Baltika Group

AS BALTIKA

2009 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

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Internet homepage:	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2009 - 31.12.2009

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BALTIKA GROUP IN BRIEF

Baltika Group is a fashion retailer that operates the Monton, Mosaic, Baltman and Ivo Nikkolo retail chains. Baltika uses a vertically integrated business model that combines collection design, manufacturing, supply chain management, logistics and retailing. The Group has 133 stores in six markets in the Baltics and Central 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 Central and Eastern Europe.

KEY STRATEGIC STRENGTHS

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

KEY FIGURES AND RATIOS

	2005	2006	2007	2008	2009
Operating results, EUR '000					
Revenue	43,518	57,487	73,596	76,331	56,253
Gross profit	22,438	31,353	40,691	40,509	26,989
Operating profit	4,788	6,221	4,126	-362	-9,926
Profit before income tax	4,536	5,835	3,389	-1,297	-11,053
Net profit	4,644	5,584	2,606	-1,211	-10,169
Balance sheet data, EUR '000					
Total assets	24,102	38,116	41,949	49,941	44,862
Interest-bearing liabilities	5,933	9,421	11,791	17,410	22,214
Shareholders' equity	13,291	19,444	21,688	19,104	11,924
Other data					
Number of stores	86	112	128	134	133
Sales area, sqm	12,736	19,594	24,290	27,068	26,900
Number of employees (31 Dec)	1,678	1,915	1,983	1,988	1,697
Key ratios					
Revenue growth	17.0%	32.1%	28.0%	3.7%	-26.3%
Retail sales growth	30.1%	34.7%	34.1%	7.3%	-23.6%
Share of retail sales in revenue	80%	82%	86%	89%	92%
Share of exports in revenue	71%	72%	74%	76%	75%
Gross margin	51.6%	54.5%	55.3%	53.1%	48.0%
Operating margin	11.0%	10.8%	5.6%	-0.5%	-17.6%
EBT margin	10.4%	10.1%	4.6%	-1.7%	-19.6%
Net margin	10.7%	9.7%	3.5%	-1.6%	-18.1%

	2005	2006	2007	2008	2009
Current ratio	2.1	1.5	1.6	1.3	0.9
Debt to equity ratio	44.6%	48.5%	54.4%	91.1%	186.3%
Net gearing ratio	31.3%	44.3%	45.1%	88.2%	183.1%
Inventory turnover	4.92	5.38	5.30	4.55	3.77
Return on equity	44.1%	35.9%	13.1%	-5.7%	-73.8%
Return on assets	22.2%	18.3%	6.5%	-2.6%	-21.2%
Key share data, EUR					
Number of shares outstanding (31 Dec)	17,468,850	18,644,850	18,644,850	18,644,850	18,644,850
Weighted average number of shares	17,279,850	18,026,350	18,644,850	18,644,850	18,644,850
Share price (31 Dec)	4.33	7.40	3.90	1.15	0.73
Market capitalisation, in millions (31 Dec)	75.70	137.97	72.71	21.44	13.61
Earnings per share (EPS)	0.27	0.31	0.14	-0.06	-0.55
Change in EPS, %	319%	15.3%	-54.9%	-146%	-737%
P/E	16.1	23.9	27.9	Neg.	Neg.
Book value per share	0.76	1.04	1.16	1.02	0.64
P/B	5.7	7.1	3.4	1.1	1.1
Dividend per share (DPS)	0.04	0.05	0	0	0[1]
Dividend yield	1.0%	0.7%	0%	0%	0%[1]
Dividend payout ratio	16.6%	17.1%	0%	0%	0%[1]

[1]Proposal to the general meeting.

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

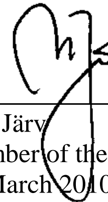
Definitions of key ratios

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

MANAGEMENT BOARD'S CONFIRMATION OF MANAGEMENT REPORT

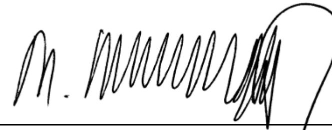
The management board confirms that the management report presented on pages 6 to 28 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.

Meelis Milder
Chairman of the Management Board
25 March 2010

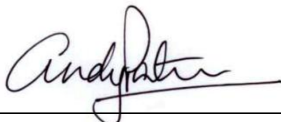


Ülle Järv
Member of the Management Board
25 March 2010

Boriss Loifenfeld
Member of the Management Board
25 March 2010



Maire Milder
Member of the Management Board
25 March 2010



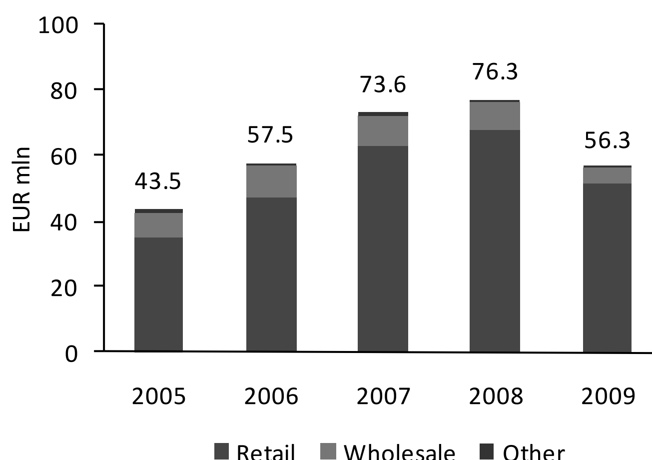
Andrew Paterson
Member of the Management Board
25 March 2010

MANAGEMENT REPORT

REVENUE

EUR million	2009	2008	+/-
Retail	51.7	67.7	*-23.6%*
Wholesale	4.4	8.5	*-48.8%*
Other	0.2	0.1	*31.8%*
Total	**56.3**	**76.3**	***-26.3%***

Revenue growth 2005-2009



RETAIL

Baltika ended 2009 with retail revenue of 51.7 million euros, a 23.6% decrease compared with the previous year. At constant exchange rates, retail revenue decreased by 15%.

For Baltika Group, 2009 was a year of adjustment and streamlining the retail business in response to the crisis-induced changes in consumer behaviour. At the beginning of the year, the focus was on adjusting the inventory levels to the new sales trends; as a result, sales volumes were achieved through longer-term discounts. Sales figures were significantly influenced by the currency devaluations performed in the Group's major retail markets Russia and Ukraine as well as in Poland at the end of 2008. During the year, we revised our pricing and sales policies in those markets, achieving a notable deceleration in the downturn in the sales measured in the above currencies as opposed to the sales measured in Estonian euros.

STORES AND SALES AREA

At the end of 2009, Baltika had 133 stores across six countries and a total sales area of 26,900 square metres. During the year, a lot of effort was made to improve the stores' efficiency indicators and optimise their costs. In a volatile and fragile trading and economic environment, many shopping centres suffered a fall in customer traffic and sales as the purchasing power of the population slumped. The Group adjusted its portfolio accordingly. In 2009, 23 stores were opened, 24 stores were closed and four stores were relocated.

In the first half of the year, more stores were opened than closed because of binding contracts. However, in the second half of the year the number of loss-generating stores that was closed exceeded store openings. In the second half-year, we closed 16 stores whose shutdown expenses affected mainly the fourth quarter results. Compared with the end of 2008, the Group's retail system remained practically unchanged: the number of stores declined by one and the sales area decreased by 1%.

In terms of markets, the number of new stores increased the most in Russia, where the Group took over seven stores from a wholesale partner, and in Lithuania, where the Group opened six stores. In addition, the Group opened five stores in Estonia, four in Ukraine and one in Poland. Store closures occurred in all the markets and the Group exited one market, the Czech Republic. After the openings and closures, store numbers in the markets

remained relatively stable in 2009. However, in Estonia the store area grew by a third and in Lithuania by 15%. In other markets, the sales area decreased somewhat.

Stores by market

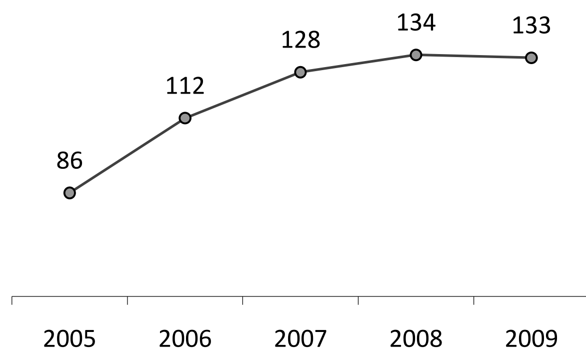
	31 December 2009	31 December 2008
Lithuania	36	33
Estonia	30	30
Russia	25	23
Ukraine	23	24
Latvia	14	16
Poland	5	6
Czech Republic	0	2
Total stores	**133**	**134**
Total sales area, sqm	**26 900**	**27 068**

Among the stores opened in 2009, the number of Monton stores was the largest – 12. By the end of the year, Baltika's retail chain comprised 56 Monton, 51 Mosaic, 14 Baltman and 9 Ivo Nikkolo stores. In addition, the Group had two multi-brand stores and one factory outlet.

Retail network by market and brand at 31 December 2009

	Monton	Mosaic	Baltman	Ivo Nikkolo	Other	Total	m^2
Lithuania	13	13	7	3		**36**	**6 929**
Estonia	6	11	5	5	3	**30**	**5 631**
Russia	16	9				**25**	**5 506**
Ukraine	10	12	1			**23**	**4 484**
Latvia	6	6	1	1		**14**	**3 143**
Poland	5					**5**	**1 207**
Total	**56**	**51**	**14**	**9**	**3**	**133**	**26 900**

Number of stores

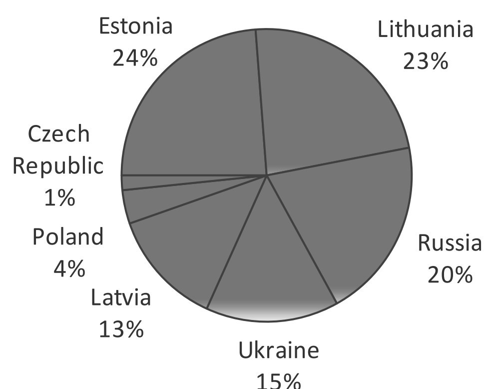


MARKETS

The global economic crises, which commenced in 2008, culminated in 2009 and strongly impacted all Baltika's markets.

The Baltic countries accounted for 60% of the Group's retail revenue for 2009 (2008: 59%), the Eastern European markets Russia and Ukraine for 35% (2008: 36%) and the Central European markets for 5% (2008: 5%).

Breakdown of retail sales by market – 2009



In 2009, Baltika's largest retail market was Estonia where the sales decline was the smallest among the Baltic markets. Overall, the Group's sales dropped the least in Poland (-13%).

Retail sales by market

EUR million	**2009**	**2008**	+/-
Estonia	12.3	15.3	*-19%*
Lithuania	12.0	15.5	*-23%*
Russia	10.3	12.5	*-17%*
Ukraine	7.7	11.5	*-33%*
Latvia	6.7	9.6	*-30%*
Poland	1.9	2.2	*-13%*
Czech Republic	0.8	1.1	*-24%*
Total	**51.7**	**67.7**	***-24%***

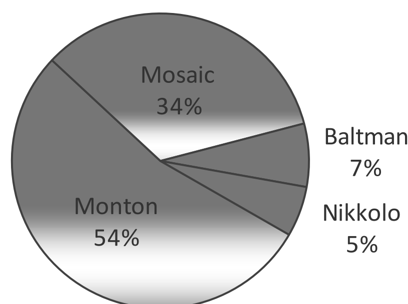
In 2009, Baltika did not enter any new markets. In October, the Group left its newest market, the Czech Republic, which it had penetrated in 2007 and where it had two stores. In an overall recession, the results of the Czech market fell short of expectations and its potential was not realized – remaining there would have been harmful for the Group as a whole. On the other hand, the global downturn allowed us to strengthen our positions in our other markets. In the Ural region in Russia, Baltika took over seven stores from a wholesale partner, expanding its retail network to four more cities: Ekaterinburg, Ufa, Perm and Tyumen. In Poland, the Group entered a new city – Krakow where Baltika used to have a brand store years ago. As a result, there was already some brand recognition and it was easier to return.

The Group's expansion plan does not foresee penetration of any new markets in 2010 but when the economy recovers and consumption and consumer confidence rise, potential opportunities will be more closely analysed. The focus of Baltika's development group will remain on the stores' functionality and usefulness for the Group as a whole and expansion to malls with a clear, well-devised concept and a strong tenant mix.

BRANDS

In terms of brands, the largest revenue contributor was Monton with 54% of the Group's retail sales for 2009. Mosaic and Baltman generated 34% and 7% of retail revenue respectively while Ivo Nikkolo contributed 5%.

Breakdown of retail sales by brand – 2009



Monton

In 2009, retail revenue from Monton totalled 27.6 million euros, a 25% decrease compared with the previous year. Although sales experienced a setback in all the markets, 2009 taught Monton that despite the change in the economic situation its consumers had not become more conservative in their taste in clothes and still expected Monton to offer trendy products with exciting elements and a positive twist.

For Monton, 2009 was a year of introspection – the focus was on improving the product and changing the collection structure and display principles. From 2010, the Monton collection is created and presented according to the customer's needs: formal office wear, smart city wear, and casual wear. In addition, the brand offers occasion and eveningwear for anything from nightclubs to more formal affairs. The pricing policy has also been thoroughly revised and new items have been added to the lower end to render Monton more affordable and competitive.

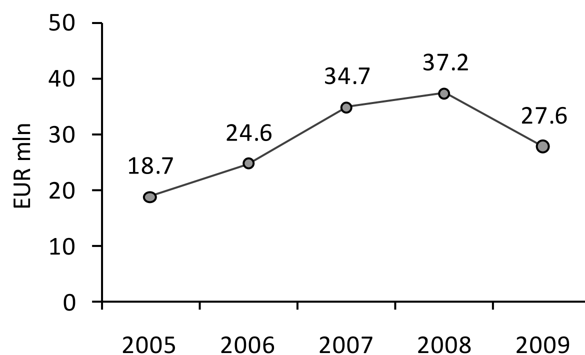
To meet customer expectations, in 2010 Monton is going to take a bolder course by offering global fashion trends even more quickly and comprehensively: the collection will have more new lines, colours and materials. The change will be the most distinctive in the menswear collection. A Monton customer can be confident that wearing Monton is chic.

In the marketing department, the year was also exciting and eventful. Monton is now even more interactive with a presence in such social networks as Facebook, Twitter, Flicker and Youtube. The purpose of active virtual communication is to bring the brand closer to the consumer and create a real rapport with the customers.

In spring, a "Be Good" charity programme was conducted in the Estonian market during which a children's shelter was donated Monton clothes collected from customers. After its warm reception in Estonia, the campaign was repeated in Russia. In spring, a customer loyalty programme was successfully implemented in the Estonian market. Since Monton is the official partner of the Estonian Olympic Committee in outfitting the athletes, in autumn the Estonian delegation parade uniforms for the 2010 Vancouver Winter Olympics were unveiled. Cooperation continued with the Tallinn Black Nights Film Festival. As part of the project, a special festival shirt was created and a fashion films programme was offered to fashion lovers.

The goals for 2010 are to continue streamlining the product development process, vigorously developing the collection, improving quality and expanding the network of suppliers. All this will be aimed at always offering our customers innovative products that they need.

Retail sales – Monton



Mosaic

In 2009, retail revenue from Mosaic dropped by 22% to 17,5 million euros. The sales result was primarily influenced by the economic situation in all the retail markets that caused significant changes in the customers' purchasing behaviour. Customers now consider their purchasing decisions much more carefully and expect the best price through a variety of offers while still maintaining high quality expectations.

During the year, Mosaic re-entered the Polish market that became brand's sixth retail market. The ladieswear collection is now sold in two larger Monton stores in Poland and, so far, sales figures have corresponded to expectations.

In 2009, the collection development efforts were aimed at maintaining and developing the signature style achieved in the previous year. The carefully targeted offerings of the ladieswear collection, the better than anticipated performance of the menswear collection in Russia, and the highly successful offering of the school wear pieces of the childrenswear collection are significant indicators, which confirm that the repositioning conducted in 2007-2008 was justified and successful.

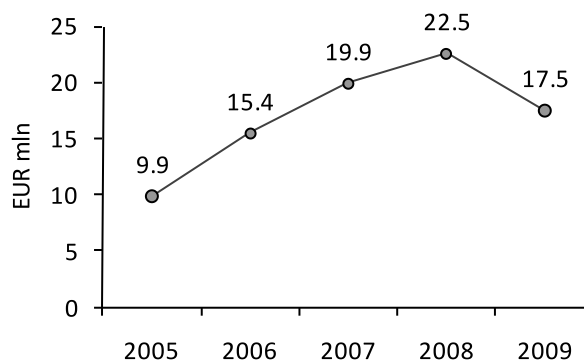
At the end of 2008, the first shipments of the Mosaic ladieswear collection were delivered to a leading European fashion department store chain Peek & Cloppenburg. The spring/summer collection was very well received and on placing orders for the autumn/winter collection, the chain increased the number of department stores carrying the Mosaic collection. By the end of 2009, the Mosaic collection was carried by 30 Peek&Cloppenburg department stores. In 2010 cooperation with Peek&Cloppenburg will continue. The goal is to increase gradually the number of department stores carrying the brand as well as the volume of orders placed.

