Baltika Group

AS BALTIKA

ANNUAL REPORT 2010

AS BALTIKA

2010 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal address	Veerenni 24, Tallinn 10135, Estonia
Phone	+372 630 2731
Fax	+372 630 2814
E-mail	baltika@baltikagroup.com
Internet homepage:	www.baltikagroup.com
Main activities	Design, development, production and sales arrangement of the fashion brands of clothing
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2010 - 31.12.2010

CONTENTS

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

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 120 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

	2006	2007	2008	2009	2010
Operating results, EEK '000					
Revenue	899,481	1,151,520	1,194,320	880,170	816,869
Gross profit	490,562	636,681	633,834	422,285	423,024
Operating profit	97,332	64,554	-5,664	-155,310	-73,839
Profit before income tax	91,295	53,031	-20,289	-172,941	-92,703
Net profit	87,376	40,773	-18,947	-159,104	-99,268
Balance sheet data, EEK '000					
Total assets	596,390	656,357	781,403	701,945	617,291
Interest-bearing liabilities	147,413	184,498	272,413	347,575	310,138
Shareholders' equity	304,240	339,346	298,906	186,572	193,325
Other data					
Number of stores	112	128	134	133	120
Sales area, sqm	19,594	24,290	27,068	26,900	24,424
Number of employees (31 Dec)	1,915	1,983	1,988	1,697	1,419
Key ratios					
Revenue growth	32.1%	28.0%	3.7%	-26.3%	-7.2%
Retail sales growth	34.7%	34.1%	7.3%	-23.6%	-5.9%
Share of retail sales in revenue	82%	86%	89%	92%	93%
Share of exports in revenue	72%	74%	76%	75%	73%
Gross margin	54.5%	55.3%	53.1%	48.0%	51.8%
Operating margin	10.8%	5.6%	-0.5%	-17.6%	-9.0%
EBT margin	10.1%	4.6%	-1.7%	-19.6%	-11.3%
Net margin	9.7%	3.5%	-1.6%	-18.1%	-12.2%

	2006	2007	2008	2009	2010
Current ratio	1.5	1.6	1.3	0.9	1.6
Debt to equity ratio	48.5%	54.4%	91.1%	186.3%	160.4%
Net gearing ratio	44.3%	45.1%	88.2%	183.1%	153.8%
Inventory turnover	5.38	5.30	4.55	3.77	4.74
Return on equity	35.9%	13.1%	-5.7%	-73.8%	-52.6%
Return on assets	18.3%	6.5%	-2.6%	-21.2%	-14.9%
Key share data, EEK					
Number of shares outstanding (31 Dec)	18,644,850	18,644,850	18,644,850	18,644,850	27,494,850
Weighted average number of shares	18,026,350	18,644,850	18,644,850	18,644,850	23,348,686
Share price (31 Dec)	115.78	61.02	17.99	11.42	17.82
Market capitalisation, in millions (31 Dec)	2,159	1,138	335	213	490
Earnings per share (EPS)	4.85	2.19	-1.02	-8.53	-4.25
Change in EPS, %	15.3%	-54.9%	-146%	-737%	50%
P/E	23.9	27.9	Neg.	Neg.	Neg.
Book value per share	16.3	18.2	16.0	10.0	7.0
P/B	7.1	3.4	1.1	1.1	2.5
Dividend per share (DPS)	0.80	0	0	0	0[1]
Dividend yield	0.7%	0%	0%	0%	0%[1]
Dividend payout ratio	17.1%	0%	0%	0%	0%[1]

[1]Proposal to the general meeting.

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

Definitions of key 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 26 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
24 March 2011

Ülle Järv
Member of the Management Board
24 March 2011

Boriss Loifenfeld
Member of the Management Board
24 March 2011

Maire Milder
Member of the Management Board
24 March 2011

Andrew J. D. Paterson
Member of the Management Board
24 March 2011

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

MANAGEMENT REPORT

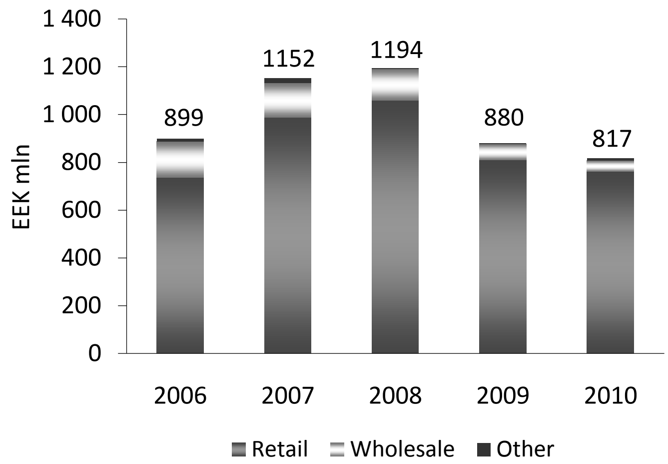
The Group's objectives for 2010 were to adapt to the impacts of the global economic crisis, to stabilise its weakened financial position and, in the second half of the year, to achieve positive growth trends, particularly in revenue and gross profit. In addition, in 2010 the Group began designing strategic projects for subsequent years. Costs were lowered to a level appropriate for a crisis, the retail system was strengthened by closing loss-generating stores and the Group implemented a financial package for improving its liquidity.

REVENUE

Revenue by segment

EEK million	**2010**	**2009**	+/-
Retail	761.1	809.1	*-5.9%*
Wholesale	47.1	68.2	*-31.0%*
Subcontracting	2.0	0	*100,0%*
Other	6.7	2.9	*131.7%*
Total	**816.9**	**880.2**	***-7.2%***

Revenue 2006-2010



RETAIL

The overall economic downturn that began stabilising in the last months of 2010 influenced Baltika's retail sales throughout the year. However, year-over-year decline in retail revenue decreased on a quarterly basis (Q1 -20%, Q2 -10%, Q3 -2%) and for the first time in the past two years the fourth quarter ended with year-over-year sales growth that amounted to 7%. Retail revenue for 2010 totalled 761.1 million kroons, 6% down from 2009.

Retail sales by market

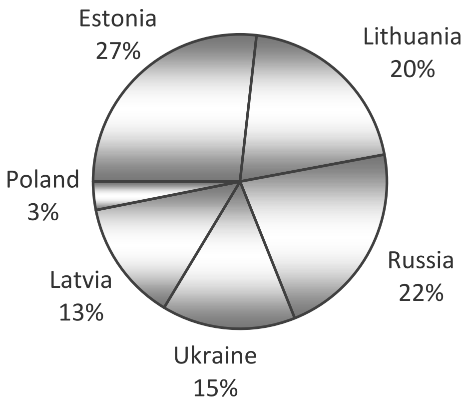
EEK million	**2010**	**2009**	+/-
Estonia	204.0	192.4	*6%*
Lithuania	154.2	187.6	*-18%*
Russia	166.4	161.8	*3%*
Ukraine	112.0	119.9	*-7%*
Latvia	100.9	104.3	*-3%*
Poland	23.6	30.0	*-21%*
Czech Republic	0	13.1	*-100%*
Total	**761.1**	**809.1**	***-6%***

In 2010 the Group achieved retail sales growth in two markets: in Estonia, by 6%, and in Russia by 3%.

Retail revenue was also influenced by the ongoing decrease of the retail system that resulted from the closure of inefficient stores. The entire revenue was earned on a sales area that was on average 9% smaller.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Breakdown of retail sales by market – 2010



If in the first half of the year sales figures were still following a downward trend, in the second half of the year, along with economic recovery, they began rising slowly in all of Group retail markets. Comparable store sales for 2010 grew in total only in Russia and Poland – by respectively 16% and 5%. Other markets posted strong sales growth in the second half-year.

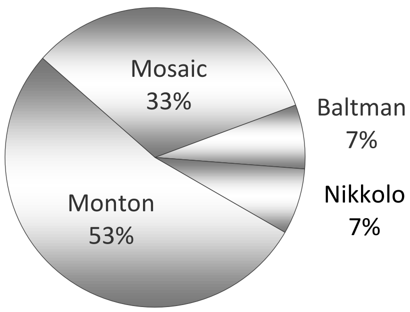
Comparable store sales dynamics by market

	Q1	Q2	Q3	Q4	2010
Estonia	-26%	-13%	11%	13%	-4%
Lithuania	-33%	-23%	-8%	6%	-14%
Latvia	-24%	-8%	5%	12%	-3%
Russia	-5%	20%	25%	26%	16%
Ukraine	-20%	-7%	8%	20%	-2%
Poland	10%	0%	8%	4%	5%
Total	**-23%**	**-9%**	**8%**	**14%**	**-2%**

OVERVIEW OF BRANDS

In terms of brands, most of Group retail revenue is contributed by Monton whose sales for 2010 accounted for 53% of the total retail revenue. Mosaic contributed 33%, Baltman and Ivo Nikkolo 7% of the Group's retail revenue.

Breakdown of retail sales by brand – 2010



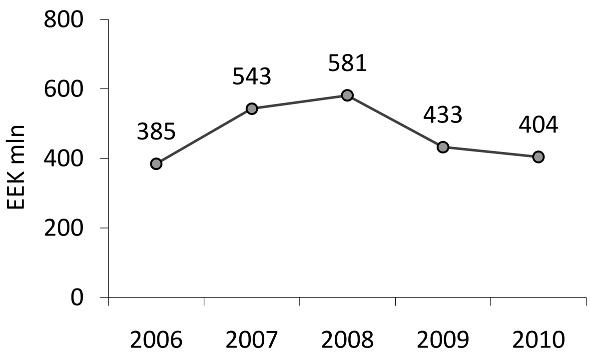
Monton

In 2010 retail sales of Monton totalled 404 million kroons. Compared to 2009, sales declined by 5% while the retail area decreased by 8%.

In 2010 Monton succeeded in improving its efficiency indicators considerably, which confirms that the crisis is over and a new and more stable growth phase has started. Annual retail sales were achieved with almost a third lower inventory level, substantially smaller discount and a higher sales margin. In 2010 the process of creating the collection was simplified and streamlined, which strengthened the composition of the whole collection and was well accepted by the consumers.

Sales revenue increased in all of Monton's markets except for Lithuania where sales decreased compared to 2009. Monton's largest market continues to be Russia, which accounts for 30% of retail sales of the brand. In November 2010 a new store was opened in St Petersburg's shopping mall, Galeria, which has the potential of becoming the best-selling Monton store in the total retail system.

Retail sales – Monton



Monton's main strategic objectives for the next four years foresee a renewal of all its existing stores and expansion through e-commerce and franchise. Gradual renovation of the old stores is planned with an aim to open new stores already under the new concept. The new store concept will be developed with the assistance of suitably qualified international partner. Expansion of Monton's retail chain should begin latest in 2014.

Mosaic

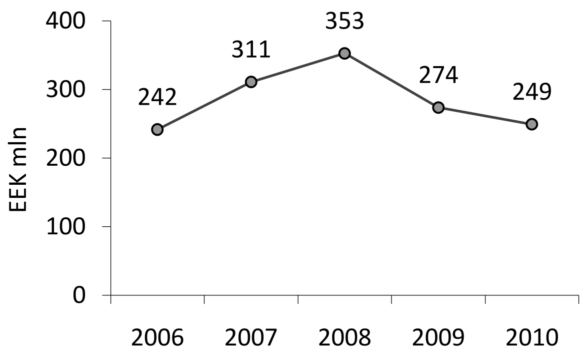
Mosaic's retail sales for 2010 amounted to 249 million kroons, a 9% decrease compared with the previous year. The sales result continues to be connected with the economic situation in the retail markets – the purchasing decisions of Mosaic's customers are still carefully considered and often buying new clothes is refrained. The decline in retail sales is also attributable to the shrinkage of the sales area – during 2010 the brand's sales area decreased by 12%.

In 2010 one of Mosaic's main goals was to improve retail sales efficiency, which rose by 4% compared to 2009. This was mainly achieved through a significant improvement in the sales efficiency of the brand's Ukrainian and Russian stores. It should also be noted that the improvement was achieved in the context of 5% smaller inventory per square metre.

In 2010 the development of the supply base and maintaining good relation with suppliers continued. The products' purchase margins were kept stable or, in some product groups, even improved, which helped increasing profitability compared with 2009. Ongoing analysis of competitors' activities including price analyses and focus group surveys allowed the brand to obtain valuable information for maintaining success in an environment of increasing competition.

Mosaic plays an important role in the Group's wholesale revenue, accounting for 62% of it. In 2010 successful cooperation with Peek & Cloppenburg, a leading European department store chain, continued. During 2010 Mosaic was launched at another 12 department stores and by the year-end the Mosaic ladies wear collection was carried by 42 Peek & Cloppenburg department stores.

Retail sales – Mosaic



In the new strategy period (2011-2014) the main objective is to improve the profitability of the brand by offering (both the retail customers and wholesale partners) products that meet the needs of the target customer. The strategic decision is to focus on enhancing sales efficiency and profitability through Mosaic's core business, i.e. its ladieswear and menswear collections. Thus, beginning from 2011 development of the childrenswear collection, whose expansion opportunities are limited, will be suspended.

In light of the target customer's consumption habits and needs, the proportion of casual wear will be increased while maintaining a strong supply of formal wear in the stores. Because of the change in the structure of the collection, it will be strategically essential to mitigate the supply risk by securing the required supply base for developing the collection and purchasing various products. The goal is to maintain a stable purchasing margin so as to ensure the brand's profit margins.

The brand's new direction of transforming from a provider of office wear into a provider of easy fashion requires to refresh and update both the store concept and product display and to renew the brand's visual communication. The image photos of spring 2011 and the brand's website already reflect Mosaic's new focus.

The main means for achieving sales growth include attraction of new customers by increasing brand recognition and work with loyal customers with an aim of making them more active. While in the retail business it is intended to improve efficiency by analysing and managing sales at the store level and making decisions on the principle "think internationally, act locally", in the wholesale business it is expected to increase sales with the assistance of existing strong partners such as the Peek &Cloppenburg and Stockmann department store chains.

