousand euros (2011: 192 thousand euros post-tax loss higher) lower and if 0.1 percentage point lower, the post-tax profit for the year would have been 1 thousand euros higher (2011: 19 thousand euros post-tax loss lower).

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, mostly independently rated parties with a minimum rating of "A" are accepted as long-term counterparties in Baltic states. Mostly for banks in Eastern Europe, the "B" rating is also considered acceptable.



# Cash and cash equivalents at bank classified by credit rating<sup>1</sup>

	31 Dec 2012	31 Dec 2011
A	1,279	274
В	384	198
Total	1,663	472

<sup>&</sup>lt;sup>1</sup>The credit rating applies on long-term deposits as published by Moody's Investor Service website.

#### Receivables

As at 31 December 2012 the maximum exposure to credit risk from trade receivables (Note 5) and other non-current assets (Note 8) amounted to 1,307 thousand euros (31 December 2011: 795 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.

## 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. 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). The unused limit of Group's overdraft facilities as at 31 December 2012 was 1,567 thousand euros (31 December 2011: 1,185 thousand euros).

# Financial liabilities by maturity as at 31 December 2012

Undiscounted	cash flows <sup>1</sup>
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	Carrying amount	1-3 months	3-12 months	1-5 years	Total
Loans (Note 13) <sup>2</sup>	4,735	413	1,352	3,329	5,094
Finance lease liabilities (Note 13)	36	12	13	13	38
Convertible bonds (Note 13, 15)	1,529	5	112	1,636	1,753
Trade payables (Note 14)	4,162	4,162	0	0	4,162
Other financial liabilities (Note 14) <sup>3</sup>	91	91	0	0	91
Total	10,553	4,683	1,477	4,978	11,138

# Financial liabilities by maturity as at 31 December 2011

#### Undiscounted cash flows<sup>1</sup>

	Carrying amount	1-3 months	3-12 months	1-5 years	Total
Loans (Note 13) <sup>2</sup>	18.166	432	3.763	16.627	20,822
Finance lease liabilities (Note 13)	146	45	81	28	154
Convertible bonds (Note 13, 15)	10	10	0	0	10
Trade payables (Note 14)	3,945	3,945	0	0	3,945
Other financial liabilities (Note 14) <sup>3</sup>	119	119	0	0	119
Total	22,386	4,551	3,844	16,655	25,050

<sup>&</sup>lt;sup>1</sup>For interest bearing borrowings carrying floating interest rate based on Euribor, the spot rate has been used.

<sup>&</sup>lt;sup>2</sup>Used overdraft facilities are shown under loans payable within 1-5 years based on the contractual date of payment.

<sup>&</sup>lt;sup>3</sup>Other financial liabilities include accrued expenses in amount of 79 thousand euros (31 December 2011: 119 thousand euros).



## 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.

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 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.

Loan agreements with the banks include certain restrictions and obligations to provide information to the bank concerning payments of dividends, changes in share capital and in cases of supplementing additional capital.

The Group monitors capital on the basis of net gearing ratio. This ratio is calculated as net debt divided by equity. Net debt is calculated as interest carrying borrowings less cash and cash equivalents.

The Group's strategy is to maintain the capital to net gearing ratio under 50%. In 2012 this goal was achieved, but in 2011 it was not achieved due to macroeconomic and Group's situation.

In 2012, the net-gearing ratio was influenced by a significant reduction in borrowings and reaching profit. In 2011, the ratio was influenced by the earned comprehensive loss in the amount of 5,840 thousand euros and also increase of the share capital.



## Net gearing ratio

	31 Dec 2012	31 Dec 2011
Interest carrying borrowings (Note 13)	6,271	18,312
Cash and cash equivalents (Note 4)	-2,078	-863
Net debt	4,193	17,449
Total equity	10,186	9,622
Net gearing ratio	41%	181%

#### Fair value

The Group estimates that the fair values of the financial assets (Notes 4-5, 8) 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 2012 and 31 December 2011. 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 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.

## **NOTE 4 Cash and cash equivalents**

	31 Dec 2012	31 Dec 2011
Cash in hand	415	391
Cash at bank and overnight deposits	1,663	472
Total	2,078	863

## Cash and cash equivalents by currency

	31 Dec 2012	31 Dec 2011
EUR (euro)	1,198	221
RUB (Russian rouble)	510	277
UAH (Ukrainian hryvnia)	144	155
LVL (Latvian lat)	123	46
LTL (Lithuanian lit)	103	162
PLN (Polish zloty)	0	2
Total	2.078	863

## **NOTE 5 Trade and other receivables**

	31 Dec 2012	31 Dec 2011
Trade receivables, net	680	533
Other prepaid expenses <sup>1</sup>	763	881
Tax prepayments and tax reclaims, thereof	344	675
Value added tax	233	656
Prepaid income tax	15	14
Other taxes	96	5
Other prepayments	49	100
Total	1,836	2,189

<sup>&</sup>lt;sup>1</sup>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

04 D 0040	Baltic	Eastern European	Other	<b>T</b>
31 Dec 2012	region	region	regions	Total
Not due	482	96	30	608
Up to 1 month past due	12	0	24	36
1-3 months past due	11	0	9	20
3-6 months past due	0	0	17	17
Over 6 months past due	0	0	0	0
Total trade receivables, gross	505	96	80	681
Allowance for impairment of trade receivables (Note 22)	-1	0	0	-1
Total	504	96	80	680
		Eastern		
		⊏asiem		
	Baltic	European	Other	
31 Dec 2011	Baltic region		Other regions	Total
31 Dec 2011 Not due		European		<b>Total</b> 1,112
	region	European region	regions	
Not due	region 380	European region 695	regions 37	1,112
Not due Up to 1 month past due	<b>region</b> 380 30	European region 695 0	regions 37 13	1,112 43
Not due Up to 1 month past due 1-3 months past due	region 380 30 26	European region 695 0	7 regions 37 13 6	1,112 43 32
Not due Up to 1 month past due 1-3 months past due 3-6 months past due	region 380 30 26 6	European region 695 0 0	regions  37  13  6  0	1,112 43 32 6
Not due Up to 1 month past due 1-3 months past due 3-6 months past due Over 6 months past due	region  380 30 26 6 10	European region 695 0 0 0	regions  37  13  6  0 0	1,112 43 32 6 10

In 2012 irrecoverable receivables in amount of 670 thousand euros were derecognized (2011: 12 thousand euros). Doubtful receivables in the amount of 1 thousand euros were recognized under allowance for impairment of trade receivables (2011: 648 thousand euros). Also 33 thousand euros was received from receivables that were impaired in previous periods (2011: 0). In 2011, 53 thousand euros were booked as irrecoverable receivables.