Last year Mosaic gained recognition among the Russian-speaking customers by using the world famous figure skater and several times Olympic champion Tatiana Navka as its advertising face for the autumn/winter collection. The photos of Navka in Mosaic attire decorated the show windows of Mosaic's stores in Russia, Mosaic's Russian language website, and the *Mosaic Style* magazine that was published for the third season. Since Tatiana has become a popular TV star in Russia, Ukraine, Latvia and Estonia, the magazine was also made available to the Russian-speaking customers of those markets.

In marketing, social networks are becoming an increasingly important communication channel. Accordingly, in 2009 Mosaic launched its pages on Facebook and Twitter.

In 2010, the main efforts will be directed at improving sales efficiency, particularly by drawing on the experience gained in 2009. Other priorities include developing relations with suppliers, and creating and developing the best possible supply base for the brand. In the childrenswear department, the collection will be more clearly positioned with greater focus on the pre-school and school age attire. In addition, as a pilot project, Mosaic intends to offer school uniforms to Estonian schools.

Retail sales – Mosaic



Baltman

In 2009, Baltman generated retail revenue of 3.6 million euros, a 24% decrease compared with the previous year. The year was relatively hard for the brand because the recession-caused sales decrease hit also Baltman. However, in the second half of the year some markets stabilised and in December Baltman was already able to achieve year-over-year sales growth in certain markets.

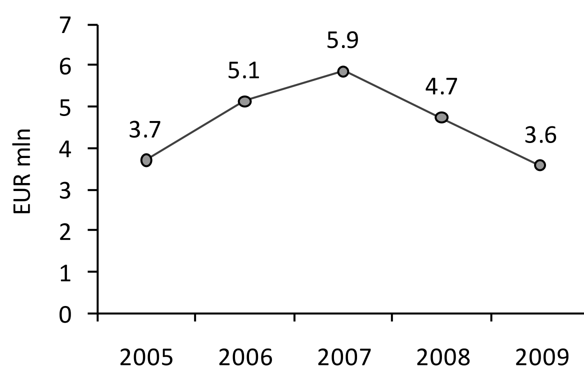
For the brand, as for the entire Group, 2009 was a year of reviewing the retail area – inefficient stores were closed and new ones were opened in malls that are better suited to the brand's economic targets. Altogether, four Baltman stores were closed and three were opened.

The year was relevant for Baltman also because a strategic new inventory management approach was approved and implemented. From 2009, the stocks of the brand's most important attire group, the suits, are managed using size-based offering. This means that no customer should have to leave the store without finding a suit of the required size. Moreover, the approach allows offering the same selection at a lower inventory level.

In 2009, the Baltman collection went through several changes with a view to becoming trendier, which was well received by the customers. The biggest change was the introduction of a narrower suit silhouette for both new and existing models. The winter outdoor collection proved a great success – the handsome and trendy models were sold out already before the arrival of the winter chills. The brand team intends to continue updating the collection to meet the needs of its increasingly cosmopolitan customers.

For the Baltman brand, the year was also marked by changes in the team – a new brand manager joined at the beginning of May and a new marketing manager was hired in October. The changes resulted from the need to focus on a single brand; previously the brand's management and marketing activities were handled by a team that dealt also with the Ivo Nikkolo brand.

Retail sales – Baltman



Ivo Nikkolo

For the Ivo Nikkolo brand, 2009 was a year of success despite the economic downturn in the Baltics. The rapid take-off of new stores and continuing sales growth reflect the consumers' sustained interest in unique top-quality designer clothes. Retail sales of the brand grew by 13% to 2.8 million euros, rendering Ivo Nikkolo the Group's fastest growing brand for the second consecutive year and indicating that Baltika's decision to acquire the brand was justified.

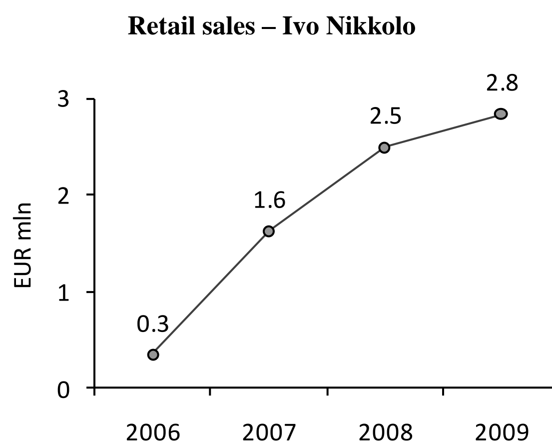
In spring 2009, a new brand store was opened in the Rocca al Mare Centre in Tallinn and in the Kristiine Centre the brand moved to new and larger premises with novel interior design. In addition, the brand acquired its own sales space in the Fashion Street store of the Baltika Quarter that was opened in September 2009.

A bold step was the brand's expansion to a new retail market, Russia, in autumn 2009. Ivo Nikkolo was allocated its own area in a Monton store in the Evropeiski Centre that is one of the largest shopping malls in Moscow. Thanks to strong consumer interest, the brand intends to continue the well-started sales also in 2010.

The first store opened in Latvia in 2008 right before the onset of the recession celebrated its first anniversary. Continuously solid sales results show that the market has potential for expansion.

The year saw also the brand's 15th anniversary that was celebrated with the exhibition "Courage to be IN" that peeked both into the past and the future. For the celebration of the anniversary, the creator of the brand Ivo Nikkolo designed a special collection "One in a Hundred" that consisted of a hundred unique, individually numbered pieces.

Retail sales – Ivo Nikkolo



CUSTOMER SERVICE

As a retail company Baltika seeks to offer its customers a positive purchasing experience in its stores on a daily basis. We call our customer service concept "hugging the customer" which does not imply physical hugging but paying the utmost attention to the customer's wishes and needs.

Excellent customer care is based on people who have the right attitude and love selling. In our personnel recruitment process, we evaluate the candidates' suitability for working as customer service attendants in an apparel store through various role play exercises and tasks. Successful candidates meet not only the above criteria but have also a strong sense of fashion and trends and feel an emotional connection to the brand.

For improving service quality, Baltika has in-house instructors that provide regular sales and service training for both beginners and the more experienced customer service staff. All customer care employees pass induction training where they learn about the company, the essence of the brand and brand-aligned service principles. At the beginning of each season, there are training courses that introduce the collections of all brands and inform the staff about new products, the trends of the season, new materials, etc. This is done to provide the customers with the best possible advice and assistance during the purchase process.

Our tools for measuring service quality include mystery shopping by which we evaluate the entire service process and the sales skills of our customer service staff. In addition, every year a customer survey is conducted across all brands with a view to determining the customers' satisfaction with the service, the shopping environment, and similar items. In addition, in retailing an employee performance assessment system has been

implemented that allows the customer service staff to receive individual feedback on their professional competency at least once a year.

Other useful tools for measuring service quality are the service surveys performed by shopping malls and market research companies that allow benchmarking Baltika against other retailers. More than once our stores have seized high, award-winning places in the customer service surveys conducted by shopping malls, significantly surpassing other stores in terms of service quality.

Besides the above, Baltika measures customer service with various efficiency indicators. Indicators such as customer conversion (the percentage of customers making a purchase), average purchase per customer (in terms of cost and pieces), the number of new loyal customers, etc provide an overview of how well the staff has been working with the customers. Thanks to new loyal customer programmes, in 2009 the number of new loyal customers soared – 11% up on 2008. We are also satisfied with the 2% growth in the number of pieces sold per customer; the largest, 5% rise in the indicator was measured in Estonia. The percentage of customers making a purchase also grew – although the overall number of visitors decreased, the performance of the system improved by 1% (in Latvia by 28%).

Customer and service quality surveys along with the employees' professional performance evaluations serve as inputs for future development and training activities that can be tailored to the needs of single employees or stores, or the company as a whole.

WHOLESALE

Wholesale of Baltika's collections accounted for 7.7% of the Group's consolidated revenue for 2009, generating 4.4 million euros, a 48.8% decrease compared with the previous year. The decline in wholesale revenue is largely attributable to developments in the Russian market where a wholesale partner's seven stores were taken over and integrated into Baltika's retail system. Overall, the Group's sales did not decrease.

The year 2009 was a trial period for the wholesale contract signed with Peek & Cloppenburg. Both Baltika and the Mosaic brand passed the test successfully. By the end of the year, the originally agreed 13 department stores were supplemented by another 17, which raised the number of department stores carrying the Mosaic collection to 30. At the beginning of the project, Mosaic was carried by selected Peek & Cloppenburg department stores in Germany, Austria, Switzerland and Poland. With the addition of more department stores by the year-end, Mosaic had penetrated such new markets as Slovenia, Slovakia, Hungary, the Czech Republic and Croatia. Peek&Cloppenburg is one of the leading European department store chains that has over 80 department stores in Germany and more than 100 department stores throughout Europe.

EARNINGS AND MARGINS

The Group's performance in 2009 was strongly influenced by the economic recession that reduced sales, lowered profit margins, triggered currency devaluations and induced the need for adjusting operating expenses to new sales trends. If in the first half-year the Group concentrated on adjusting inventory levels to the new sales figures and cost cutting, then in the second half-year the focus shifted on maintaining the cost base and financing purchases for the autumn season so as to secure achievement of the sales targets. In the fourth quarter, the Group continued closing loss-generating stores, which included exiting the Czech market.

The Group's gross margin for 2009 was 47.9% (2008: 53.1%). Consolidated gross profit for the year amounted to 27.0 million euros (2008: 40.5 million euros), a decrease of 13.5 million euros compared with 2008.

In 2009, the Group concentrated on reducing operating expenses throughout the system. Personnel expenses and the number of staff were reduced and a lot of effort was put into lowering the stores' rental charges in all the markets. The effect of many decisions became visible only in the second half-year. Annual distribution costs decreased by 5.6 million euros to 32.0 million euros. In the retail system, rental charges per square metre declined by 23% on average, and personnel expenses dropped by 24%. The size of the retail system remained practically the same throughout the year.

In manufacturing, volumes were reduced, which triggered the need for downsizing. Severance payments to the production staff totalled 0.2 million euros. Altogether, in 2009 personnel expenses in manufacturing declined by 30%.

Compared to 2008, administrative and general expenses decreased by 0.4 million euros to 2.8 million euros.

A crisis requires companies to respond with appropriate decisions. Accordingly, management has carefully reviewed the state of the Group. To ensure positive development of the business and the company's ability to withstand further consequences of the economic recession, in 2009 management adopted a number of extraordinary decisions. The impact of many of those decisions fell in the fourth quarter. In addition, the fourth quarter results include expenditures resulting from the year-end financial accounting procedures and certain non-recurring tax items.

Non-recurring income and expenses in 2009

EUR mln	**2009**	**Q1**	**Q2**	**Q3**	**Q4**
Net loss before non-recurring items	**-7.9**	**-3.3**	**-2.2**	**-1.2**	**-1.1**
Non-recurring expenses/income					
Store closure expenses	-1.2			-0.2	-1.0
Currency translation differences	-0.8	-0.7	0.2	-0.4	0.1
Redundancy expenses (production)	-0.2		-0.2		
Inventory write-down allowances	-0.2				-0.2
Impairment allowances for receivables and interest expense on discounted receivables	-0.2				-0.2
Options (remuneration expense component)	-0.1				-0.1
Penalties for cancellation of contracts					
Expenses from revaluation of investment properties and reclassification of property, plant and equipment and intangible assets	-0.4				-0.4
Deferred tax income	0.8				0.8
Total	**-2.3**	**-0.7**	**0.0**	**-0.6**	**-1.0**
Group net loss	**-10.2**	**-4.0**	**-2.2**	**-1.8**	**-2.1**

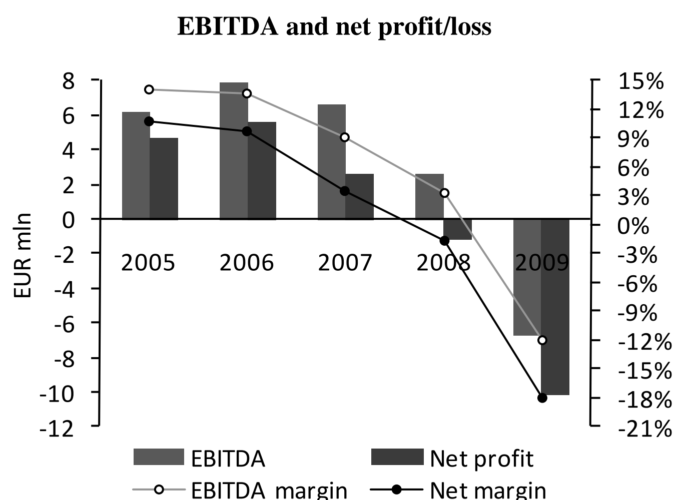
Baltika ended 2009 with an operating loss of 9.9 million euros compared with an operating loss of 0.4 million euros in 2008.

The operating loss for 2009 includes investment write-off expenses of 0.7 million euros incurred in connection with the closure of stores (recognised in other operating expenses). In 2008, the Group was able to report investment revaluation gains of 1.1 million euros (recognised in other operating income).

The Group's financial expenses for 2009 totalled 1.1 million euros, 20% up on 2008. The largest financial expense item was interest expense (1.1 million euros) that grew by 46.4% compared with 2008. Interest expense has been influenced by a decrease in Euribor and an increase in the Group's borrowings.

Baltika ended 2009 with a consolidated net loss of 10.2 million euros compared with a net loss of 1.2 million euros for 2008.

EBITDA and net profit/loss



FINANCIAL POSITION

At 31 December 2009, Baltika's consolidated assets totalled 44.9 million euros, 10% down from the previous financial year-end.

Compared with the end of 2008, trade receivables decreased by 1.3 million euros to 1.9 million euros. The decline in receivables is attributable to shrinkage in wholesale volumes.

At the year-end, inventories totalled 12.0 million euros, a 6.4 million euro or 35% decrease year-over-year. At the same time, the size of the retail system remained at the same level as at the end of 2008. The new inventory level corresponds to the level of sales in a time of crisis. During the year, the Group's current assets decreased by 9.4 million euros to 15.9 million euros. Trade payables decreased by 27% to 7.1 million euros; the figure includes letters of credit and bank guarantees of 2.3 million euros requested by the suppliers that may be settled over an extended period if necessary.

At the end of 2009, the Group's borrowings totalled 22.7 million euros, including bank loans of 21.6 million euros and finance lease liabilities of 0.6 million euros. During the year, the debt burden increased by 5.3 million euros. Borrowings grew mainly in connection with the construction of the new office building that was financed solely with a bank loan. At the end of 2009, construction-related borrowings totalled 9.2 million euros.

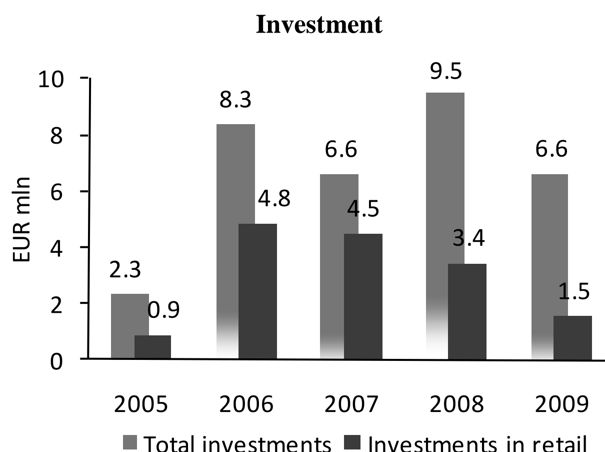
The construction loan has increased the Group's net debt (interest-bearing liabilities less cash and bank balances) which at 31 December 2009 stood at 21.8 million euros. The net debt to equity ratio was 183% (31 December 2008: 88.2%).

In 2009, the Group's equity decreased by 7.2 million euros to 11.9 million euros.

INVESTMENT

In 2009, the Group's investments totalled 6.6 million euros. The corresponding figure for 2008 was 9.5 million euros.

Investments in the Baltika Quarter and retail system amounted to 4.7 million euros and 1.5 million euros respectively while other investments totalled 0.4 million euros.



CASH FLOWS

In 2009, the Group's cash and cash equivalents decreased by 0.2 million euros compared with a decrease of 1.5 million euros in 2008.

In 2009, Baltika Group's operating activities resulted in a net cash outflow of 0.9 million euros. Operating cash flows were mainly influenced by a steep decline in sales and, in the first half of the year, too high a cost base; however, in the second half of the year the Group succeeded in adjusting the cost base to the level of sales in a time of crisis. The largest changes in working capital were related to a decrease in inventories and trade receivables and payables.

