# AS BALTIKA

# OFFERING AND LISTING PROSPECTUS

Tallinn, 15 July2011

This Offering and Listing Prospectus has been prepared in connection with the public offering (the “Offering”) of shares of AS Baltika (the “Company” or “Baltika”, together with its subsidiaries, the "Group" or “Baltika Group”), registration code 10144415, address at Veerenni 24, Tallinn, Estonia, a public limited liability company incorporated in Estonia.

Baltika is publicly offering up to 4,300,000 ordinary shares (the "Offer Shares") for sale to investors with the issue of new ordinary shares. The Offering is made to the Company's shareholders and to the public.

The Company's shareholders who are fixed in the share ledger on 11 July 2011 at 23:59 (Estonian time) shall be granted the pre-emptive right to subscribe the Offer Shares (the "Subscription Rights"). Investors may submit subscription undertakings (the "Subscription Undertaking") with or without the Subscription Rights.

The offer price is 0.70 euro per Offer Share (the "Offer Price").

The Company's shares are traded on the Main List of the NASDAQ OMX Tallinn Stock Exchange (“NASDAQ OMX Tallinn”). The Company has made an application to list the Offer Shares on the Main List of the NASDAQ OMX Tallinn. Trading with the Offer Shares is expected to commence on the NASDAQ OMX Tallinn on or about 19 august 2011.

In addition, the Company has made an application to list the Subscription Rights on the NASDAQ OMX Tallinn. Trading in the Subscription Rights is expected to commence on the NASDAQ OMX Tallinn on 19 July2011 and is expected to end on 28 July 2011.

Once the increase of share capital relating to the issue of Offer Shares is registered with the Estonian Commercial Register, the Offer Shares will rank *pari passu* with all the existing shares of the Company and the Offer Shares will be eligible for any dividends declared and paid on the Company's shares for the financial period ended on 31 December 2011, and for any dividends declared and paid thereafter.

This Offering is not directed to persons whose involvement in the Offering requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law. No action has been or will be taken in any jurisdiction by the Company that would permit the public offering of the Subscription Rights or the Offer Shares other than in Estonia, and the Offering is not being made in any jurisdiction in which it would not be permissible to offer the Subscription Rights or the Offer Shares. The Offer Shares and the Subscription Rights may not be offered, sold, resold, allotted or subscribed to, directly or indirectly, in the countries where it is unlawful to do so without meeting additional requirements, unless any applicable exemption of those requirements exists. Offering constitutes a public offering under the laws of Estonia and not under any other jurisdiction.

**Investing in the Offer Shares and Subscription Rights involves risks. This Prospectus has been prepared to present a fair overview of the Offered Shares and Offering. However, the value of your investment may be affected by circumstances not reflected in this Prospectus. Please see section" Risk Factors" below.**

This Prospectus has been prepared by the Company in connection with the Offering and the listing of the Offer Shares and Subscription Rights on the NASDAQ OMX Tallinn in accordance with the Estonian laws implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC (OJ L 345, 31.12.2003, p. 64–89) and in accordance with the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European

Parliament and of the Council as regards information contained in prospectuses and dissemination of advertisements and its subsequent amendments.

The information contained in this Prospectus has been provided by the Company and other sources identified herein. You may not use this Prospectus for any other purpose than for making the decision to participate in the Offering or not to participate in the Offering.

RESPONSIBLE PERSONS

The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, having taken reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Tallinn, 15 July 2011

Management Board of Baltika

Meelis Milder

Maigi Pärnik-Pernik

Boriss Loifenfeld

Maire Milder

Andrew J. D. Paterson

LEGAL NOTICE TO INVESTORS

The Offering and this Prospectus will be governed by and construed in accordance with Estonian laws. Any disputes relating to the Offering will be settled in a competent court of law, having its jurisdiction in Estonia.

No person has been authorised to give any information or to make any representation in connection with the Offering other than as contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Company. This Prospectus does not constitute an offer to sell, or a solicitation of an offer, subscribe or to buy any of the Offer Shares or the Subscription Rights in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

The distribution of this Prospectus and the offering or sale of the Offer Shares or the Subscription Rights in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Company to inform about themselves and to acquaint themselves with and to observe such restrictions. Neither the delivery nor distribution of this Prospectus nor the offering, sale or delivery of the Offer Shares or the Subscription Rights shall in any circumstances constitute a representation or create any implication that there has been no change, or any event reasonably likely to involve any change, in the condition (financial or otherwise) or affairs of the Company since the date of this Prospectus. The Company will update any information presented in this Prospectus in accordance with the applicable provisions of the Estonian Securities Market Act.

THE OFFER SHARES AND SUBSCRIPTION RIGHTS NOR THEIR DISTRIBUTION HAS BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR WITH ANY SECURITIES AUTHORITY OF THE UNITED STATES OR ANY STATE OF THE UNITED STATES, AND THE OFFER SHARES AND THE SUBSCRIPTION RIGHTS MAY NOT BE RE-OFFERED OR RE-SOLD WITHIN THE UNITED STATES OR FOR THE ACCOUNT OF U.S. PERSONS EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT OR PURSUANT TO AN EXEMPTION FROM REGISTRATION.

The Offer Shares and Subscription Rights may not be lawfully offered or sold to persons in the United Kingdom except in circumstances which do not constitute an offer to the public in the United Kingdom except in circumstances which do not constitute an offer to the public in the United Kingdom within the definition of the Financial Services and Markets Act 2000 (the "FMSA") as amended or otherwise in compliance with all applicable provisions of the FSMA. Neither this nor any other document issued in connection with the Offering has been approved by an authorised person for the purposes of section 21 of the FSMA and hence may not be passed on to any person in the United Kingdom unless that person is entitled to receive this document by virtue of him falling into one of the categories of exemptions under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or is a person to whom the document may otherwise lawfully be issued or passed on.

Each prospective purchaser of the Subscription Rights or prospective purchaser or subscriber of the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes, offers or sells the Offer Shares or the Subscription Rights or possesses or distributes this Prospectus and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Offer Shares or the Subscription Rights under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscriptions, offers or sales, and none of the Company and AS LHV Pank shall have any responsibility for these obligations.

The contents of this Prospectus are not construed as legal, business or tax advice. Each prospective investor should consult with its own legal adviser, business adviser or tax adviser as to legal, business and tax advice.

Any new significant circumstances, mistakes or inaccuracies relating to the information included in this Prospectus which is capable of affecting the assessment of the Offer Shares and which become known between the time when this Prospectus is approved and the end of the Offer Period shall be immediately stated by the Company in an addendum to this Prospectus. If an addendum to this Prospectus is made to the Prospectus during the Offer Period, the Company may be required pursuant to the requirements of law to cancel the subscription and return all funds received as a result of the subscription if so required by the Investor that subscribed the Offer Shares.