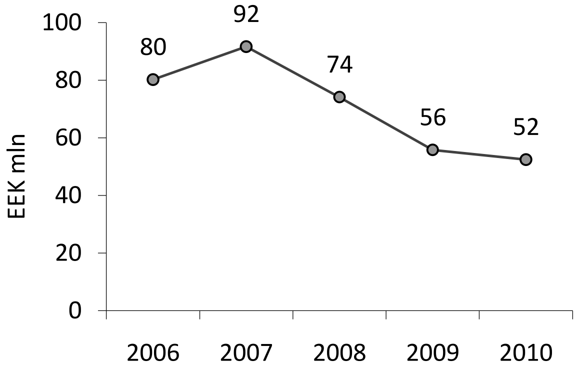
Baltman

Retail sales of Baltman totalled 52 million kroons in 2010, a 5% decrease compared to 2009. As the sales area decreased by 7% in the same period, sales efficiency improved slightly. In addition, in 2010 the discounts were smaller and sales were achieved with inventories that were almost a third smaller than in previous year. At the year-end, Baltman operated on 12 separate retail areas in the Baltic countries and, in addition, in two of the Group's multi-brand stores.

In 2010 the brand focused on modernising the collection and adjusting it to the needs of the target customer. The changes that have been made including modernisation of the fit of the suits and their simpler delivery to the customer, alignment of the suits' internal details to sub-brand will reach the customers in 2011.

In 2010 Baltman launched its special order service, which allows the customer to acquire a suit sewn of specially ordered fabric. With this, Baltman entered a new market segment. In subsequent years the brand expects to expand the special order service from the Fashion Street store of the Estonian market to the other Baltic markets. In delivering the special order service, the brand cooperates with the Italian quality fabric producer Loro Piana, which allows offering the customers an excellent quality-price ratio.

Retail sales – Baltman



The brand's strategy until 2014 that was approved in 2010, foresees growth, first and foremost in the brand's current home markets (Estonia, Latvia and Lithuania), through retail sales, and by improving sales efficiency. For this, the brand team has designed various tactics and methods such as size-based inventory management, increasing the proportion of business casual products in the collection and implementing sub-brands in the suit collection to make choices easier for the customer. Size-based inventory management was implemented already in 2010. Together with substantive collection innovations it has remarkably improved the sales efficiency of the suit line. In addition the strategy foresees implementing various classical retail sales management methods in order to improve the efficiency of the sales area. An important aspect is also the decision to refresh Baltman's store concept, which will be carried out in 2011 so that by the year-end all stores would be renewed.

Ivo Nikkolo

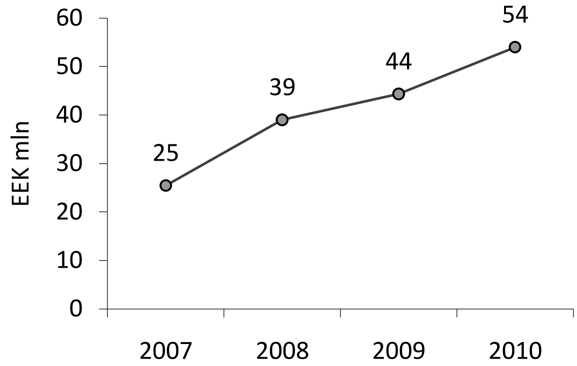
Despite the prevailing economic downturn, Ivo Nikkolo sustained growth also in 2010. The brand's sales for 2010 totalled 54 million kroons, increasing 35% compared to previous year. Sales area increased at the same time by 26%.

Ivo Nikkolo further expanded and strengthened its position in the Baltics: in March its second brand store was opened in the Galerija Centrs located in the old town of the Latvian capital Riga, and an additional sales area was opened also in Klaipeda, Lithuania. Ivo Nikkolo entered a new geographic region, Ukraine, where an Ivo Nikkolo shop-in-shop was opened in the Group's Monton store in Odessa.

In 2010 development of the collection continued. In the past years, the relative importance of outdoor clothing in the winter collections has increased considerably. In addition, the brand has strengthened its positions as a provider of office and formal/party attire and has extended its offering of summer wear.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Retail sales – Ivo Nikkolo



Number of objectives for the new strategic period 2011-2014 that should allow sustaining profitable growth of the brand were set. Even more precise groundwork in collection development, recognition of customer needs and professional planning should strengthen the collections and increase sales. It is intended to enhance the image of the brand and increase its recognition through premium-level marketing, particularly in the new markets, which should create a strong basis for vigorous expansion. In addition to developing its own retail network, the brand will focus on expanding by involving partners in various markets – both in Eastern and Western Europe – and launching the Ivo Nikkolo e-store.

STORES AND SALES AREA

At the end of 2010, Baltika had 120 stores in six countries with a total sales area of 24,424 m^2, 13 stores and 2,476 m^2 less than at the end of the previous year. During the year, the Group streamlined store portfolio so as to have a more efficient sales area in the final phase of the recession. The economic downturn affected also many shopping malls whose store visits and customer purchasing power dropped to a level where extension of the stores' rental agreements was no longer rational. During the year five stores were opened, a store from Russian business partner was taken over, and 19 stores were closed. In the first two months of 2011 four additional stores have been closed, closure expenses related to these closures were recognised in 2010.

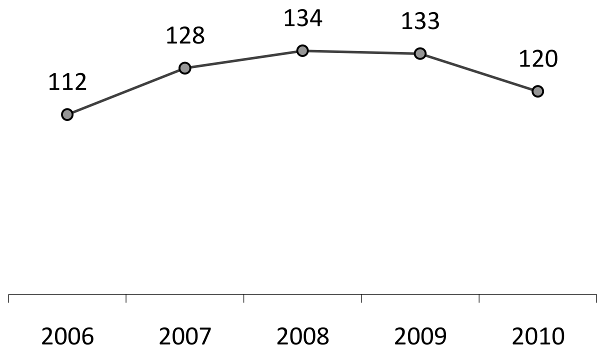
Stores by market

	31 December 2010	31 December 2009
Lithuania	31	36
Estonia	30	30
Russia	23	25
Ukraine	17	23
Latvia	15	14
Poland	4	5
Total number of stores	**120**	**133**
Total sales area, m^2	**24,424**	**26,900**

Retail network by market and brand at 31 December 2010

	Monton	Mosaic	Baltman	Ivo Nikkolo	Other	Total	m^2
Lithuania	10	12	6	3		**31**	**5,824**
Estonia	7	11	5	5	2	**30**	**5,775**
Russia	16	7				**23**	**5,179**
Ukraine	9	8				**17**	**3,351**
Latvia	6	6	1	2		**15**	**3,281**
Poland	4					**4**	**1,014**
Total	**52**	**44**	**12**	**10**	**2**	**120**	**24,424**

Number of stores



WHOLESALE

The Group’s wholesale revenue for 2010 amounted to 47 million kroons, decreasing by 31% compared to the previous year. Comparable wholesale revenue from the Group’s own brands only decreased by 6% year-over-year.

The successful test period of the wholesale contract signed with Peek & Cloppenburg that lasted through 2009 was followed by Mosaic’s vigorous expansion across the chain in 2010. While at the end of 2009 Mosaic was represented at 30 department stores, then in 2010 the brand expanded to additional 12 department stores and two new markets, the Netherlands and Romania. Previously Mosaic was already represented at selected Peek & Cloppenburg department stores in Germany, Austria, Poland, Slovakia, Slovenia, Hungary, the Czech Republic and Croatia. In the Austrian and Polish markets the brand is represented in most of the chain’s department stores. Peek & Cloppenburg is one of the leading European department store chains that has more than 80 department stores in Germany and over 100 department stores across Europe.

EARNINGS AND MARGINS

In 2010, Baltika Group’s performance was influenced the most by recession-induced changes in consumer behaviour, changes in the Group’s retail system and the speed of exiting the crisis.

Better inventory management and discount planning helped improving the gross margins. The Group’s gross margin for 2010 was 51.8% (2009: 48.0%). Gross profit for the year was 423.0 million kroons; in light of a 7% decrease in sales gross profit remained roughly at the level of the previous year.

In 2010 the Group’s retail markets generated a profit of 35.6 million kroons, 79.5 million kroons up compared to 2009. The retail markets ended 2009 with a loss of 43.8 million kroons.

In 2010 the Group continued to focus on cutting operating expenses throughout the system. Cutbacks were made in personnel expenses and the number of staff, an effort was put in lowering rental charges in all markets. Distribution expenses decreased during the year by 55.6 million kroons and amounted to 445.1 million kroons. In the retail system, the stores’ rental expenses per square metre dropped by 4% on average while personnel expenses remained on the level of 2009.

In manufacturing, production volumes were reduced, which resulted in a decline in headcount. During the year, termination benefits of 1.2 million kroons were paid to the production staff. Altogether, personnel expenses decreased by 26% year-over-year.

Administrative expenses grew by 1.3 million kroons to 45.8 million kroons. Growth is mainly attributable to the costs of designing a new strategy for subsequent years.

In 2010 Baltika’s operating loss from the core business before non-recurring expenses amounted to 61.9 million kroons, compared with a core business operating loss of 113.7 million kroons in 2009. The year ended in a loss of 99.1 million kroons (2009: -160.3 million kroons) after all the provisions made in 2010 for 2011. Earnings before interest, tax, depreciation and amortisation (EBITDA) were -17.4 million kroons in 2010 (2009: -87.1 million kroons).

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

EEK million	2010	2009
Operating loss from the core operations before non-recurring expenses and effects of movements in exchange rates	**-61.9**	**-113.7**
Non-recurring expenses:	**-17.8**	**-33.3**
Store closure expenses	-12.6	-18.7
Inventory write-down allowances and inventory write-off expenses	-1.2	0
Impairment allowances for receivables and interest expense on discounted receivables	-3.8	-3
Revaluation of real estate	0	-6.2
Termination benefits provisions/expense	-1.3	-3.9
Other expenses	1.1	-1.5
Currency translation differences	**5.6**	**-12.3**
Financial expenses (income)	**-18.6**	**-13.6**
of which interest expense	-18.1	-14.3
Loss before income tax	**-92.7**	**-172.9**
Income tax expense	-6.4	12.6
Net loss	**-99.1**	**-160.3**

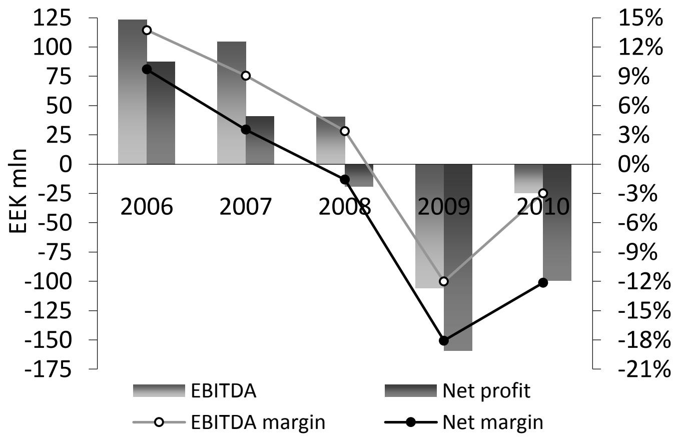
The Group's operating loss for 2010 amounted to 73.8 million kroons. Operating loss for 2009 was 155.3 million kroons.

The Group's operating loss for 2010 includes under the operating expenses mainly write-off of investments and other expenses related to store closers in the amount of 12.6 million kroons.

The Group's financial expenses for 2010 totalled 22.0 million kroons, 24% up compared to the previous year. Interest expense on loans totalled 18.0 million kroons, a 26% increase compared to 2009. The average annual interest rate of loans in 2010 was 5.79% (2009: 4.45%).

The Group ended 2010 with a net loss of 99.1 million kroons. In 2009 the net loss was 160.3 million kroons.

EBITDA and net profit/loss



FINANCIAL POSITION

In 2010 the Group focused on adapting to the impacts of the global economic crisis and strengthening its weakened financial position.

At 31 December 2010, The Group's consolidated balance sheet stood at 617.3 million kroons, a 13% decrease year-over-year.

The change improving the financial position came from the restructuring of the loan portfolio in November 2010. As the last step in the package for strengthening financial position, AS Baltika signed loan refinancing agreements of 267.5 million kroons and guarantee limit agreements of 45.4 million kroons maturing on 31 December 2014 with AS Swedbank and Nordea Bank Finland Plc Estonian Branch. The transaction involved consolidation of a number of different short- and long-term loans and adjustment of the loans' repayment schedules with the Group's actual cash flow capabilities in the next few years. The margin of the new loan was fixed at 6 month Euribor plus

4.8%. Due to the transaction, at the year-end current assets exceeded current liabilities by 88.3 million kroons. At the end of 2009 working capital was negative at -33.2 million kroons.

Another measure implemented in order to strengthen the financial position was a share issue conducted in June 2010 by which the Group increased share capital by 8,850,000 shares, collecting 106.2 million kroons of extra resources.

Trade receivables decreased in 2010 by 9.6 million kroons and amounted to 19.6 million kroons. The net amount of trade receivables includes the allowance for doubtful receivables in the amount of 0.5 million kroons and interest expense from discounting long-term receivables in the amount of 3.3 million kroons.

At the year-end inventories totalled 169.0 million kroons, a decrease of 19.2 million kroons, i.e. 10% compared to the previous year-end. At the year-end, the retail system was 8% smaller than at the beginning of the year.

Thanks to effective negotiations with suppliers during the year, more favourable settlement terms have been achieved which allow ensuring timely delivery while lowering tensions in liquidity management. At the year-end, trade payables totalled 68.1 million kroons, a 38% decrease compared with the end of 2009.

The Group’s net debt (interest-bearing liabilities less cash and bank balances) has decreased and amounted to 297.3 million kroons at year end. The year-end net debt to equity ratio was 153.8% (31 December 2009: 183.1%).

In 2010 the Group’s equity grew by 6.7 million kroons to 193.3 million kroons at year end.

CASH FLOWS

Resulting from the measures adopted for improving financial position, the Group’s cash flows for 2010 increased by 6.9 million kroons. In 2009 the Group’s cash flows decreased by 2.7 million kroons.

Operating activities of the Group resulted in a net cash outflow of 78.2 million kroons. Operating cash flow was strongly influenced by sales decline in the first half-year which in the second half-year was replaced by increase; settlement of trade payables with the funds raised through the additional share issue and decreases in inventory level. The main working capital changes were related to decreases in inventories, receivables and trade payables and an increase in the cash balance.