Net cash used in investing activities totalled 6.3 million euros. In 2009, investing cash flows were primarily influenced by the construction of the new office building. In 2008, cash flows from investing activities were also significant, resulting in a net outflow of 9.4 million euros.

Borrowing was a major financing source for both business operations and investing activities. As a result, financing activities generated an inflow of 7.1 million euros. Additional bank loans taken in 2009 totalled 8.4 million euros, while loan repayments amounted to 3.5 million euros. Business operations were also financed with the funds raised through the issuance of preference shares of 2.6 million euros.

PEOPLE

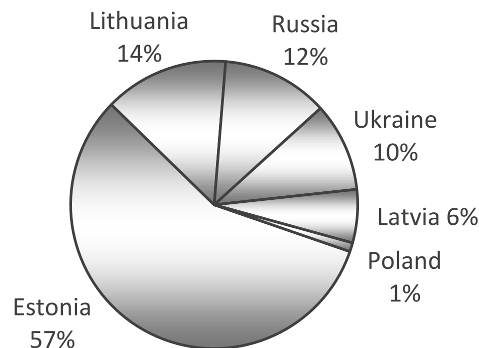
At the end of 2009, Baltika Group employed 1697 (31 December 2008: 1988) people, including 929 (994) in the retail system, 580 (771) in manufacturing, and 188 (223) at the head office. Owing to changes in the economic environment and the ensuing need to improve operating efficiency, the number of staff declined by around 300. The largest decrease, around 200 people, occurred in manufacturing. The Group's annual average number of employees was 1,832 (2008: 1,950).

The Group's employee remuneration expenses for 2009 totalled 12.6 million euros (2008: 15.3 million euros). The remuneration of the members of the supervisory council and management board amounted to 0.3 million euros (2008: 0.3 million euros). In 2009, the management board had one member more than in 2008.

Number of employees

At the end of 2009, 43% of the Group's employees were working outside Estonia. The proportion of people employed in Estonia is higher because the head office and manufacturing facilities are located here.

Breakdown of personnel by country – 31 December 2009



In human resource management, one of the most important issues of 2009 was acclimatization to the new economic environment. The activities conducted in the first half of the year included rightsizing and process streamlining as well as the implementation of various measures for cutting personnel-related operating expenses (e.g. salary cuts, part-time work, etc).

In the area of development and training, we continued our in-house training program and lecture cycle Retail Academy that was launched three years ago. Similarly to the previous year, the program focused on developing management know-how and competencies. The purpose was to improve the participants' team management skills, shape business thinking, and gain insights into inter-personal relations, cultural influences on communication, etc.

As regard the brands, we made a number of important structural changes that were aimed at decentralizing functions such as marketing and materials purchasing and building them up separately around each brand. The changes strengthened and clarified the brand management process.

BALTIKA QUARTER

Baltika's new office building was completed in June 2009 as part of phase I of the Baltika Quarter, an old manufacturing complex restored as a hub for design and other creative companies. The block that served as a sewing factory for almost 40 years has been completely renovated and given new life as a distinctive office and business building. It houses the head office of Baltika Group and a Fashion Street store that carries all of Baltika's brands. Together with the wine store Wine Garage, the Fashion Street represents a novel synergy of fashion, wine and gourmet.

Other premises have been rented out to various companies that meet the concept of the quarter such as an advertising bureau and a photo studio. Next door, in the former building of Baltika's head office there is a Creative Incubator for start-up companies involved in the creative industries.

The relocation of Baltika's head office to new premises significantly improved the working conditions of the staff. The new work environment that was developed considering the wishes of the employees fosters inter-team cooperation and knowledge and information sharing, inspires creativity and offers more conveniences for breaks during a working day. The new office premises, which include a functional Catwalk Hall that can seat an audience of 120, allow organizing events for which the old building had no facilities. The hall has been used for presenting Baltika's new collections and conducting corporate events. The hall can also be rented out to other companies interested in organizing an event.

The architectural solution of the complex was prepared by the architects of the internationally recognised practices 3+1 and Studio 3. For their contemporary solution that successfully integrates the exterior and interior of the building, they received the Interior Architecture Award of the National Endowment for Architecture.

The Group's investments in phase I of Baltika Quarter totalled approximately 9.3 million euros.

ENVIRONMENT

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

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

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

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

OUTLOOK AND GOALS FOR 2010

The management board of Baltika Group believes that in principle the Group completed the process of adapting to the impacts of the global economic crisis in its target markets in 2009. The retail system ended the last quarter of 2009 with a profit of 0.4 million euros and cash flows from ordinary operations have stabilised. At the beginning of 2010, the level of inventories per square metre (35% down year-over-year) and the retail systems' operating expenses (27% down year-over-year) correspond to the level of sales planned for 2010.

The Group has made its sales forecasts for 2010 on the assumption that on the whole the economies of Baltika's target markets will not be growing in 2010. If the first half of the year will still be under the influence of a decelerating downturn, then by the summer sales in the Group's markets as a whole will have stabilised and the second half of the year should bring modest economic growth for some of the markets (mainly on account of extremely low comparative bases).

Since in annual terms sales will not be growing yet (a slight decline in the first half-year and growth in the second), Baltika is going to focus its main efforts on creating strong collections, improving the financing of its purchasing operations, achieving higher product margins and enhancing customer care. The result should be a significantly improved gross margin. The latter in combination with substantially smaller operating expenses (according to plan, 3.2 million euros lower than in 2009) should allow Baltika to start earning a profit in the second half-year. In order to strengthen its financial position, in the first half of the year the Group intends to divest of a number of properties related to manufacturing operations. Baltika will also continue working with the

banks to secure additional cash flow for purchasing goods and restructuring the loan portfolio. In addition, the management board is planning to propose an additional share issue.

Baltika does not intend to invest in the expansion of the retail system in 2010.

REPORTING CALENDAR IN 2010

In 2010, the consolidated financial results of Baltika will be published on the following dates:

2010 Q1 results	May 5
2010 Q2 results	August 4
2010 Q3 results	November 3

Additionally, in the beginning of every month the sales results of the preceding month are published.

BALTIKA SHARE

The Baltika 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 does not have an official market maker for its shares. In January 2010 no companies listed on the Tallinn Stock Exchange had market maker agreements. The rules enforced in 2005 require newly listed companies to sign a relevant agreement for a certain period. For shares that have been listed for a longer time, it has not been necessary to enter into or extend such agreements.

SHARES

Baltika has issued 22,644,850 shares comprising 18,644,850 ordinary shares and 4,000,000 preference shares.

Ordinary shares

Baltika's ordinary shares are listed on the 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: 18,644,850
Nominal value of a share: 0.64 euros
Votes per share: 1

Preference shares

Preference shares were issued in a direct offering to professional investors announced on 10 July 2009. The preference shares carry a preferential right to a dividend of 10% of the par value of a share per year for two years after issue; thereafter they carry the same voting and dividend rights as ordinary shares. The preference shares are unlisted.

Key share data

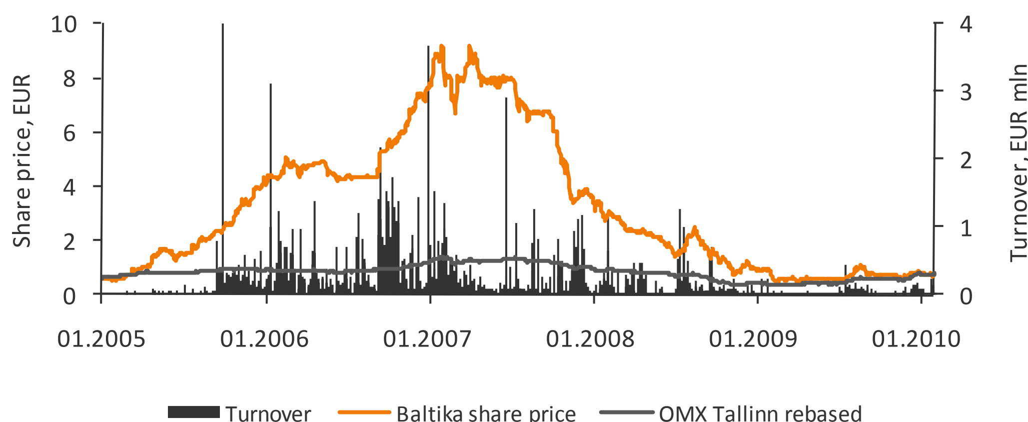
EUR	2005	2006	2007	2008	2009
Number of shares outstanding (31 Dec)	17,468,850	18,644,850	18,644,850	18,644,850	18,644,850
Weighted average number of shares	17,279,850	18,026,350	18,644,850	18,644,850	18,644,850
Share price (31 Dec)	4.33	7.40	3.90	1.15	0.73
Market capitalisation, in millions (31 Dec)	75.70	137.97	72.71	21.44	13.61
Earnings per share (EPS)	0.27	0.31	0.14	-0.06	-0.55
P/E	16.1	23.9	27.9	Neg.	Neg.
Book value per share	0.76	1.04	1.16	1.02	0.64
P/B	5.7	7.1	3.4	1.1	1.1
Dividend per share (DPS)	0.04	0.05	0	0	0[1]
Dividend yield	1.0%	0.7%	0%	0%	0%[1]
Dividend payout ratio	16.6%	17.1%	0%	0%	0%[1]

[1]Proposal to the general meeting.

SHARE PRICE AND TRADING

In 2009 the price of the Baltika share decreased by 36.5% to 0.73 euros and the Group's year-end market capitalisation slid to 13.6 million euros. During the same period, the OMX Tallinn All-Share Index rose by 47.2%.

Share price and turnover



Trading history

EUR	2005	2006	2007	2008	2009
High	4.33	7.47	9.57	3.95	1.27
Low	0.53	3.97	3.35	0.73	0.44
Average	1.85	5.01	7.03	2.09	0.70
Year-end price	4.33	7.40	3.90	1.15	0.73
Change, %	598.9%	70.8%	-47.3%	-70.5%	-36.5%
Traded volume	13,209,708[1]	14,726,412	8,384,256	12,572,468	10,671,279
Turnover, in millions	31.08[1]	72.75	53.55	23.62	7.57

[1]Includes the sale of Baltic Republics Fund's shareholding of 6.0 million shares for 13,8 million euros.

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. The composition of tradable and benchmark indices is revised twice a year based on the trading activity of the shares.

In January 2010, the Baltika share was part of the following indices:

Index	Description	Type	Short name
OMX Tallinn GI	OMX Tallinn all share index	Gross index	OMXTGI
OMX Baltic 10	Baltic tradable index	Price index	OMXB10
OMX Baltic 10 GI	Baltic tradable index	Gross index	OMXB10GI
OMX Baltic 10 EXP	Baltic tradable index	Price index	OMXB10EXP
OMX Baltic PI	Baltic all share index	Price index	OMXBPI
OMX Baltic GI	Baltic all share index	Gross index	OMXBGI
OMX Baltic Benchmark PI	Baltic benchmark index	Price index	OMXBBPI
OMX Baltic Benchmark GI	Baltic benchmark index	Gross index	OMXBBGI
OMX Baltic Benchmark Cap PI	Capped Baltic benchmark index	Price index	OMXBBCAPPI
OMX Baltic Benchmark Cap GI	Capped Baltic benchmark index	Gross index	OMXBBCAPGI
OMX Baltic Consumer Discretionary PI	Baltic sector index	Price index	B25PI
OMX Baltic Consumer Discretionary GI	Baltic sector index	Gross index	B25GI

SHAREHOLDER STRUCTURE

At the end of 2009, Baltika had 2,241 shareholders. The number of shareholders increased by 21% over the year.

The largest shareholder is OÜ BMIG, a company owned by Baltika's management board members, which at 31 December 2009 held 24.81% of Baltika's ordinary shares. At the same date, the management board members' direct and indirect holdings accounted for 31.80% of Baltika's ordinary shares. The ownership interests of OÜ BMIG and the management board are disclosed in the "Management board" section of the Corporate Governance Report.

The full list of shareholders is available on the website of the Estonian Central Securities Depository (www.e-register.ee).

Major shareholders at 31 December 2009

	Number of shares	Holding
BMIG OÜ	4,624,860	24.81%
Svenska Handelsbanken Clients Account	1,912,000	10.25%
Meelis Milder	726,336	3.90%
State Street Bank and Trust Omnibus Account	494,689	2.65%
Tõnis Kotkas	449,500	2.41%
Central Securities Depository of Lithuania	429,879	2.31%
Gamma Holding OÜ	412,758	2.21%
Swedbank Ab Clients	406,665	2.18%
Skandinaviska Enskilda Banken Ab Clients	367,947	1.97%
Tenlion OÜ	302,171	1.62%
Other	8,518,045	45.69%
Total	**18,644,850**	**100%**

Other major shareholders include international investment funds and private individuals who usually keep their investments in foreign banks' client accounts. Individuals hold approximately 29% of the shares. Almost 3/4 of Baltika's shareholders are local.

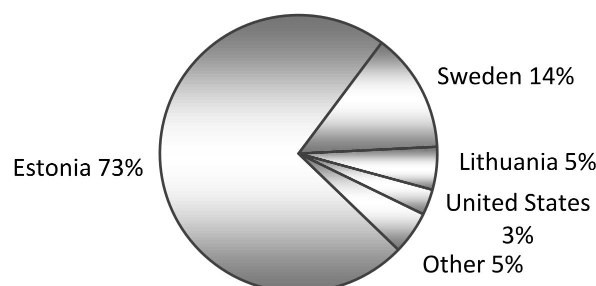
Shareholder structure by shareholder type at 31 December 2009

	Number of shares	Holding
Management board members	5,929,245	31.80%
Legal persons, thereof	7,286,639	39.08%
Investment funds and banks' client accounts	4,331,665	23.23%
Other legal persons	2,954,974	15.85%
Individuals	5,428,966	29.12%
Total	**18,644,850**	**100%**

Shareholder structure by size of holding at 31 December 2009

Holding	Number of shareholders	Percentage of all shareholders	Number of shares	Percentage of votes held
> 10%	2	0.09%	6,536,860	35.06%
1.0 - 10.0%	13	0.58%	4,795,272	25.72%
0.1 - 1.0%	81	3.61%	3,266,652	17.52%
< 0.1%	2,145	95.72%	4,046,066	21.70%
Total	**2,241**	**100%**	**18,644,850**	**100%**

Shareholder structure by country at 31 December 2009



SHARE CAPITAL

In 2009, Baltika's share capital grew by 2.6 million euros to 14.5 million euros. The share capital increased in connection with the issue of four million preference shares to professional investors. After the issue, Baltika has 22,644,850 outstanding shares comprising of 18,644,850 ordinary shares and 4,000,000 preference shares (see also section "Shares").

The company has implemented a convertible bond program for the executive management. The annual general meeting that convened on 18 June 2009 resolved that 1,850,000 convertible bonds (G-bonds) were to be issued to the executives of companies belonging to Baltika Group. Each bond entitles the holder to subscribe for one share in the company during a subscription period lasting from 1 July to 31 December 2012. After the subscription, Baltika's share capital may increase by a maximum of 1,850,000 new shares that account for 8.2% of the current number of outstanding shares.

The terms and conditions of the convertible bonds are provided in the resolutions of the annual general meeting of 2009. Further information on the bonds can be found in note 25 to the consolidated financial statements.

According to the Articles of Association, the company's maximum share capital is 25.6 million euros.

Changes in share capital

Date	Issue type	Issue price EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31.12.2004				**5,633,950**	**3,601**	**2,845**
17.05.2005	Conversion of B-bonds into shares	2.18	189,000	5,822,950	3,722	3,136
31.12.2005				**5,822,950**	**3,722**	**3,176**
30.03.2006	Conversion of C-bonds into shares	2.40	192,000	6,014,950	3,844	3,534
5.10.2006	Conversion of D-bonds into shares	1.85	82,400	6,097,350	3,897	3,634
8.12.2006	Conversion of D-bonds into shares	1.85	117,600	6,214,950	3,972	3,776
31.12.2006				**6,214,950**	**3,972**	**3,776**
11.06.2007	Bonus issue	n/a	12,429,900	18,644,850	11,916	0
31.12.2007				**18,644,850**	**11,916**	**0**
31.12.2008				**18,644,850**	**11,916**	**0**
10.07.2009	Preference share issue	0.64	4,000,000	22,644,850	14,473	0
31.12.2009				**22,644,850**	**14,473**	**0**

DIVIDENDS

In view of the Group's objectives for the forthcoming periods, the maximum dividend payout ratio has been set at 25% of net profit for the period. The actual ratio will be determined based on the Group's cash flows, development prospects and funding needs.

Baltika ended 2009 with a consolidated net loss of 10.2 million euros. The management board of Baltika proposes that this year no dividends be distributed to the holders of ordinary shares. In 2009, the company did not distribute any dividends either.

In accordance with the Articles of Association, the holders of preference shares will be guaranteed their annual dividend that amounts to 10% of the 0.64-euro par value of a share. In 2009, the holders of preference shares were distributed a total dividend of 0.02 million euros.

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 2009, 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 and acquisition of such equipment would be costly, 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.