## AVAILABLE INFORMATION

This Prospectus has been published in an electronic form on the website of the Estonian Financial Supervision Authority (www.fi.ee).

The Articles of Association of the Company, the annual reports, including audited consolidated financial statements, of the Company for the financial years ended 31 December 2008, 2009 and 2010 are available on the NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com).

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are forward-looking. Such forward-looking statements and information are assumptions based on information available to the Company. When used in this document, the words "anticipate," "believe," "estimate", "plan" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements reflect the current views of the Company or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, risks or uncertainties associated with the Company’s technological development, growth management, relations with customers and suppliers and, more generally, general economic and business conditions, changes in domestic and foreign laws and regulations (including those of the European Union), taxes, changes in competition and pricing environments, and other factors referenced in this document. Some of these factors are discussed in more detail under section “Risk Factors”.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected.

The Company does not intend, and does not assume any obligation, to update the forward-looking statements included in this Prospectus as at the date set forth on the cover.

PRESENTATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of the Group for the years ended 31 December 2008, 2009 and 2010 (the **''Consolidated Annual Financial Statements''**) are incorporated into this Prospectus by reference. The Consolidated Financial Statements have been prepared in accordance with the IFRS approved by the European Union ("IFRS"). The Consolidated Annual Financial Statements were audited by AS PricewaterhouseCoopers with its registered office in Tallinn (See *"Independent Auditors"*).

The unaudited consolidated condensed interim financial statements of the Group for the three months ended 31 March 2011 (the **''Consolidated Interim Financial Statements''**, and together with the Consolidated Annual Financial Statements, the ''**Consolidated Financial Statements**''), prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") are incorporated into this Prospectus by reference. All consolidated financial statements are available on the NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com). The Company is going to publish the unaudited consolidated interim financial results of Q2 of 2011 on 25 July 2011.

Certain financial information presented in this Prospectus has been obtained directly from the Consolidated Financial Statements of the Group, while certain other financial information presented herein has been recomputed by the Management from amounts contained in the Consolidated Financial Statements. Please note that ratios and indicators set forth herein have not been audited.

Certain financial and other information set forth in a number of tables in this Prospectus has been rounded off, for the convenience of readers. Accordingly, in certain instances, the sum of the numbers in a column may not conform exactly to the total figure given.

All references in this Prospectus to (i) "kroon" or "EEK" refer to the currency of Estonia used until 1 January 2011, (ii) "euro" or "EUR" refer to the currency of Estonia after 1 January 2011.

All financial information is presented in thousands of euros, unless otherwise stated.

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# 1 SUMMARY

*This summary should be read as an introduction to the prospectus and any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor. Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the Estonian legislation have to bear the costs of translating the prospectus before the legal proceedings are initiated. No civil liability shall attach to any person solely on the basis of the summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus.*

**Overview**

Baltika is established and operating pursuant to the laws and regulations of the Republic of Estonia. The Company is registered at Harju County Court registration department under the registry code 10144415. Please see the company's website www.baltikagroup.com for more information.

The Company was established on 1 August 1991 and registered with the enterprise register held by the local municipality. After the enforcement of the Estonian Commercial Code, Baltika was registered at Harju County Court registration department on 9 May 1997. The legal address of the Company is Veerenni 24, Tallinn 10135, Estonia and the phone number is +372 630 2731.

Baltika's shares have been listed on the NASDAQ OMX Tallinn Stock Exchange. The listing dates are as following: 5 June 1997 (main list), 7 May 1998 (investors' list) and 17 February 2003 (main list). NASDAQ OMX Tallinn is a member of the world's largest exchange company NASDAQ OMX Group.

The Company's main activities are design, development, production and sales arrangement of the fashion brands of clothing. Baltika Group is an international fashion retailer operating Monton, Mosaic, Baltman and Ivo Nikkolo retail concepts. As of 31 March 2011 the Group has 116 stores in six markets in the Baltics and Central and Eastern Europe. Baltika employs a vertically integrated business model which means that the Group controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales. The financial year is the calendar year.

**The Group structure as at 30.06.2011**

| | Location | Field of activity | Shareholding |
|---|---|---|---|
| **Mother company** | | | |
| AS Baltika | | | |
| **Subsidiaries** | | | |
| 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* | *100%* |
| *OOO Kompania „Baltman RUS“*[1] | *Russia* | *Retail* | *100%* |
| | | | |
| Baltika Poland Sp.z.o.o. | Poland | *Retail* | 100% |
| OY Baltinia AB | Finland | no current operations | 100% |
| Baltika Sweden AB | Sweden | no current operations | 100% |
| OÜ Baltika Tailor | Estonia | Production | 100% |
| AS Virulane | Estonia | no current operations | 93.8% |
| OÜ Baltika TP | Estonia | Real estate development | 100% |

[1]OOO Baltman RUS controls its subsidiaries OOO Stelsing, OOO Olivia and OOO Plazma, see section "*Legal structure of Baltika Group*".

OY Baltinia AB and Baltika Sweden AB are subsidiaries in Finland and Sweden, who are currently not active as there are no retail operations going on. Should the Company decide to start the retail operations, these will be the subsidiaries who shall then arrange the operations locally. AS Virulane has no production facilities or any production going on and the Company is going to merge within next years AS Virulane and OÜ Baltika Tailor.

Baltika Group strategic goal is to be a leading fashion retailer in Central and Eastern Europe region.

With the aim to maximise potential of its retail markets and brands and increase efficiency of Baltika Group business model, the company involved international consultation firm Roland Berger into strategic planning process. As a result of joint-work the company's growth strategy for 2010-2014 was prepared.

The strategy foresees Group's average annual growth 9% until 2014 and attaining turnover of 72,434 thousand euros by the year 2014. Increase in sales is planned based on experience and brands' growth – continually the largest contribution to sales volume comes from Monton and Mosaic, by 2014 their sales turnover grow by 10,929 thousand euros and 6,966 thousand euros respectively.

The global financial downturn caused sales drop due to drastically changed buying behaviour – nearly 66% of consumers stopped buying new clothes during economic crisis. This behaviour has in the main returned to normal, and in most brands spending has returned to more normal patterns, with new collections selling well.

Besides increased spending power and consumption revival the Group brands' stronger focus on the needs of their target client will help to grow sales. In order to improve business model profitability the company continuously monitors its markets and stores portfolio and develops brands.

The aim is to reach gross margin 54.9% by the year 2014. Margin growth is supported by stable intake margin and lower mark-downs, which in turn is due to overall recovery of economical situation and better inventory situation. Decrease of operational costs by 17.5% and rate of operational costs to sales from today's 67.5% to 43.3% is planned to reach by 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 ladies wear 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.

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.