Cash flows from investing activities were influenced by the sale of the Group’s properties in Rakvere and Ahtme in April 2010 that generated proceeds of 23.1 million kroons. Capital investments totalled 6.3 million kroons. Net cash inflow from investing activities amounted to 18.6 million kroons.

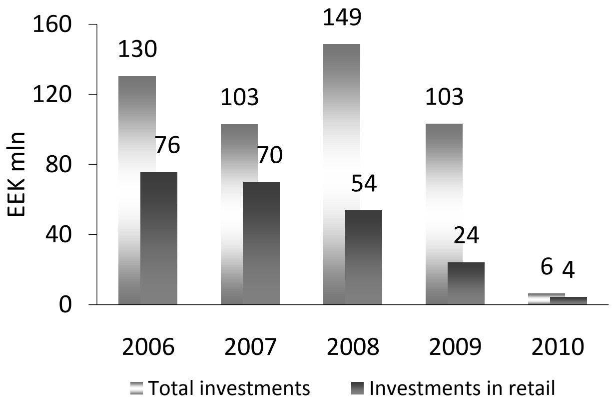
Net cash inflow from financing activities in 2010 was 63.4 million kroons. Proceeds from bank loans totalled 29.5 million kroons while loan repayments totalled 63.7 million kroons. Proceeds from the share issue totalled 106.2 million kroons.

INVESTMENT

In 2010 the Group’s capital investments totalled 6.3 million kroons. In 2009 investment in the amount of 103.1 million kroons were made.

Investments in the retail system totalled 4.4 million kroons, investments in information technology and IT systems amounted to 1.8 million kroons and other investments totalled 0.1 million kroons.

Investments

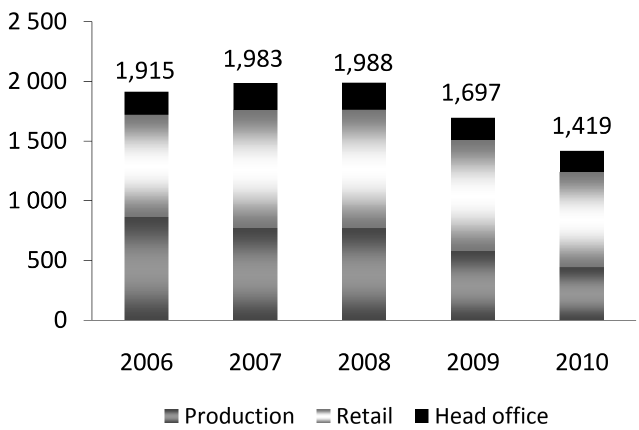


PEOPLE

At the end of 2010 the Group employed a total of 1,419 people (31 December 2009: 1,697): 799 (2009: 929) in the retail system, 442 (2009: 580) in manufacturing and 178 (2009: 188) at the head office. During the year, the number of employees decreased by 278. The Group's annual average number of staff was 1,527 (2009: 1,832).

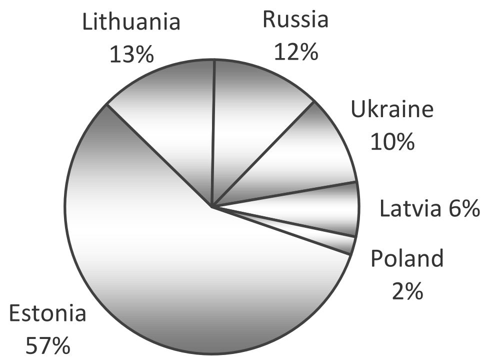
Employee remuneration expenses for 2010 totalled 168 million kroons (2009: 197.8 million kroons), a 15% decrease year-over-year. The remuneration of the members of the supervisory council and the management board totalled 4.8 million kroons (2009: 4.9 million kroons). During the year, the number of members of the supervisory council increased by two.

Number of employees



The proportion of staff employed outside Estonia was 43%, i.e. 614 people (2009: 43%, 727).

Breakdown of personnel by country at 31 December 2010



In 2010 the focus of the Group's training activities was on developing retail activities and competencies across the management of the retail business and the brand teams. The brands went through major structural changes aimed at building their independence and increasing the influence of the brand teams as well as their involvement in the management of the retail business and daily sales operations. As a result, the brands' focus is now equally divided between product and collection management and sales performance management.

In training and development, the focus was on improving service quality. The staff's awareness of customers and their ability to provide proactive service were improved through purchasing behaviour and service training. Development of the management competence in the retail business was continued. The company has a well-functioning internal training system and experienced in-house trainers that can pass on their service expertise and skills.

Similarly to previous years, service quality was assessed by mystery shopping. In addition, the Group launched a major project for evaluating and recognising service and sales performance by instituting the Excellent Service Award. The project involves screening the performance of the stores based on their service effectiveness and provides regular rewards to the most successful stores. In 2010 the winners of the Group's Excellent Service Award were the Karja Street Ivo Nikkolo store in Tallinn, the Spice Centre Baltman store in Riga, the Karsnaja Ploshad Centre Monton store in Krasnodar and the Kuliu Vartai Centre Mosaic store in Klaipeda.

ENVIRONMENT

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

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

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

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

OUTLOOK FOR 2011

Markets

The Group's markets, which have seen gradual recovery since the end of 2010, are indicating a potential rise in consumer spending. As regards retail markets, the year started the best in Estonia but growth has also been notable in Latvia. Expectations for the Lithuanian market are mainly related to the fact that as the market entered the crisis six to eight months later than its Baltic neighbours it will probably recover with a similar lag. The Russian and Ukrainian markets are also in a growth phase although unfortunately not only on the revenue but also on the cost side. From the point of view of performance management, in 2011 the Group's main goal is to achieve a situation where sales grow faster than costs.

Goods

A major challenge of 2011 is to find a solution to the pressure that the cost of goods is putting on the gross margin. A sudden increase in the prices of natural materials that began last year in combination with an inflationary rise in production costs across the international supply market (China and other countries of the region) will probably cause a re-division of supplies between several new and old markets and a partial transfer of the rise in the cost price to the retail price. In addition to applying internal measures for controlling the cost prices of its products, the Group is going to monitor closely the behaviour of the competition and will be ready to work flexibly with its product prices so as to maintain both competitiveness and margins.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Baltika Group

With the assistance of the global consulting firm Roland Berger, in summer 2010 Baltika Group developed a new Group strategy for 2010-2014. To ensure achievement of long-term objectives, the main goal for 2011 is to create conditions for profitable growth. For this the following steps will be taken:

- the Group will work with the international consulting firm Dan Pearlman to renew the retail concepts of the Monton and Mosaic brands. The new concepts will be gradually implemented from the second half of 2011;
- Monton will launch the test version of its e-shop by the end of 2011;
- Mosaic will discontinue sales of children's collection and will focus on developing the casual lines of menswear and ladieswear collections;
- Baltman, celebrating its 20th year of operation, will launch the personalised, special-order suit service and will continue developing its core collection with quality products;
- Ivo Nikkolo will continue developing its premium signature line and will make preparations for international growth;
- The Group will improve operation of all its brands across the retail system by creating additional tools for improving service quality at its brand stores.

The Group will continue monitoring the retail system and making changes to the store structure when necessary.

The decision on whether Baltika will continue operating in the Polish market will be made by summer 2011.

After a two-year decline in wholesale revenues a rise is expected for 2011, mainly thanks to growing international orders.

Additions and changes to the Group's management structure (the brands as profit centres and creation of the position of director of retail operations) are aimed at increasing the accountability of the profit centres and improving management of the retail system.

During the downturn, the number of the Group's employees has decreased to an optimal level. Upon exiting the crisis, the number of staff has remained stable or changed in line with changes in the size of the retail system.

After a two-year crisis in own production, in the current year orders for the Group's self-produced products and the Group's production capacities are in balance.

The Group's real estate project Baltika Quarter is generating stable cash flow. Its creative industry enterprises are turning into quite an influential community. In addition, Baltika Quarter has been included on the Design Map of Tallinn – European Capital of Culture 2011.

RELEASE OF FINANCIAL RESULTS IN 2011

In 2011, AS Baltika will release its consolidated financial results on the following dates:

Results for Q1 2011	5 May
Results for Q2 2011	4 August
Results for Q3 2011	3 November

In addition, at the beginning of each month Baltika will release its sales results for the previous month.

The audited Annual Report of AS Baltika for 2010 is available at the website of NASDAQ OMX Tallinn www.nasdaqomxbaltic.com and at the company's website www.baltikagroup.com.

BALTIKA SHARE

Baltika's share has been listed on the Tallinn Stock Exchange since 5 June 1997. The Tallinn Stock Exchange is a member of the world's largest exchange company NASDAQ OMX Group. NASDAQ OMX Group was established at the beginning of 2008 when NASDAQ Stock Market completed its merger with the Baltic and Nordic exchange company OMX. The new stock exchange company delivers trading, exchange technology and public company services across six continents and, with over 3,900 companies, it is number one in worldwide listings among major markets.

Baltika's share does not have an official market maker. In January 2011 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 31,494,850 shares comprising 27,494,850 ordinary shares and 4,000,000 preference shares.

Ordinary shares

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

Information on listed ordinary shares

NASDAQ OMX symbol: BLT1T
ISIN number: EE3100003609
Minimum number of shares to trade: 1
Number of shares: 27,494,850
Nominal value of a share: 10 kroons
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

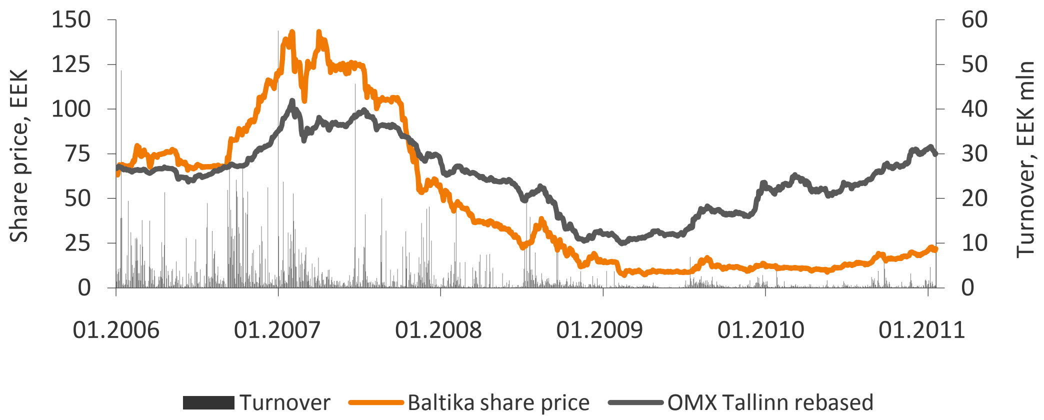
EEK	2006	2007	2008	2009	2010
Number of shares outstanding (31 Dec)	18,644,850	18,644,850	18,644,850	18,644,850	27,494,850
Weighted average number of shares	18,026,350	18,644,850	18,644,850	18,644,850	23,348,686
Share price (31 Dec)	115.78	61.02	17.99	11.42	17.82
Market capitalisation, in millions (31 Dec)	2,159	1,138	335	213	490
Earnings per share (EPS)	4.85	2.19	-1.02	-8.53	-4.25
P/E	23.9	27.9	Neg.	Neg.	Neg.
Book value per share	16.3	18.2	16.0	10.0	7.0
P/B	7.1	3.4	1.1	1.1	2.5
Dividend per share (DPS)	0.80	0	0	0	0[1]
Dividend yield	0.7%	0%	0%	0%	0%[1]
Dividend payout ratio	17.1%	0%	0%	0%	0%[1]

[1]Proposal to the general meeting.

SHARE PRICE AND TRADING

In 2010 the price of the Baltika share increased by 56.0% to 17.82 kroons and the Group's year-end market capitalisation to 490 million kroons. During the same period, the OMX Tallinn All-Share Index rose by 72.6%.

Share price and turnover



Share trading history

EEK	2006	2007	2008	2009	2010
High	116.83	149.69	61.80	19.87	19.25
Low	62.06	52.42	11.42	6.88	8.45
Average	78.39	109.99	32.74	11.02	12.86
Year-end price	115.78	61.02	17.99	11.42	17.82
Change, %	70.8%	-47.3%	-70.5%	-36.5%	56.0%
Traded volume	14,726,412	8,384,256	12,572,468	10,671,279	9,389,183
Turnover, in millions	1,138.3	837.9	369.5	118.4	122.7

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 2011, 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 PI	Baltic all share index	Price index	OMXBPI
OMX Baltic GI	Baltic all share index	Gross index	OMXBGI
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 2010, Baltika had 2,029 shareholders. The number of shareholders decreased by 9% over the year.

The largest shareholder is OÜ BMIG, a company owned by Baltika's management board members, which at 31 December 2010 held 16.82% of Baltika's ordinary shares. At the same date, the management board members' direct and indirect holdings accounted for 21.43% 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.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

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 2010

	Number of shares	Holding
BMIG OÜ	4,624,860	16.82%
ING Luxembourg S.A.	3,250,000	11.82%
E. Miroglio S.A.	3,000,000	10.91%
Skandinaviska Enskilda Banken Ab Clients	2,967,347	10.79%
Svenska Handelsbanken Clients Account	1,965,000	7.15%
Clearstream Banking Luxembourg S.A. Clients	835,694	3.04%
Central Securities Depository of Lithuania	800,075	2.91%
Meelis Milder	726,336	2.64%
Tõnis Kotkas	444,500	1.62%
Gamma Holding OÜ	437,900	1.59%
Other	8,443,138	30.71%
Total	**27,494,850**	**100%**

Other major shareholders besides the management board include international investment funds and other legal persons who own approximately 60% of the shares. Individuals hold approximately 20% of the shares. Almost half of Baltika's shareholders are local.