Members of Baltika's management board are responsible for strategic areas and their duties are not limited to the ones provided in the Commercial Code and the company's Articles of Association (management and representation of the company). Therefore, four members of the management board serve the company under employment contracts and one member of the management board, Andrew Paterson, serves the company under a consulting services agreement entered into with his company Keel Consulting Associates Ltd. The Chairman of the Management Board Meelis Milder is the Group's CEO, Ülle Järv the CFO, Maire Milder the Director of the Retail Division, Boriss Loifenfeld the Director of Wholesale and CIS Projects and Andrew Paterson the Director of Merchandising, Sourcing and Supply Chain.

CGC Article 2.2.7.

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

The remuneration and other benefits provided to members of the management board are set out in their employment contracts. Owing to the confidentiality of the contracts, Baltika does not disclose the remuneration and benefits provided to each member of the management board. However, Baltika discloses the total amount of remuneration provided to members of the supervisory council and management board in the management report section of its interim and annual reports. In 2009, the figure amounted to 0.3 million euros. The contractual severance benefits of members of the management board range from 6- to 12-fold monthly remuneration.

Members of the management board, like other employees, are eligible to performance pay in accordance with the company'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 1.5% of the company's net profit for the financial year although the actual disbursement may not exceed the chairman's one annual salary. The bonuses of other members of the management board/directors are linked to the performance of their respective profit centres but the actual disbursements may not exceed one half to two thirds of their annual salary. Annual bonuses are paid in three portions. Two payments are made in advance and 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.

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

In 2009, members of the management board participated in a convertible bond program designed for the company's top and middle management, which was approved by the annual general meeting in 2009. The terms and conditions of the bonds are provided in the resolutions of the respective annual general meeting. Changes in management board members' interests in the company are disclosed in the company's share register, which is available on the website of the Estonian Central Securities Depository (www.e-register.ee), as well as in the company's interim and annual reports.

CGC Article 2.3.2.

The supervisory council shall approve transactions that are significant to the issuer and are entered into between the issuer and a member of its management board, or another person connected or close to them, and shall determine the terms of such transactions. Transactions approved by the supervisory council between the issuer and a member of the management board, or a person connected or close to them, shall be published in the issuer's Corporate Governance Report.

In 2009 no such transactions were performed.

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 2009 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 company'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 company'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 18 June 2009, appointed AS PricewaterhouseCoopers as the auditor of the company's annual financial statements for 2009. According to the audit agreement, the engagement partner is Ago Vilu and the engagement manager Eva Jansen. The company ensures the auditor's independence by rotating the engagement partner and engagement manager every five years.

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. The company 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 company'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 company's financial year. An extraordinary general meeting is called by the management board when the company's net assets have declined below the level required by the law 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 company'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 2009 was held on 18 June at 24 Veerenni in Tallinn, Estonia. A total of 10,551,453 shares were represented (56.59% of the voting stock). The meeting approved the company's annual report and profit allocation proposal for 2008, amendments to the Articles of Association and re-appointed AS PricewaterhouseCoopers as the company's auditor. The general meeting elected a new supervisory council (compared with the previous membership, one member changed) and decided to continue remunerating the members of the supervisory council on the previous bases. In addition, the general meeting decided to increase share capital by up to 2.6 million euros by issuing preference shares to professional investors and approved an issue of convertible bonds to be offered to the executives of Baltika Group entities under the Group's management incentive program. The chairman of the management board informed shareholders about Baltika's plans and prospects for 2009.

Supervisory council

The supervisory council plans the activities of the company, organises the management of the company 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 2009, the supervisory council met five times. All members of the supervisory council attended all or most of the meetings of the supervisory council.

According to the Articles of Association, Baltika's supervisory council has three to seven members. The members are elected by the general meeting for a period of three years. The current council was elected by the annual general meeting in 2009 and it has five members.

The present members of the supervisory council are Tiina Mõis (chairman), Reet Saks, Allan Remmelkoor, Andres Erm and Lauri Kustaa Äimä. Mrs Mõis is the director of the investment firm AS Genteel and a member of the councils of several Estonian companies. Mrs Saks is an attorney with Law Office Raidla Lejins & Norcous, a long-term partner of Baltika. Mrs Saks has been a member of Baltika's supervisory council since 1997. Allan Remmelkoor, the chief executive of AS Kristiine Kaubanduskeskus which operates the Kristiine Centre in Tallinn, Estonia, contributes valuable retail expertise. Andres Erm has extensive experience with emerging markets in Eastern Europe which are also targeted by Baltika. Lauri Kustaa Äimä is a new member of the supervisory council. Mr Äimä is a managing director of Kaima Capital Oy and a member of the councils of several Baltic companies. In addition, Mr Äimä has long-term experience in advising potential investors on matters related to investing in the companies of the Baltic countries. Tiina Mõis is the only council member that owns shares in the company (977,837 preference shares or 4.32% of share capital as at the end of 2009).

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

Management board

The management board is a governing body which represents and manages the company 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: Meelis Milder (chairman), Ülle Järv, Maire Milder, Boriss Loifenfeld and Andrew Paterson. On 14 September 2009, the supervisory council decided to extend the board members' term of office for another three years.

The Chairman of the Management Board Meelis Milder is the Group's CEO, Ülle Järv the CFO, Maire Milder the Director of the Retail Division and Boriss Loifenfeld the Director of Wholesale and CIS Projects. These members of the management board have been with the company from 10 to 25 years. Andrew Paterson is the Director of Merchandising, Sourcing and Supply Chain. Mr Paterson advised Baltika on merchandise management during the period 2003-2006, when Baltika underwent a turnaround into a vertically integrated fashion retailer, and started working with the company again at the end of 2007.

Management board members are Baltika's largest shareholders through the holding company OÜ BMIG, which at the end of 2009 held 20.98% of Baltika's share capital (24.81% of listed ordinary shares). In addition, management board members have their individual shareholdings. Consequently, through their direct and indirect holdings, at the end of 2009 management board members controlled 26.74% of the company's share capital (31.80% of listed ordinary shares).

Shareholdings of members of the management board at 31 December 2009

	Ordinary shares (listed)		Preference shares (not listed)		Total	
	No of shares	Holding	No of shares	Holding	No of shares	Holding
OÜ BMIG	4,624,860	24.81%	125,173	3.13%	4,750,033	20.98%
Meelis Milder	726,336	3.90%			726,336	3.21%
Maire Milder	316,083	1.70%			316,083	1.40%
Boriss Loifenfeld	200,366	1.07%			200,366	0.88%
Ülle Järv	50,600	0.27%			50,600	0.22%
Andrew Paterson	11,000	0.06%			11,000	0.05%
Total OÜ BMIG and management board members	**5,929,245**	**31.80%**	**125,173**	**3.13%**	**6,054,418**	**26.74%**
Baltika's share capital	**18,644,850**	**100%**	**4,000,000**	**100%**	**22,644,850**	**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 2009 consolidated financial statements as presented on pages 30 to 76.

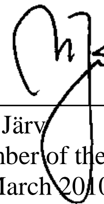
The management board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;

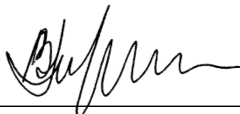
2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;

3. all Group companies are going concerns.

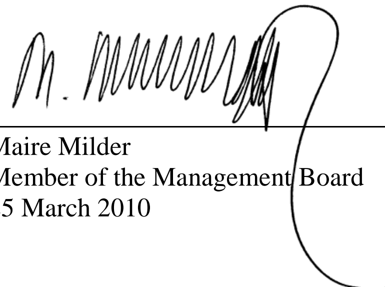
Meelis Milder
Chairman of the Management Board
25 March 2010



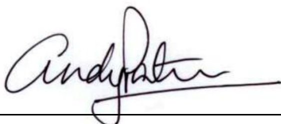
Ülle Järv
Member of the Management Board
25 March 2010



Boriss Loifenfeld
Member of the Management Board
25 March 2010



Maire Milder
Member of the Management Board
25 March 2010



Andrew Paterson
Member of the Management Board
25 March 2010

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2009	31.12.2008
ASSETS			
Current assets			
Cash and bank	4	385	554
Trade and other receivables	5	3,511	6,287
Inventories	6	12,027	18,434
Total current assets		**15,923**	**25,275**
Non-current assets			
Deferred income tax asset	7	1,054	355
Other non-current assets	8	494	390
Investment property	9	6,602	8,570
Property, plant and equipment	10	16,819	11,541
Intangible assets	11	3,971	3,809
Total non-current assets		**28,940**	**24,666**
TOTAL ASSETS		**44,862**	**49,941**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	13	7,857	6,645
Trade and other payables	14	10,186	13,290
Total current liabilities		**18,043**	**19,935**
Non-current liabilities			
Borrowings	13	14,888	10,762
Other liabilities	14	7	0
Deferred income tax liability	7	0	140
Total non-current liabilities		**14,895**	**10,902**
TOTAL LIABILITIES		**32,938**	**30,837**
EQUITY			
Share capital at par value	15	14,473	11,916
Share premium		67	0
Reserves	15	2,784	1,670
Retained earnings		5,208	6,949
Net profit (loss) for the period		-10,169	-1,211
Currency translation differences		-601	-458
Total equity attributable to equity holders of the parent		**11,762**	**18,866**
Minority interest		162	237
TOTAL EQUITY	15	**11,924**	**19,104**
TOTAL LIABILITIES AND EQUITY		**44,862**	**49,941**

The Notes to the financial statements presented on pages 34-76 are an integral part of the Financial Statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2009	2008
Revenue	16,17	56,253	76,331
Cost of goods sold	18	-29,264	-35,822
Gross profit		**26,989**	**40,509**
Distribution costs	19	-32,000	-37,621
Administrative and general expenses	20	-2,842	-3,228
Other operating income	21	35	1,201
Other operating expenses	21	-2,109	-1,223
Operating profit (loss)		**-9,926**	**-362**
Finance income	22	4	26
Finance costs	22	-1,131	-961
Profit (loss) before income tax		**-11,053**	**-1,297**
Income tax expense	23	809	-75
Net profit (loss)		**-10,244**	**-1,372**
Profit (loss) attributable to:			
Equity holders of the parent company		-10,169	-1,211
Minority shareholders		-75	-161
Other comprehensive income (loss)			
Currency translation differences		-143	-1,000
Revaluation of investment property	9	1,114	0
Total comprehensive income (loss)		**-9,273**	**-2,372**
Comprehensive income (loss) attributable to:			
Equity holders of the parent company		-9,198	-2,189
Minority shareholders		-75	-183
Basic earnings per share, EUR	24	-0.55	-0.06
Diluted earnings per share, EUR	24	-0.55	-0.06

The Notes to the financial statements presented on pages 34-76 are an integral part of the Financial Statements.

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CONSOLIDATED CASH FLOW STATEMENT

	Note	2009	2008
Operating activities			
Operating profit (loss)		-9,926	-362
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	10,11	3,167	2,952
Loss (gain) from disposal of PPE and investment property		838	100
Loss (gain) from revaluation of investment property	9	306	-1,134
Other non-monetary expenses1		302	97
Changes in working capital:			
Change in trade and other receivables	5	2,347	1,392
Change in inventories	6	6,407	-4,329
Change in trade and other payables	14	-3,222	5,242
Interest paid		-1,049	-749
Income tax paid		-55	-397
Net cash generated from (used in) operating activities		**-885**	**2,811**
Investing activities			
Acquisition of property, plant and equipment, intangibles, thereof	10,11	-6,473	-9,492
Under the finance lease terms	12	241	270
Proceeds from disposal of property, plant and equipment	10	100	41
Investments in subsidiaries	26	-152	-213
Interest received		1	4
Net cash used in investing activities		**-6,283**	**-9,390**
Financing activities			
Received borrowings	13	8,418	7,630
Repayments of borrowings	13	-1,872	-1,616
Change in bank overdraft	13	-1,673	1,448
Repayments of finance lease and other liabilities	12,14	-299	-210
Receipts from contributions into share capital	15	2,556	0
Transaction costs of issuing preference shares		-55	0
Dividend paid for preference shares	15	-22	0
Redemption of bonds	13	0	-1,917
Issuance of convertible bonds	25	8	0
Net cash generated from financing activities		**7,062**	**5,335**
Effect of exchange gains (losses) on cash and cash equivalents		-64	-216
Total cash flows		**-169**	**-1,459**
Cash and cash equivalents at the beginning of the period	4	**554**	**2,013**
Cash and cash equivalents at the end of the period	4	**385**	**554**
Change in cash and cash equivalents		**-169**	**-1,459**

[1]Other non-monetary expenses consist of foreign exchange gains (losses) arising in foreign subsidiaries.

The Notes to the financial statements presented on pages 34-76 are an integral part of the Financial Statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Currency translation differences	Total attributable to parent	Minority interest	Total
Balance at 31 December 2007	**11,916**	**0**	**1,670**	**6,949**	**520**	**21,055**	**633**	**21,688**
Total comprehensive income (loss)	0	0	0	-1,211	-978	-2,189	-183	-2,372
Acquisition of minority interest	0	0	0	0	0	0	-213	-213
Balance at 31 December 2008	**11,916**	**0**	**1,670**	**5,738**	**-458**	**18,866**	**237**	**19,104**
Balance at 31 December 2008	**11,916**	**0**	**1,670**	**5,738**	**-458**	**18,866**	**237**	**19,104**
Total comprehensive income (loss)	0	0	1,114	-10,169	-143	-9,198	-75	-9,273
Issue of preference shares (Note 15)	0	0	0	-530	0	-530	0	-530
Equity-settled share-based transactions (Note 25)	0	67	0	0	0	67	0	67
Increase of share capital (Note 15)	2,556	0	0	0	0	2,556	0	2,556
Acquisition of minority interest	0	0	0	0	0	0	-0.2	-0.2
Balance at 31 December 2009	**14,473**	**67**	**2,784**	**-4,961**	**-601**	**11,762**	**162**	**11,924**

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

The Notes to the financial statements presented on pages 34-76 are an integral part of the Financial Statements.

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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 four concepts: Monton, Mosaic, Baltman and Ivo Nikkolo. The 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 2009, there were 133 Baltika stores on six markets in the Baltics and Central and Eastern Europe. The Group also sells its collections wholesale. At 31 December 2009, the Baltika Group employed 1,697 people (31 December 2008: 1,988).

AS Baltika's shares are listed on the Tallinn Stock Exchange. The largest shareholder (Note 15) of AS Baltika is OÜ BMIG controlled by the members of the management board of the company.

AS Baltika (the Parent company) (registration number: 10144415, address: Veerenni 24, Tallinn, Estonia) is a company registered in the Republic of Estonia and operating in Estonia, Latvia, Lithuania, Russia, Ukraine and Poland. The consolidated financial statements prepared for the financial year ended at 31 December 2009 include the financial information of the Parent company and its subsidiaries (together referred to as the Group): OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva, OOO Kompania "Baltman RUS", Baltika Ukraina Ltd, Baltika Poland Sp.z.o.o., Baltika Retail Czech Republic s.r.o., OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, AS Virulane and OÜ Baltika TP.

The management board of AS Baltika authorised these consolidated financial statements at 25 March 2010. 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 2009 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared under the historical cost convention, as modified by the revaluations of investment property, 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.

All information in the financial statements is presented in thousands of euros, unless otherwise stated. The Estonian kroon is pegged to the euro at the rate of EUR 1=EEK 15.6466. Due to rounding of euros to the nearest thousand arithmetical inaccuracies up to 1 thousand euros may occur. The financial statements in Estonian kroons can be obtained from the company's website www.baltikagroup.com.

Comparability

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

a) Standards, amendments to published standards and interpretations mandatory for the Group's accounting periods beginning on or after 1 January 2009

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions. The interpretation contains guidelines on the following issues: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. This adoption of the interpretation did not have an any significant impact on the Group's financial statements.

IFRS 8, Operating Segments. IFRS 8 supersedes IAS 14, Segment Reporting. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public

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market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of standard has resulted in regrouping of reportable segments. In place of the previously reported regional segments (Baltic region, Eastern European region, Central European region and other regions) are disclosed following segments: retail in Baltic region, retail in Eastern Europe, retail in Central Europe, wholesale and real estate management. Regrouping of reportable segments did not cause a reallocation of goodwill.

IAS 23, Borrowing Costs, revised in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Prior to the revision of the standard, the Group's accounting policy was capitalisation of borrowing costs and thus the change had no impact on the Group's financial statements.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards, issued in May 2008. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary (effective for annual periods beginning on or after 1 January 2009); possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group early adopted amendment to IAS 40 in its financial statements of 2008. The other amendments did not have any material effect on the Group's financial statements.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Standards, amendments and interpretations effective in 2009 but not relevant

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction The interpretation contains guidance on when refunds or reductions in future contributions may be regarded as available for the purposes of the asset ceiling test in IAS 19, Employee Benefits. The Group does not expect the interpretation to affect its consolidated financial statements as the Group has no qualifying assets.