**Competitive strengths**

The competitive strengths of the Group include:

- 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

**Risk factors**

Before subscribing for Offer Shares or purchasing Subscription Rights, prospective investors should carefully consider the risks described in "Risk Factors" in addition to the other information contained in this Prospectus. The risks described in "Risk Factors" are not the only risks that the Company and investors in the Offer Shares and the Subscription Rights shall face. Additional risks not currently known to the Company or that the Company currently believes are immaterial may also adversely affect its business, financial condition and results of operation. The market price of the Offer Shares or the

Subscription Rights could decline due to any of these risks and investors could lose all or part of their investment. For a more detailed description of the risks see section “Risk Factors”.

**Management and Employees**

The control and management of the Company is divided among the General Meeting of Shareholders, the Supervisory Council (the “Council”) and the Board of Directors (the “Management Board”). The current members of the Supervisory Council are Tiina Mõis, Reet Saks, Allan Remmelkoor, Andres Erm, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin and Edoardo Miroglio. The current members of the Management Board are Meelis Milder, Maigi Pärnik-Pernik, Maire Milder, Boriss Loifenfeld and Andrew J.D. Paterson.

As at 30 June 2011 the Group employed a total of 1,420 people.

**Articles of Association and Share Capital**

The Articles of Association of the Company are in all material aspects in accordance with the requirements of the Estonian law. The latest version of the Articles of Association was adopted by a resolution of the general meeting of shareholders on 11 May 2011.

As at the date of this Prospectus, the Company’s share capital is 22,046,395 euros divided into 31 494 850 fully paid shares with a nominal value of 0.70 euro each. Each share entitles its holder to one vote at the General Meeting of Shareholders.

Baltika had a total of 31,494,850 shares, 27,494,850 of which were ordinary shares and 4,000,000 preference shares. The ordinary general meeting of shareholders decided on 11 May 2011 to cancel the preference shares and to issue instead 4,000,000 ordinary shares to the same investors. The ordinary general meeting of shareholders decided on 11 May 2011 also to convert the share capital of the Company from Estonian kroons into euros and therefore the share capital was increased from the equity without any monetary payments (fund emission) by 1,917,518 euros. The new amount of the share capital of the Company is 22,046,395 euros. Concurrently with the conversion of the share capital of the Company into euros, also the conversion of the present nominal value of 10 (ten) kroons of the shares of the Company was made into euros and the nominal value of the shares was increased by 0.06 euro for each share. The new nominal value of the shares of the Company is 0.70 (zero point seventy) euro.

**Shareholders and Related Party Transactions**

As of the end of the year 2010, the biggest shareholder of Baltika was the company controlled by the current and previous members of the Management Board, OÜ BMIG. As of the end of 2010 OÜ BMIG held 16.82% of ordinary shares of Baltika and 3.13% of the preference shares of Baltika. As at 31 March 2011 the members of the Management Board controlled directly or through the companies under their control 21.38% of ordinary shares of Baltika. At the date of this Prospectus, OÜ BMIG controls 15.15% of the ordinary shares of Baltika and together with the members of the Management Board 19.14%.

AS Baltika has entered into certain transactions with related parties. For a more information see section “Transactions with related parties”.

**Offering**

The current share capital of the Company comprises of 31,494,850 shares with the nominal value of 0.70 euros per share.

The Offering comprises up to 4,300,000 Offer Shares, which are being offered to the Company's shareholders and to the public in Estonia with the issue of new ordinary shares. Also investors outside Estonia may participate provided that they act in accordance with the laws of their jurisdiction. The Offering shall take place in Estonia.

The Company's shareholders fixed in the share register on 11 July 2011 at 23:59 (Estonian time) shall be granted the pre-emptive right to subscribe for the Offer Shares. One Subscription Right per each Share shall be issued. A total of 31,494,850 Subscription Rights will be issued to the Company's shareholders. Investors may submit a Subscription Undertaking with or without Subscription Rights. The Subscription Rights shall be transferred on 18 July 2011 at 23:59 (Estonian time) at the latest to those securities accounts where the shares of Baltika were registered on 11 July 2011 at 23:59 (Estonian time).In order to obtain a preferential right for the subscription of a new share, it is necessary to have seven point thirty two (7.32) subscription rights.

Upon completion of the Offering, and assuming that all Offer Shares are subscribed for, there will be up to 35,794,850 Company's shares issued and outstanding. The Offer Shares represent approximately 12.0% of the Company's share capital following the Offering and approximately 13.7% of the Company's share capital prior to the Offering.

The allocation of the Offer Shares has been predetermined, i.e. in case all Subscription Rights are used to subscribe for the Offer Shares, there will be no remaining Offer Shares (the "Remaining Shares") to allocate in the general tranche (i) to new investors who subscribed for the Offer Shares without Subscription Rights and (ii) to investors who subscribed for the Offer Shares more than entitled with respective Subscription Rights.

The Offer Shares that have not been allocated in the course of the Preferential Allocation (i.e. Remaining Shares) will be divided, in the first order, among Preferred Allocation Investors who subscribed for more Offer Shares than entitled with respective Subscription Rights and, in the second order, among investors who subscribed for Offer Shares without the Subscription Rights. In case KJK Fund Sicav-SIF, E.Miroglio S.A. and East Capital Baltikum Fund fulfil their obligations to subscribe as described in Section 3.1.1., then there will be no Remaining Shares to be allocated in the second order.

In all cases the allocation of the Remaining Shares will be decided by the Company in consultation with the advisers considering that each of the Investors participating in the respective part of the general tranche (i.e. either Preferred Allocation Investors or other investors, as appropriate) shall be allocated Offer Shares proportionally at the rate that the Offer Shares that were subscribed for by such Investor and that were not allocated in the Preferential Allocation relate to the total number of Offer Shares that were subscribed for by all Investors participating in the respective part of the general tranche and that were not allocated in the Preferential Allocation.

Pursuant to law, if it becomes evident that Offer Shares are subscribed for in excess of the planned increase of share capital, the Council has the right to decide on the distribution of shares based on the number of subscriptions of shares and on the cancellation of oversubscribed shares.

The Company expects to announce the allocation of the Offer Shares on 3 August 2011 through the NASDAQ OMX Tallinn company announcement facility.

The Company will invite investors to submit Subscription Undertakings during the Offer Period in accordance with these Terms.

***No action has been taken in any jurisdiction by the Company that would permit the public offering of the Offer Shares other than in Estonia, and the Offering is not being made in any jurisdiction in which it would not be permissible to offer the Subscription Rights or the Offer Shares. This Offering is not directed to persons whose involvement in the offer requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law.***

In order to submit a Subscription Undertaking, an investor must have a securities account with the Estonian Central registry of Securities (the "ECRS"). Such a securities account can be opened through any custodian of the ECRS (a "Custodian"). As at the date of this Prospectus the following financial institutions operate as qualifying Custodians: AS Citadele banka Eesti filiaal, AS Eesti Krediidipank, Swedbank AS, AS LHV Pank, Nordea Bank Finland Plc Eesti filiaal, Danske Bank A/S Eesti filiaal, Marfin Pank Eesti AS, AS SEB Pank, Svenska Handelsbanken AB (publ), Branch Operations in Finland, Tallinna Äripanga AS.