The most significant credit risk concentration to the Group in 2011 arose from the wholesale activities in Eastern Europe (Note 3). Generally 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.

Information about the receivables from related parties is in Note 26.

## Trade receivables (net) in denominated currency

	31 Dec 2012	31 Dec 2011
EUR (euro)	425	358
LVL (Latvian lat)	140	90
RUB (Russian rouble)	65	49
UAH (Ukrainian hryvnia)	30	0
LTL (Lithuanian lit)	20	36
Total	680	533

## **NOTE 6 Inventories**

	31 Dec 2012	31 Dec 2011
Fabrics and accessories	2,281	1,474
Work-in-progress	69	62
Finished goods and goods purchased for resale	9,330	8,798
Allowance for impairment of finished goods and goods purchased for resale (Note 1	8) -460	-450
Prepayments to suppliers	251	164
Total	11 471	10 048

Eastern



The allowance for finished goods and goods purchased for sale as at 31 December 2012 compared to previous reporting date has not changed significantly. Due to competition in retail market similar sales with discount are expected. Discounts after the balance sheet date also support these expectations.

"Finished goods and goods purchased for resale" contains inventory acquired in Bastion business combination (331 thousand euros).

#### **NOTE 7 Deferred income tax**

#### Deferred income tax as at 31 December 2012

Deferred income tax expense (income) (Note 24)

	Baltic	European	Tatal
	region	region	Total
Deferred income tax asset			
On property, plant and equipment and other tax based differences <sup>1</sup>	-29	20	-9
On tax loss carry-forwards	548	98	646
Total	519	118	637
Deferred income tax asset, net, thereof	519	118	637
Non-current portion	519	118	637
Deferred income tax expense (Note 24)	-55	-146	-201
Deferred income tax as at 31 December 2011		Eastern	
	Baltic region	European region	Total
Deferred income tax asset		_	
On property, plant and equipment and other tax based differences <sup>1</sup>	-51	206	155
On tax loss carry-forwards	624	59	683
Total	573	265	838
Deferred income tax asset, net, thereof	573	265	838
Non-current portion	573	265	838

<sup>&</sup>lt;sup>1</sup>Income tax liability can be settled against deferred tax assets in one country/company, therefore a deferred tax asset is recognised.

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 864 thousand euros (31 December 2011: 1,050 thousand euros) in respect of losses and other tax based differences amounting to 4,279 thousand euros (31 December 2011: 4,503 thousand euros) that can be carried forward against future taxable income. Losses and other tax based differences expire within the following ten years after the balance sheet.

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#### **NOTE 8 Other non-current assets**

	31 Dec 2012	31 Dec 2011
Non-current portion of lease prepayments <sup>1</sup>	461	367
Other long-term receivables <sup>2</sup>	627	262
Total other non-current assets	1.088	629

<sup>&</sup>lt;sup>1</sup>Non-current portion of lease prepayments arise from lease agreements of the Group's retail subsidiaries.

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**

	2012	2011
Balance at 1 January	8,549	7,069
Reclassification from property, plant and equipment (Note 10)	0	1,980
Change in fair value (Note 3, 22)	0	-500
Disposal	-8,549	0
Balance at 31 December	0	8,549
	2012	2011
Lease revenue from investment properties (Note 17)	403	483
Direct operating expenses from investment properties (Note 12)	29	60
Net lease revenue from investment properties	374	423

At the beginning of the reporting period investment property consisted of 4,500 square metres of land and two office buildings, located at 24 Veerenni in Tallinn, Estonia. Real estate space that was for own usage by Group was recorded as property, plant and equipment.

# Movements in 2011

As at 31 December 2011 the carrying value of land and buildings measured at fair value was updated to reflect market conditions. The fair value calculations for buildings used 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. The Management used for evaluation a discount rate of 9.5% and capitalisation rate of 9.0%. The Management's estimate concerning the buildings located at Veerenni 24, Tallinn, Estonia fell in the range of estimated fair value. Land market value was determined in 2011 using value in use calculations based on cash flow projections and 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" (Note 22)

During 2011 due to change in space used as property, part of property, plant and equipment was reclassified to investment property in the amount of 1,980 thousand euros.

## Movements in 2012

In line with the plan to exit operating real estate and focus on its core business, AS Baltika's subsidiary OÜ Baltika TP sold office buildings and land located at Veerenni 24 to AS Kawe Group on 31 July 2012 (see also Note 10).

The transaction price was 13.6 million euros of which 13 million euros was settled at the time of selling and 0.6 million will be settled within five years.

Proceeds from the sale of the real-estate were used to reduce the Group's borrowings (loan liabilities decreased by 13 million euros). The proceeds of 13 million were paid to the bank directly by the

<sup>&</sup>lt;sup>2</sup>Other long term receivables consist of the receivables from the sale of property and assets, trademarks MasCara and Herold and also receivables from the sale of real-estate (Note 9).



purchaser, as a result the transaction had no effect to cash flow. As a result of the transaction Baltika's investment property and property, plant and equipment in the amount of 13.6 million euros decreased in full. Short and long term receivables increased by a total of 0.6 million euros.

The Group continues to rent the space on operating lease terms for its head office and store "Moetänav" in the same location (Note 12).

**NOTE 10 Property, plant and equipment** 

	Buildings and structures	Machinery and equipment	Other fixtures	Construc- tion in progress	Pre- payments	Total
At 31 December 2010						
Acquisition cost	11,607	5,861	6,979	19	13	24,478
Accumulated depreciation	-3,005	-4,445	-4,908	0	0	-12,357
Net book amount	8,602	1,416	2,071	19	13	12,121
Additions	48	42	40	0	0	130
Reclassifications from inventories	0	0	5	0	0	5
Disposals (Note 22)	-51	-4	-12	-8	-11	-86
Reclassifications to inventories	0	-28	-38	0	0	-66
Reclassifications to investment property						
(Note 9)	-1,980	0	0	0	0	-1,980
Reclassification	11	-64	64	-10	-1	0
Impairment (Note 22)	-10	0	0	0	0	-10
Depreciation (Note 18-20)	-729	-376	-925	0	0	-2,030
Currency translation differences	-20	-8	-23	-1	-1	-53
At 31 December 2011						
Acquisition cost	9,231	5,633	6,691	0	0	21,555
Accumulated depreciation	-3,360	-4,655	-5,509	0	0	-13,524
Net book amount	5,871	978	1,182	0	0	8,031
Additions	326	126	253	4	0	709
Reclassifications from inventories	0	0	18	0	0	18
Disposals (Note 22)	-5,031 <sup>1</sup>	-39	-6	0	0	-5,076
Reclassifications to inventories	0	0	-7	0	0	-7
Reclassification	-21	4	17	0	0	0
Depreciation (Note 18-20)	-469	-384	-578	0	0	-1,431
Currency translation differences	-4	9	8	-1	0	12
At 31 December 2012						
Acquisition cost	3,975	5,480	6,645	3	0	16,103
Accumulated depreciation	-3,303	-4,786	-5,758	0	0	-13,847
Net book amount	672	694	887	3	0	2,256

<sup>&</sup>lt;sup>1</sup>The real estate property in Veerenni 24 was sold on 31. July 2012, see more details in Note 9.