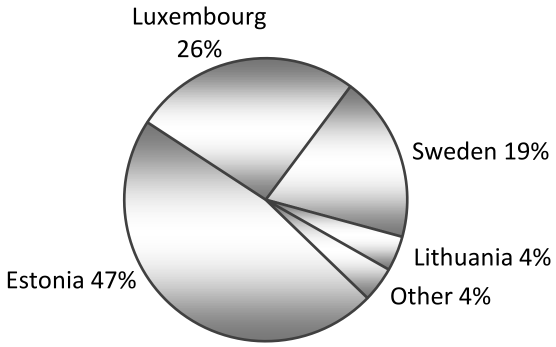
Shareholder structure by shareholder type at 31 December 2010

	Number of shares	Holding
Management board members	5,892,495	21.43%
Legal persons, thereof	16,243,706	59.08%
Investment funds and banks' client accounts	6,857,747	24.94%
Other legal persons	9,385,959	34.14%
Individuals	5,358,649	19.49%
Total	**27,494,850**	**100%**

Shareholder structure by size of holding at 31 December 2010

Holding	Number of shareholders	Percentage of all shareholders	Number of shares	Percentage of votes held
> 10%	4	0.20%	13,842,207	50.34%
1.0 - 10.0%	8	0.39%	5,906,088	21.48%
0.1 - 1.0%	48	2.37%	3,544,183	12.89%
< 0.1%	1,969	97.04%	4,202,372	15.28%
Total	**2,029**	**100%**	**27,494,850**	**100%**

Shareholder structure by country at 31 December 2010



AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

SHARE CAPITAL

In 2010, Baltika's share capital grew by 88.5 million kroons and amounted to 314.9 million kroons at year-end. The share capital increased in connection with the issue of 8,850,000 ordinary shares to institutional investors. After the issue, Baltika has 31,494,850 outstanding shares comprising of 27,494,850 ordinary shares and 4,000,000 preference shares (see also section "Shares").

Baltika has implemented a convertible bond program for the executive management which was approved by the annual general meeting in 2009. In total 1,842,500 bonds were subscribed. 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 1,842,500 new shares that account for 5.9% 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 26 to the consolidated financial statements.

According to the Articles of Association, the company's maximum share capital is 400 million kroons.

Changes in share capital

Date	Issue type	Issue price EEK	Number of shares issued	Total number of shares	Share capital at par value EEK '000	Share premium EEK '000
31.12.2005				**5,822,950**	**58,230**	**49,690**
30.03.2006	Conversion of C-bonds into shares	37.57	192,000	6,014,950	60,150	55,298
5.10.2006	Conversion of D-bonds into shares	28.95	82,400	6,097,350	60,974	56,860
8.12.2006	Conversion of D-bonds into shares	28.95	117,600	6,214,950	62,150	59,088
31.12.2006				**6,214,950**	**62,150**	**59,088**
11.06.2007	Bonus issue	-	12,429,900	18,644,850	186,449	0
31.12.2007				**18,644,850**	**186,449**	**0**
31.12.2008				**18,644,850**	**186,449**	**0**
10.07.2009	Preference share issue	10.00	4,000,000	22,644,850	226,449	0
31.12.2009				**22,644,850**	**226,449**	**0**
21.06.2010	Ordinary share issue	12.00	8,850,000	31,494,850	314,949	17,700
31.12.2010				**31,494,850**	**314,949**	**17,700**

DIVIDENDS

The Group ended 2010 with a consolidated net loss of 99.1 million kroons. The management board of the Group proposes that this year no dividends be distributed to the holders of ordinary shares. In 2010, 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 10-kroon par value of a share. In 2010, the holders of preference shares were distributed a total dividend of 4.6 million kroons.

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 2010, 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 2010, the figure amounted to 4.8 million kroons. 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 Group's bonus scheme, which is based on the performance of profit centres. The maximum bonus level for the chairman of the management board/CEO is 1.5% of the Group'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. Due to the loss incurred, members of the management board did not receive any performance pay in 2010.

Members of the management board, similarly to all executives working under a director's contract in the Group, 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 Group's employees and are eligible to do so in the future.

In 2010, 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 Group'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 2010 nor 2009 no significant 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 10 000 kroons per month and the remuneration of a member of the supervisory council to 6000 kroons 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 2010 nor 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 Group's website (www.baltikagroup.com), which lists the contacts of persons who can provide further information. Presenting a schedule of meetings on the corporate website is not currently relevant.

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

CGC Article 6.2.

Election of the auditor and auditing of the annual accounts

In accordance with the Baltika's Articles of Association, the auditor(s) is (are) appointed by the general meeting for the performance of a single audit or for a specific term. The annual general meeting which convened on 21 June 2010, appointed AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2010. According to the audit agreement, the engagement partner is Ago Vilu and the engagement manager Eva Jansen. Baltika ensures the auditor's independence by rotating the engagement partner and engagement manager in accordance with the rules of Financial Supervision Authority.

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

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

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

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

General meeting

The general meeting is the Baltika's highest governing body. General meetings may be annual or extraordinary. The annual general meeting convenes once a year within six months after the end of the Baltika's financial year. An extraordinary general meeting is called by the management board when the Baltika's net assets 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 Baltika's share capital. A general meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a general meeting is determined at 8 a.m. at the date of the general meeting.

The annual general meeting of 2010 was held on 21 June at 24 Veerenni in Tallinn, Estonia. A total of 9,379,077 shares were represented (50.3% of the voting stock). The meeting approved the company's annual report and profit allocation proposal for 2009 and appointed the auditor. The general meeting elected two additional supervisory council members: Edoardo Miroglio and Jaakko Sakari Mikael Salmelin. In addition, the general meeting decided to increase share capital by issuing additional 8,850,000 ordinary shares. As a result of this decision, the share capital of Baltika increased by 88,500,000 kroons to 314,948,500 kroons. The chairman of the management board informed shareholders about Baltika Group's strategy for 2010-2014 created in co-operation with the international consulting firm Roland Berger.

Supervisory council

The supervisory council plans the activities of the Baltika, organises the management and supervises the activities of the management board. The supervisory council meets according to need but not less frequently than once every three months. A meeting of the supervisory council has a quorum when more than half of the members participate. A resolution of the supervisory council is adopted when more than half of the members of the supervisory council who participate in the meeting vote in favour. Each member of the supervisory council has one vote. In 2010, the supervisory council met six times. All members of the supervisory council attended all or most of the meetings of the supervisory council.

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

The present members of the supervisory council are Tiina Mõis (chairman), Reet Saks, Allan Remmelkoor, Andres Erm, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin and Edoardo Miroglio. The two latter ones were elected by the annual general meeting in 2010. Tiina Mõis is the director of the investment firm AS Genteel and a member of the councils of several Estonian companies. Reet Saks is an attorney with Law Office Raidla Lejins & Norcous, a long-term partner of Baltika. Reet Saks has been a member of Baltika's supervisory council since 1997. Allan Remmelkoor, the chief executive of AS 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 Group. Lauri Kustaa Äimä is a managing director of Kaima Capital Oy and a member of the councils of several Baltic companies. Mr Äimä has long-term experience in advising potential investors on matters related to investing in the companies of the Baltic countries. Jaakko Sakari Mikael Salmelin is a partner of KJK Capital Oy; he has managed various Eastern European funds focusing mainly on the Baltic and Balkan markets. Edoardo Miroglio is a Member of the Board of Directors of Miroglio S.P.A. and has long-term experience in international retail, fashion and textile industry.

One council member owns Baltika's shares: Tiina Mõis owns 977,837 preference shares or 3.10% of share capital through the company under her control as at the end of 2010.

Six of the seven 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.

Audit committee

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

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

In 2010 the audit committee had two meetings where the terms of the service contracts to be signed with members of the management board were discussed. At the beginning of 2011 the committee met with the representatives of the audit firm PricewaterhouseCoopers to obtain an overview of the audit of the consolidated financial statements for 2010.

Management board

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

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

Baltika's management board has five members: 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 company'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 Baltika from 11 to 26 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 Baltika 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 2010 held 15.08% of Baltika's share capital (16.82% of listed ordinary shares). In addition, management board members have their individual shareholdings. Consequently, through their direct and indirect holdings, at the end of 2010 management board members controlled 19.11% of Baltika share capital (21.43% of listed ordinary shares).

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Shareholdings of members of the management board at 31 December 2010

	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	16.82%	125,173	3.13%	4,750,033	15.08%
Meelis Milder	726,336	2.64%			726,336	2.31%
Maire Milder	316,083	1.15%			316,083	1.00%
Boriss Loifenfeld	200,366	0.73%			200,366	0.64%
Ülle Järv	13,850	0.05%			13,850	0.04%
Andrew Paterson	11,000	0.04%			11,000	0.03%
Total OÜ BMIG and management board members	**5,892,495**	**21.43%**	**125,173**	**3.13%**	**6,017,668**	**19.11%**
Baltika's share capital	**27,494,850**	**100%**	**4,000,000**	**100%**	**31,494,850**	**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 2010 consolidated financial statements as presented on pages 28 to 72.

The management board confirms that:

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

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

3. all Group companies are going concerns.

Meelis Milder
Chairman of the Management Board
24 March 2011

Ülle Järv
Member of the Management Board
24 March 2011

Boriss Loifenfeld
Member of the Management Board
24 March 2011

Maire Milder
Member of the Management Board
24 March 2011

Andrew J. D. Paterson
Member of the Management Board
24 March 2011

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2010	31.12.2009
ASSETS			
Current assets			
Cash and bank	4	12,877	6,024
Trade and other receivables	5	48,805	54,932
Inventories	6	169,046	188,181
Total current assets		**230,728**	**249,137**
Non-current assets			
Deferred income tax asset	7	13,119	16,488
Other non-current assets	8	12,203	7,728
Investment property	9	110,609	103,294
Property, plant and equipment	10	189,647	263,165
Intangible assets	11	60,985	62,133
Total non-current assets		**386,563**	**452,808**
TOTAL ASSETS		**617,291**	**701,945**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	13	33,256	122,942
Trade and other payables	14	109,232	159,375
Total current liabilities		**142,488**	**282,317**
Non-current liabilities			
Borrowings	13	280,904	232,942
Other liabilities	14	574	114
Total non-current liabilities		**281,478**	**233,056**
TOTAL LIABILITIES		**423,966**	**515,373**
EQUITY			
Share capital at par value	15	314,949	226,449
Share premium		20,846	1,049
Reserves	15	43,567	43,567
Retained earnings		-77,617	81,487
Net loss for the period		-99,268	-159,104
Currency translation differences		-11,684	-9,410
Total equity attributable to equity holders of the parent		**190,793**	**184,038**
Non-controlling interest		2,532	2,534
TOTAL EQUITY	15	**193,325**	**186,572**
TOTAL LIABILITIES AND EQUITY		**617,291**	**701,945**

The Notes to the financial statements presented on pages 32-72 are an integral part of the Financial Statements.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2010	2009
Revenue	16,17	816,869	880,170
Cost of goods sold	18	-393,845	-457,885
Gross profit		**423,024**	**422,285**
Distribution costs	19	-445,085	-500,684
Administrative and general expenses	20	-45,812	-44,467
Other operating income	22	10,107	549
Other operating expenses	22	-16,073	-32,993
Operating loss		**-73,839**	**-155,310**
Finance income	23	3,139	66
Finance costs	23	-22,003	-17,697
Loss before income tax		**-92,703**	**-172,941**
Income tax expense	24	-6,373	12,660
Net loss		**-99,076**	**-160,281**
Profit (loss) attributable to:			
Equity holders of the parent company		-99,268	-159,104
Non-controlling interest		192	-1,177
Other comprehensive income (loss)			
Currency translation differences		-2,274	-2,245
Revaluation of investment property	9	0	17,434
Total comprehensive loss		**-101,350**	**-145,092**
Comprehensive income (loss) attributable to:			
Equity holders of the parent company		-101,544	-143,918
Non-controlling interest		194	-1,174
Basic earnings per share, EEK	25	-4.25	-8.53
Diluted earnings per share, EEK	25	-4.25	-8.53

The Notes to the financial statements presented on pages 32-72 are an integral part of the Financial Statements.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2010	2009
Operating activities			
Operating loss		-73,839	-155,310
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	10,11	46,666	49,547
Gain from disposal of PPE and investment property		8,107	13,119
Gain from revaluation of investment property	9	0	4,789
Other non-monetary expenses[1]		-4,592	4,732
Changes in working capital:			
Change in trade and other receivables	5	-953	36,727
Change in inventories	6	19,135	100,250
Change in trade and other payables	14	-50,086	-50,420
Interest paid		-21,769	-16,419
Income tax paid		-895	-860
Net cash generated from (used in) operating activities		**-78,221**	**-13,845**
Investing activities			
Acquisition of property, plant and equipment, intangibles, thereof	10,11	-6,288	-101,278
Under the finance lease terms	12	674	3,775
Proceeds from disposal of property, plant and equipment	10	24,215	1,567
Investments in subsidiaries	27	0	-2,380
Interest received		16	15
Net cash used in investing activities		**18,617**	**-98,301**
Financing activities			
Received borrowings	13	29,479	131,715
Repayments of borrowings	13	-43,766	-29,289
Change in bank overdraft	13	-19,946	-26,179
Repayments of finance lease and other liabilities	12,14	-3,877	-4,675
Receipts from contributions into share capital	15	106,200	40,000
Transaction costs of issuing preference shares		0	-865
Dividend paid for preference shares	15	-4,555	-337
Treasury stock transactions		-86	0
Issuance of convertible bonds	26	0	126
Net cash generated from financing activities		**63,444**	**110,496**
Effect of exchange gains (losses) on cash and cash equivalents		3,013	-997
Total cash flows		**6,853**	**-2,647**
Cash and cash equivalents at the beginning of the period	4	**6,024**	**8,671**
Cash and cash equivalents at the end of the period	4	**12,877**	**6,024**
Change in cash and cash equivalents		**6,853**	**-2,647**

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

The Notes to the financial statements presented on pages 32-72 are an integral part of the Financial Statements.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Currency translation differences	Total attributable to parent	Non-controlling interest	Total
Balance at 31 December 2008	**186,449**	**0**	**26,133**	**89,775**	**-7,165**	**295,192**	**3,714**	**298,906**
Total comprehensive income (loss)	0	0	17,434	-159,104	-2,245	-143,915	-1,177	-145,092
Issue of preference shares (Note 15)	0	0	0	-8,288	0	-8,288	0	-8,288
Equity-settled share-based transactions	0	1,049	0	0	0	1,049	0	1,049
Increase of share capital (Note 15)	40,000	0	0	0	0	40,000	0	40,000
Change in non-controlling interest	0	0	0	0	0	0	-3	-3
Balance at 31 December 2009	**226,449**	**1,049**	**43,567**	**-77,617**	**-9,410**	**184,038**	**2,534**	**186,572**
Balance at 31 December 2009	**226,449**	**1,049**	**43,567**	**-77,617**	**-9,410**	**184,038**	**2,534**	**186,572**
Total comprehensive income (loss)	0	0	0	-99,268	-2,274	-101,542	192	-101,350
Equity-settled share-based transactions (Note 26)	0	2,097	0	0	0	2,097	0	2,097
Increase of share capital (Note 15)	88,500	17,700	0	0	0	106,200	0	106,200
Change in non-controlling interest	0	0	0	0	0	0	-194	-194
Balance at 31 December 2010	**314,949**	**20,846**	**43,567**	**-176,885**	**-11,684**	**190,793**	**2,532**	**193,325**

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

The Notes to the financial statements presented on pages 32-72 are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 General information and summary of significant accounting policies

General information

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer operating Monton, Mosaic, Baltman and Ivo Nikkolo retail concepts. The Baltika Group employs a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, logistics and retailing. As of the end of 2010, there were 120 Baltika stores on six markets in the Baltics and Central and Eastern Europe. Baltika also sells its collections wholesale. At 31 December 2010, the Baltika Group employed 1,419 people (31 December 2009: 1,697).