An investor wishing to submit a Subscription Undertaking should contact the Custodian operating its ECRS securities account and register a transaction instruction for the purchase of the Offer Shares in the form set out below:

| | |
|---|---|
| Owner of the securities account: | name of the investor |
| Securities account: | number of the investor's securities account |
| Custodian: | name of the investor's Custodian |
| Security: | additional ordinary share of AS Baltika |
| ISIN code: | EE3800046643 |
| Number of securities: | maximum number of Offer Shares which the investor wishes to acquire |
| Price (per share) | 0.70 euro |
| Transaction amount: | maximum number of Offer Shares which the investor wishes to acquire multiplied by the Offer Price |
| Counterparty: | AS Baltika |
| Custodian of the counterparty: | AS LHV Pank |
| Securities account of the counterparty: | 99101637642 |
| Value date of the transaction: | 3 August 2011 |
| Type of transaction: | "PURCHASE" |
| Type of settlement: | "delivery versus payment" |

It is the investor's responsibility to ensure that all information contained in his Subscription Undertaking is correct, complete and readable. The Company shall have the right to reject any Subscription Undertaking which is incomplete, incorrect or unclear. A Subscription Undertaking will be deemed submitted and binding on the investor from the moment the registrar of the ECRS receives a valid transaction instruction from the investor's Custodian. An investor bears all costs and fees charged by the Custodian in connection with the submission of the Subscription Undertaking.

Possible multiple Subscription Undertakings submitted by one investor shall be merged for the purposes of allocation only within each securities account opened with the custodian of the ECRS and not in case of multiple Subscription Undertakings submitted by the investor from different securities accounts opened with the custodian of the ECRS.

By submitting a Subscription Undertaking an investor:

- accepts these Terms and agrees with the Company that these Terms will be applicable to the investor's acquisition of any Offer Shares;
- acknowledges that the Offering does not constitute a legally binding offer on behalf of the Company for the sale of the Offer Shares, and that the submission of a Subscription Undertaking does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of Offer Shares;
- accepts that the number of Offer Shares indicated in the Subscription Undertaking is considered to be the maximum number of Offer Shares which the investor would like to acquire and that the investor may receive less Offer Shares than this maximum amount;
- undertakes to pay for the Offer Shares allocated to them in accordance with the terms and conditions of the present Offering;
- authorises and instructs their Custodian to forward the registered transaction instruction to the registrar of the ECRS;
- authorises the Custodian and the registrar of the ECRS to amend the information contained in the investor's transaction instruction, including (a) changing the value date of the transaction and (b) inserting in the transaction instruction (i) the number of Offer Shares allocated to the investor as the number of securities, (ii) the result of the Offer Price times the number of Offer Shares allocated to the investor as the transaction amount.

An investor may amend or cancel their Subscription Undertaking any time before the expiration of the Offer Period. To do so, the investor must contact their Custodian through whom the Subscription Undertaking in question was made, and complete all the procedures required by this Custodian for amending or cancelling a Subscription Undertaking. All fees payable in connection with an amendment and/or cancellation of a Subscription Undertaking will be entirely the responsibility of the investor.

Any amendment to or cancellation of the Subscription Undertaking becomes effective at the moment when the transaction instruction of the subject investor has been amended or cancelled at the ECRS on the basis of the respective order received from the investor's Custodian.

In case an investor with Subscription Rights submits a Subscription Undertaking for more Offered Shares than pro-rata to their shareholding, the remaining amount shall be blocked on the investor’s cash account until the settlement is completed on or about 4 August 2011 or funds are released in accordance with these Terms.

By submitting a Subscription Undertaking, an investor authorises and instructs the credit institution operating the investor's cash bank account connected to their securities account (which may or may not also be the investor's Custodian) to block the transaction amount on the investor's cash account until the settlement is completed on or about 4 August 2011 or funds are released in accordance with these Terms. The transaction amount to be blocked will be equal to the Offer Price multiplied by the maximum number of Offer Shares. An investor may submit a Subscription Undertaking only when there are sufficient funds to cover the transaction amount on the cash account connected to the investor's ECRS securities account.

If the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Offer Shares applied for, the funds blocked on the investor's cash account, or the part thereof (the amount in excess of payment for the allocated Offer Shares) shall be released by the Custodian within about three banking days after the settlement.

The Company assumes no liability for the release of the investor's funds by the Custodian or for the payment of any interest accrued on the released funds for the time when the funds were blocked.

Only a Subscription Undertaking submitted in full compliance with these Terms will be permitted to participate in the allocation process. The Company reserves the right to reject any Subscription Undertaking that does not comply with these Terms.

Each seven point thirty two (7.32) Subscription Rights will entitle the investors to be allocated one Offer Share at the Offer Price provided that investors have submitted a valid Subscription Undertaking during the Offer Period. Furthermore see "Preferential Allocation".

Each investor will be allocated a full number of Offer Shares without fractions. In case the number of Subscription Rights shall not grant the right to subscribe to a round number of Offer Shares, the number of allocated Offer Shares will be rounded down to the closest round number of Offer Shares and these remaining Offer Shares which cannot be allocated because of the rounding, will be allocated in the course of the Preferential Allocation between the Preferred Allocation Investors (“Preferred Allocation Investor”), who subscribed for more Offer Shares than entitled with respective Subscription Rights, at random.

The allocation of the Offer Shares shall be conducted after the expiry of the Offer Period on or about 3 August 2011.

The Company's shareholders fixed in the shareholders’ list on 11 July 2011 at 23:59 (Estonian time) shall be granted one Subscription Right per each Share held, therefore 31,494,850 Subscription Rights will be issued to the Company's shareholders.

Each seven point thirty two (7.32) Subscription Rights will entitle the investors to be allocated one Offer Share at the Offer Price provided that investors have submitted a valid Subscription Undertaking during the Offer Period. The Subscription Rights must be registered on the investor's securities account with a Custodian of the ECRS or the Custodian's securities account with a Custodian of the ECRS on 18 July 2011 at 23:59 (Estonian time) at the latest (“Preferred Allocation Investor”). The Preferred Allocation Investor will be entitled to a preferential allocation of Offer Shares (the “Preferential Allocation”) in the Offering before other investors.

If a Preferred Allocation Investor subscribes for more Offer Shares than entitled with respective Subscription Rights, they participate in the allocation of the Offer Shares exceeding the Subscription Rights according to the principles of allocation in the general tranche. Regardless of the aforesaid, Rounded Shares are allocated between such Preferred Allocation Investors at random.

All Rights that are not used for the subscription of Offer Shares during the Offer Period will be cancelled on 5 August 2011 without any monetary compensation.