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



## **NOTE 11 Intangible assets**

	Licenses, software	Trade-	_		
	and other	marks	Prepayments	Goodwill	Total
At 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
At 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
Additions	132 <sup>1</sup>	600 <sup>1</sup>	0	0	732
Disposals	-2	0	-10	0	-12
Amortisation (Note 18-20)	-265	-33	0	0	-298
Currency translation differences	2	0	0	61	63
At 31 December 2012					
Acquisition cost	2,296	1,243	0	2,279	5,818
Accumulated amortisation	-1,464	-204	0	0	-1,668
Net book amount	832	1,039	0	2,279	4,150

<sup>&</sup>lt;sup>1</sup>Additions include assets acquired in the Bastion business combination 709 thousand euros (Note 27).

## Impairment tests for goodwill

Goodwill, carrying value as at 31 December 2012 2,279 thousand euros (31 December 2011: 2,218 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 2012. 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 Tail	lor CGU	Baltman R	US CGU	Baltika Lat	vija CGU
Balance at 31 December	2012	2011	2012	2011	2012	2011
Carrying amount of goodwill	355	355	1,769	1,708	155	155
Growth in revenue/Sales efficiency <sup>1</sup>	4.40%	1.98%	6.75%	7.86%	4.50%	4.72%
Growth rate <sup>2</sup>	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Discount rate <sup>3</sup>	9.13%	9.64%	13.87%	13.68%	9.29%	12.66%
Difference between recoverable and						
carrying amount	1,128	1,756	10,629	3,678	15,889	13,461

<sup>&</sup>lt;sup>1</sup>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.

<sup>&</sup>lt;sup>2</sup>Growth rate used to extrapolate cash flows beyond the year 2017.

<sup>&</sup>lt;sup>3</sup>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 2.35% and -0.4% for Baltman RUS and SIA Baltika Latvija respectively the recoverable amount would have been be equal to the carrying amount (31 December 2011: respectively 6.3% and -3.8%). If the average annual growth in sales for Baltika Tailor were -0.2% (31 December 2011 1.3%) the recoverable amount would have been equal to the carrying amount. If the average annual gross profit margin were lower by 19.05%, 16.67% and 1.8% for SIA Baltika Latvija, Baltman RUS and Baltika Tailor respectively the recoverable amount would have been equal to the carrying amount (31 December 2011: respectively 28.9%, 5.4%, 25.6%). Under reasonably possible changes to discount rate the carrying amount would not exceed the recoverable amount.

## **NOTE 12 Accounting for leases**

### Operating lease - the Group as the lessee

#### Future minimum lease payments under non-cancellable operating leases

	31 Dec 2012	31 Dec 2011
Up to 1 year	5,192	4,400
1-5 years	7,001	4,466
Over 5 years	2,821	681
Total	15,014	9,547

Operating lease expenses arise from lease of stores, production facility and with disposal of realestate from lease of the head-office. The lease agreements for stores are predominantly not binding for long-term and can be terminated in a two to six months notice.

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 2012, operating lease payments amounted to 10,812 thousand euros (2011: 10,979 thousand euros) (Note 18-20).

There is a significant rise in future minimum lease payments under non-cancellable operating leases. Firstly, the Group exited real-estate business (Note 9) and started to lease former spaces as the lessee in 2012. Both, sale and leaseback transactions were established at fair value (Note 9) and leaseback transaction resulted in an operating lease. Secondly, some contracts were prolonged

## Operating lease - the Group as the lessor

Future minimum lease receivables from non-cancellable leases

	31 Dec 2012	31 Dec 2011
Up to 1 year	0	332
1-5 years	0	582
Over 5 years	0	65
Total	0	979

In 2012, the Group earned operating lease income in the amount of 403 thousand euros (2011: 483 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 29 thousand euros (2011: 60 thousand euros).

In 2012 the Group exited real-estate business (Note 9), therefore as at 31 December 212 there are no future minimum lease receivables from cancellable leases. As at 31 December 2011 the net book value of the assets leased out under operating leases (investment property) was 8,549 thousand euros.



## Finance lease - the Group as the lessee

	Machinery and equipment	Other fixtures	Total
At 31 December 2011	• •		
Acquisition cost	1,008	274	1,282
Accumulated depreciation	-774	-71	-845
Net book amount	234	203	437
At 31 December 2012			
Acquisition cost	1,024	278	1,302
Accumulated depreciation	-829	-101	-930
Net book amount	195	177	372

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 2012, the Group settled finance lease payments in the amount of 131 thousand euros (2011: 218 thousand euros).

## **NOTE 13 Borrowings**

	31 Dec 2012	31 Dec 2011
Current borrowings		
Current portion of long-term bank loans (Note 3)	1,570	2,047
Current finance lease liabilities (Note 3)	23	121
Other current loans (Note 3, 15)	0	1,000
Convertible bonds (Note 15)	5	10
Total	1,598	3,178
Non-current borrowings		
Non-current bank loans (Note 3)	3,165	15,119
Non-current finance lease liabilities (Note 3)	13	25
Convertible bonds (Note 15)	1,524	0
Total	4,702	15,144
Total borrowings	6,300	18,322

As at 31 December 2012 the unamortised transactions costs amounted to 5 thousand euros (31 December 2011: 47 thousand euros).

During the reporting period, the Group made loan repayments in the amount of 14,091 thousand euros (2011: 2,336 thousand euros), see also Note 9, where the impact to cash-flow is described. Interest expense of the loans and other interest carrying borrowings of the reporting period amounted to 877 thousand euros (2011: 1,236 thousand euros), including 72 thousand euros interest expense from convertible bonds (Note 15). Group's overdraft facilities were not used with the banks as at 31 December 2012 (31 December 2011: 382 thousand euros).

In the third quarter 2012 the Group signed an annex to previous loan agreement with the banks according to which received a loan in the amount of 2,000 thousand euros in 2012.