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Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The amendment did not have an impact on these consolidated financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group operates currently certain customer loyalty programmes. However, as the current conditions of the introduced programmes are of different nature, the IFRIC interpretation did not have an impact on the Group's consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments did not have an impact on the Group's financial statements.

b) New accounting pronouncements issued but not yet effective

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

IAS 27, Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). The revised standard requires that the effects of transactions with minority shareholders be recognised directly in equity, on the condition that control over the entity is retained by the parent company. In addition, the standard elaborates on the accounting treatment of the loss of control over a subsidiary, i.e. it requires that the remaining shares be restated to fair value, with the resulting difference recognised in the income statement. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 includes the choice to disclose minority interests either at fair value or their share in the fair value of the net assets identified; a restatement of shares already held in an acquired entity to fair value, with the resulting differences to be recognised in the income statement; and additional guidance on the application of the purchase method, including the recognition of transaction costs as an expense in the period in which they were incurred, measuring goodwill in step acquisition, and recognising post-acquisition changes in value of liability for contingent purchase consideration. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The Group is currently assessing the impact of the amendment on its financial statements.

Amendment to IAS 24, Related Party Disclosures, issued in November 2009 (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

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IFRS 9, Financial Instruments Part 1: Classification and Measurement, issued in November 2009 (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows: Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on its financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. IFRIC 12 pertains to arrangements where the ordering party controls what services are provided by the operator using the infrastructure, to whom it provides the services and at what price. This interpretation does not have any impact on the Group's consolidated financial statements as none of Group companies provide for public sector.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39, issued in March 2009 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, early adoption permitted). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment does not have any impact on the Group's consolidated financial statements.

IFRIC 15, Agreements for Construction of Real Estates. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations as all of the Group's construction relates to property developed for the Group to hold as investment property, rather than with a view to sale.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. IFRIC 16 allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

IFRIC 17, Distribution of Non-Cash Assets to Owners. The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to

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distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009; the interpretation has not been adopted by the European Union). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

Classification of Rights Issues – Amendment to IAS 32, issued in October 2009 (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment is not expected to have a material impact on the Group's financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, early adoption permitted); the amended standard has not been adopted by the European Union). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its financial statements.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1 (effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group is currently assessing the impact of the amended interpretation on its financial statements.

Improvements to International Financial Reporting Standards, issued in April 2009 (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the

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scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 "Financial Instruments: Disclosures". This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not expected to have any impact on the Group's financial statements.

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 one half of the 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. An associate is an entity, in which the Group owns between 20% and 50% of shares with voting rights and over which the Group has significant influence. As at the balance sheet date, the Group had no associates.

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 purchase method of accounting is used to account for the acquisition of a subsidiary. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. Under the purchase method, acquired and separately identifiable assets and liabilities as well as contingent liabilities of the acquired subsidiary are recognised at their fair values at the acquisition date.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company (except for the subsidiaries acquired for resale) 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.

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Minority interest

Minority 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. Minority interest forms a separate component of the Group's equity.

Transactions with minority interest

Transactions with minorities are treated as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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 Estonian kroon. The consolidated financial statements have been prepared in euros, which is the presentation currency of these financial statements.

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 for each balance sheet presented are translated into euros at the closing rate at the date of that 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.

When a subsidiary is partially or wholly disposed of 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 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 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 21). Gains and losses arising from cash, cash equivalents and borrowings are recognised net under 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 borrowings in the balance sheet. Cash and cash equivalents are measured at amortised cost.

Financial assets

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

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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.

At 31 December 2009 (and 31 December 2008) the Group had no other classes of financial assets than those classified under the category 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 "Distribution costs". 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.

Renegotiated trade receivables

Trade receivables that are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as receivables due according to the renegotiated terms. In subsequent years, the receivables are considered based on the new due dates and disclosed as renegotiated only if renegotiated in subsequent years. Management starts the renegotiation when the counterparty has not been able to meet the due dates in a longer period of time and the settlements of debts are irregular.

Inventories

Inventories are recorded in 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

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investment property. From 1 January 2008 by early adopting amendment to IAS 40 made within annual improvements 2008, property under construction or development, as investment property is recorded under investment property as well. 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 and 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 and the fair value is recognised as revaluation surplus in other comprehensive income. Upon reclassification of property under construction as investment property on the adoption of amendment to IAS 40 on 1 January 2008, the gains and losses resulting from changes in the fair value of investment property were recognised in income statement, under "Other operating income (expenses)". The revaluation surplus included in equity is transferred to retained earnings on the subsequent disposal of investment property.

Property, plant and equipment

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

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

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:
- buildings and structures 5-60 years;
- machinery and equipment 2-7 years;
- other fixtures 2-10 years.

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

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

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

Non-current assets held for sale

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

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Intangible assets (excluding goodwill)

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

Trademarks and licenses

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

Computer software

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

Computer software development costs recognised as assets are amortised over their estimated useful lives (5-10 years).

Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net assets of the acquired subsidiary, reflecting the part of acquisition cost which was paid for such assets of the acquired company which cannot be separated and accounted for separately. Goodwill which arose in the acquisition of a subsidiary is recognised as an intangible asset in the consolidated financial statements. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is immediately recognised under "Other operating income".

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

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

Goodwill which arose in the acquisition of foreign subsidiaries is translated using the foreign exchange rate of the Bank of Estonia prevailing on the balance sheet date.

Impairment of non-current assets

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

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

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

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

Finance and operating leases

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

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The Group is the lessee

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

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

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

The Group is the lessor

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

Payables to employees

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

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

Provisions and contingent liabilities

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

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

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

A financial guarantee contract is initially recognised at fair value and is subsequently measured at the higher of (a) the best estimate of the expenditure required to settle any financial obligation arising on the balance sheet date and (b) 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

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current liabilities normally equals their nominal value; therefore current liabilities are stated in the balance sheet in their redemption value. Non-current liabilities are initially recognised at the fair value of the consideration receivable (less transaction costs) and are subsequently measured at amortised cost using the effective interest rate method.

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

Offsetting

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

Share capital

Ordinary shares are classified in equity. The costs directly related to the issuance of shares are recognised as a reduction of the equity item "Share premium". 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 comprise (1) 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 (2) 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.

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.

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

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be converted. The amounts received for shares upon the conversion of a convertible bond less direct transaction costs is recognised in the items “Share capital” and “Share premium” in equity.

Revenue recognition

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

Retail sales

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

Wholesale

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

Other

Revenue from the rendering of services is recorded in the accounting period in which the services are rendered. If a service is rendered over a longer period of time, revenue from the rendering of a service is recorded using the stage of completion method. Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. See section “Interest income and expenses” for further information. Dividend income is recognised when the right to receive payment is established.

Revenue from the sale of goods and services is included in the income statement line “Revenue” and revenue from the sale of investments in the line “Gains from other investments, net”.

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 “Interest income”.

Segment reporting

Business segments are components of an entity 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 marker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the 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

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include those operating assets and liabilities directly attributable to the segment or those that can be allocated to the particular segment.

Current and deferred income tax

Corporate income tax in Estonia

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

Corporate income tax in other countries

In accordance with the local income tax laws, the net profit of companies located in Latvia, Lithuania, Poland, the Czech Republic, 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

	2010	2009	2008
Latvia	15%	15%	15%
Lithuania	15%	20%	15%
Poland	19%	19%	19%
Czech Republic	19%	20%	21%
Ukraine	25%	25%	25%
Russia	20%	20%	24%

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), valuation of investment property (Note 9), determination of the useful life of property, plant and equipment (Note 10) and valuation of goodwill (Note 11).

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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 10,095 thousand euros at 31 December 2009 and 14,664 thousand euros at 31 December 2008), upon valuation of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount net of allowances of 1,774 thousand euros at 31 December 2009 and 3,079 thousand euros at 31 December 2008); upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 73 thousand euros at 31 December 2009 and 304 thousand euros at 31 December 2008).

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 1,054 thousand euros at 31 December 2009 and 215 thousand euros at 31 December 2008.

Valuation of investment property (Note 9)

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

Because of the recent volatility of global financial markets the quoted prices in real estate market are not always reliable. For evaluating investment property the management used also other techniques to support the sales comparison method. The management used for evaluation a discount rate of 9.5% and capitalisation rate of 9.0% which are comparable to the average indicators used by real estate operating companies in Estonia. The fair value calculations use detailed cash flow projections covering a three-year period – three years of rental income according to rental contracts and profit from sale of investment property at the price of value-in-use at the end of the third year. Cash flow projections comprise factors that depend on the state of the global financial markets and that affect future cash flows, such as vacancy rate, loan interest rate, growth of costs and revenues. The management's estimate concerning the land and buildings located at Veerenni 24, Tallinn, Estonia (carrying amount of 1,659 thousand euros and 4,943 thousand euros at 31 December 2009 respectively) fell in the range provided by independent expert. Land is recorded at market value based on the sales comparison method. The building was valued using income method, during construction period the fair value was adjusted by the amount of expected expenditures to complete the construction. The difference between the fair value and the carrying amount of the investment property that was reclassified from property, plant and equipment amounting to 1,114 thousand euros at the date of reclassification was recognised as revaluation surplus under reserves in equity in 2009. The decrease in fair value of investment property in the amount of 306 thousand euros is recognised under "Other operating expenses" in the income statement.

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

The management has evaluated the economic lives of production equipment and other non-current assets related to production depending on their estimated useful lives. The estimation of economic lives is based on historical experience and takes into consideration production capacity and conditions. The estimation of economic lives of non-current assets used in retail trade is based on the period over which the asset is expected to participate in the generation of revenue as well as the contractual duration of lease agreements. The economic life of assets with unlimited use (land) is assessed as infinite. The total carrying amount of property, plant and equipment with a limited useful life is 16,808 thousand euros at 31 December 2009 and 11,406 thousand euros at 31 December 2008. The total carrying amount of land is 11 thousand euros at 31 December 2009 and 135 thousand euros at 31 December 2008.

Valuation of goodwill (Note 11)

Goodwill is the excess of the cost of the acquisition over the fair value of the acquired net assets, reflecting the part of cost that was paid for the acquisition of such assets that cannot be separately identified and recognised.

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Goodwill as an intangible asset with an indefinite useful life is not amortised but is tested for impairment at least once a year. The management has performed an impairment test for goodwill that arose on the acquisition of the subsidiary OOO Kompania "Baltman RUS" (carrying amount of 1,388 thousand euros at 31 December 2009 and 1,094 thousand euros at 31 December 2008, subsidiary SIA Baltika Latvija " (carrying amount of 152 thousand euros at 31 December 2009 and at 31 December 2008 the goodwill did not exist), and the subsidiary OÜ Baltika Tailor (carrying amount of 355 thousand euros at 31 December 2009 and 355 thousand euros at 31 December 2008). 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 goodwill is lower than its carrying amount, an impairment loss is recognised.

The impact of the global financial and economic crisis

The ongoing global liquidity crisis which commenced in the middle of 2007 from USA mortgage market has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. The currencies of many countries have been devaluated as well.

The stronger euro, tighter credit conditions and higher inflation may provide the volatility and lower liquidity situation on the Group's retail markets. Such circumstances may also affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. The changed economical situation has impact the Group's wholesale customers' liquidity, which could in turn impact their ability to repay their amounts owed. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Deteriorating operating conditions for debtors may also have an impact on the management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

NOTE 3 Financial risks

In its daily activities, the Group is exposed to different types of risk management, which is an important and integral part of the business activities of the company. The company's ability to identify, measure and control different risks is a key variable for the Group's profitability. The Group's management defines risk as a potential negative deviation from the expected financial results. The main risk factors are market (including currency risk, interest rate risk and price risk), credit, liquidity and operational risks. Due to the global economic and financial crisis the 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 constitute 74% of the revenues of the Group and are denominated in LVL (Latvian lat), LTL (Lithuanian lit), RUR (Russian rouble), UAH (Ukrainian hryvnia), PLN (Polish zloty) and CZK (Czech koruna) for the foreign subsidiaries of the Group and in EUR (euro) for the Parent company and the subsidiaries located in Estonia. The majority of raw materials used in production is acquired from countries located outside of the European Union. The major currencies for purchases are EUR (euro) and USD (US dollar).

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Trading with the counterparties in countries belonging to the European Monetary Union is handled only in euros. Estonian kroon is pegged to the euro thus no foreign exchange gains (losses) arise on the transactions in euro. 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 effect of the annual differences in the 12-month average foreign currency rates against the Estonian kroon in the reporting period of 2009 and 2008 were the following: Ukrainian hryvnia -32.21% (2008: -9.27%), Polish zloty -18.92% (2008: +8.04%), Russian rouble -17.51% (2008: -3.78%), Latvian lat -0.46% (2008: -0.35%) and Czech koruna -5.60% (2008: +11.32%). The Lithuanian lit and Estonian kroon are pegged to the euro. The change in average rate of the US dollar in the reporting period was +5.19% (2008: -6.52%). The Group's foreign exchange risk has increased significantly as a result of the devaluation of the Russian rouble and the steep weakening of the Ukrainian hryvnia against the Estonian kroon in the fourth quarter of 2008 and during 2009. If the currency exchange rates of the Ukrainian hryvnia, Russian rouble and Polish zloty had remained the same as in 2008, the revenue for 2009 would have been higher by 5,878 thousand euros and operating expenses would have been higher by 3,160 thousand euros. The translation of intra-group balances arising from the Group's internal trade and translation of the Group's net investment in the markets most affected by the foreign exchange risk also affect the Group's other comprehensive income.

Foreign exchange risk arises from cash and cash equivalents (Note 4), trade receivables (Note 5) and trade payables (Note 14) denominated in foreign currencies, except in euro. If the foreign exchange rates in relation to the Estonian kroon as at 31 December 2009 had been 0.5%-8.0% higher (lower), the impact on the net loss for the year would have been +/-97 thousand euros (2008: 111 thousand euros). The assessment of foreign exchange rate sensitivity to the 2009 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% and +/-7% respectively, Polish zloty and US dollar do not exceed +/-5.0% and that the exchange rates of the Latvian lat and other currencies are not expected to fluctuate more than 0.5%. The assessment of foreign exchange rate sensitivity to the 2008 profit is based on the assumptions that the fluctuations in foreign currency exchange rates of the main trading currencies of the Group (Russian rouble, Ukrainian hryvnia, Lithuanian lit, Polish zloty, Czech koruna and US dollar), do not exceed +/-5.0% and that the exchange rates of the Latvian lat and other currencies are not expected to fluctuate more than 0.5%. As the Estonian kroon and Lithuanian lit are pegged to the euro, there is no foreign exchange risk arising from cash and cash equivalents, trade receivables and trade payables denominated in those currencies.

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

	Impact 2009	**Impact 2008**
Cash and bank	12	68
Trade and other receivables	9	55
Trade and other payables	-118	-234
Total	**-97**	**-111**

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

No instruments were used to hedge foreign currency risks in 2009 and 2008. Based on the management's assessment, the effect of losses resulting from changes in foreign currencies does not exceed the risk tolerance determined by the Group, except in the case if the currencies were devaluated in the countries where AS Baltika has subsidiaries. If feasible, foreign currencies collected are used for the settling of liabilities denominated in the same currency. Additionally the Group uses the option to regulate retail prices, reduces expenses and if necessary restructures the Group's internal transactions.

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Interest rate risk

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

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

All non-current borrowings at 31 December 2009 and 2008 were subject to a floating interest rate based on Euribor, which is fixed every three or six months (Note 13). The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

At 31 December 2009, if floating interest rates on borrowings had been one percentage point higher with all other variables held constant, post-tax loss for the year would have been 139 thousand euros (2008: 75 thousand euros) higher and if 0.1 percentage point lower, the post-tax loss for the year would have been 14 thousand euros lower (2008: 7 thousand euros).

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

Price risk

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

Credit risk

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

Cash and cash equivalents

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

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

	31.12.2009	31.12.2008
A	99	258
B	96	153
Other banks	5	0
Total	**200**	**411**

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

Trade receivables

The most significant credit risk concentration to the Group arises from the wholesale activities in Eastern Europe (Note 5). 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, no collaterals to secure the trade receivables are required from counterparties (with the exception of new customers from Eastern Europe) but instead, deliveries, outstanding credit amount and adherence to agreed dates are monitored continuously.

At 31 December 2009 the maximum exposure to credit risk from trade receivables (Note 5) amounted to 1,865 thousand euros (2008: 3,218 thousand euros) on a net basis after the allowances. The trade receivables from Eastern European clients amounted to 1,328 thousand euros (2008: 2,582 thousand euros), including balances with the Eastern European wholesale partners of 1,216 thousand euros (2008: 2,434 thousand euros) and balances with retail customers for bank card payments of 112 thousand euros (2008: 148 thousand euros).

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Trade receivables (gross) from clients located in Eastern European region

	31.12.2009	31.12.2008
Not due, thereof	924	2,582
Renegotiated	311	1,106
Past due 6 months and more	482	483
Total	**1,406**	**3,065**
Allowance for amounts past due 6 months and more	-78	-483
Total net amount (Note 5)	**1,328**	**2,582**

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. Credit risks arising from the Group's seasonal production and sales cycle are temporary.