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 2010 include the consolidated financial information of the Parent company and its subsidiaries (together referred to as the Group): Baltika Poland Sp.z.o.o., Baltika Retail Czech Republic s.r.o., OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, AS Virulane, OÜ Baltika TP and OÜ Baltika Retail and its subsidiaries OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva, OOO Kompania "Baltman RUS" and Baltika Ukraina Ltd.

The management board of AS Baltika authorised these consolidated financial statements at 24 March 2011. 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 2010 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, except investment property, which has been revalued and accounted for in fair value as disclosed in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. See also section "Comparability" below.

All information in the financial statements is presented in thousands of kroons, unless stated otherwise. The Estonian kroon is pegged to the euro at the rate of EUR 1=EEK 15.6466. The financial statements presented in euros can be obtained from the company's (Group'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 respective notes. When presentation of items in the financial statements or their classification method has been amended, then the comparative information of previous periods has also been restated.

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

a) Adoption of New or Revised Standards and Interpretations

Certain new or revised standards and interpretations became effective for the Group from 1 January 2010:

IAS 27, Consolidated and Separate Financial Statements. The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010. Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements. The amended standard has had no impact on the current period, as none of the non-controlling interests have a deficit balance.

The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these financial statements as the Group did not have significant business combinations.

Certain new or revised standards and interpretations became effective for the Group from 1 January 2010, but are not relevant to the Group as they don't have material impact on the Group's financial statements:

IFRIC 12, Service Concession Arrangements.

IFRIC 15, Agreements for Construction of Real Estates.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation.

IFRIC 17, Distribution of Non-Cash Assets to Owners.

IFRIC 18, Transfers of Assets from Customers.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1).

Eligible Hedged Items – Amendment to IAS 39 (effective for annual periods beginning on or after 1 July 2009).

IFRS 1, First-time Adoption of International Financial Reporting Standards.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1.

Improvements to International Financial Reporting Standards, issued in April 2009.

b) New or Revised Standards and Interpretations Not Yet Adopted by the Group

Certain new or revised standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

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 liabilities. 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.

New or revised standards and interpretations that are not yet effective and not early adopted by the Group, and not expected to have a significant effect on the Group's financial statements:

Classification of Rights Issues – Amendment to IAS 32, issued in October 2009 (effective for annual periods beginning on or after 1 February 2010).

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).

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).

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).

Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU).

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).

Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

Principles of consolidation, accounting for business combinations and subsidiaries

A subsidiary is an entity in which the Group, directly or indirectly, has interest of more than 50% of the shares with voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. All subsidiaries have been consolidated in the Group's financial statements. An associate is an entity, in which the Group owns between 20% and 50% of the 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 group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

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.

Non-controlling interest

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

Transactions with non-controlling interest

From 1 January 2010, the group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Until 31 December 2009, transactions with share owners of non-controlling interests were treated as transactions with third parties. Disposals to non-controlling interests resulted in gains and losses for the Group that were recorded in the income statement. Purchases from non-controlling interests resulted 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 Estonian kroons, which is the Parent company's functional and the Group's presentation currency.

Financial statements of foreign operations

The results and financial position of the foreign subsidiaries of the Group are translated into presentation currency as follows:

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

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

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

Foreign currency transactions and balances

During the year, all foreign currency transactions of the Group have been translated to functional currencies based on the foreign currency exchange rates of the 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 under net method in financial expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand as well as bank account balances, and term deposits with original maturities of three months or less. Bank overdrafts are shown under current 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.

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

As at 31 December 2010 (and 31 December 2009) the Group had no other classes of financial assets than those classified under the category of loans and receivables.

Loans and receivables

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

When it is probable that the Group is unable to collect all amounts due according to the original terms of receivables, an allowance is set up for the impairment of these receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognised in the income statement within "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 investment property. From 1 January 2008 by early adopting amendment to IAS 40 made within annual improvements 2008, investment property under construction or development 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. Investment property is not reclassified as non-current assets used in operating activities if the usage in operating activities is of temporary substance and the effect of the change in m^2 remains less than 10% of the total area of the object. 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 Group with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

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

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

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

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

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

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

Non-current assets held for sale

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

Intangible assets (excluding goodwill)

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

Trademarks and licenses

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

Computer software

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

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

Goodwill

Goodwill represents the excess of the 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.

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 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.

Other reserves

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

Statutory reserve

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

Revaluation surplus

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

Share-based payments

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

Revenue recognition

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

Retail sales

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

Wholesale

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

Other

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

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

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

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 The Group that engage in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. The chief operating 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 include those operating assets and liabilities directly attributable to the segment or those that can be allocated to the particular segment.

Current and deferred income tax

Corporate income tax in Estonia

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

Corporate income tax in other countries

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

Corporate income tax rates

	2011	2010	2009
Latvia	15%	15%	15%
Lithuania	15%	15%	20%
Poland	19%	19%	19%
Ukraine	23%	25%	25%
Russia	20%	20%	20%

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

Earnings per share

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

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

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

Inventory valuation (Note 6)

Upon valuation of inventories, the management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered (carrying amount net of allowances of 142,221 thousand kroons as at 31 December 2010 and 157,946 thousand kroons as at 31 December 2009), upon valuation of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount net of allowances of 20,824 thousand kroons as at 31 December 2010 and 27,767 thousand kroons as at 31 December 2009); upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 1,126 thousand kroons as at 31 December 2010 and 1,137 thousand kroons as at 31 December 2009).

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 13,119 thousand kroons as at 31 December 2010 and 16,488 thousand kroons as at 31 December 2009.

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. At 31 December 2010 and at 31 December 2009 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 25,950 thousand kroons and 84,659 thousand kroons at 31 December 2010 respectively and 25,950 thousand kroons and 77,344 thousand kroons at 31 December 2010) 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 2010 the effect of risen fair value to Group's annual results was irrelevant and management decided not to revalue investment property. In 2009 the difference between the fair value and the carrying amount of the investment property amounting to 17,434 thousand kroons was recognised as revaluation surplus under reserves in equity. The decrease in fair value of investment property in the amount of 4,789 thousand kroons 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 189,647 thousand kroons as at 31 December 2010 and 262,994 thousand kroons as at 31 December 2009. The Group doesn't have land classified under fixed assets as at 31 December 2010 and the total carrying amount of land is 171 thousand kroons as at 31 December 2009.

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. 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 24,113 thousand kroons as at 31 December 2010 and 21,709 thousand kroons as at 31 December 2009, subsidiary SIA Baltika Latvija " (carrying amount of 2,383 thousand kroons as at 31 December 2010 and 2,383 thousand kroons as at 31 December 2009), and the subsidiary OÜ Baltika Tailor (carrying amount of 5,555 thousand kroons as at 31 December 2010 and 5,555 thousand kroons as at 31 December 2009). 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 exit from the global financial and economic crisis

The 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 long period of crisis has impacted the consumers' behaviour which in turn decreases the retailers' sales volumes. Currently the crisis has started to retreat and markets have adjusted to the new macroeconomic environment. Several markets show a fast-paced exit from the crisis but in general the exiting is slower than expected. The changed economical situation has impact the Group's wholesale customers' liquidity, which could in turn impact their ability to repay their amounts owed.

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.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

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 73% of the revenues of the Group and are denominated in LVL (Latvian lat), LTL (Lithuanian lit), RUR (Russian rouble), UAH (Ukrainian hryvnia) and PLN (Polish zloty) 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 are acquired from countries located outside of the European Union. The major currencies for purchases are EUR (euro) and USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled only in euros. 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 2010 and 2009 were the following: Russian rouble +9.60% (2009: -17.51%), Polish zloty +7.95% (2009: -18.92%), Ukrainian hryvnia +6.26% (2009: -32.21%), Latvian lat -0.41% (2009: -0.46%) and Czech koruna 4.55% (2009:-5.60%). 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 +5.00% (2009: +5.19%).

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 2010 had been 2.0%-8.0% higher (lower), the impact on the net loss for the year would have been +/-210 thousand kroons (2009: 1,511 thousand kroons). The assessment of foreign exchange rate sensitivity to the 2010 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 +/-3.5% and US dollar do not exceed +/-8.0% and that the exchange rates of the Latvian lat and other currencies are not expected to fluctuate more than 2.0%. The assessment of foreign exchange rate sensitivity to the 2009 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 and US dollar), do not exceed +/-8.0% 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 2010	**Impact 2009**
Cash and bank	410	195
Trade and other receivables	40	141
Trade and other payables	-240	-1,847
Total	**210**	**-1,511**

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

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 2010 and 2009. 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.

Interest rate risk

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

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

All non-current borrowings as at 31 December 2010 were subject to a floating interest rate based on Euribor, which is fixed every six months and as at 31 December 2009 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.

As 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 2,508 thousand kroons (2009: 2,175 thousand kroons) higher and if 0.1 percentage point lower, the post-tax loss for the year would have been 251 thousand kroons lower (2009: 218 thousand kroons).

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]

	31.12.2010	31.12.2009
A	7,478	1,545
B	636	1,499
Other banks	60	88
Total	**8,174**	**3,132**

[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.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

As at 31 December 2010 the maximum exposure to credit risk from trade receivables (Note 5) amounted to 19,604 thousand kroons (31 December 2009: 29,183 thousand kroons) on a net basis after the allowances. The trade receivables from Eastern European clients amounted to 13,809 thousand kroons (31 December 2009: 20,775 thousand kroons), including balances with the Eastern European wholesale partners of 13,296 thousand kroons (31 December 2009: 19,020 thousand kroons) and balances with retail customers for bank card payments of 513 thousand kroons (31 December 2009: 1,755 thousand kroons).

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

	31.12.2010	31.12.2009
Not due, thereof	13,809	14,461
Renegotiated	8,967	4,860
Past due 6 months and more	0	7,535
Total	**13,809**	**21,996**
Allowance for amounts past due 6 months and more	0	-1,221
Total net amount (Note 5)	**13,809**	**20,775**

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 reduced volume of financing between banks 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 2010

		Undiscounted cash flows[1]				
	Carrying amount	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Bank borrowings (Note 13)[2]	304,229	8,775	35,003	315,259	0	359,037
Finance lease liabilities (Note 13)	5,909	1,127	2,802	2,375	0	6,304
Trade payables (Note 14)	68,135	68,135	0	0	0	68,135
Other financial liabilities (Note 13,14)[3]	4,690	1,639	3,051	0	0	4,690
Total	**382,963**	**79,676**	**40,856**	**317,634**	**0**	**438,166**

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]	338,462	52,616	71,887	142,707	123,695	390,905
Finance lease liabilities (Note 13)	9,113	1,055	3,131	5,594	0	9,780
Trade payables (Note 14)	111,161	111,161	0	0	0	111,161
Other financial liabilities (Note 13,14)[3]	9,377	4,064	4,000	2,000	0	10,064
Total	**468,113**	**168,896**	**79,018**	**150,301**	**123,695**	**521,910**

[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 1-5 years (31 December 2009 within 1-3 months) in the amount of maximum exposure available for the Group.
[3]Other financial liabilities include accrued expenses in amount of 1,639 thousand kroons (31 December 2009: 2,064 thousand kroons) and dividends liabilities of preference shares in amount of 3,051 thousand kroons (31 December 2009: 7,313 thousand kroons).

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 in 2010 and 2009. The Groups's net debt increased in 2009 due to the loan taken to finance construction of a new office building and the debt-equity ratio was influenced by the earned comprehensive loss during the same period. In 2010, the debt-equity ratio was influenced by the earned comprehensive loss in the amount of 101,350 thousand kroons and increase of the share capital.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Debt-equity ratios of the Group

	31.12.2010	31.12.2009
Total borrowings (Note 13)	310,138	347,575
Cash and bank (Note 4)	-12,877	-6,024
Net debt	297,261	341,551
Total equity	193,325	186,572
Total capital	490,586	528,123
Debt-equity ratio	**61%**	**65%**

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 2010 and 31 December 2009. 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

	31.12.2010	31.12.2009
Cash in hand	4,703	2,892
Cash at bank	7,073	3,132
Overnight deposits	1,101	0
Total	**12,877**	**6,024**

Cash and bank by currency

	31.12.2010	31.12.2009
UAH (Ukrainian hryvnia)	2,569	508
EEK (Estonian kroon)	2,427	967
PLN (Polish zloty)	2,286	221
RUB (Russian rouble)	1,781	1,629
EUR (euro)	1,512	258
LTL (Lithuanian lit)	1,477	1,554
LVL (Latvian lat)	825	588
CZK (Czech koruna)	0	299
Total	**12,877**	**6,024**

NOTE 5 Trade and other receivables

	31.12.2010	31.12.2009
Trade receivables, net	19,604	29,183
Other prepaid expenses[1]	13,895	10,464
Tax prepayments and tax reclaims, thereof	10,708	13,694
Value added tax	10,356	12,735
Prepaid income tax	0	493
Other taxes	352	466
Other prepayments	4,598	1,591
Total	**48,805**	**54,932**

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

[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 24.

Trade receivables

	31.12.2010	31.12.2009
Trade receivables, gross	20,131	30,785
Allowance for impairment of trade receivables (Note 19)	-527	-1,602
Trade receivables, net	**19,604**	**29,183**

In 2010, irrecoverable receivables in amount of 1,426 thousand kroons were derecognised (2009: 7,602 thousand kroons) and doubtful receivables in amount of 351 thousand kroons were recognised under allowance for impairment of trade receivables (2009: 1,394 thousand kroons).