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 included lenders obligation to convert the loan to convertible bonds should ordinary annual general meeting approve their issuance. If the annual general meeting had not approved issuance of convertible bonds, the loan should have been repaid on 29 June 2012. On 20 April 2012 the annual general meeting of shareholders approved the issuance of convertible bonds.



In May 2012 AS Baltika signed an agreement with a related party, according to which two-year term convertible bonds were issued (Note 15).

## Borrowings at nominal value in denominated currency

	31 Dec 2012	31 Dec 2011
EUR (euro)	6,270	18,319
Other currencies	1	3
Total	6.271	18.322

# Interest carrying loans of the Group as at 31 December 2012

		Average risk
	Balance	premium
Borrowings at floating interest rate (based on1-month and 6-month Euribor)	4,735	EURIBOR+4,28%
H-bonds (Note 15, 26)	1,500	7.50%
Total	6,235	

## 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	EURIBOR+4,60%
Borrowings at fixed interest rate (Note 26)	1,000	10.00%
Total	18,166	

The loan contracts of the Group 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.

#### The Group's collaterals for bank borrowings

As at 31 December 2012 the bank borrowings were secured with following asset types:

- commercial pledge to movables;
- trademarks;
- shares of the subsidiaries;
- cash equivalents on the bank accounts

As at 31 December 2011 the bank borrowings were secured, in addition, with mortgage to real estate located at Veerenni 24, Tallinn.

As at 31 December 2012 carrying amount of assets pledged was 15,742 thousand euros, including inventories in amount of 11,223 thousand euros, property, plant and equipment in amount of 2,256 thousand euros, intangible assets in amount of 1,216 thousand euros and cash on the bank accounts 1,047 thousand euros. 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.

Bank loans set certain level to financial ratios for the Group. As at 31 December 2012 there were no conflicts to the set financial ratios.



## **NOTE 14 Trade and other payables**

	31 Dec 2012	31 Dec 2011
Trade payables (Note 3)	4,162	3,945
Tax liabilities, thereof	1,218	1,567
Personal income tax	171	177
Social security tax and unemployment insurance premium	454	443
Value added tax	565	849
Corporate income tax liability	11	51
Other taxes	17	47
Payables to employees <sup>1</sup>	1,234	921
Other accrued expenses <sup>2</sup> (Note 3)	91	119
Customer prepayments	24	26
Other current payables	276	207
Total	7,005	6,785
Non-current liabilities		
Other liabilities <sup>3</sup>	25	83

<sup>&</sup>lt;sup>1</sup>Payables to employees consist of accrued wages, salaries and vacation accrual.

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.

## Trade payables and other accrued expenses in denominated currency

	31 Dec 2012	31 Dec 2011
EUR (euro)	2,822	2,486
USD (US dollar)	1,121	1,270
RUB (Russian rouble)	80	53
LVL (Latvian lat)	98	56
LTL (Lithuanian lit)	72	75
UAH (Ukrainian hryvnia)	45	14
PLN (Polish zloty)	0	95
Other currencies	15	15
Total	4,253	4,064

## **NOTE 15 Equity**

## **Share capital**

	31 Dec 2012	31 Dec 2011
Share capital	7,159	25,056
Number of shares (pcs)	35,794,850	35,794,850
Nominal value of shares (EUR)	0.20	0.70

As at 31 December 2012 and 31 December 2011 shares comprise only ordinary shares, which are listed on the Tallinn Stock Exchange.

<sup>&</sup>lt;sup>2</sup>Other accrued expenses includes interest payable in the amount of 79 thousand euros (31 December 2011: 21 thousand euros).

<sup>&</sup>lt;sup>3</sup>Other non-current liabilities consist of deferred income.



## Change in the number of shares

	•	Number of
	Issue	shares
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		4,300,000
Number of shares 31 December 2011		35,794,850
Number of shares 31 December 2012		35,794,850

As at 31 December 2012, under the Articles of Association, the company's minimum share capital is 5,000 thousand euros (31 December 2011: 10,000 thousand euros) and the maximum share capital is 20,000 thousand euros (31 December 2012: 40,000 thousand euros). All shares have been paid for.

## Changes in share capital

### Changes in 2012

On 20 April 2012 the annual general meeting of shareholders decided to decrease the nominal value of the share from 0.7 euros to 0.2 euros. Accordingly the meeting decided to decrease share capital to 7,159 thousand euros: retained earnings increased by 16,715 thousand euros and statutory reserve increased by 1,182 thousand euros.

### Changes in 2011

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 was 0.70 euro.

#### Preference shares

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. Costs related to issue were shown as a reduction of "Retained earnings" and had no impact on loss of 2011.

In 2011, dividends disbursed for the preference shareholders amounted to 0.05 euros per share equalling a total of 199 thousand. Corporate income tax expense on dividends amounted to 53 thousand euros. The interest expense of preference shares amounted to 4 thousand euros.

# Convertible bonds and share options

			Number of convertible	Number of convertible
	Issue date	Bond conversion period	bonds 31 Dec 2012	bonds 31 Dec 2011
G-Bond	30 June 2009	01 July 2012 - 31 Dec 2012	0 <sup>1</sup>	1,842,500
H-Bond	11 May 2012	11 May 2013 - 10 May 2014	5,000,000	0
I-Bond	30 June 2012	01 July 2015 - 31 Dec 2015	2,350,000 <sup>1</sup>	0

<sup>&</sup>lt;sup>1</sup>No shares were subscribed (number of possible subscription would have been 937,500) as at 31 December 2012. Also 905,000 G-bonds were offset with I-bonds in 2012.

G- and I-bonds

The annual general meeting held on 18 June 2009 decided to issue 1,850,000 convertible bonds (G-bonds) with a par value of 0.0064 euros within the framework of the Group's management incentive



program. Each bond entitled its holder to subscribe for one share of the company. The share subscription period for G-bonds was from 1 July 2012 until 31 December 2012. The share subscription price was 0.77 euros. Totally were subscribed 1,842 500 bonds.

The cash consideration of G-bonds in the amount of 5 thousand euros is recognised under "Borrowings" of the current liabilities as at 31 December 2012 (31 December 2011: 10 thousand euros) (Note 13).

The annual general meeting of shareholders held on 20 April 2012 decided to issue 2,350,000 convertible bonds (I-bond) with the nominal value 0.01 euros. Each bond gives its owner the right to subscribe one share of the Company with a nominal value of 0.20 euros. The share subscription price is 0.36 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 01 July 2015 until 31 December 2015. The bonds were issued to the management of Baltika Group companies.

The consideration of I-bonds in the amount of 24 thousand euros is recognised under "Borrowings" in non-current liabilities as at 31 December 2012 (Note 13).