The Offer Shares allocated to the investors shall be transferred to their securities accounts on or about 3 August 2011 through the “delivery versus payment” method simultaneously with effecting the payment for such Offer Shares.

Possible multiple Subscription Undertakings submitted by the investor shall be merged for the purposes of allocation only within each securities account opened with the custodian of the ECRS and not in case of multiple Subscription Undertakings submitted by the investor from different securities accounts opened with the custodian of ECRS.

The number of Offer Shares to be transferred to each securities account may be rounded down to the closest full number of Offer Shares. If the settlement cannot be completed due to insufficient funds on the investor's cash account, the Subscription Undertaking made via the securities account connected to such cash account will be rejected and the investor will lose all rights to subscribe for Offer Shares pursuant to that Subscription Undertaking.

The Subscription Rights granted to a Company's shareholder fixed in the list of shareholders on 11 July 2011 at 23:59 (Estonian time) shall be transferred to their securities accounts by 18 July 2011 at 23:59 (Estonian time) without monetary payment.

Trading in the Offer Shares is expected to commence on NASDAQ OMX Tallinn on or about 19 august 2011.

Trading in the Subscription Rights is expected to commence on NASDAQ OMX Tallinn on 19 July 2011 and is expected to end on 28 July 2011. Subscription Rights will be traded under the same terms and conditions as any other shares traded on NASDAQ OMX Tallinn.

**KEY DATES**

The following are the indicative key dates related to the Offering.

| | |
|---|---|
| 27 June 2011 | - the Council of the Company decides the issuance of new ordinary shares up to 4,300,000 shares |
| 11 July 2011 at 23:59 | - the list of shareholders is fixed for the use of pre-emptive right to subscribe for the Offer Shares |
| 18 July 2011 | - starting of the time period when the Subscription Rights are transferred to the securities accounts of the shareholders entitled to subscribe for the Offer Shares |
| 18 July 2011 at 23:59 (Estonian time) | - the time period ends when the Subscription Rights are transferred to the securities accounts of the shareholders entitled to subscribe for the Offer Shares |
| 19 July 2011 | - Offer Period commences for the investors with Subscription Rights and for the investors without the Subscription Rights |
| 28 July 2011 | - the time period ends for the trading with Subscription Rights |
| 2 August 2011 | - Offer Period ends |
| 3 August 2011 | - publication of the results of the Offering |
| 3 August 2011 | - settlement of payment |
| 19 august 2011 | - trading in Offer Shares and Shares commences on NASDAQ OMX Tallinn |

**Capitalization and Indebtedness**

For information on capitalization and indebtedness of the Company see section "*Capitalization and Indebtedness*".

**Auditors and Legal Advisors**

The auditor for the financial years 2008, 2009 and 2010 was AS PricewaterhouseCoopers, address Pärnu mnt 15, Tallinn, Estonia. The principal legal advisor to the Company is Advokaadibüroo Raidla Lejins & Norcous OÜ, address Roosikrantsi 2, Tallinn, Estonia.

**Information Available for Inspection**

The Articles of Association of the Company, the annual reports, including audited consolidated financial statements, of the Company for the financial years ended 31 December 2008, 2009 and 2010, the results of the Q1 of 2011 and the sales figures of April 2011 and May2011 are available on the NASDAQ OMX Tallinn's website (www.nasdaqomxbaltic.com) and on the website of the Company (www.baltikagroup.com).

## Summary of the Selected Financial Information

Balance Sheet data

| in EUR thousands | 31.03.2011<br>unaudited | 31.03.2010<br>unaudited | 31.12.2010<br>audited | 31.12.2009<br>audited | 31.12.2008<br>audited |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and bank | 262 | 229 | 823 | 385 | 554 |
| Trade and other receivables | 3,120 | 4,278 | 3,119 | 3,511 | 6,287 |
| Inventories | 10,209 | 11,757 | 10,804 | 12,026 | 18,434 |
| **Total current assets** | **13,591** | **16,264** | **14,746** | **15,922** | **25,275** |
| **Non-current assets** | | | | | |
| Deferred income tax assets | 838 | 1,054 | 838 | 1,054 | 355 |
| Other non-current asset | 761 | 468 | 780 | 494 | 390 |
| Investment property | 7,069 | 6,602 | 7,069 | 6,602 | 8,570 |
| Property, plant and equipment | 11,539 | 15,307 | 12,121 | 16,819 | 11,541 |
| Intangible assets | 3,838 | 4,073 | 3,898 | 3,971 | 3,809 |
| **Total non-current assets** | **24,045** | **27,504** | **24,706** | **28,940** | **24,665** |
| **TOTAL ASSETS** | **37,636** | **43,768** | **39,452** | **44,862** | **49,940** |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Borrowings | 2,067 | 9,465 | 2,125 | 7,857 | 6,645 |
| Trade and other payables | 7,588 | 10,904 | 6,981 | 10,186 | 13,290 |
| **Total current liabilities** | **9,655** | **20,369** | **9,106** | **18,043** | **19,935** |
| **Non-current liabilities** | | | | | |
| Borrowings | 17,819 | 13,460 | 17,953 | 14,888 | 10,762 |
| Other liabilities | 4 | 13 | 37 | 7 | 0 |
| Deferred income tax liability | 0 | 0 | 0 | 0 | 140 |
| **Total non-current liabilities** | **17,823** | **13,473** | **17,990** | **14,895** | **10,902** |
| **TOTAL LIABILITIES** | **27,478** | **33,842** | **27,096** | **32,938** | **30,837** |
| | | | | | |
| **EQUITY** | | | | | |
| Share capital at par value | 20,129 | 14,473 | 20,129 | 14,473 | 11,916 |
| Share premium | 1,366 | 67 | 1,332 | 67 | 0 |
| Reserves | 2,784 | 2,784 | 2,784 | 2,784 | 1,670 |
| Retained earnings | -11,305 | -4,961 | -4,961 | 5,208 | 6,949 |
| Net loss for the period | -2,364 | -2,042 | -6,344 | -10,169 | -1,211 |
| Currency translation differences | -614 | -572 | -746 | -601 | -458 |
| **Total equity attributable to equity holders of the parent** | **9,996** | **9,749** | **12,194** | **11,762** | **18,866** |
| Non-controlling interest | 162 | 177 | 162 | 162 | 237 |
| **TOTAL EQUITY** | **10,158** | **9,926** | **12,356** | **11,924** | **19,103** |
| **TOTAL LIABILITIES AND EQUITY** | **37,636** | **43,768** | **39,452** | **44,862** | **49,940** |

Selected data from consolidated statement of comprehensive income

| in EUR thousands | 3m 2011 | 3m 2010 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|

| | unaudited | unaudited | audited | audited | audited |
|---|---|---|---|---|---|
| Revenue | 11,771 | 11,047 | 52,207 | 56,253 | 76,331 |
| Operating loss | -2,095 | -2,004 | -4,719 | -9,926 | -362 |
| Loss before income tax | -2,361 | -2,024 | -5,925 | -11,053 | -1,297 |
| Net loss | -2,364 | -2,027 | -6,332 | -10,244 | -1,372 |