Trade receivables (net) by region (client location)

	31.12.2010	31.12.2009
Eastern European region (Note 3)	13,809	20,775
Baltic region	4,915	6,748
Other regions	880	1,660
Total	**19,604**	**29,183**

Trade receivables (net) by due date

	31.12.2010	31.12.2009
Not due[1]	18,868	15,595
Up to 1 month past due	635	2,202
1-3 months past due	39	3,915
3-6 months past due	1	1,121
Over 6 months past due	61	6,350
Total	**19,604**	**29,183**

[1]Trade receivables classified as not due at 31 December 2010 include receivables from the wholesale partner from Eastern European region in the amount of 8,967 thousand kroons (31 December 2009: 4,860 thousand kroons) 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 1,951 thousand kroons in the first two months of 2011. See “Overtaking of the operation of stores in the Ural region” in the Note 27 for Eastern-Europe customer payments.

A significant risk concentration exists regarding the wholesale partner from Eastern European region (Note 3). During 2010, no allowance was set up for the impairment for receivables, during 2009, an impairment loss in the amount of 1,221 thousand kroons (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

	31.12.2010	31.12.2009
EUR (euro)	14,104	21,260
EEK (Estonian kroon)	3,440	4,618
LVL (Latvian lat)	886	707
LTL (Lithuanian lit)	570	697
RUB (Russian rouble)	442	762
PLN (Polish zloty)	91	141
UAH (Ukrainian hryvnia)	71	993
CZK (Czech koruna)	0	5
Total	**19,604**	**29,183**

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

NOTE 6 Inventories

	31.12.2010	31.12.2009
Fabrics and accessories	21,024	27,967
Allowance for impairment of fabrics and accessories (Note 18)	-200	-200
Work-in-progress	1,126	1,137
Finished goods and goods purchased for resale	147,221	162,946
Allowance for impairment of finished goods and goods purchased for resale (Note 18)	-5,000	-5,000
Prepayments to suppliers	4,875	1,331
Total	**169,046**	**188,181**

At 31 December 2010, the Group didn't have inventories in the custody of third parties (31 December 2009: the carrying amount of 473 thousand kroons).

The allowance for impairment for finished goods as at 31 December 2010 compared to previous balance sheet date has decreased due to the decrease of the size of the Group's retail system and due to reduced quantities of stock from previous seasons. Although the inventory turnover ratio has not decreased, referring to the concept of conservatism, and taking into account that all markets have not exited the crisis yet, the allowance for inventory has not been decreased compared to the previous year.

NOTE 7 Deferred income tax

Deferred income tax at 31 December 2010

	Baltic region	Eastern European region	Central European region	Total
Deferred income tax asset				
On property, plant and equipment	0	408	0	408
On tax loss carry-forwards	4,914	7,797	0	12,711
Total	**4,914**	**8,205**	**0**	**13,119**
Deferred income tax asset, net, thereof	**4,914**	**8,205**	**0**	**13,119**
Non-current portion	4,914	8,205	0	13,119
Deferred income tax expense (income) (Note 24)	**0**	**-2,903**	**-467**	**-3,370**

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	855	182	1,037
On tax loss carry-forwards	4,914	10,252	285	15,451
Total	**4,914**	**11,107**	**467**	**16,488**
Deferred income tax asset, net, thereof	**4,914**	**11,107**	**467**	**16,488**
Non-current portion	4,914	11,107	467	16,488
Deferred income tax expense (income) (Note 24)	**-6,193**	**-8,155**	**1,211**	**-13,137**

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 future profits was carried out when preparing the financial statements. The presumption of profit is dependable on attainment of each respective company strategic goals. The deferred tax asset resulting from losses carried forward is recognised to the extent that the realisation of the related tax benefit through the future profits is probable.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Deferred income tax assets were recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise in the balance sheet deferred income tax assets of 5,131 thousand kroons (2009: 7,575 thousand kroons) in respect of losses amounting to 31,500 thousand kroons (2009: 41,500 thousand kroons) that can be carried forward against future taxable income. Losses amounting to 31,500 thousand kroons expire within the following nine years after the balance sheet date.

NOTE 8 Other non-current assets

	31.12.2010	**31.12.2009**
Non-current portion of lease prepayments[1]	6,103	7,728
Other long-term receivables[2]	6,100	0
Total other non-current assets	**12,203**	**7,728**

[1]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.
[2]Other long term receivables (which are nominated in Estonian kroons) consist of the receivables for the sale of trademarks MasCara and Herold, for the property and assets.

NOTE 9 Investment property

	2010	**2009**
Balance at 1 January	**103,294**	**134,098**
Reclassification from property, plant and equipment (Note 10)	7,315	8,049
Reclassification to property, plant and equipment (Note 10)	0	-124,764
Additions	0	73,266
Revaluation to fair value through profit or loss (Note 22), thereof	0	-4,789
Land	0	-5,790
Building	0	1,001
Change in fair value at reclassification through other comprehensive income, thereof	0	17,434
Land	0	11,758
Building	0	5,676
Balance at 31 December	**110,609**	**103,294**

	2010	**2009**
Lease revenue from investment properties	6,020	1,831
Direct operating expenses from investment properties	1,131	692
Net lease revenue from investment properties	**4,889**	**1,139**

As at 31 December 2010 and 2009, investment property consists of the buildings and land plot located at Veerenni 24, Tallinn, Estonia. According to its usage the property was classified partly under property, plant and equipment and partly under investment property. During 2010 due to the partly change in usage of the property, part of the property, plant and equipment were reclassified to investment property in amount of 7,315 thousand kroons. At 31 December 2010 the value of the building classified under property, plant and equipment was 113,277 thousand kroons (31 December 2009: 124,764 thousand kroons).

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

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. 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% for 2010 and for 2009 as well, 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.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

NOTE 10 Property, plant and equipment

	Land and construction rights	Buildings and structures	Machinery and equipment	Other fixtures	Construc-tion in progress	Pre-payments	Total
At 31 December 2008							
Acquisition cost	**2,113**	**123,096**	**106,998**	**117,239**	**2,361**	**174**	**351,981**
Accumulated depreciation	0	-41,897	-73,922	-55,582	0	0	-171,401
Net book amount	**2,113**	**81,199**	**33,076**	**61,657**	**2,361**	**174**	**180,580**
Additions	0	11,170	1,636	13,757	76	0	26,639
Reclassifications from investment property (Note 9)	0	124,764	0	0	0	0	124,764
Disposals (Note 22)	0	-9,313	-2,721	-1,736	0	0	-13,770
Reclassifications to investment property (Note 9)	-1,942	-6,107	0	0	0	0	-8,049
Reclassification	0	195	6,145	-4,154	-2,186	0	0
Impairment	0	0	0	-461	0	0	-461
Depreciation (Note 18-20)	0	-17,620	-8,347	-18,330	0	0	-44,297
Currency translation differences[1]	0	-588	-352	-1,156	-138	-7	-2,241
At 31 December 2009							
Acquisition cost	**171**	**227,253**	**99,745**	**120,917**	**113**	**167**	**448,366**
Accumulated depreciation	0	-43,553	-70,308	-71,340	0	0	-185,201
Net book amount	**171**	**183,700**	**29,437**	**49,577**	**113**	**167**	**263,165**
Additions	0	362	2,253	1,870	175	14	4,674
Disposals (Note 22)	-171	-25,470	-1,264	-1,315	0	0	-28,220
Reclassifications to investment property (Note 9)	0	-7,315	0	0	0	0	-7,315
Impairment (Note 22)	0	-1,797	-976	-1,055	0	0	-3,828
Depreciation (Note 18-20)	0	-15,797	-7,723	-18,079	0	0	-41,599
Currency translation differences[1]	0	910	433	1,407	5	15	2,770
At 31 December 2010							
Acquisition cost	**0**	**181,604**	**91,703**	**109,203**	**293**	**196**	**382,999**
Accumulated depreciation	0	-47,011	-69,543	-76,798	0	0	-193,352
Net book amount	**0**	**134,593**	**22,160**	**32,405**	**293**	**196**	**189,647**

[1]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 1,871 thousand kroons (2009: 3,137 thousand kroons) at acquisition cost. The total net book amount of assets acquired through finance lease at 31 December 2010 amounts to 8,566 thousand kroons (31 December 2009: 14,867 thousand kroons). See Note 12 for additional information on finance leases.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

NOTE 11 Intangible assets

	Licenses, software and other	Trade-marks	Pre-payments	Goodwill	Total
At 31 December 2008					
Acquisition cost	**40,245**	**10,060**	**2,145**	**22,665**	**75,115**
Accumulated amortisation	-14,337	-1,174	0	0	-15,511
Net book amount	**25,908**	**8,886**	**2,145**	**22,665**	**59,604**
Additions	1,345	0	27	7,867	9,239
Disposals	-453	0	0	0	-453
Reclassification	2,061	0	-2,061	0	0
Amortisation (Note 18-20)	-4,790	-503	0	0	-5,293
Currency translation differences[1]	31	0	-111	-884	-964
At 31 December 2009					
Acquisition cost	**42,247**	**10,060**	**0**	**29,648**	**81,955**
Accumulated amortisation	-18,145	-1,677	0	0	-19,822
Net book amount	**24,102**	**8,383**	**0**	**29,648**	**62,133**
Additions	1,259	0	355	931	2,545
Disposals	-274	0	0	0	-274
Amortisation (Note 18-20)	-4,564	-503	0	0	-5,067
Currency translation differences[1]	176	0	0	1,472	1,648
At 31 December 2010					
Acquisition cost	**43,400**	**10,060**	**355**	**32,051**	**85,866**
Accumulated amortisation	-22,701	-2,180	0	0	-24,881
Net book amount	**20,699**	**7,880**	**355**	**32,051**	**60,985**

[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 27.

Impairment tests for goodwill

Goodwill, carried at 32,051 thousand kroons (31 December 2009: 29,648 thousand kroons) is tested for impairment at each balance sheet date. The carrying amount of goodwill applicable to CGUs (cash generating units) of Baltman RUS, Baltika Tailor and SIA Baltika Latvija was tested for impairment at 31 December 2010. 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	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Carrying amount of goodwill	5,555	5,555	24,113	21,710	2,383	2,383
Growth in revenue[1]	2.43%	3.22%	8.46%	10.50%[4]	6.90%	6.94%
Growth rate[2]	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Discount rate[3]	7.67%	8.07%	14.34%	8.82%	11.92%	11.16%
Difference between recoverable and carrying amount	8,923	9,576	64,131	43,337	257,255	220,906

[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.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

[2]Growth rate used to extrapolate cash flows beyond the year 2015.
[3]Pre-tax discount rate applied to the cash flow projections (WACC). The change in discount rates results from changes in industry indicators for the specific region.
[4]The growth in revenue efficiency is the sales per sqm. The growth in revenue is determined taking into consideration the closing of ineffective shops.

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 7.0% and 2.0% or the discount rate 23.0% and 11.0% for Baltman RUS and Baltika Tailor respectively the recoverable amount would be equal to the carrying amount (31 December 2009: respectively 9.8% or 3.0% and 12.4% or 11.5%). If the average annual growth in sales for SIA Baltika Latvia is -3% (31 December 2009 -1.0%) 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

	31.12.2010	31.12.2009
Up to 1 year	89,869	93,326
1-5 years	70,402	100,871
Over 5 years	28,274	46,257
Total	**188,545**	**240,454**

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 2010, operating lease payments amounted to 182,723 thousand kroons (2009: 203,519 thousand kroons).

Operating lease – the Group as the lessor

Future minimum lease receivables from non-cancellable leases

	31.12.2010	31.12.2009
Up to 1 year	3,321	2,303

In 2010, the Group earned operating lease income in the amount of 6,020 thousand kroons (2009: 2,159 thousand kroons) from assets (business premises) leased to third parties under operating lease agreements. Direct expenses attributable to lease income amounted to 1,131 thousand kroons (2009: 1,003 thousand kroons).

As at 31 December 2010 the net book value of the assets leased out under operating leases was 110,609 thousand kroons (31 December 2009: 103,294 thousands kroons).

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Finance lease – the Group as the lessee

	Machinery and equipment	Other fixtures	Total
At 31 December 2009			
Acquisition cost	**15,920**	**3,754**	**19,674**
Accumulated depreciation	-4,399	-408	-4,807
Net book amount	**11,521**	**3,346**	**14,867**
At 31 December 2010			
Acquisition cost	**15,767**	**4,184**	**19,951**
Accumulated depreciation	-10,701	-684	-11,385
Net book amount	**5,066**	**3,500**	**8,566**

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 2010, the Group settled finance lease payments in the amount of 3,877 thousand kroons (2009: 4,675 thousand kroons).

NOTE 13 Borrowings

	31.12.2010	31.12.2009
Current borrowings		
Current portion of long-term bank loans (Note 3)	26,553	34,864
Current bank loans (Note 3)	0	78,795
Current finance lease liabilities (Note 3)	3,652	3,804
Liability component of preference shares (Note 3)	3,051	5,479
Total	**33,256**	**122,942**
Non-current borrowings		
Non-current bank loans (Note 3)	277,676	224,803
Non-current finance lease liabilities (Note 3)	2,257	5,309
Convertible bonds (Note 26) and liability component of preference shares (Note 3)	971	2,830
Total	**280,904**	**232,942**
Total borrowings	**314,160**	**355,884**

As at 31 December 2010 the unamortised transactions costs amounted to 1,370 thousand kroons (31 December 2009: 0).

Interest bearing borrowings at nominal value by currency

	31.12.2010	31.12.2009
EUR (euro)	312,432	326,462
EEK (Estonian kroon)	0	28,182
Other currencies	757	269
Total	**313,189**	**354,913**

Interest bearing borrowings consist of bank loans, finance leases and liability component of preference shares.