The accounting policies described in IFRS 2 have been applied to account for the G and I-bonds. During 2012, the fair value of employee services received under the share options programme was recognised as payroll expenses and a respective increase of share premium in owner's equity, amounted to 63 thousand euros (I-bonds). In 2011, respectively, 134 thousand euros (G-bonds).

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. The fair value of G-bonds was valued by an independent expert and of I-bonds was valued by Management. The Black-Scholes option pricing model was used in valuing the convertible bonds. 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. The fair value of the services was 0.17 euro per one convertible I-bond and 0.26 euro per one convertible G-bond.

## H-bonds

The annual general meeting of shareholders held on 20 April 2012 decided to issue 5,000,000 convertible bonds (H-bond) with the nominal value 0.30 euros. Each bond gives its owner the right to subscribe one share with a nominal value of 0.20 euros. The share subscription price is 0.30 euros. The difference between the share subscription price and nominal value of the share is share premium. The share subscription period is from 11 May 2013 until 10 May 2014. The annual interest of bonds is 7,5%. The mentioned convertible bonds were issued to a related party with significant influence KJK Fund, Sicav-SIF.

The consideration of H-bond (Note 13) received in the amount of 1,500 thousand euros is recognised under "Borrowings" in non-current liabilities as at 31 December 2012.

The bonds were paid for partly with monetary contribution (203 thousand euros) and partly by off-setting AS Baltika's liabilities to the related party (liabilities in the amount of 1,046 thousand euros arising from the loan agreement signed in December 2011 and liabilities in the amount of 250 thousand euros arising from the loan agreement signed in November 2011, previously classified as an equity instrument in reserves). A liability component was recognised at the issuance of the bonds, interest rate of the bonds is comparable with market interest rate.

#### Reserves

	31 Dec 2012	Change 3	1 Dec 2011	Change	31 Dec 2010
Statutory reserve	1,182	530 <sup>1</sup>	652	-540	1,192
Revaluation surplus (Note 9)	0	-1,592	1,592	0	1,592
Other reserves (Note 26)	0	-250	250	250	0
Total	1,182	-1,312	2,494	-290	2,784

<sup>&</sup>lt;sup>1</sup>the change consists of two factors: offsetting losses in the amount of 651 thousand and decrease of share capital in the amount of 1,182 thousand euros.



On 20 April 2012 the annual general meeting of shareholders decided to approve the offsetting of losses recommended by the Management Board: statutory reserve was used to cover the 2011 loss by 651 thousand euros and share premium by 89 thousand euros.

In accordance with the sale of investment property the revaluation surplus decreased and retained earnings increased in the amount of 1,592 thousand euros (Note 9). The revaluation reserve was recognized in previous periods as a result of reclassification of property, plant and equipment to investment property.

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 carried no interest. The lender also took 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 was classified as an equity instrument in reserves. On 20 April 2012 the general meeting of shareholders decided to issue convertible bonds and in May 2012 an agreement with a related party was signed, according to which the equity instrument (loan carrying no interest) was offset with convertible bonds (Note 13).

#### Shareholders as at 31 December 2012

	Number of shares	Holding
1. ING Luxembourg S.A.	7,590,914	21.21%
2. Clearstream Banking Luxembourg S.A. clients	6,556,115	18.32%
3. BMIG OÜ	4,750,033	13.27%
4. Skandinaviska Enskilda Banken Ab clients	3,407,532	9.52%
5. Svenska Handelsbanken clients	1,690,000	4.72%
6. Members of Management and Supervisory Boards and persons related to them		
Meelis Milder	743,531	2.08%
Maire Milder	316,083	0.88%
Andrew Paterson	11,000	0.03%
Persons related to members of Management Board	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	1,002,427	2.80%
7. Other shareholders	9,719,115	27.15%
Total	35.794.850	100.00%

## 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	d 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 Board	8,100	0.02%
Entities connected to Supervisory Council not mentioned above	977,837	2.73%
7. Other shareholders	10,960,157	30.63%
Total	35,794,850	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.

### **Retained earnings**

As the reduction of share capital was conducted through a simplified procedure, according to the Commercial Code, a restriction applies to the distribution of dividends for up to three years.



## **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 consisted 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 2012 and at 31 December 2011

	Retail	Retail	Retail		Real estate	
	Baltic region	Eastern Europe	Central Europe	Whole- sale <sup>1</sup>	manage- ment	Total segments
2012 and at 31 December 2012						
Revenue (from external customers)	36,097	16,568	0	3,264	403	56,332
Segment profit <sup>2</sup>	8,307	86	0	932	374	9,699
Incl. depreciation and amortisation	-721	-441	0	0	0	-1,162
Inventories of segments	3,893	2,087	0	0	0	5,980
2011 and at 31 December 2011						
Revenue (from external customers)	32,208	17,126	738	2,854	483	53,409
Segment profit (loss) <sup>2</sup>	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

<sup>&</sup>lt;sup>1</sup>The wholesale segment includes the sale of goods, materials and sewing services and the sales from e-commerce.

# Reconciliation of segment operating profit to consolidated operating profit

	2012	2011
Total segment profit	9,699	6,410
Unallocated expenses <sup>1</sup> :		
Costs of goods sold and distribution costs	-5,175	-5,138
Administrative and general expenses	-2,722	-2,864
Other operating income (expenses), net	157	-2,858
Operating profit (loss)	1,959	-4,450

<sup>&</sup>lt;sup>2</sup>The segment profit is the segment operating profit, excluding other operating expenses and income.



<sup>1</sup>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 2012	31 Dec 2011
Total inventories of segments	5,980	5,707
Inventories in Parent company and production company	5,491	4,341
Inventories on statement of financial position	11,471	10,048

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

	31 Dec 2012	31 Dec 2011
Estonia	3,253	16,714
Other countries	3,153	3,531
Total	6,406	20,245

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 1,769 thousand euros as at 31 December 2012 (31 December 2011: 1,708 thousand euros);
- 2. goodwill associated with CGU retail segment in Latvia in the amount of 155 thousand euros as at 31 December 2012 (31 December 2011: 155 thousand euros);
- 3. property, plant and equipment associated with retail segments in the amount of 1,151 thousand euros as at 31 December 2012 (31 December 2011: 1,537 thousand euros). The property, plant and equipment of the Baltic region is 534 thousand euros, of the Eastern Europe region 617 thousand euros (31 December 2011: 824 thousand euros, 713 thousand euros respectively).
- 4. intangible assets (except goodwill) associated with retail segments in Baltic region as at 31 December 2012 amounted to 18 thousand euros, of the Eastern Europe region 60 thousand euros (31 December 2011: 43 thousand euros, 88 thousand euros respectively).