## Selected data from consolidated cash flows

| in thousands | **3m 2011**<br>unaudited | **3m 2010**<br>unaudited | **2010**<br>audited | **2009**<br>audited | **2008**<br>audited |
|---|---|---|---|---|---|
| Cash generated from operating activities | -343 | -1,598 | -5,000 | -885 | 2,811 |
| Cash used in investing activities | -27 | 1,061 | 1,190 | -6,282 | -9,390 |
| Cash generated from financing activities | -210 | 171 | 4,055 | 7,062 | 5,335 |
| Effect of exchange gains (losses) on cash and cash equivalents | 19 | 210 | 193 | -64 | -216 |
| **Total** | **-561** | **-156** | **438** | **-169** | **-1,460** |

## Key figures and ratios (unaudited)

| | **2010** | **2009** | **2008** |
|---|---|---|---|
| **Key share data**(EUR) | | | |
| Number of shares outstanding (31 Dec) | 27,494,850 | 18,644,850 | 18,644,850 |
| Weighted average number of shares | 23,348,686 | 18,644,850 | 18,644,850 |
| Share price (31 Dec) | 1.14 | 0.73 | 1.15 |
| Market capitalisation, in thousands (31 Dec) | 31,317 | 13,611 | 21,442 |
| Earnings per share (EPS) | -0.27 | -0.54 | -0.06 |
| Change in EPS, % | 50% | -737% | -146% |
| P/E | Neg. | Neg. | Neg. |
| Book value per share | 0.45 | 0.64 | 1.02 |
| P/B | 2.5 | 1.1 | 1.1 |
| Dividend per share (DPS) | 0 | 0 | 0 |
| Dividend yield | 0% | 0% | 0% |
| Dividend payout ratio | 0% | 0% | 0% |

See “*Selected consolidated financial information*” for the explanation of the formulas used.

# 2 RISK FACTORS

Investment in the Offer Shares carries a high degree of risk because any of the risks set out below may have an adverse impact on the Group's operations as well as its financial position and financial performance. Investors should note that while the risks described below are the main ones, they do not constitute an exhaustive list of the risks to which the Group may be exposed and which may need to be addressed. There may be risks that the Group is currently not aware of or does not consider significant at present but which could likewise have an effect on the Group or the price of the shares to be listed. Nor is it possible to preclude the emergence of certain unforeseen difficulties that could have an impact on the Group's financial performance.

### 2.1.1 OPERATIONAL RISKS

#### *2.1.1.1* *Competition*

The Group earns most of its revenue from fashion retailing and faces intense competition in all its markets. The Group's main competitors are large international fashion retail groups whose financing and marketing options are better than those of Group entities. They may have advantages in managing their operating costs and because of economies of scale they may be able to negotiate more favourable terms from suppliers. Should the market situation change and an international fashion retailer decide to grow its market share aggressively by lowering the price, the Group could find it difficult to compete and could lose market share, which in turn could have an adverse impact on its financial position. The Group is not able to guarantee to investors that it can compete successfully with current or future competitors or that increasing competition will not have an adverse effect on its operations, financial position or financial performance. If the Group is unable to remain competitive, it may find it difficult to increase or maintain the current level of its revenue.

#### *2.1.1.2* *Consumers' purchasing behaviour*

The global financial downturn caused significant changes in consumer spending and behaviour, customers were more focussed on their needs and less inclined to make emotional, less considered purchases. This behaviour has in the main returned to normal, and in most brands spending has returned to more normal patterns, with new collections selling well. However, it should be recognised that any future economic downturn, or faltering in the recovery of our markets, would most likely produce similar behaviours and thus constrain sales once again.

The Group, as a retailer and as such its cash flows are heavily dependent on its retail performance, the latter is essential because retail cash flows are used to finance the purchase of new inventory.

#### *2.1.1.3* *Dependence on suppliers*

In conducting its business, the Group relies on a number of key suppliers that provide the Group with products and materials. The Group's management is of the opinion that the Group has several alternative suppliers and is therefore not directly dependent on any single supplier. However, there is no guarantee that the Group could find a replacement for a cost-effective key supplier, which could lead to an increase in costs and a decrease in profitability.

#### *2.1.1.4* *Dependence on key personnel*

Baltika's success depends on a range of key competencies and the people who possess them. Over the years, the Group has acquired expertise and experience and the departure of any of the key personnel could have a disruptive effect on the Group's performance.

New professionals are hard to find because the number of people that have retailing, particularly fashion retailing, competencies is extremely limited. In Estonia, fashion retail training is not available and there are no companies similar to Baltika. For Baltika, the main strategic areas are brand management, design, inventory management and retailing.

Even if a person with appropriate competencies is found, additional in-house training has to be provided because each market has specific features which need to be considered. Such training is resource-intensive and the contribution of the new employee can be seen after a year only.

Baltika has consistently striven to mitigate the risk through effective teamwork, employee development, training and knowledge sharing.

Also, the departure of any key executive may cause limited but noticeable damage to the Group's management quality and the motivation of the remaining staff.

##### *2.1.1.5 Financing and loan agreements*

The Group's loan and lease agreements and guarantees include various restrictive covenants and impose the obligation to obtain the creditor's prior consent for certain activities such as taking additional loans, issuing new shares, distributing dividends, changing the Group's structure or field of activity and merging with another company. The share capital increase in the form of share issue described in this public offering prospectus is agreed with the Company's major creditors.

All loan, lease and guarantee agreements signed with financing institutions include the usual default and cross-default provisions. The cross-default provisions expose the Group to the risk of default that depends on meeting the obligations taken under agreements signed with other financing institutions. Most agreements define taking additional debt obligations without the creditor's prior consent as breach of contract. Breach of a loan, lease or guarantee agreement or submission of an early repayment claim by a creditor may have a significant adverse impact on the Group's operations, financial performance and financial position.

The Group has entered into financing agreements with various financing institutions. Inability to meet the obligations taken under those agreements may result in the realization of the collateral put up by the Group through enforcement proceedings. Most of the interest rates of the loans taken by Group entities are linked to the EURIBOR base rate. Accordingly, a rise in the EURIBOR base rate will result in growth in the Group's finance costs. In addition, the Group is exposed to the exchange rate risk.

### 2.1.2 INDUSTRY-SPECIFIC RISKS

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.

### 2.1.3 RISKS INHERENT IN FOREIGN OPERATIONS

Besides Estonia the Group operates in Latvia, Lithuania, Russia and Ukraine. The Group will discontinue its operations in the Polish market as of 31 July 2011. The Group's Russian and Ukrainian operations may be influenced by the instability of their economic environment which in turn may have an adverse impact on the Group's financial position and financial performance.