Liquidity risk

Liquidity risk is the potential risk that the Group has limited or insufficient financial (cash) resources to meet the obligations arising from the Group's activities. The volume of financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Management monitors the sufficiency of cash and cash equivalents to settle the liabilities and finance the Group's strategic goals on a regular basis using rolling cash forecasts.

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

Financial liabilities by maturity at 31 December 2009

		Undiscounted cash flows[1]				
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Bank borrowings (Note 13)[2]	21,632	3,363	4,594	9,121	7,906	24,984
Finance lease liabilities (Note 13)	582	67	200	358	0	625
Trade payables (Note 14)	7,104	7,104	0	0	0	7,104
Other financial liabilities (Note 14)[3]	599	260	256	128	0	644
Total	**29,917**	**10,794**	**5,050**	**9,607**	**7,906**	**33,357**

Financial liabilities by maturity at 31 December 2008

		Undiscounted cash flows[1]				
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Bank borrowings (Note 13)2	16,759	932	6,284	7,993	5,699	20,908
Finance lease liabilities (Note 13)	648	100	120	470	0	690
Trade payables (Note 14)	9,711	9,711	0	0	0	9,711
Other financial liabilities (Note 14)3	181	181	0	0	0	181
Total	**27,299**	**10,924**	**6,404**	**8,463**	**5,699**	**31,490**

[1]For interest bearing borrowings carrying floating interest rate based on Euribor, the spot rate has been used.
[2]Overdraft facilities are shown under bank borrowings payable within 1-3 months in the amount of maximum exposure available for the Group.
[3]Other financial liabilities include accrued expenses in amount of 132 thousand euros (2008: 181 thousand euros) and dividends liabilities of preference shares in amount of 467 thousand euros (2008: 0).

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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 the 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 risk management

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

Consistent with industry practice, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated balance sheet and net debt. The Group's strategy is to maintain the gearing ratio within the range of 30% to 35% but due to the global economical crisis it was not achieved. The Groups's net debt increased due to the loan taken to finance construction of a new office building. The gearing ratio was siginificantly influenced by the earned comprehensive loss during 2009 in the amount of 9,273 thousand euros and increase of the share capital through issue of preference shares in the amount of 2,556 thousand euros.

Gearing ratios of the Group

	31.12.2009	**31.12.2008**
Total borrowings (Note 13)	22,214	17,407
Cash and bank (Note 4)	-385	-554
Net debt	21,829	16,852
Total equity	11,924	19,104
Total capital	33,753	35,956
Gearing ratio	**65%**	**47%**

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Fair value

The Group estimates that the fair values of the financial assets (Notes 4-5) and liabilities (Notes 13-14) denominated in the balance sheet at amortised cost do not differ significantly from their carrying amounts presented in the Group's consolidated balance sheet at 31 December 2009 and 31 December 2008. 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 bank

	31.12.2009	31.12.2008
Cash in hand	185	143
Cash at bank	200	355
Overnight deposits	0	56
Total	**385**	**554**

Cash and bank by currency

	31.12.2009	31.12.2008
RUB (Russian rouble)	105	70
LTL (Lithuanian lit)	99	59
EEK (Estonian kroon)	62	70
LVL (Latvian lat)	38	88
UAH (Ukrainian hryvnia)	32	90
CZK (Czech koruna)	19	154
EUR (euro)	16	3
PLN (Polish zloty)	14	19
USD (US dollar)	0	2
Total	**385**	**554**

NOTE 5 Trade and other receivables

	31.12.2009	31.12.2008
Trade receivables, net	1,865	3,128
Other prepaid expenses[1]	669	1,560
Tax prepayments and tax reclaims, thereof	875	1,332
Value added tax	814	1,171
Prepaid income tax	32	9
Other taxes	30	152
Other prepayments	102	267
Total	**3,511**	**6,287**

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

For further information on income taxes see Notes 7 and 23.

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Trade receivables

	31.12.2009	31.12.2008
Trade receivables, gross	1,968	3,628
Allowance for impairment of trade receivables (Note 19)	-102	-499
Trade receivables, net	**1,865**	**3,128**

In 2009 irrecoverable receivables in amount of 486 thousand euros were derecognised (2008: 0) and doubtful receivables in amount of 89 thousand euros were recognised under allowance for impairment of trade receivables (2008: 331 thousand euros).

Trade receivables (net) by region (client location)

	31.12.2009	31.12.2008
Eastern European region (Note 3)	1,328	2,582
Baltic region	431	530
Other regions	106	16
Total	**1,865**	**3,128**

Trade receivables (net) by due date

	31.12.2009	31.12.2008
Not due[1]	997	2,517
Up to 1 month past due	141	504
1-3 months past due	250	107
3-6 months past due	72	0.3
Over 6 months past due	406	0
Total	**1,865**	**3,128**

[1]Trade receivables classified as not due at 31 December 2009 include receivables from the wholesale partner from Eastern European region in the amount of 311 thousand euros (31 December 2008: 1,106 thousand euros) for which the due date has been renegotiated. Should the initial due dates remain unchanged, the carrying amount of those receivables had been classified under receivables over 6 months past due. Payments received from the wholesale partner in accordance with the renegotiated terms after the balance sheet date amount to 115 thousand euros in the first three months of 2010. See "Overtaking of the operation of stores in the Ural region" in the Note 26 for Eastern-Europe customer payments.

A significant risk concentration exists regarding the wholesale partner from Eastern European region (Note 3). During 2009, an impairment loss in the amount of 78 thousand euros (2008: 315 thousand euros) (Note 19) has been recognised for trade receivables from an Eastern European counterparty. The impairment loss has been calculated considering the cash flow of the trade payables to the same counterparties that can be used in offsetting the receivables. Impairment losses were recognised under "Distribution costs".

Trade receivables (net) by denominating currency

	31.12.2009	31.12.2008
EUR (euro)	1,359	2,537
EEK (Estonian kroon)	295	298
UAH (Ukrainian hryvnia)	63	80
RUB (Russian rouble)	49	68
LVL (Latvian lat)	45	74
LTL (Lithuanian lit)	45	59
PLN (Polish zloty)	9	8
CZK (Czech koruna)	0	4
Total	**1,865**	**3,128**

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NOTE 6 Inventories

	31.12.2009	31.12.2008
Fabrics and accessories	1,787	3,092
Allowance for impairment of fabrics and accessories (Note 18)	-13	-13
Work-in-progress	73	304
Finished goods and goods purchased for resale	10,415	15,086
Allowance for impairment of finished goods and goods purchased for resale (Note 18)	-320	-422
Prepayments to suppliers	85	386
Total	**12,027**	**18,434**

At 31 December 2009, inventories of the Group with a carrying amount of 30 thousand euros (31 December 2008: 180 thousand euros) were in the custody of third parties.

The allowance for impairment for finished goods at 31 December 2009 compared to previous balance sheet date has decreased due to reduced quantities of stock from old seasons.

Movable properties of the Group in the amount of 5,306 thousand euros have been pledged to secure the bank borrowings (Note 13).

NOTE 7 Deferred income tax

Deferred income tax at 31 December 2009

	Baltic region	Eastern European region	Central European region	Total
Deferred income tax asset				
On property, plant and equipment	0	55	12	66
On tax loss carry-forwards	314	655	18	987
Total	**314**	**710**	**30**	**1,054**
Deferred income tax asset, net, thereof	**314**	**710**	**30**	**1,054**
Non-current portion	314	710	30	1,054
Deferred income tax expense (income) (Note 23)	**-396**	**-521**	**77**	**-840**

Deferred income tax at 31 December 2008

	Baltic region	Eastern European region	Central European region	Total
Deferred income tax liability				
On property, plant and equipment	140	0	0	140
Deferred income tax asset				
On property, plant and equipment	0	98	34	132
On tax loss carry-forwards	59	91	73	223
Total	**59**	**189**	**107**	**355**
Deferred income tax asset, net, thereof	**-81**	**189**	**107**	**215**
Non-current portion	-81	189	107	215
Deferred income tax expense (income) (Note 23)	**-51**	**49**	**32**	**30**

The recovery of the deferred income tax asset arising from tax loss carry-forwards is dependent on future taxable profits at subsidiaries that have to exceed the existing losses to be carried forward. An analysis of expected

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future profits was carried out when preparing the financial statements. The profit assumption is based on the attainment of each respective company's 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.

Deferred income tax assets were recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of 484 thousand euros (2008: 30 thousand euros) in respect of losses amounting to 2,652 thousand euros (2008: 121 thousand euros) that can be carried forward against future taxable income. Losses amounting to 2,652 thousand euros expire within the following nine years after the balance sheet date.

NOTE 8 Other non-current assets

	31.12.2009	31.12.2008
Non-current portion of lease prepayments	494	390

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

NOTE 9 Investment property

	2009	2008
Balance at 1 January	**8,570**	**719**
Reclassification from property, plant and equipment (Note 10)	514	1,702
Reclassification to property, plant and equipment (Note 10)	-7,974	0
Additions	4,683	5,015
Revaluation to fair value through profit or loss (Note 22, 23), thereof	-306	1,134
Land	-370	431
Building	64	703
Change in fair value at reclassification through other comprehensive income, thereof	1,114	0
Land	751	0
Building	363	0
Balance at 31 December	**6,602**	**8,570**

	2009	2008
Lease revenue from investment properties	117	0
Direct operating expenses from investment properties that generated lease revenue	44	0

At 31 December 2009 and 2008, investment property consisted of the buildings and land plot located at Veerenni 24, Tallinn, Estonia. After completion of new office building in 2009 the building was classified partly under property, plant and equipment and partly under investment property proportionally according to its usage (reclassification to property, plant and equipment amounted to 7,974 thousand euros). At 31 December 2009 fair value of the building classified under investment property was 3,403 thousand euros and loss from revaluation to fair value on that property amounted to 705 thousand euros. Loss from revaluation to fair value of land amounted to 370 thousand euros.

Former office building and land used by the Group was reclassified from property, plant and equipment to investment property in the amount of 514 thousand euros and were revaluated in to fair value on 30 June 2009. Change in fair value at reclassification amounting to 363 thousand euros for building and 751 thousand euros for land was recognised through other comprehensive income. At 31 December 2009 the fair value of old office building and land were respectively 1,540 thousand euros and 876 thousand euros, change arising mainly due to changes in expected vacancy rates related to the property. Profit from revaluation of office building amounted to 769 thousand euros.

Both buildings classified under investment property are rented out as office and business spaces.

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The net loss from revaluation to fair value amounted to 306 thousand euros in 2009 was recognised in income statement under “Other operating expenses” (Note 23).

On 1 January 2008, the building under constructions was reclassified from property, plant and equipment to investment property on early adoption of amendment to IAS 40. The gain from revaluation to fair value amounted to 1,134 thousand euros and was recognised in the income statement under “Other operating income” (Note 21).

The carrying value of land and buildings measured at fair value in accordance with IAS 40 has been updated to reflect market conditions at the reporting date. The fair value has additionally been estimated for the property reclassified from property, plant and equipment to investment property as of the reclassification date, 30 June 2009. In the absence of reliable market data, the management used also other techniques to support the sales comparison method in evaluating the investment property. The management used for evaluation a discount rate of 9.5% and capitalization rate of 9.0% (2008: 11.5% and 9.0%, respectively), which are comparable to the average indicators used by real estate operating companies in Estonia. The fair value calculations use detailed cash flow projections covering a three-year period – three years of rental income according to rental contracts and profit from sale of investment property at the price of value-in-use at the end of the third year. The management’s estimate concerning the land and buildings fell in the range provided by independent expert.

The borrowing costs related to investment property have been capitalised as part of the investment property in the amount of 149 thousand euros (2008: 115 thousand euros). In 2009 the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.59% (2008: 4.97%).

The investment property located at Veerenni 24, Tallinn, Estonia has been pledged to secure the Group’s bank borrowings (Note 13).

NOTE 10 Property, plant and equipment

	Land and construction rights	**Buildings and structures**	**Machinery and equipment**	**Other fixtures**	**Construction in progress**	**Prepayments**	**Total**
At 31 December 2007							
Acquisition cost	**135**	**7,250**	**6,291**	**7,458**	**1,718**	**87**	**22,938**
Accumulated depreciation	0	-2,412	-4,495	-3,050	0	0	-9,958
Net book amount	**135**	**4,837**	**1,796**	**4,407**	**1,718**	**87**	**12,980**
Additions	0	1,622	913	1,189	168	0	3,891
Disposals	0	-7	-20	-100	-6	0	-133
Reclassifications to investment property[1] (Note 9)	0	0	0	0	-1,702	0	-1,702
Reclassification	0	6	0	68	-5	-70	0
Depreciation (Note 18-20)	0	-939	-469	-1,233	0	0	-2,641
Currency translation differences[2]	0	-330	-105	-391	-21	-6	-854
At 31 December 2008							
Acquisition cost	**135**	**7,876**	**6,838**	**7,493**	**151**	**11**	**22,496**
Accumulated depreciation	0	-2,678	-4 724	-3,552	0	0	-10,955
Net book amount	**135**	**5,190**	**2,114**	**3,941**	**151**	**11**	**11,541**
Additions	0	714	105	879	5	0	1,703
Reclassifications from investment property (Note 9)	0	7,974	0	0	0	0	7,974
Disposals (Note 22)	0	-595	-174	-111	0	0	-880
Reclassifications to investment property (Note 9)	-124	-390	0	0	0	0	-514

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Reclassification	0	12	393	-265	-140	0	0
Impairment	0	0	0	-29	0	0	-29
Depreciation (Note 18-20)	0	-1,126	-533	-1,172	0	0	-2,831
Currency translation differences[2]	0	-38	-22	-74	-9	0	-143
At 31 December 2009							
Acquisition cost	**11**	**14,524**	**6,375**	**7,728**	**7**	**11**	**28,656**
Accumulated depreciation	0	-2,784	-4,494	-4,559	0	0	-11,837
Net book amount	**11**	**11,741**	**1,881**	**3,169**	**7**	**11**	**16,819**

[1]The facility located at Veerenni 24, Tallinn, Estonia was reclassified from construction in progress to investment property according to IAS 40 change (Note 9).
[2]Amount of currency translation differences comes from conversion of acquisition cost of assets, accumulated depreciation and movements of assets during the reporting period.

Assets acquired under finance lease terms and recognised under property, plant and equipment amounted to 200 thousand euros (2008: 270 thousand euros) at acquisition cost. The total net book amount of assets acquired through finance lease at 31 December 2009 amounts to 950 thousand euros (31 December 2008: 885 thousand euros). See Note 12 for additional information on finance leases.

Property, plant and equipment of the Group in the amount of 15,166 thousand euros have been pledged to secure the bank borrowings (Note 13).

NOTE 11 Intangible assets

	Licenses, software and other	Trade-marks	Prepayments	Goodwill	Total
At 31 December 2007					
Acquisition cost	**2,080**	**643**	**86**	**1,613**	**4,422**
Accumulated amortisation	-646	-43	0	0	-689
Net book amount	**1,434**	**600**	**86**	**1,613**	**3,733**
Additions	512	0	74	0	586
Disposals	-8	0	0	0	-8
Amortisation (Note 18-20)	-276	-32	0	0	-308
Currency translation differences[1]	-6	0	-22	-164	-193
At 31 December 2008					
Acquisition cost	**2,572**	**643**	**137**	**1,449**	**4,801**
Accumulated amortisation	-916	-75	0	0	-991
Net book amount	**1,656**	**568**	**137**	**1,449**	**3,809**
Additions	86	0	2	503	590
Disposals	-29	0	0	0	-29
Reclassification	132	0	-132	0	0
Amortisation (Note 18-20)	-306	-32	0	0	-338
Currency translation differences[1]	2	0	-7	-56	-62
At 31 December 2009					
Acquisition cost	**2,700**	**643**	**0**	**1,895**	**5,238**
Accumulated amortisation	-1,160	-107	0	0	-1,267
Net book amount	**1,540**	**536**	**0**	**1,895**	**3,971**

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[1]Amount of currency translation differences comes from conversion of acquisition cost of assets, accumulated depreciation and movements of assets during the reporting period.

For additions of goodwill see Note 26.

Impairment tests for goodwill

Goodwill, carried at 1,895 thousand euros (2008: 1,449 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 (Note 26) was tested for impairment at 31 December 2009. The recoverable amount of CGU is determined based on value-in-use calculations. The value-in-use calculations use detailed pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

Key assumptions used for value-in-use calculations

	Baltika Tailor CGU		Baltman RUS CGU		Baltika Latvia CGU
	31.12.2009	**31.12.2008**	**31.12.2009**	**31.12.2008**	**31.12.2009**
Carrying amount of goodwill	355	355	1,388	1,094	152
Growth in revenue[1]	3.22%	7.63%	10.50%[5]	6.54%	6.94%
Growth in revenue 2014-2021[2]	n/a	4.21%	n/a	3.25%	n/a
Growth rate[3]	2.00%	0%	2.00%	0%	2.00%
Discount rate[4]	8.07%	9.57%	8.82%	14.98%	11.16%
Difference between recoverable and carrying amount	612	121	2,770	3,859	14,118

[1]Management determined average annual growth in revenue and sales efficiency per square metre (decreasing growth trend over the period of cash flow projections) for the five-year period.
[2]Management determined average annual growth in revenue and sales efficiency per square metre (decreasing growth trend over the period of cash flow projections) for period 2014-2021 in impairment tests performed in 2008. In 2009, general growth rate was used to extrapolate cash flows beyond the year 2014.
[3]Growth rate used to extrapolate cash flows beyond the year 2014.
[4]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.
[5]The growth in revenue is determined taking into consideration the closing of ineffective shops at the end of 2009.