In July 2012 AS Baltika sold its real-estate, which resulted in the Group exiting real-estate business, more detailed info in Note 9.

#### **NOTE 17 Revenue**

	2012	2011
Sale of goods	55,683	52,776
Lease revenue (Note 12)	403	483
Sale of sewing services	131	101
Other	115	49
Total	56,332	53,409
Sales by geographical (client location) areas		
	2012	2011
Estonia	18,025	16,217
Lithuania	10,946	9,962
Russia	10,174	11,013
Latvia	9,194	7,810
Ukraine	6,819	6,639
Finland	642	524
Germany	454	506
Poland	0	738
Other countries	78	0
Kokku	56,332	53,409



# **NOTE 18 Cost of goods sold**

	2012	2011
Materials and supplies	21,597	20,769
Payroll costs in production	2,765	2,856
Operating lease expenses (Note 12)	633	685
Other production costs	408	373
Depreciation of assets used in production (Note 10,11)	202	229
Change in allowance for inventories	10	130
Total	25,615	25,042

### **NOTE 19 Distribution costs**

	2012	2011
Operating lease expenses (Note 12)	9,996	10,252
Payroll costs	10,136	10,179
Depreciation and amortisation (Note 10,11)	1,285	1,806
Advertising expenses	1,262	1,152
Fuel, heating and electricity costs	655	717
Fees for card payments	407	389
Consultation and management fees	211	279
Municipal services and security expenses	254	279
Travel expenses	220	185
Freight costs	207	250
Information technology expenses	202	188
Renovation expenses of retail outlets	143	97
Communication expenses	143	161
Other sales expenses <sup>1</sup>	1,072	1,161
Total	26,193	27,095

<sup>&</sup>lt;sup>1</sup>Other sales expenses mostly consist of insurance and customs expenses, bank fees, expenses for uniforms, packaging costs, and service fees connected to administration of market organisations.

# **NOTE 20 Administrative and general expenses**

	2012	2011
Payroll costs <sup>1</sup>	1,273	1,300
Depreciation and amortisation (Note 10,11)	228	374
Bank fees	237	256
Information technology expenses	235	259
Operating lease expenses (Note 12)	183	42
Sponsorship, gifts, donations	68	53
Fuel, heating and electricity expenses	86	92
Training expenses	28	45
Management and consulting fees	29	31
Municipal services and security expenses	31	26
Other administrative expenses <sup>2</sup>	324	386
Total	2,722	2,864

<sup>&</sup>lt;sup>1</sup>Payroll costs include payroll expenses for employee services received under the share options

programme in amount of 63 thousand euros (2011: 134 thousand euros), see Note 21, 15. <sup>2</sup>Other administrative expenses consist of insurance and office expenses and fees connected to auditing, accounting, communication services, travel costs and other services.



## **NOTE 21 Wages and salaries**

	2012	2011
Payroll costs	10,645	10,708
Social security costs	3,466	3,493
Payroll expenses related to share options	63	134
Total	14,174	14,335

## **NOTE 22 Other operating income and expenses**

	2012	2011
Gain from sale of PPE and investment property	16	4
Realization of impaired assets in previous periods	33	0
Other operating income	292	55
Foreign exchange losses	-76	-92
Loss from disposal of non-current assets <sup>1</sup>	-51	-164
Change in fair value of investment property (Note 9)	0	-500
Membership fees	-7	-5
Fines, penalties and tax interest	-25	-59
Effect of changes of estimates <sup>2</sup>	0	-1,176
Other operating expenses <sup>3</sup>	-25	-921
Total	157	-2,858

<sup>&</sup>lt;sup>1</sup>Loss from disposal of non-current assets arouse mainly from the closures of ineffective stores in 2011.

## **NOTE 23 Finance income and costs**

	2012	2011
Interest income	0	1
Interest costs	-877	-1,236
Foreign exchange gain (losses)	61	-30
Other finance income	0	2
Other finance costs	-87	-78
Total	-903	-1,341

## **NOTE 24 Income tax**

	2012	2011
Income tax expense	50	69
Deferred income tax expense (Note 7)	201	0
Total income tax expense	251	69

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.

<sup>&</sup>lt;sup>2</sup>In 2011, effect of changes in estimates in amount of 1,176 thousand euros was 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 the previous year).

<sup>&</sup>lt;sup>3</sup>In 2012 other operating expenses included 1 thousand euros resulting from the impairment of trade receivable (2011: 699 thousand euros) (Note 5).



# Income tax by regions for the year ended at 31 December 2012

	Baltic region	Eastern Central Baltic European European		Central European		
			region	Total		
Profit (loss) before tax	1 696	-640	0	1 056		
Average nominal tax rate	0-15%	20-21% <sup>2</sup>	-	0-21%		
Tax calculated from profit (loss) at the nominal tax rate	151	-131	0	20		
Withheld tax	26	0	0	26		
The effect of income/expenses not deductible for tax purposes	25	105	0	130		
Utilisation of tax losses carried forward/additions of tax profits	-176	56	0	-120		
Changes in recognised balance sheet deferred tax assets	55	146	0	201		
Changes in currency rates	0	-6	0	-6		
Income tax expense	26	24	0	50		
Deferred income tax expense (Note 7)	55	146	0	201		
Changes in off balance sheet deferred tax assets	-99	-87	0	-186		

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

		Eastern	al	
	Baltic	European	European	
	region	region	region	Total
Profit (loss) before tax	-4,548	-877	-366	-5,791
Average nominal tax rate	0-15%	20-25% <sup>2</sup>	19%	0-25%
Tax calculated from profit (loss) at the nominal tax rate	114	-182	-70	-138
Income tax on dividends <sup>1</sup>	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 <sup>3</sup>	-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

<sup>&</sup>lt;sup>1</sup>The income tax on dividends was the income tax for dividends paid to the holders of preference

# **NOTE 25 Earnings per share**

		2012	2011
Weighted average number of ordinary shares (thousands)	pcs	35,795	31,630
Net profit (loss) attributable to equity holders of the parent	EUR '000	804	-5,863
Basic earnings (loss) per share	EUR	0.02	-0.19
Diluted earnings (loss) per share	EUR	0.02	-0.19
Diluted earnings per share			2012
Net profit attributable to equity holders of the parent			804
Interest expense on convertible debt			72
Profit used to determine diluted earnings per share		·	876

shares in 2011. <sup>2</sup>The corporate income tax rate in Ukraine was 25% until 31 March 2011, from 1 April 2011 23%. From

<sup>1</sup> January 2012 the corporate income tax was 21%.

3 In 2011 the change in deferred tax assets constituted mainly of change in the estimates of the extent that realisation of tax benefit is probable.