#### Risks relating to doing business in the Baltic states

Investors investing in emerging markets such as Estonia, Latvia and Lithuania should recognise that these markets are subject to greater risks than more mature markets, including legal, economic and political risks. Political risks, though, do not seem to be very relevant in the Baltic states like they are in Russia and Ukraine.

For purposes of its accession to the European Union, Estonia, Latvia and Lithuania implemented significant social and economic changes. The civil code and corporate, competition, securities and other laws in the Baltic states have been substantially revised during the last decade as part of these countries' transition to a market economy and to meet EU requirements and standards. As a result, the volume of legislation and other regulations has increased and is expected to increase further pursuant to the obligation to apply European Community law. In addition, the newest legislation remains in part largely untested in courts and no clear administrative or court interpretation practice has evolved.

Estonian, Latvian and Lithuanian businesses are in the process of adopting the business standards and practices of the European Union. Many companies, including Baltika, are still adopting and developing management tools for corporate governance, internal controls and risk management.

#### Risks relating to doing business in Russia and Ukraine

Baltika has business operations in Russia and Ukraine which form a significant part of the Company's operations. Investors investing in emerging markets, such as Russia and Ukraine should recognise that these markets are subject to significantly greater legal, economic and political risks than those in more mature markets.

**Russia**

In the past 20 years Russia has underwent significant reforms transforming the Russian economy from a bankrupt relic of the USSR into a global giant. Now, Russia is one of the ten largest economies in the world and although it strongly felt the impact of the recent recession, its economic recovery was supported by increased commodity prices and aggressive governmental expenditure.

One of the biggest risks in Russia would appear to be its macro environment which might be volatile due to its massive over-reliance on its commodity sector – which accounts for 90% of exports, of which fuels account for about two thirds. Russia's reliance on its fuels sector poses problems for most other aspects of its economy, especially its currency. The rate of inflation may remain quite variable due to its sensitivity to commodity prices. A sharp and sustained fall in oil prices would undermine the economic recovery.

Another issue is Russia's challenging business environment. Russia's management practices rank very low in international surveys, there's also a list of corporate scandals, all stemming from the government's interference in business. The biggest risks remain corruption and the arbitrary rule of law.

The political environment seems to be stable, however, stemming from historical reasons Estonia has special relations with its neighbour Russia which might have negative effect also on Baltika's operations in Russia. This became evident in 2007 when Baltika's development in Russia was hampered by political tensions in Russian-Estonian relations, caused by the bronze soldier events in Tallinn in April 2007.

**Ukraine**

Ukraine still lacks the necessary legal infrastructure and regulatory framework which are essential to support market institutions, the effective transition to a market economy and broad based social and economic reforms. Although the government has generally been committed to economic reform, the implementation of reform has consistently been impeded by a lack of political consensus and controversies. No assurance can be given that reform policies favouring privatisation, industrial restructuring and tax reform will continue to be implemented and, even if implemented, that those policies will be successful. The legal system in this country remains in transition and is therefore subject to greater risks and uncertainties than those in a more mature legal system.

Since the independence in 1991, governmental instability has been a feature of the Ukrainian political scene and, as a result, Ukraine has had numerous prime-ministers. Currently there is consolidation of power by a political force that is regarded as pro-Russian. It looks like better relations with Russia are beneficial for the country's economy for a number of reasons besides lower gas prices. These include more investment from Russia and the restoration of formerly existing economic links. Besides, Ukraine is expected to make substantial efforts to maintain good working relationships with both the European Union and the United States. This all should make the country and its economy more stable.

### 2.1.4 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 Baltika considers all the risks as significant risks for the Group.

The basis for risk management at the Company are the requirements set by the NASDAQ OMX 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 Board of Baltika plays a major role in managing risks and approving risk procedures. The Council of Baltika monitors the management's risk management activities.

#### *2.1.4.1 Market Risk*

##### *2.1.4.1.1 Foreign exchange risk*

In the first quarter of 2011 sales in foreign currencies constitute 68% of the revenues of the Company 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. The majority of raw materials used in production are acquired from countries located outside of the European Union. The major foreign currency for purchases is USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled only in euros. As the Company'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.

No instruments were used to hedge foreign currency risks in 2011, 2010, 2009 and 2008. Based on the management's assessment, the effect of losses resulting from changes in foreign currencies does not exceed the risk tolerance determined by the Group. If feasible, foreign currencies collected are used for the settling of liabilities measured 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.

##### *2.1.4.1.2 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 March 2011 and at 31 December 2010, were subject to a floating interest rate based on Euribor, which is fixed every six months, as at 31 December 2009 on Euribor, which is fixed every three or six months and as at 31 December 2008 on Euribor, which is fixed every one, three or six months. 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.

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

*2.1.4.2 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.

*2.1.4.2.1 Cash and cash equivalents*

For banks and financial institutions, only independently rated parties with a minimum rating (long-term deposits credit rating as published by Moody's Investor Service website) 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.

*2.1.4.2.2 Trade receivables*

The most significant credit risk concentration to the Group arises from the wholesale activities in Eastern Europe. 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 at 31 March 2011 the maximum exposure to credit risk from trade receivables amounted to 1,280 thousand euros (31 December 2010: 1,253 thousand euros, 31 December 2009: 1,865 thousand euros, 31 December 2008: 3,218 thousand euros) on a net basis after the allowances. The trade receivables from Eastern European clients amounted to 813 thousand euros (31 December 2010: 883 thousand euros, 31 December 2009: 1,328 thousand euros, 31 December 2008: 2,582 thousand euros), including balances with the Eastern European wholesale partners of 788 thousand euros (31 December 2010: 850 thousand euros, 31 December 2009: 1,216 thousand euros, 31 December 2008: 2,434 thousand euros) and balances with retail customers for bank card payments of 25 thousand euros (31 December 2010: 33 thousand euros, 31 December 2009: 112 thousand euros, 31 December 2008: 148 thousand euros).

Receivables that are six months or more past due are written down in accordance with the Group's accounting policies. The difference between the carrying amount and recoverable amount of receivables is recognised in an allowance for impairment of receivables.

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.

*2.1.4.3 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 Company.

#### *2.1.4.4 Risk related to offering*

One purpose of the issue is to obtain additional equity for financing growth and to support the operations of the Group through improved liquidity. The issue that was decided by the shareholders on 11 May 2011 for the issuance of 3,150,000 ordinary shares, failed as there were very few subscriptions.
Provided that KJK Fund Sicav-SIF, E.Miroglio S.A. and East Capital Baltikum Fund shall subscribe for Offer Shares according to their obligations described in Section 3.1.1, there can not be any undersubscription. However, in case the current issue is not fully subscribed, the Company will use the money raised from the issue to finance buying of inventory. It also means that there will be fewer resources for funding development projects, which will cause slower growth of the Company .