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 goodwill and consequently no impairment losses have been recognised. If the average annual growth in sales was 9.8% and 3.02% or the discount rate 12.36% and 11.47% for Baltman RUS and Baltika Tailor respectively the recoverable amount would be equal to the carrying amount. If the average annual growth in sales for SIA Baltika Latvia is -1.02% the recoverable amount would be equal to the carrying amount.

NOTE 12 Accounting for leases

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

	31.12.2009	**31.12.2008**
Up to 1 year	5,965	9,522
1-5 years	6,447	13,406
Over 5 years	2,956	5,317
Total	**15,368**	**28,246**

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Operating lease expenses arise from lease of stores and production facility. The lease agreements for stores are predominantly not binding for long-term in Estonia, Latvia and Lithuania and can be terminated in a two to six months notice. In Poland and Ukraine, the lease agreements usually require finding a new lessee when cancelling the lease agreement.

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 2009, operating lease payments amounted to 13,007 thousand euros (2008: 14,975 thousand euros).

Operating lease – the Group as the lessor

Future minimum lease receivables from non-cancellable leases

	31.12.2009	**31.12.2008**
Up to 1 year	147	117

In 2009, the Group earned operating lease income in the amount of 138 thousand euros (2008: 39 thousand euros) from assets (business premises) leased to third parties under operating lease agreements. Direct expenses attributable to lease income amounted to 64 thousand euros (2008: 26 thousand euros).

Finance lease – the Group as the lessee

	Machinery and equipment	**Passenger cars and equipment**	**Total**
At 31 December 2008			
Acquisition cost	**1,038**	**39**	**1,077**
Accumulated depreciation	-182	-10	-192
Net book amount	**855**	**30**	**885**
At 31 December 2009			
Acquisition cost	**1,017**	**240**	**1,257**
Accumulated depreciation	-281	-26	-307
Net book amount	**736**	**214**	**950**

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 2009, the Group settled finance lease payments in the amount of 299 thousand euros (2008: 209 thousand euros).

NOTE 13 Borrowings

	31.12.2009	**31.12.2008**
Current borrowings		
Current portion of long-term bank loans (Note 3)	2,228	1,332
Current bank loans (Note 3)	5,036	5,116
Current finance lease liabilities (Note 3)	243	197
Liability component of preference shares (Note 15)	350	0
Total	**7,857**	**6,645**
Non-current borrowings		
Non-current bank loans (Note 3)	14,368	10,310
Non-current finance lease liabilities (Note 3)	339	452
Convertible bonds (Note 25) and liability component of preference shares (Note 15)	181	0
Total	**14,888**	**10,762**
Total borrowings	**22,745**	**17,407**

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Interest bearing borrowings at nominal value by currency

	31.12.2009	31.12.2008
EUR (euro)	20,865	13,637
EEK (Estonian kroon)	1,332	3,739
Other currencies	17	31
Total	**22,214**	**17,407**

Interest bearing borrowings consist of bank loans, finance leases and bonds.

Bank loans of the Group at 31 December 2009

	Balance	Average risk premium
Borrowings at floating interest rate (based on 1-month Euribor)	500	2.50%
Borrowings at floating interest rate (based on 3-month Euribor)	240	1.00%
Borrowings at floating interest rate (based on 6-month Euribor)	18,085	3.48%
Borrowings at fixed interest rate (overdraft)	2,807	7.55%
Total	**21,632**	

Bank loans of the Group at 31 December 2008

	Balance	Average risk premium
Borrowings at floating interest rate (based on 1-month Euribor)	500	1.50%
Borrowings at floating interest rate (based on 3-month Euribor)	427	1.25%
Borrowings at floating interest rate (based on 6-month Euribor)	11,216	1.58%
Borrowings at floating interest rate (based on 1-month Libor)	26	1.60%
Borrowings at fixed interest rate (overdraft)	4,591	6.20%
Total	**16,760**	

The maximum exposure of the Group's overdraft facilities with the banks at 31 December 2009 amounted to 2,807 thousand euros (31 December 2008: 4,591 thousand euros).

The loan contracts of Baltika Group include covenants that may require early repayment of loans if the borrower does not fulfil the terms specified in the contract:
- requirement for equity ratio;
- limited rights for incurring additional liabilities.

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

The Group's bank borrowings are secured by the following collaterals:

Type of collateral	Specification and location of collateral	Collateral value at 31.12.2009	Collateral value at 31.12.2008
Commercial pledge	Movables of the Parent company	6,749	6,749
Commercial pledge	Movables of the subsidiary company	971	971
Mortgage	Real estate located at Veerenni 24, Tallinn, Estonia	19,653	19,653
Mortgage	Real estate located at Kalda 10A, Rakvere, Estonia	473	473
Mortgage	Real estate located at Õpetajate 5, Ahtme, Estonia	767	767
Total		**28,613**	**28,613**

During the reporting period, the Group made loan repayments in the amount of 1,872 thousand euros (2008: 1,616 thousand euros). Interest expense of the reporting period amounted to 1,066 thousand euros (2008: 732 thousand euros).

During the comparative period, the Group redeemed bonds that were issued in 2007. The redemption amount was 1,917 thousand euros.

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The carrying amount of assets pledged is disclosed in Notes 6, 9 and 10.

According to the management's assessment, the carrying amount of borrowings does not significantly differ from the fair value.

NOTE 14 Trade and other payables

	31.12.2009	31.12.2008
Trade payables	7,104	9,711
Tax liabilities, thereof	1,780	2,008
Personal income tax	234	383
Social security tax and unemployment insurance premium	616	786
Value added tax	857	749
Corporate income tax liability	13	0
Other taxes	59	90
Payables to employees[1]	1,045	1,367
Other accrued expenses[2]	132	181
Customer prepayments	115	20
Other current payables	9	4
Total	**10,186**	**13,290**

[1]Payables to employees consist of accrued wages and salaries and vacation accrual.
[2]Accrued expenses consist of dividend payable in the amount of 1 thousand euros (31 December 2008: 1 thousand euros), interest payable in the amount of 32 thousand euros (31 December 2008: 15 thousand euros) and other accrued expenses in the amount of 100 thousand euros (31 December 2008: 166 thousand euros).

Trade payables by denominating currency

	31.12.2009	31.12.2008
EUR (euro)	2,480	2,864
EEK (Estonian kroon)	2,139	3,310
USD (US dollar)	1,880	2,735
RUB (Russian rouble)	194	309
LTL (Lithuanian lit)	179	163
CZK (Czech koruna)	93	138
PLN (Polish zloty)	52	101
LVL (Latvian lat)	39	54
Other currencies	48	37
Total	**7,104**	**9,711**

Other accrued expenses by denominating currency

	31.12.2009	31.12.2008
CZK (Czech koruna)	57	134
EEK (Estonian kroon)	22	13
PLN (Polish zloty)	15	15
EUR (euro)	14	4
LTL (Lithuanian lit)	13	5
LVL (Latvian lat)	10	10
Total	**132**	**181**

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NOTE 15 Equity

Share capital

	31.12.2009	31.12.2008
Share capital	14,473	11,916
Number of shares (pcs)[1]	22,644,850	18,644,850
Nominal value of shares (EUR)	0.64	0.64

[1]Shares comprise ordinary shares and preference shares of 18,644,850 pieces and 4,000,000 pieces respectively. The 18,644,850 ordinary shares are listed on the Tallinn Stock Exchange. The preference shares are unlisted.

Change in the number of shares

	Issue	Number of shares
Number of shares at 31 December 2007		**18,644,850**
Number of shares 31 December 2008		**18,644,850**
Issued at 10 July 2009	Issue of preference shares	4,000,000
Number of shares 31 December 2009		**22,644,850**

On 10 July 2009 4 million preference shares were subscribed by institutional investors in total amount of 2,556 thousand euros.

The issued preference shares shall grant its owner the preferential right to receive dividends in the amount of 10% annually within two years from the issuance of the preferred shares and thereafter shall have regular shareholder's rights, including voting rights and rights to receive dividends as stated in the Articles of Association.

The nominal value of preference shares was recorded as share capital at 2,556 thousand euros, the difference between the nominal value of shares and the sum of transaction costs and liability component of the compounded instrument in the amount of 530 thousand euros was recorded as a deduction from retained earnings.

Under the Articles of Association, the company's minimum share capital is 6,391 thousand euros and the maximum share capital is 25 565 thousand euros. All shares have been paid for.

Reserves

	31.12.2009	Change	31.12.2008	Change	31.12.2007
Statutory reserve	1,192	0	1,192	0	1,192
Revaluation surplus (Note 9)	1,592	1,114	478	0	478
Total	**2,784**	**1,114**	**1,670**	**0**	**1,670**

Shareholders at 31 December 2009 (ordinary shares)

	Number of shares	Holding
1. BMIG OÜ	4,624,860	24.81%
2. Svenska Handelsbanken Clients	1,912,000	10.25%
3. Members of management and supervisory boards and persons related to them		
Meelis Milder	726,336	3.90%
Maire Milder	316,083	1.69%
Boriss Loifenfeld	200,366	1.07%
Ülle Järv	50,600	0.27%
Andrew Paterson	11,000	0.06%
4. Other shareholders	10,803,605	57.95%
Total	**18,644,850**	**100.00%**

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Shareholders at 31 December 2008 (ordinary shares)

	Number of shares	Holding
1. BMIG OÜ	4,750,033	25.48%
2. Svenska Handelsbanken Clients	1,912,000	10.25%
3. Central Securities Depository of Lithuania	1,538,974	8.25%
4. Members of management and supervisory boards and persons related to them		
Meelis Milder	730,336	3.92%
Maire Milder	316,083	1.69%
Boriss Loifenfeld	200,366	1.07%
Andres Erm	108,000	0.58%
Ülle Järv	55,370	0.30%
Andrew Paterson	11,000	0.06%
5. Other shareholders	9,022,688	48.40%
Total	**18,644,850**	**100.00%**

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

NOTE 16 Segments

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

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

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.

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The segment information provided to the management board for the reportable segments for the year ended at 31 December 2009 and at 31 December 2008 is as follows:

	Retail Baltic region	Retail Eastern Europe	Retail Central Europe	Whole-sale[1]	Real estate manage-ment	Total segments
2009 and at 31 December 2009						
Revenue (from external customers)	30,957	17,999	2,754	4,405	138	56,253
Segment operating profit (loss)[2]	2,147	-1,197	-1,384	645	74	285
Incl. depreciation and amortisation	-1,269	-886	-274	-64	0	-2,492
Inventories of segments	3,522	2,465	186	233	0	6,405
2008 and at 31 December 2008						
Revenue (from external customers)	40,349	24,022	3,304	8,617	39	76,331
Segment operating profit (loss)[2]	8,066	1,813	-858	2,259	13	11,292
Incl. depreciation and amortisation	-1,098	-971	-223	-68	0	-2,360
Inventories of segments	4,113	3,264	336	644	0	8,357

[1]The wholesale revenue includes the sale of goods, materials and sewing services.
[2]The segment profit is the segment operating profit, excluding other operating expenses and income.

Reconciliation of segment operating profit to consolidated operating profit

	2009	2008
Total segment profit	285	11,292
Unallocated expenses[1]:		
Distribution costs	-5,296	-8,405
Administrative and general expenses	-2,842	-3,228
Other operating income (expenses), net	-2,074	-22
Operating profit (loss)	**-9,926**	**-362**

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

Reconciliation of segment inventories to inventories on consolidated balance sheet

	31.12.2009	31.12.2008
Total inventories of segments	6,405	8,357
Inventories in Parent company and production companies	5,622	10,077
Inventories on balance sheet	**12,027**	**18,434**

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

	31.12.2009	31.12.2008
Estonia	20,640	11,595
Other countries	6,752	12,326
Total	**27,392**	**23,921**

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 1,388 thousand euros as of 31 December 2009 (31 December 2008: 1,094 thousand euros);
2. goodwill associated with CGU retail segment in Latvia in the amount of 152 thousand euros as of 31 December 2009 (31 December 2008: 0);

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3. property, plant and equipment (excluding prepayments for property and equipment) associated with retail segments in the amount of 4,912 thousand euros as of 31 December 2009 (31 December 2008: 7,148). The property, plant and equipment of the Baltic region is 2,445 thousand euros, of the Eastern Europe region 1,981 thousand euros and of the Central Europe region is 485 thousand euros (31 December 2008: 2,965 thousand euros, 3,013 thousand euros and 1,170 thousand euros respectively).

NOTE 17 Revenue

	2009	**2008**
Sale of goods	56,067	76,188
Sale of sewing services	28	0
Lease revenue (Note 12)	138	39
Other	20	104
Total	**56,253**	**76,331**

NOTE 18 Cost of goods sold

	2009	**2008**
Materials and supplies	23,516	28,237
Payroll costs in production	4,077	5,820
Operating lease expenses (Note 12)	616	687
Other production costs	438	604
Depreciation of assets used in production (Note 10,11)	279	290
Change in inventories	440	-136
Change in allowance for inventories (Note 6)	-102	320
Total	**29,264**	**35,822**

NOTE 19 Distribution costs

	2009	**2008**
Operating lease expenses (Note 12)	12,236	13,893
Payroll costs[1]	11,063	13,029
Depreciation and amortisation (Note 10,11)	2,714	2,541
Advertising expenses	1,631	2,476
Fuel, heating and electricity costs	638	598
Municipal services and security expenses	569	570
Fees for card payments	380	513
Freight costs	232	414
Financial and management fees[1]	281	281
Information technology expenses	225	230
Communication expenses	218	241
Travel expenses	181	327
Bank fees	144	163
Packaging costs	117	120
Impairment of trade receivables (Note 5)	96	331
Expenses for uniforms	84	143
Renovation expenses of retail outlets	68	121
Training expenses	48	119
Other sales expenses[2]	1,074	1,513
Total	**32,000**	**37,621**

[1]In 2008 the financial and management fees in amount of 191 thousand euros were recognised under other sales expenses. Financial and management fees consist of accounting, auditing, consulting and management fees.

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

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NOTE 20 Administrative and general expenses

	2009	2008
Payroll costs	1,426	1,602
Information technology expenses	291	321
Depreciation and amortisation (Note 10,11)	173	122
Bank fees	167	81
Operating lease expenses (Note 12)	156	261
Fuel, heating and electricity costs	87	108
Sponsorship	59	78
Communication expenses	50	49
Municipal services and security expenses	33	37
Training expenses	18	56
Travel expenses	3	9
Management and consulting fees	9	6
Other administrative expenses[1]	370	497
Total	**2,842**	**3,228**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount of 67 thousand euros, see Note 26.
[2]Other administrative expenses consist of insurance and office expenses and fees connected to auditing, accounting and other services.

NOTE 21 Other operating income and expenses

Other operating income

	2009	2008
Gain from revaluation of investment property (Note 9)	0	1,134
Other income	35	67
Total	**35**	**1,201**

Other operating expenses

	2009	2008
Foreign exchange losses	725	813
Loss from disposals of non-current assets[1] (Note 10,11)	703	8
Loss from revaluations of investment property (Note 9)	306	0
Fines, penalties and tax interest	178	61
Representation costs	7	31
Other operating expenses	190	310
Total	**2,109**	**1,223**

[1]Loss from disposal of non-current assets arised mainly due to the closures of ineffective stores and exiting the Czech Republic market in 2009.

NOTE 22 Finance income and costs

	2009	2008
Interest income	2	4
Interest costs	-1,066	-732
Foreign exchange losses	-64	-227
Other finance income	3	22
Other finance costs	-1	-2
Total	**-1,127**	**-935**

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NOTE 23 Income tax

	2009	2008
Income tax expense	30	45
Deferred income tax expense (income) (Note 7)	-840	30
Total income tax expense (income)	**-809**	**75**

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

Income tax by regions for the year ended at 31 December 2009

	Baltic region	Eastern European region	Central European region	Total
Profit (loss) before tax	-5,818	-4,016	-1,220	-11,053
Average nominal tax rate	0-20%	20-25%	19-20%	0-25%
Tax calculated from profit (loss) at the nominal tax rate	-791	-885	-244	-1,920
Income tax on dividends[1]	6	0	0	6
The effect of income/expenses not deductible for tax purposes	16	16	12	44
Utilisation of tax losses carried forward	0	0	-13	-13
Changes in recognised and off balance sheet deferred tax assets	395	364	322	1,081
Changes in currency rates	-16	9	0	-7
Income tax expense	**6**	**25**	**0**	**30**
Deferred income tax expense (income) (Note 7)	**-396**	**-521**	**77**	**-840**

[1]The income tax on dividends is the income tax for dividends paid to the holders of preference shares.