Diluted earnings per share	0.02
Weighted average number of ordinary shares for diluted earnings per share (thousands)	39,005
-assumed conversion of convertible debt (thousands)	3,210
Adjustments for:	
Weighted average number of ordinary shares (thousands)	35,795

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares. The company had two types of potential ordinary shares (Note 15):

- H-bonds;
- I-bonds in 2012 and G-bonds in 2011.

For the calculation of diluted earnings per share, H-bonds were assumed to have been converted into ordinary shares, so the net profit is adjusted by eliminating the interest expense.

For the share options (I-bonds), a calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the company's share) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares, calculated as above, was compared with the number of shares that would have been issued assuming the exercise of the share options. As the fair value of the shares during the period was lower than the exercise price of share option, the I-bonds were considered not dilutive. G-bonds had no dilutive effect.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2012 was 0.44 euros (2011: 0.81 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 significant influence, generally implying an ownership interest of 20% or more; and entities under their control (Note 15);
- members of the Management Board and the Supervisory Council<sup>1</sup>;
- close family members of the persons stated above;
- entities under the control or significant influence of the members of the Management Board and Supervisory Council and close family members;

## Transactions with related parties

	2012	2012		2011	
	Purchases	Sales	Purchases	Sales	
Goods	1	8	152	1	
Services	303	0	476	0	
Total	304	8	628	1	

In 2012 AS Baltika mostly purchased management, communication and other services from related parties. In 2011 AS Baltika purchased materials for production, sold goods and also bought management and other services. See also Notes 15, 17, 18, 19, 20, 23.

<sup>&</sup>lt;sup>1</sup>Only members of the Parent company Management Board and Supervisory Council are considered as key management personnel, as only they have responsibility for planning, directing and controlling Group activities.



## **Balances with related parties**

	31 Dec 2012	31 Dec 2011
Other current receivables (Note 5)	1	0
Total	1	0
	31 Dec 2012	31 Dec 2011
Other current loans and interests (Note 13, 14)	1,592	1,003
Trade payables (Note 14)	18	233
Balance from issuance of equity instrument (Note 15)	0	250
Total	1,610	1,486

All transactions in 2012 as well as in 2011 and balances with related parties as at 31 December 2012 and 31 December 2011 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 2012 the balances from borrowings, interests are partly with counterparty, who is also a shareholder that has significant influence. As at 31 December 2011 the balances from borrowings, interests 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

	2012	2011
Salaries of the members of the Management Board	345	304
Remuneration of the members of the Supervisory Council	22	29
Total	367	333

In 2012 one member joined the Management Board (2011: two members resigned and one member joined the Management Board).

In 2012 one member joined the Supervisory Council and term of office expired for two members of the Supervisory Council (2011: one member resigned the Supervisory Council).

As at 31 December 2012 AS Baltika had five members of the Management Board (31 December 2011: four members) and five members of the Supervisory Council (31 December 2011: six members).

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 188 thousand euros in total in case of premature termination.

Convertible bonds (H-bonds) are issued to related party. Share options (G-and I-bonds) are partly issued to related parties (Note 15).

#### **NOTE 27 Business combinations**

## **Acquisition of Bastion trademark**

On 29 November 2012 AS Baltika signed agreements, according to which the Group purchased the Bastion trademark and seven stores operated under the Bastion trade name.

Addition of Bastion to the brand portfolio will allow the group to expand its target group of customers, to offer a wider product range and to increase its market share in the Baltics.

The transaction is not considered as significant transaction and does not have significant impact on the Group results. 106 thousand euros sales revenue from Bastion has been recorded since acquisition. The calculation of revenue and profit if the acquisition had occurred on 1 January 2012 is impracticable. The purchase price is paid in cash and is divided into two parts. In addition to the purchase of the trademark, store fixtures, inventory and other assets, a contingent amount based on one year sales results (maximum 50 thousand euros), was agreed. Contingent consideration has been fully recognised as Management estimates that the conditions for the payment will be met.



As a result of the acquisition AS Baltika has recognised a gain on bargain purchase, under "Other operating income" (Note 22). Management believes that the gain is the result of a bargain price when compared with other similar transactions in the market. Baltika has recognised assets and liabilities acquired in the transaction based on their fair value: trademark and other intangible assets (Note 11), inventory (Note 6).

## Overtaking of the operation of stores in the Ural region in 2011

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.

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 Subsidiaries**

On 24 May 2012 AS Baltika acquired the remaining 6,2% of the shares of its subsidiary AS Virulane. As a result of this transaction AS Baltika became the 100% holder of its subsidiary. The difference between the carrying amount of non-controlling interest acquired and the consideration paid was recognised in parent's equity:

	2012
Carrying amount of non-controlling interest acquired	166
Consideration paid for non-controlling interest	-91
Total (recognised in equity)	75

In June 2012 a merger agreement between Virulane AS and Baltika AS was signed, date of merger was 01 January 2012.

# 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.



## Statement of financial position of the parent company

	31 Dec 2012	31 Dec 2011
ASSETS		
Current assets		
Cash and cash equivalents	870	98
Trade and other receivables	8,022	12,900
Inventories	5,376	4,247
Total current assets	14,268	17,245
Non-current assets		
Investments in subsidiaries	5,693	3,898
Other non-current receivables	7,077	14,365
Property, plant and equipment	384	435
Intangible assets	1,602	1,142
Total non-current assets	14,756	19,840
TOTAL ASSETS	29,024	37,085
EQUITY AND LIABILITIES		
Current liabilities		
Borrowings	1,582	3,101
Trade and other payables	16,138	16,993
Total current liabilities	17,720	20,094
Non-current liabilities		
Borrowings	4,689	15,125
Total non-current liabilities	4,689	15,125
TOTAL LIABILITIES	22,409	35,219
EQUITY		
Share capital at par value	7,159	25,056
Share premium	63	89
Statutory reserve	1,182	651
Other reserves	0	729
Retained earnings (losses)	-1,789	-24,659
TOTAL EQUITY	6,615	1,866
TOTAL LIABILITIES AND EQUITY	29,024	37,085



## Statement of comprehensive income of the parent company

	2012	2011
Revenue	34,604	28,843
Cost of goods sold	-25,062	-25,426
Gross profit	9,542	3,417
Distribution costs	-4,354	-4,476
Administrative and general expenses	-2,763	-3,051
Other operating income	338	96
Other operating expenses	0	-2,662
Operating profit (loss)	2,763	-6,676
Impairment and reversal of investments and receivables from subsidiaries	1,004	-1,293
Interest expenses (income), net	-821	-941
Foreign exchange gain (loss), net	277	-135
Other financial expenses (income), net	46	72
Income tax	-26	-53
Net profit (loss) for the financial year	3,243	-9,026
Total comprehensive income (loss) for the financial year	3,243	-9,026