Bank loans and the liability component of preference shares of the Group at 31 December 2010

	Balance	Average risk premium
Borrowings at floating interest rate (based on 6-month Euribor)	304,229	4.57%
Liability component of preference shares	3,051	10.00%
Total	**307,280**	

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Bank loans and the liability component of preference shares of the Group at 31 December 2009

	Balance	Average risk premium
Borrowings at floating interest rate (based on 1-month Euribor)	7,823	2.50%
Borrowings at floating interest rate (based on 3-month Euribor)	3,755	1.00%
Borrowings at floating interest rate (based on 6-month Euribor)	282,965	3.48%
Borrowings at fixed interest rate (overdraft)	43,919	7.55%
Liability component of preference shares	7,338	10.00%
Total	**345,800**	

The maximum limit of the Group's overdraft facilities with the banks at 31 December 2010 amounted to 23,973 thousand kroons (31 December 2009: 43,919 thousand kroons).

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

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

The Group's collaterals for bank borrowings

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

As at 31 December 2009 the following bank borrowings were secured by following assets:
- mortgage to real estate located at Veerenni 24, Tallinn; Kalda 10A, Rakvere; Õpetajate 5, Ahtme;
- commercial pledge to movables.

The carrying amount of assets pledged at 31 December 2010 amounted to 466,024 thousand kroons, including inventories in amount of 158,514 thousand kroons, property, plant and equipment in amount of 176,829 thousand kroons, intangible assets in amount of 15,122 thousand kroons and investment property in amount of 110,609 thousand kroons. As at 31 December 2009 carrying amount of assets pledged was 367,251 thousand kroons, including inventories in amount of 89,089 thousand kroons, property, plant and equipment in amount of 162,585 thousand kroons, intangible assets in amount of 12,283 thousand kroons and investment property in the amount of 103 294 thousand kroons.

During the reporting period, the Group made loan repayments in the amount of 43,766 thousand kroons (2009: 29,289 thousand kroons). Interest expense of the reporting period amounted to 22,003 thousand kroons (2009: 16,684 thousand kroons), thereof the interests on bank loans were 18,047 thousand kroons (2009: 14,326 thousand kroons).

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

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

NOTE 14 Trade and other payables

	31.12.2010	31.12.2009
Trade payables (Note 3)	68,135	111,161
Tax liabilities, thereof	25,195	27,857
Personal income tax	2,479	3,669
Social security tax and unemployment insurance premium	6,712	9,641
Value added tax	13,142	13,411
Corporate income tax liability	1,825	210
Other taxes	1,037	926
Payables to employees[1]	12,008	16,347
Other accrued expenses[2]	1,639	2,064
Customer prepayments	621	1,800
Other current payables	1,634	146
Total	**109,232**	**159,375**

Non-current liabilities

Other liabilities[3]	574	114

[1]Payables to employees consist of accrued wages and salaries and vacation accrual.

[2]Accrued expenses consist of dividend payable in the amount of 10 thousand kroons (31 December 2009: 13 thousand kroons), interest payable in the amount of 438 thousand kroons (31 December 2009: 494 thousand kroons) and other accrued expenses in the amount of 1,191 thousand kroons (31 December 2009: 1,557 thousand kroons).

[3]Other non-current liabilities consist of deferred income.

Trade payables by denominating currency

	31.12.2010	31.12.2009
USD (US dollar)	26,660	29,418
EEK (Estonian kroon)	20,025	33,470
EUR (euro)	14,606	38,800
PLN (Polish zloty)	2,563	815
RUB (Russian rouble)	1,954	3,038
LTL (Lithuanian lit)	1,284	2,802
LVL (Latvian lat)	691	613
CZK (Czech koruna)	4	1,461
Other currencies	348	744
Total	**68,135**	**111,161**

Other accrued expenses by denominating currency

	31.12.2010	31.12.2009
PLN (Polish zloty)	866	240
EUR (euro)	438	348
LVL (Latvian lat)	186	163
LTL (Lithuanian lit)	137	209
EEK (Estonian kroon)	12	219
CZK (Czech koruna)	0	885
Total	**1,639**	**2,064**

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

NOTE 15 Equity

Share capital

	31.12.2010	31.12.2009
Share capital	314,949	226,449
Number of shares (pcs)[1]	31,494,850	22,644,850
Nominal value of shares (EEK)	10.00	10.00

[1]Shares comprise ordinary shares and preference shares of 27,494,850 pieces and 4,000,000 pieces respectively. The 27,494,850 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 2008		**18,644,850**
Issued at 10 July 2009	Issue of preference shares	4,000,000
Number of shares at 31 December 2009		**22,644,850**
Issued at 21 June 2010	Issue of ordinary shares	8,850,000
Number of shares at 31 December 2010		**31,494,850**

The annual general meeting of Baltika's shareholders that convened on 21 June 2010 resolved to increase the share capital of AS Baltika by issuing 8,850,000 additional registered ordinary shares with a par value of 10 kroons each at a premium of 2 kroons per share. The share capital of AS Baltika was increased by 88,500,000 kroons to 314,948,500 kroons. The shares were paid for with monetary contributions of 70,200 thousand kroons and with a non-monetary contribution of 36,000 thousand kroons. E.Miroglio S.A. paid with a non-monetary contribution consisting of a receivable of 36,000 thousand kroons arising from a loan agreement signed between E.Miroglio S.A. and the company on 3 May 2010. The new shares entitle the holder to a dividend from the financial year in which the share capital was increased. As a result of the issuing shares the Group received additional monetary assets in amount of 106,200 thousand kroons.

On 10 July 2009 4 million preference shares were subscribed by institutional investors in total amount of 40 million kroons. 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 40,000 thousand kroons, 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 8,288 thousand kroons was recorded as a deduction from retained earnings. In 2010, dividends paid to the preference shareholders amounted to 1.14 kroons per share equalling a total of 4,552 thousand kroons (2009:0.08 kroons and 338 thousand kroons correspondingly). Corporate income tax expense on dividends amounted to 1,210 thousand kroons (2009: 90 thousand kroons). Dividends on preference shares are recognised in the balance sheet as liabilities, the interest expense of preference shares amounted to 290 thousand kroons (2009: 227 thousand kroons).

Under the Articles of Association, the company's minimum share capital is 100,000 thousand kroons and the maximum share capital is 400,000 thousand kroons. All shares have been paid for.

Reserves

	31.12.2010	Change	31.12.2009	Change	31.12.2008
Statutory reserve	18,645	0	18,645	0	18,645
Revaluation surplus (Note 9)	24,922	0	24,922	17,434	7,488
Total	**43,567**	**0**	**43,567**	**17,434**	**26,133**

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Shareholders at 31 December 2010 (ordinary shares)

	Number of shares	Holding
1. BMIG OÜ	4,624,860	16.82%
2. Svenska Handelsbanken Clients	3,250,000	11.82%
3. E. Miroglio S.A.	3,000,000	10.91%
4. Skandinaviska Enskilda Banken Ab clients	2,967,347	10.79%
5. Svenska Handelsbanken Clients	1,965,000	7.15%
6. Members of management and supervisory boards and persons related to them		
Meelis Milder	726,336	2.64%
Maire Milder	316,083	1.15%
Boriss Loifenfeld	200,366	0.73%
Ülle Järv	13,850	0.05%
Andrew Paterson	11,000	0.04%
7. Other shareholders	10,420,008	37.90%
Total	**27,494,850**	**100.00%**

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%**

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 (Baltika Retail Czech Republic s.r.o ended its business activities in 2009).

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.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

The segment information provided to the management board for the reportable segments for the year ended at 31 December 2010 and at 31 December 2009

	Retail Baltic region	Retail Eastern Europe	Retail Central Europe	Whole-sale[1]	Real estate manage-ment	Total segments
2010 and at 31 December 2010						
Revenue (from external customers)	459,087	278,418	23,602	49,742	6,020	816,869
Segment operating profit (loss)[2]	60,442	14,212	-8,623	11,049	4,889	81,969
Incl. depreciation and amortisation	-19,256	-13,346	-1,912	-287	0	-34,801
Inventories of segments	46,267	30,216	2,421	0	0	78,904
2009 and at 31 December 2009						
Revenue (from external customers)	484,370	281,623	43,092	68,926	2,159	880,170
Segment operating profit (loss)[2]	33,587	-18,722	-21,649	10,093	1,156	4,465
Incl. depreciation and amortisation	-19,852	-13,860	-4,282	-994	0	-38,988
Inventories of segments	55,100	38,567	2,911	3,644	0	100,222

[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

	2010	2009
Total segment profit	81,969	4,465
Unallocated expenses[1]:		
Distribution costs	-104,030	-82,864
Administrative and general expenses	-45,812	-44,467
Other operating income (expenses), net	-5,966	-32,444
Operating loss	**-73,839**	**-155,310**

[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

	31.12.2010	31.12.2009
Total inventories of segments	78,904	100,222
Inventories in Parent company and production companies	90,142	87,959
Inventories on balance sheet	**169,046**	**188,181**

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

	31.12.2010	31.12.2009
Estonia	285,162	322,943
Other countries	76,079	105,649
Total	**361,241**	**428,592**

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 24,113 thousand kroons as of 31 December 2010 (31 December 2009: 21,710 thousand kroons);

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

2. goodwill associated with CGU retail segment in Latvia in the amount of 2,383 thousand kroons as of 31 December 2010 (31 December 2009: 2,383 thousand kroons);
3. property, plant and equipment (excluding prepayments for property and equipment) associated with retail segments in the amount of 56,575 thousand kroons as of 31 December 2010 (31 December 2009: 76,851). The property, plant and equipment of the Baltic region is 34,033 thousand kroons, of the Eastern Europe region 21,534 thousand kroons and of the Central Europe region is 1,008 thousand kroons (31 December 2009: 38,262 thousand kroons, 31,002 thousand kroons and 7,587 thousand kroons respectively).

NOTE 17 Revenue

	2010	2009
Sale of goods	808,152	877,269
Sale of sewing services	1,993	433
Lease revenue (Note 12)	6,020	2,159
Other	704	309
Total	**816,869**	**880,170**

NOTE 18 Cost of goods sold

	2010	2009
Materials and supplies	325,051	367,947
Payroll costs in production	47,277	63,791
Operating lease expenses (Note 12)	10,030	9,635
Other production costs	5,957	6,851
Depreciation of assets used in production (Note 10,11)	3,900	4,372
Change in inventories	1,630	6,889
Change in allowance for inventories (Note 6)	0	-1,600
Total	**393,845**	**457,885**

NOTE 19 Distribution costs

	2010	2009
Operating lease expenses (Note 12)	171,707	191,450
Payroll costs	155,760	173,092
Depreciation and amortisation (Note 10,11)	37,171	42,466
Advertising expenses	18,658	25,518
Fuel, heating and electricity costs	10,768	9,983
Municipal services and security expenses	5,851	8,906
Fees for card payments	5,788	5,950
Financial and management fees	4,160	4,397
Freight costs	3,664	3,625
Information technology expenses	3,257	3,518
Communication expenses	2,772	3,404
Travel expenses	2,712	2,828
Bank fees	1,973	2,256
Packaging costs	1,658	1,828
Renovation expenses of retail outlets	1,308	1,068
Expenses for uniforms	807	1,319
Training expenses	743	758
Impairment of trade receivables (Note 5)	354	1,506
Other sales expenses[1]	15,974	16,812
Total	**445,085**	**500,684**

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

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

NOTE 20 Administrative and general expenses

	2010	2009
Payroll costs[1]	20,848	22,312
Depreciation and amortisation (Note 10,11)	5,751	2,709
Information technology expenses	4,171	4,558
Bank fees	3,490	2,608
Management and consulting fees	1,501	141
Fuel, heating and electricity costs	1,359	1,367
Operating lease expenses (Note 12)	985	2,434
Communication expenses	704	783
Training expenses	410	282
Municipal services and security expenses	396	510
Sponsorship	341	928
Travel expenses	69	42
Other administrative expenses[2]	5,787	5,793
Total	**45,812**	**44,467**

[1]Payroll costs include payroll expenses for employee services received under the share options programme in amount of 2,098 thousand kroons (2009: 1,049 thousand kroons), see Note 26.
[2]Other administrative expenses consist of insurance and office expenses and fees connected to auditing, accounting and other services.

NOTE 21 Wages and salaries

	2010	2009
Payroll costs	167,921	197,064
Social security costs	53,867	61,082
Payroll expenses related to share options	2,097	1,049
Total	**223,885**	**259,195**

NOTE 22 Other operating income and expenses

Other operating income

	2010	2009
Foreign exchange gain	2,616	0
Profit from sale of non-current assets	309	0
Other income[1]	7,182	549
Total	**10,107**	**549**

[1]Other income includes the profit from the sale of trademarks MasCara and Herold in amount of 4,000 thousand kroons in 2010.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Other operating expenses

	2010	2009
Foreign exchange losses	0	11,332
Loss from disposals of non-current assets[1] (Note 10,11)	7,580	10,999
Loss from revaluations of investment property (Note 9)	0	4,789
Fines, penalties and tax interest	1,572	2,791
Representation costs	92	103
Other operating expenses	6,829	2,979
Total	**16,073**	**32,993**

[1]Loss from disposal of non-current assets arised mainly due to the closures of ineffective stores in 2010 and 2009 and exiting the Czech Republic market in 2009.