Income tax by regions for the year ended at 31 December 2008

	Baltic region	Eastern European region	Central European region	Total
Profit (loss) before tax	1,375	-1,837	-834	-1,297
Average nominal tax rate	0-21%	24-25%	19-21%	15-21%
Tax calculated from profit (loss) at the nominal tax rate	-85	-449	-176	-709
The effect of income/expenses not deductible for tax purposes	-29	163	-7	126
Utilisation of tax losses carried forward	0	0	-4	-4
Changes in recognised and off balance sheet deferred tax assets	65	498	214	777
Changes in currency rates	-1	-117	5	-114
Income tax expense	**0**	**45**	**0**	**45**
Deferred income tax expense (income) (Note 7)	**-51**	**49**	**32**	**30**

NOTE 24 Earnings per share

Basic earnings per share

		2009	2008
Weighted average number of ordinary shares	pcs	18,644,850	18,644,850
Net profit (loss) attributable to equity holders of the parent	EUR '000	-10,169	-1,211
Basic earnings (loss) per share	**EUR**	**-0.55**	**-0.06**

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Diluted earnings per share

		2009	2008
Weighted average number of ordinary shares	pcs	18,644,850	18,644,850
Net profit (loss) attributable to equity holders of the parent	EUR '000	-10,169	-1,211
Diluted earnings (loss) per share	**EUR**	**-0.55**	**-0.06**

In view of the fact that the Group does not have dilutive potential ordinary shares or dilutive adjustments to earnings as at the end of 2009 and 2008, diluted earnings per share equal basic earnings per share.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2009 was 0.70 euros (2008: 2.09 euros).

NOTE 25 Related parties

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

For the reporting purposes in consolidated annual statements of the Group, the following entities have been considered related parties:
- owners, that have either significant influence or control, generally implying an ownership interest of 20% or more (Note 16);
- members of the management, the management board and the supervisory council;
- 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.

Compensation for the members of the management board and supervisory council (10 persons)

	2009	2008
Salaries, remuneration of the members of the supervisory board	313	297

The termination benefits for the members of the management board are limited to 6-12 month’s salary expense in the amount that is approximately 192 thousand euros in total in case of premature termination.

Convertible bonds

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

Totally were subscribed 1,842 500 bonds. The cash consideration received in the amount of 12 thousand euros is recognised under “Borrowings” of the non-current liabilities. The accounting policies described in IFRS 2 have been applied to account for the G-bonds. During the second half-year of 2009, 67 thousand euros as the fair value of employee services received under the share options programme were recognised as payroll expenses and a respective increase of share premium in owner’s equity.

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

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	Issue date	Bond conversion period	Number of convertible bonds 31.12.2009	Number of convertible bonds 31.12.2008
G-bond	30.06.2009	01.07.2012-31.12.2012	1,842,500	0

NOTE 26 Subsidiaries and business combinations

Subsidiary	Location	Activity	Holding at 31.12.2009	Holding at 31.12.2008
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvija	Latvia	Retail	100%	75%
UAB Baltika Lietuva	Lithuania	Retail	100%	100%
Baltika Ukraina Ltd	Ukraine	Retail	99%	99%
OOO Kompania “Baltman RUS”	Russia	Retail	100%	100%
Baltika Poland Sp.z.o.o.	Poland	Retail	100%	100%
Baltika Retail Czech Republic s.r.o.	Czech Republic	Retail	100%	100%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	100%
AS Virulane	Estonia	Production	93.34%	93.33%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

Acquisition of an additional stake in the subsidiary SIA Baltika Latvija

According to the agreement signed on 6 November 2009 AS Baltika acquired additional 25% of the shares of the subsidiary SIA Baltika Latvija and thereby increased its ownership to 100%. The transaction price was 152 thousand euros paid in cash according to the agreement. The difference between the acquisition cost and acquired share in carrying value of the company’s net assets (nil) was recognised as goodwill (Note 11). The core business of SIA Baltika Latvija is retail. The transaction does not have significant impact on the financial results of AS Baltika.

Overtaking of the operation of stores in the Ural region

In line with an agreement, in the second quarter Baltika took over the operation of seven stores belonging to its Russian wholesale partner in the Ural region. The stores are located in Jekaterinburg, Ufa, Perm and Tjumen. The takeover is aligned with the Group’s strategic decisions to mitigate the risks arising from reliance on the wholesale partner and to expand retail operations to the Siberia-Ural region in Russia. The purchase consideration amounted to 758 thousand euros which was settled by offsetting Group’s receivables from the seller.

Acquired net assets comprised of inventories at fair value in amount of 407 thousand euros (carrying amount in acquiree’s books: 407 thousand euros). Acquired net assets did not include any other material assets, liabilities or contingent liabilities. The difference between the acquisition cost and fair value of acquired net assets in the amount of 351 thousand euros was recognized as goodwill (Note 11). The goodwill is related to acquisition of well-established and fully operational retail shops in Siberian-Ural region.

NOTE 27 Going concern

As at 31 December 2009, the current liabilities of the Group exceeded the current assets by 2,121 thousand euros. The financial statements of the Baltika Group have been prepared under the going concern assumption, because in the judgement of the management, the negative working capital as at 31 December 2009 does not cause any financial difficulties for the Group during the 12 months from signing these financial statements.
The working capital deficit is planned to be covered as follows during 2010:

1. Sale of real estate of production companies. The real estate located in Ahtme (Estonia) was sold in March of 2010. The transaction price was 1,023 thousand euros.
2. Agreements of optimisation of loan repayment schedules with banks, to improve the liquidity required for Group’s main activities. In the first quarter of 2010 before signing of the financial statements it was agreed to extend the payment terms of short-term loans and bank overdraft limits, which were bearing original payment terms in February-March 2010, totalling 3,753 thousand euros.
3. The management board plans to make a proposal to shareholders for additional issue of shares.

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NOTE 28 Events after the balance sheet date

On 04 March 2010, OÜ Baltika TP, the subsidiary of AS Baltika, concluded an agreement for the sale-leaseback of real estate, located in Ahtme (Estonia), where Baltika Group factory is located. According to the agreement, Baltika TP is obligated to rent the premises for the next five years. The transaction price was 1,023 thousand euros. Non-cancellable operating lease payments amount to 99 thousand euros in 2010, and 505 thousand euros in 2011-2014.

NOTE 29 Supplementary disclosures on the parent company of the Group

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

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

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Statement of financial position of the parent company

	31.12.2009	31.12.2008
ASSETS		
Current assets		
Cash and bank	29	12
Trade and other receivables	14,962	17,091
Inventories	5,816	9,483
Total current assets	**20,807**	**26,586**
Non-current assets		
Investments in subsidiaries	5,417	4,910
Other non-current assets	8,147	7,704
Property, plant and equipment	624	555
Intangible assets	1,523	1,707
Total non-current assets	**15,711**	**14,876**
TOTAL ASSETS	**36,518**	**41,462**
EQUITY AND LIABILITIES		
Current liabilities		
Borrowings	7,121	6,330
Trade and other payables	13,291	14,758
Total current liabilities	**20,412**	**21,088**
Non-current liabilities		
Borrowings	5,858	6,006
Total non-current liabilities	**5,858**	**6,006**
TOTAL LIABILITIES	**26,270**	**27,093**
EQUITY		
Share capital at par value	14,473	11,916
Share premium	67	0
Statutory reserve	1,192	1,192
Other reserves	479	479
Retained earnings (losses)	-5,963	782
TOTAL EQUITY	**10,248**	**14,369**
TOTAL LIABILITIES AND EQUITY	**36,518**	**41,462**

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Statement of comprehensive income of the parent company

	2009	2008
Revenue	34,250	45,544
Cost of goods sold	-26,657	-36,831
Gross profit	**7,593**	**8,713**
Distribution costs	-4,682	-6,028
Administrative and general expenses	-2,794	-3,069
Other operating income	110	190
Other operating expenses	-576	-282
Operating profit (loss)	**-349**	**-477**
Impairment of investments and receivables from subsidiaries	-4,784	-2,663
Interest expenses, net	-1,020	-761
Foreign exchange loss, net	-56	-172
Other financial expenses, net	0	19
Income tax	-6	0
Net profit (loss) for the financial year	**-6,215**	**-4,054**
Total comprehensive income (loss)	**-6,215**	**-4,054**

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Cash flow statement of the parent company

	2009	2008
Operating activities		
Operating profit (loss)	-349	-477
Depreciation, amortisation and impairment losses	376	333
Gain from disposal of non-current assets	-1	-7
Other non-monetary expenses	682	596
Changes in trade and other receivables and payables	-5,737	-2,536
Changes in inventories	3,667	-2,090
Interest paid	-1,037	-826
Net cash generated from operating activities	**-2,399**	**-5,007**
Investing activities		
Acquisition of non-current assets and investment property, thereof	-303	-553
Under the finance lease terms	241	44
Proceeds from disposal of non-current assets	43	9
Investments in subsidiaries	-152	-213
Interest received	0	4
Loans granted	0	-375
Repayments of loans granted	0	1,120
Net cash used in investing activities	**-171**	**36**
Financing activities		
Received borrowings	3,725	5,973
Repayments of borrowings	-1,493	-1,200
Change in bank overdraft	-1,916	1,691
Repayments of finance lease	-217	-75
Receipts from contributions into share capital	2,556	0
Dividend paid for preference shares	-22	0
Transaction costs of issuing preference shares	-55	0
Redemption of bonds	0	-1,917
Issuance of convertible bonds	8	0
Net cash generated from financing activities	**2,587**	**4,471**
Total cash flows	**18**	**-499**
Cash and cash equivalents at beginning of year	**12**	**511**
Cash and cash equivalents at end of year	**29**	**12**
Change in cash and cash equivalents	**18**	**-499**

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Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2007	**11,916**	**0**	**1,670**	**4,837**	**18,423**
Total comprehensive income (loss)	0	0	0	-4,054	-4,054
Balance at 31 December 2008	**11,916**	**0**	**1,670**	**782**	**14,369**
Book value of holdings under control or significant influence					-3,014
Value of holdings under control or significant influence, calculated under equity method					7,511
Adjusted unconsolidated equity at 31 December 2008					**18,866**
Increase of share capital	2,556	0	0	0	2,556
Issue of preference shares	0	67	0	-530	-463
Total comprehensive income (loss)	0	0	0	-6,215	-6,215
Balance at 31 December 2009	**14,473**	**67**	**1,670**	**-5,963**	**10,247**
Book value of holdings under control or significant influence					-1,013
Value of holdings under control or significant influence, calculated under equity method					2,528
Adjusted unconsolidated equity at 31 December 2009					**11,762**

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.

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PRICEWATERHOUSECOOPERS

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10141 Tallinn
Estonia

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Facsimile +372 614 1900
www.pwc.ee

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 balance sheet as of 31 December 2009 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

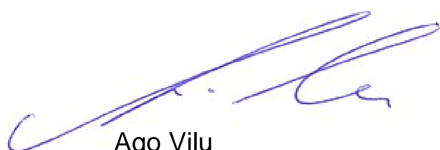
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Ago Vilu
AS PricewaterhouseCoopers

Eva Jansen
Authorised Auditor

26 March 2010

[*] *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 loss for the year ended at 31 December 2009 in the amount of 10,169 thousand euros to be transferred to the retained earnings.

Retained earnings from previous periods at 31 December 2009	5,208
Net loss for the year 2009	-10,169
Total retained loss at 31 December 2009	**-4,961**

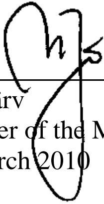
DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISORY COUNCIL

The management board has prepared the management report and the consolidated financial statements of AS Baltika for the year ended at 31 December 2009.

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.

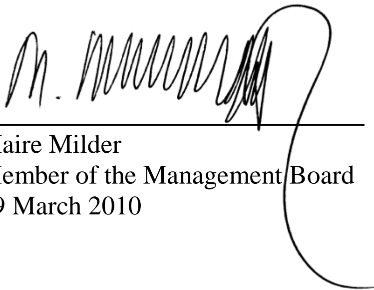
Meelis Milder
Chairman of the Management Board
29 March 2010

Tiina Mõis
Chairman of the Supervisory Council
29 March 2010



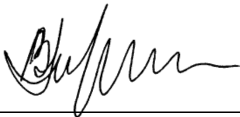
Ülle Järv
Member of the Management Board
29 March 2010

Lauri Kustaa Äimä
Member of the Supervisory Council
29 March 2010



Maire Milder
Member of the Management Board
29 March 2010

Reet Saks
Member of the Supervisory Council
29 March 2010



Boriss Loifenfeld
Member of the Management Board
29 March 2010

Allan Remmelkoor
Member of the Supervisory Council
29 March 2010

Andrew Paterson
Member of the Management Board
29 March 2010

Andres Erm
Member of the Supervisory Council
29 March 2010

AS BALTIKA SUPERVISORY COUNCIL

TIINA MÕIS
Chairman of the Supervisory Council since 07.06.2006, Member of the Supervisory Council since 03.05.2006
Chairman of the Management Board of AS Genteel
Born in 1957
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
Member of the Supervisory Council of AS Nordecon International,
Member of the Supervisory Councils of AS Rocca al Mare Kool and AS Rocca al Mare Koolimaja,
Member of the Supervisory Council of AS Haabersti Jäähall,
Member of the Supervisory Councils of AS LHV Pank and AS LHV Group,
Member of the Board of Estonian Chamber of Commerce and Industry,
Member of Estonian Accounting Standards Board.
Baltika shares held on 31.12.2009: 977,837 preference shares

REET SAKS
Member of the Supervisory Council since 25.03.1997
Attorney at Raidla Lejins & Norcous Law Office
Born in 1962
Degree in Law, University of Tartu
Baltika shares held on 31.12.2009: 0

ALLAN REMMELKOOR
Member of the Supervisory Council since 03.05.2006
Member of the Management Board of AS Pro Kapital Grupp, Member of the Management Board and Managing Director of AS Kristiine Kaubanduskeskus
Born in 1971
Degree in Business Administration, Tallinn University of Technology
Other assignments:
Member of the Management Board of AS Pro Kapital Eesti,
Member of the Management Board of AS Tondi Kvartal,
Member of the Management Board of AS Ilmarise Kvartal,
Member of the Management Board of AS Tallinna Moekombinaat,
Member of the Management Board of SIA Pro Kapital Latvia,
Member of the Management Board of SIA Kliversala Re,
Member of the Management Board of SIA PK Investments,
Chairman of the Management Board of AS Hypermarket.
Baltika shares held on 31.12.2009: 0

ANDRES ERM
Member of the Supervisory Council since 03.05.2006
Director of OÜ HT Project Management
Born in 1960
Degree in Economics, Tallinn University of Technology
Baltika shares held on 31.12.2009: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Council since 18.06.2009
Managing Director of Kaima Capital Oy
Born in 1971
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Council of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the Supervisory Council of Salva Kindlustuse AS,
Member of the Supervisory Council of AS Premia Foods,
Member of the Supervisory Council of AS PKL,
Vice-chairman of the Board of AAS BAN,
Member of the Board of UAB Litagra,

Chairman of the Board of Amber Trust Management SA,
Chairman of the Board of Amber Trust II Management SA,
Member of the Board of DCF Fund II SICAV-SIF,
Member of the Board of Cumulant Capital Fund Management Oy,
Chairman of the Audit Committee of AB Snaige,
Member of the Audit Committee of AB Sanitas,
Member of the Nominations Committee of Kitron ASA.
Baltika shares held on 31.12.2009: 0

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Born in 1958
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31.12.2009: 726,336 ordinary shares[1]

ÜLLE JÄRV
Member of the Management Board, Chief Financial Officer
Member of the Board since 1997, in the Group since 1994
Born in 1958
Degree in Economics, Tallinn University of Technology
Baltika shares held on 31.12.2009: 50,600 ordinary shares[1]

MAIRE MILDER
Member of the Management Board, Director of Retail Division
Member of the Board since 2000, in the Group since 1999
Born in 1958
Degree in Biology and Geography, University of Tartu
Baltika shares held on 31.12.2009: ordinary shares[1]

BORISS LOIFENFELD
Member of the Management Board, Director of Wholesale and CIS Market Projects
Member of the Board since 2000, in the Group since 1990
Born in 1960
Degree in Textiles and Clothing, St. Petersburg State University of Technology and Design
Baltika shares held on 31.12.2009: 200,366 ordinary shares[1]

ANDREW J. D. PATERSON
Member of the Management Board, Director of Merchandising, Sourcing and Supply Chain
Member of the Board since 2008, in the Group since 2003
Born in 1969
Baltika shares held on 31.12.2009: 11,000 ordinary shares

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

Revenues by EMTAK (the Estonian classification of economic activities)

Code	Definition	2009	2008
46411	Wholesale of textiles	4	159
46421	Wholesale of clothing and footwear	34,084	45,104
47711	Retail sales of clothing in specialised stores	74	104
68201	Renting and operating of own or leased real estate	87	177
Total		**34,250**	**45,544**