## Cash flow statement of the parent company

	2012	2011
Operating activities		
Operating profit (loss)	2,763	-6,676
Depreciation, amortisation and impairment of PPE and intangibles	348	380
Other non-monetary expenses	63	321
Changes in trade and other receivables	1,751	437
Changes in trade and other payables	742	3,952
Changes in inventories	-1,018	1,392
Interest paid	-1,710	-1,412
Income tax paid	0	-13
Net cash generated from (used in) operating activities	2,939	-1,619
Investing activities		
Acquisition of non-current assets	-97	-15
Proceeds from disposal of non-current assets	1	0
Investments in subsidiaries	-2,672	-5
Interest received	0	18
Acquisition of non-controlling interest	-91	0
Net cash used in investing activities	-2,859	-2
Financing activities		
Received borrowings	2,000	2,193
Repayments of borrowings	-1,091	-2,336
Change in bank overdraft	-382	-1,150
Repayments of finance lease	-47	-112
Receipts from contributions into share capital	0	3,010
Dividend paid for preference shares	0	-49
Transactions with bonds	0	-1
Proceeds from bond issue	212	0
Net cash generated from financing activities	692	1,555
Total cash flows	772	-66
Cash and cash equivalents at beginning of year	98	164
Cash and cash equivalents at end of year	870	98
Change in cash and cash equivalents	772	-66



## Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Palamas at 24 Pasamban 2040	20.420	4 222	4.670	45 247	7 704
Balance at 31 December 2010	20,129	1,332	1,670	-15,347	7,784
Total comprehensive 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	1,866
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 201	1				9,457
Total comprehensive income	0	0	0	3,243	3,243
Allocation of retained earnings	0	-89	-651	740	0
Decrease of the nominal value of share	-17,897	0	1,182	16,715	0
Equity-settled share-based transactions	0	63	0	0	63
Equity instrument classification to liability	0	0	-250	0	-250
Reclassification	0	0	-479	479	0
Merger of subsidiary	0	0	0	1,693	1,693
Balance at 31 December 2012	7,159	63	1,182	-1,789	6,615
Book value of holdings under control or significant influence					-5,693
Value of holdings under control or significant influence, calculated under equity method  Adjusted unconsolidated equity at 31 December 201	2				15,879 <b>10,186</b>

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.

PricewaterhouseCoopers, Tallinn



#### 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 2012 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 notes comprising 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 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 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 present fairly, in all material respects, the financial position of the Group as of 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu

Auditor's Certificate No.325

Eva Jansen-Diener Auditor's Certificate No.501

26 March 2013

<sup>\*</sup> 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.



## PROFIT ALLOCATION RECOMMENDATION

The Management Board of AS Baltika recommends the net profit for the year ended at 31 December 2012 in the amount of 804 thousand euros to be allocated as following:

Retained earnings 804
Total 804



#### 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 2012.

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 2013

Maigi Pärnik-Pernik

Member of the Management Board

28 March 2013

Andrew J. D. Paterson

Member of the Management Board

28 March 2013

Maire Milder

Member of the Management Bbard

28 March 2013

Kati Kusmin

Member of the Management Board

28 March 2013

Jaakko Sakari Mikael Salmelin Chairman of the Supervisory Council

28 March 2013

Tiina Mõis

Member of the Supervisory Council

28 March 2013

Reet Saks

Member of the Supervisory Council

28 March 2013

Lauri Kustaa Äimä

Member of the Supervisory Council

28 Margh 2013

Valdo Kalm

Member of the Supervisory Council

28 March 2013



#### AS BALTIKA SUPERVISORY COUNCIL



JAAKKO SAKARI MIKAEL SALMELIN

Chairman of Supervisory Council since 23 May12, member of the Supervisory Council since 21 June 2010

Partner, KJK Capital Oy

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 Dec 2012: 0



**TIINA MÕIS** 

Member of the Supervisory Council since 03 May 2006

Chairman of the Management Board of AS Genteel

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 Dec 2012: 977,837 shares (on AS Genteel account)<sup>1</sup>



**REET SAKS** 

Member of the Supervisory Council since 25 March1997

Attorney at Raidla Lejins & Norcous Law Office

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 Dec 2012: 0





LAURI KUSTAA ÄIMÄ

Member of the Supervisory Council since 18 June 2009

Managing Director of Kaima Capital Oy

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 Dec 2012: 24 590 shares (on Kaima Capital Eesti OÜ account)<sup>1</sup>



**VALDO KALM** 

Member of the Supervisory Council since 20 April 2012
Chairman of the Board of AS EMT
Automation and telemechanics, Tallinn University of Technology
Other assignments:
Chairman of the Board of AS Eesti Telekom

Chairman of the Board of AS Eesti Tele
Chairman of the Board of AS EMT

Baltika shares held on 31 Dec 2012: 0

<sup>&</sup>lt;sup>1</sup>Members of the Supervisory Council of AS Baltika own shares through the companies AS Genteel and Kaima Capital Eesti OÜ (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 Degree in Economic Cybernetics, University of Tartu Baltika shares held on 31 Dec 2012: 743,531 shares



MAIGI PÄRNIK-PERNIK

Member of the Management Board, Chief Financial Officer Member of the Board since 2011, in the Group since 2011 Degree in Economics, Tallinn University of Technology, Master of Business Administration, Concordia International University Baltika's shares 31 Dec 2012: 0



MAIRE MILDER

Member of the Management Board, Branding and Retail Developing Director Member of the Board since 2000, in the Group since 1999 Degree in Biology and Geography, University of Tartu Baltika shares held on 31 Dec 2012: 316,083 shares (thereof 30,000 shares on Maisan OÜ account)<sup>1</sup>



**ANDREW J. D. PATERSON** 

Member of the Management Board, Commercial Director Member of the Board since 2008, in the Group since 2003 Baltika shares held on 31 Dec 2012: 11,000 shares



**KATI KUSMIN** 

Member of the Management Board, Sales and Marketing Director Member of the Board since 2012, in the Group since 2012 Faculty of Economics, Tallinn University of Technology Baltika shares 31 Dec 2012: 0

<sup>&</sup>lt;sup>1</sup>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").



# Revenues by EMTAK (the Estonian classification of economic activities)

Code	Definition	2012	2011
46421	Wholesale of clothing and footwear	33 483	28 780
70221	Management and support services	1 037	0
14131	Other sewing services	26	47
46191	Wholesale of other products	54	16
68201	Other rental revenue	4	0
Total		34 604	28 843