NOTE 23 Finance income and costs

	2010	2009
Interest income	15	15
Interest costs, thereof	-22,003	-16,684
Loan interests	-18,047	-14,326
Other interests	-3,956	-2,358
Foreign exchange income (losses)	3,014	-994
Other finance income	110	51
Other finance costs	0	-19
Total	**-18,864**	**-17,631**

NOTE 24 Income tax

	2010	2009
Income tax expense	3,003	477
Deferred income tax expense (income) (Note 7)	3,370	-13,137
Total income tax expense (income)	**6,373**	**-12,660**

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 2010

	Baltic region	Eastern European region	Central European region	Total
Profit (loss) before tax	-82,660	6,072	-16,115	-92,703
Average nominal tax rate	0-15%	20-25%	19%	0-25%
Tax calculated from profit (loss) at the nominal tax rate	-2,789	2,330	-3,062	-3,521
Income tax on dividends[1]	1,210	0	0	1,210
The effect of income/expenses not deductible for tax purposes	0	-1,057	0	-1,057
Utilisation of tax losses carried forward	0	-2,675	0	-2,675
Changes in recognised and off balance sheet deferred tax assets	2,789	6,151	3,529	12,469
Changes in currency rates	0	-53	0	-53
Income tax expense	**1,210**	**1,793**	**0**	**3,003**
Deferred income tax expense (Note 7)	**0**	**2,903**	**467**	**3,370**

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

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

	Baltic region	Eastern European region	Central European region	Total
Loss before tax	-91,025	-62,831	-19,084	-172,940
Average nominal tax rate	0-20%	20-25%	19-20%	0-25%
Tax calculated from profit (loss) at the nominal tax rate	-12,370	-13,848	-3,817	-30,035
Income tax on dividends[1]	89	0	0	89
Tax effect of income/expenses not deductible for tax purposes	251	248	187	686
Utilisation of tax losses carried forward	0	0	-198	-198
Changes in recognised and off balance sheet deferred tax assets	6,179	5,693	5,039	16,911
Changes in currency rates	-253	140	0	-113
Income tax expense	**89**	**388**	**0**	**477**
Deferred income tax expense (income) (Note 7)	**-6,193**	**-8,155**	**1,211**	**-13,137**

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

NOTE 25 Earnings per share

Basic earnings per share

		2010	2009
Weighted average number of ordinary shares	pcs	23,348,686	18,644,850
Net profit (loss) attributable to equity holders of the parent	EEK '000	-99,268	-159,104
Basic loss per share	**EEK**	**-4.25**	**-8.53**

Diluted earnings per share

		2010	2009
Weighted average number of ordinary shares	pcs	23,348,686	18,644,850
Net profit (loss) attributable to equity holders of the parent	EEK '000	-99,268	-159,104
Diluted loss per share	**EEK**	**-4.25**	**-8.53**

In view of the fact that the Group does not have dilutive potential ordinary shares or dilutive adjustments to losses as at the end of 2010 and 2009, diluted losses per share equal basic losses per share.

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2010 was 12.86 kroons (2009: 11.02 kroons).

NOTE 26 Related parties

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

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

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Transactions with related parties

	2010	2009
Purchases of goods	4,640	0
Purchases of services	3,510	2,983
Total	**8,150**	**2,983**

AS Baltika has purchased materials for production and management services from the parties related with members of the management board and the supervisory council.

Balances with related parties

	31.12.2010	31.12.2009
Trade payables	1,353	462

Compensation for the members of the management board and supervisory council (12 persons)

	2010	2009
Salaries of the members of the management board (5 members)	4,350	4,502
Remuneration of the members of the supervisory council (7 members)[1]	480	372
Total	**4,830**	**4,874**

[1]In 2010, two additional members joined the supervisory council.

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 3,000 thousand kroons 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 0.10 kroons 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 10 kroons. The share subscription period for G-bonds shall be from 1 July 2012 until 31 December 2012. The share subscription price is 12 kroons.

Totally were subscribed 1,842,500 bonds. The cash consideration received in the amount of 184 thousand kroons 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, 1,049 thousand kroons 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, in 2010 correspondingly 2,097 thousand kroons.

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 4.12 kroons per one convertible bond. The Black-Scholes option pricing model was used in valuing the convertible bond. The following parameters were used in determination of the price of the instrument: share price at the date prior to the grant date, exercise price, weighted average share price, expected volatility by a reference to the history of volatility based on the history of fluctuations of the market prices of the share and the expected life of the option.

	Issue date	Bond conversion period	Number of convertible bonds 31.12.2010	Number of convertible bonds 31.12.2009
G-bond	30.06.2009	01.07.2012-31.12.2012	1,842,500	1,842,500

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

NOTE 27 Subsidiaries and business combinations

Subsidiary	Location	Activity	Holding at 31.12.2010	Holding at 31.12.2009
OÜ Baltika Retail	Estonia	Holding	100%	-
OÜ Baltman	Estonia	Retail	-	100%
SIA Baltika Latvija	Latvia	Retail	-	100%
UAB Baltika Lietuva	Lithuania	Retail	-	100%
Baltika Ukraina Ltd	Ukraine	Retail	1%	99%
OOO Kompania "Baltman RUS"	Russia	Retail	-	100%
Baltika Poland Sp.z.o.o.	Poland	Retail	100%	100%
Baltika Retail Czech Republic s.r.o[1]	Czech Republic	Retail	-	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	93.8%	93.3%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

[1]Baltika Retail Czech Republic s.r.o ended its business activities in 2009.

Establishment of the subsidiary OÜ Baltika Retail

As part of its activity-based reorganization, Baltika Group established a holding company, OÜ Baltika Retail, into which will be transferred the Group's interests in all its retail subsidiaries (excluded Baltika Poland Sp.z.o.o.), that used to be directly owned by AS Baltika. The core activity of OÜ Baltika Retail is management of interests in retail companies; the entity is not going to carry out any business activities of its own.

Overtaking of the operation of stores in the Ural region

In 2009, in line with an agreement, Baltika took over the operation of seven stores belonging to its Russian wholesale partner in the Ural region. In 2010, Baltika took over the operation of one more store, as a result of the takeover the goodwill increased by 931 thousand kroons. The transaction did not have any significant impact on the Group's financial statements.

NOTE 28 Events after the balance sheet date

Adoption of euro as national currency on 1 January 2011

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

Possible developments in the Polish market

At the end of 2010 the liquidation of Polish subsidiary, Baltika Poland Sp.z.o.o., was started. During the liquidation process part of stores operating inefficiently will be closed. In case agreements with lessors enable to continue business activities at reasonable conditions, there exists an opportunity that the subsidiary will continue its activities. The management of the Group will decide upon the need and ability to continue the activities in the Polish market during the first half of 2011. The 2010 financial statements of the Group contain provisions related to the closing of Polish market in the amount of 5,000 thousand Estonian kroons.

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.

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Statement of financial position of the parent company

	31.12.2010	31.12.2009
ASSETS		
Current assets		
Cash and bank	2,573	457
Trade and other receivables	176,583	234,088
Inventories	88,234	91,007
Total current assets	**267,390**	**325,552**
Non-current assets		
Investments in subsidiaries	60,917	84,765
Other non-current assets	268,933	127,473
Property, plant and equipment	8,341	9,768
Intangible assets	22,046	23,832
Total non-current assets	**360,237**	**245,838**
TOTAL ASSETS	**627,627**	**571,390**
EQUITY AND LIABILITIES		
Current liabilities		
Borrowings	31,310	111,423
Trade and other payables	195,844	207,968
Total current liabilities	**227,154**	**319,391**
Non-current liabilities		
Borrowings	278,679	91,662
Total non-current liabilities	**278,679**	**91,662**
TOTAL LIABILITIES	**505,833**	**411,053**
EQUITY		
Share capital at par value	314,949	226,449
Share premium	20,847	1,049
Statutory reserve	18,645	18,645
Other reserves	7,488	7,488
Retained losses	-240,135	-93,294
TOTAL EQUITY	**121,794**	**160,337**
TOTAL LIABILITIES AND EQUITY	**627,627**	**571,390**

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Statement of comprehensive income of the parent company

	2010	2009
Revenue	420,995	535,889
Cost of goods sold	-360,534	-417,085
Gross profit	**60,461**	**118,804**
Distribution costs	-68,523	-73,263
Administrative and general expenses	-47,935	-43,709
Other operating income	1,166	1,720
Other operating expenses	-65,275	-9,014
Operating loss	**-120,106**	**-5,462**
Impairment of investments and receivables from subsidiaries	-10,886	-74,853
Interest expenses, net	-16,201	-15,959
Foreign exchange loss, net	1,454	-884
Other financial income, net	108	0
Income tax	-1,210	-90
Net loss for the financial year	**-146,841**	**-97,248**
Total comprehensive loss	**-146,841**	**-97,248**

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Cash flow statement of the parent company

	2010	2009
Operating activities		
Operating loss	-120,106	-5,462
Depreciation, amortisation and impairment losses	5,188	5,877
Gain from disposal of non-current assets	0	-16
Other non-monetary expenses	63,235	10,676
Changes in trade and other receivables and payables	-27,806	-89,766
Changes in inventories	3,623	57,376
Interest paid	-17,490	-16,218
Income tax paid	-876	0
Net cash generated from operating activities	**-94,232**	**-37,533**
Investing activities		
Acquisition of non-current assets and investment property, thereof	-1,974	-4,745
Under the finance lease terms	0	3,775
Proceeds from disposal of non-current assets	0	675
Investments in subsidiaries	-39	-2,380
Loans granted	-141,799	0
Net cash used in investing activities	**-143,812**	**-2,675**
Financing activities		
Received borrowings	200,477	58,279
Repayments of borrowings	-40,094	-23,358
Change in bank overdraft	-19,946	-29,972
Repayments of finance lease	-1,922	-3,391
Receipts from contributions into share capital	106,200	40,000
Dividend paid for preference shares	-4,555	-337
Transaction costs of issuing preference shares	0	-865
Issuance of convertible bonds	0	126
Net cash generated from financing activities	**240,160**	**40,482**
Total cash flows	**2,116**	**274**
Cash and cash equivalents at beginning of year	**457**	**183**
Cash and cash equivalents at end of year	**2,573**	**457**
Change in cash and cash equivalents	**2,116**	**274**

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2008	**186,449**	**0**	**26,133**	**12,242**	**224,824**
Total comprehensive loss	0	0	0	-97,248	-97,248
Increase of share capital	40,000	0	0	0	40,000
Equity-settled share-based transactions	0	1,049	0	-8,288	-7,239
Balance at 31 December 2009	**226,449**	**1,049**	**26,133**	**-93,294**	**160,337**
Book value of holdings under control or significant influence					-84,766
Value of holdings under control or significant influence, calculated under equity method					117,877
Adjusted unconsolidated equity at 31 December 2009					**193,448**
Total comprehensive loss	0	0	0	-146,841	-146,841
Increase of share capital	88,500	17,700	0	0	106,200
Issue of preference shares	0	2,098	0	0	2,098
Balance at 31 December 2010	**314,949**	**20,847**	**26,133**	**-240,135**	**121,794**
Book value of holdings under control or significant influence					-60,917
Value of holdings under control or significant influence, calculated under equity method					141,600
Adjusted unconsolidated equity at 31 December 2010					**202,477**

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

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Baltika

We have audited the accompanying consolidated financial statements of AS Baltika and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

AS PricewaterhouseCoopers, Pärnu mnt 15, 10141 Tallinn, Estonia; Audit Company's Registration No.6
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AS Baltika and its subsidiaries as of 31 December 2010, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No.325

Eva Jansen
Auditor's Certificate No.501

25 March 2011

* *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.*

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

PROFIT ALLOCATION RECOMMENDATION

The management board of AS Baltika recommends the net loss for the year ended at 31 December 2010 in the amount of 99,268 thousand kroons to be transferred to the retained earnings.

Retained earnings from previous periods at 31 December 2010	-77,617
Net loss the year 2010	-99,268
Total retained earnings at 31 December 2010	**-176,885**

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 2010.

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
30 March 2011

Ülle Järv
Member of the Management Board
30 March 2011

Maire Milder
Member of the Management Board
30 March 2011

Boriss Loifenfeld
Member of the Management Board
30 March 2011

Andrew J. D. Paterson
Member of the Management Board

Tiina Mõis
Chairman of the Supervisory Council
30 March 2011

Lauri Kustaa Äimä
Member of the Supervisory Council
30 March 2011

Reet Saks
Member of the Supervisory Council
30 March 2011

Allan Remmelkoor
Member of the Supervisory Council
30 March 2011

Andres Erm
Member of the Supervisory Council

Jaakko Sakari Mikael Salmelin
Member of the Supervisory Council
30 March 2011

Edoardo Miroglio
Member of the Supervisory Council
30 March 2011

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 31.12.2010: 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
Other assignments:
- Member of the Management Board of MTÜ International Association for the Protection of Intellectual Property (AIPPI) Estonian National Group.

Baltika shares held on 31.12.2010: 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 31.12.2010: 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 31.12.2010: 0

LAURI KUSTAA ÄIMÄ
Member of the Supervisory Council since 18.06.2009
Managing Director of Kaima Capital Oy
Born in 1971
Master of Economics, University of Helsinki
Other assignments:
Member of the Supervisory Council of AS Tallink Grupp,
Member of the Board of Oy Tallink Silja Ab,
Member of the Supervisory Council of Salva Kindlustuse AS,
Member of the Supervisory Council of AS Premia Foods,
Member of the Supervisory Council of AS PKL,
Vice-chairman of the Board of AAS BAN,
Member of the Board of UAB Litagra,
Vice-chairman of the Management Board of Amber Trust Management SA,
Chairman of the Management Board of Amber Trust II Management SA,
Chairman of the Management Board of KJK Fund SICAV-SIF,
Chairman of the Board of Directors, KJK Management SA
Chairman of the Board of Directors, KJK Capital Oy
Member of the Board of Cumulant Capital Fund Management Oy,
Chairman of the Audit Committee of AB Snaige,
Member of the Audit Committee of AB Sanitas,
Member of the Nominations Committee of Kitron ASA.
Baltika shares held on 31.12.2010: 0

JAAKKO SAKARI MIKAEL SALMELIN
Member of the Supervisory Council since 21.06.2010
Partner, KJK Capital Oy
Born in 1980
Master of Science in Finance, Helsinki School of Economics
Other assignments:
Member of the Management Board of KJK Fund SICAV-SIF,
Member of the Board of Directors, KJK Management SA,
Member of the Board of Directors, KJK Capital Oy.
Baltika shares held on 31.12.2010: 0

EDOARDO MIROGLIO
Member of the Supervisory Council since 21.06.2010
Member of the Board of Directors of Miroglio S.P.A.
Born in 1958
High school diploma
Other assignments:
Member of the Board of Directors of Interpred.
Baltika shares held on 31.12.2010: 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 31.12.2010: 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 31.12.2010: 13,850 ordinary shares[1]

MAIRE MILDER
Member of the Management Board, Retail and Concepts Development Director
Member of the Board since 2000, in the Group since 1999
Born in 1958
Degree in Biology and Geography, University of Tartu
Baltika shares held on 31.12.2010: 316,083 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 31.12.2010: 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 31.12.2010: 11,000 ordinary shares

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

AS Baltika 2010 Consolidated Annual Report (in thousands of kroons)

Revenues by EMTAK (the Estonian classification of economic activities)

Code	Definition	2010	2009
46411	Wholesale of textiles	0	70
46421	Wholesale of clothing and footwear	420,995	533,291
47711	Retail sales of clothing in specialised stores	0	1,161
68201	Renting and operating of own or leased real estate	0	1,367
Total		**420,995**	**535,889**