The Company is going to publish the unaudited consolidated interim financial results of Q2 of 2011 on 25 July 2011. There is a risk that some investors may cancel the Subscription Undertakings before the end of the Offer Period after the unaudited consolidated interim financial results of Q2 of 2011 are made public.

#### *2.1.4.5 Potential tax risk*

Tax authorities may audit and inspect the Company's tax positions. If the tax authorities challenge satisfaction of the Company's tax obligations for any reason, potential tax assessments may have an adverse effect on the Company's financial performance and, accordingly, the market value of its shares.

### 2.1.5 RISKS RELATED TO SHARES

#### *2.1.5.1 Volatility of the share price*

There is no certainty about future movements in the price of a share that has been issued and listed. The general market price of shares may depend on several factors such as future interest rates, sector-specific indicators and market conditions, the Group's performance and cash flows, and the market terms of securities issued by other companies operating in the same or similar industry. The share price may fluctuate even if the Group's operating results meet expectations.

#### *2.1.5.2 Future dividend payouts*

There is no certainty that the Company will pay dividends on the shares. Nor is there any certainty about the size of a dividend payment. The distribution and size of dividends are decided by the Company's Management Board and Council and are, ultimately, at the discretion of the general meeting of the Company's shareholders. Dividend distributions depend on the Company's unrestricted cash funds and estimated cash needs, the Group's financial performance and financial position, any restrictive covenants provided in the Company's loan agreements and other factors.

*2.1.5.3 Analyses published in respect of the Group*

Share trading depends extensively on the reports and research published by sector and securities analysts in respect of the Group and its operations. The Group has no control over the activities of such analysts. If one or several analysts covering the Group lower the target price of the share, the share price may drop.

# 3 OFFERING

## 3.1 OFFER SHARES

### 3.1.1 OFFER SHARES

| | |
|---|---|
| Company name | AS Baltika |
| Registration number | 10144415 |
| Type of Offer Shares | ordinary shares |
| Number of Offer Shares | up to 4,300,000 |
| Post-offer percentage of share capital (maximum) | 12.0% |
| Nominal value of the share | EUR 0.70 |
| Offer price per each share | EUR 0.70 |
| Offer period | 19 July 2011 10.00 (Estonian time) until 2 August 2011 14.00 (Estonian time) |
| Payment term | at the latest 3 August 2011 |

The current share capital of the Company comprises 31,494,850 shares with the nominal value of 0.70 euro per share.

The Offering comprises up to 4,300,000 Offer Shares, which are being offered to the Company's shareholders and to the public in Estonia with the issue of new ordinary shares. Also, investors outside Estonia may participate provided that they act in accordance with the laws of their jurisdiction. The Offering shall take place in Estonia.

The Company's shareholders fixed in the share register on 11 July 2011 at 23:59 (Estonian time) shall be granted the pre-emptive right to subscribe for the Offer Shares. One Subscription Right per each Share shall be issued. A total of 31,494,850 Subscription Rights will be issued to the Company's shareholders. Investors may submit a Subscription Undertaking with or without Subscription Rights. The Subscription Rights shall be transferred on 18 July 2011 at 23:59 (Estonian time) at the latest to those securities accounts where the shares of Baltika were registered on 11 July 2011 at 23:59 (Estonian time).In order to obtain a preferential right for the subscription of a new share, it is necessary to have seven point thirty two (7.32) Subscription Rights.

Upon completion of the Offering, and assuming that all Offer Shares are subscribed for, there will be up to 35,794,850 Company's shares issued and outstanding. The Offer Shares represent approximately 12.0% of the Company's share capital following the Offering and approximately 13.7% of the Company's share capital prior to the Offering.

The allocation of the Offer Shares has been predetermined, i.e. in case all Subscription Rights are used to subscribe for the Offer Shares, there will be no remaining Offer Shares (the "Remaining Shares") to allocate in the general tranche (i) to new investors who subscribed for the Offer Shares without Subscription Rights and (ii) to investors who subscribed for the Offer Shares more than entitled with respective Subscription Rights. In case there will be Remaining Shares to allocate in the general tranche, the Company in consultation with the advisers will decide the allocation of the Remaining Shares. This will take place following the end of the Offer Period (as defined below).

Pursuant to law, if it becomes evident that Offer Shares are subscribed for in excess of the planned increase of share capital, the Council has the right to decide on the distribution of shares based on the number of subscriptions of shares and on the cancellation of oversubscribed shares.

When deciding the allocation of the Remaining Shares, the Company and the advisers will consider, among other, (listed in no particular order of importance) (i) the demand for the Remaining Shares, (ii) the variance in the size of orders in the Offering (iii) a proportion that gives the Company a wide shareholder base that can be expected to contribute to a stable and favourable development of the share price following the Offering.

The new issue of shares was decided by the Council of Baltika on 27 June 2011 and amended on 13 July 2011. The decisions of the Council were announced on 27 June 2011 and 13 July 2011, respectively, through the NASDAQ OMX Tallinn company announcement facility.

The Offering is not guaranteed by any person in the meaning of the Securities Market Act. However, KJK Fund Sicav-SIF has signed the obligation to subscribe for 2,142,857 Offer Shares, E.Miroglio S.A. has signed the obligation to subscribe for 2,157,143 Offer Shares and East Capital Baltikum Fund has signed the obligation to subscribe for 330,000 Offer Shares. In fulfilling the above obligations they would submit the Subscription Undertakings to these amounts of Offer Shares and would participate in the Offering as all other Preferred Allocation Investors. OÜ BMIG has informed that it will not participate in the Offering. The Company expects to announce the allocation of the Offer Shares on 3 August 2011 through the NASDAQ OMX Tallinn company announcement facility.

## 3.2 TERMS AND CONDITIONS OF THE OFFERING

### 3.2.1 RIGHT TO PARTICIPATE IN THE OFFERING

The Offering is made to the Company's existing shareholders fixed in the shareholders' list on 11 July 2011 at 23:59 (Estonian time) and to new investors. Investors outside Estonia may participate in the Offering only in case it is allowed under applicable laws to such investors bearing in mind that this Offering is not directed to persons whose involvement in the Offering requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law. Investors can subscribe for the Offer Shares with or without respective Subscription Rights. The Offering shall take place in Estonia.

### 3.2.2 OFFER PERIOD

Investors with Subscription Rights may submit Subscription Undertakings for the Offer Shares during the two weeks from the commencement of the Offer Period, i.e. during the period which commences at 10:00 (Estonian time) on 19 July 2011 and terminates at 14:00 (Estonian time) on 2 August 2011.

Investors without Subscription Rights may submit Subscription Undertakings for the Offer Shares during the period which commences at 10:00 (Estonian time) on 19 July 2011 and terminates at 14:00 (Estonian time) on 2 August 2011.

### 3.2.3 CANCELLATION OF THE OFFER SHARES OR PROLONGING THE OFFER PERIOD

Pursuant to law, a share subscription shall be deemed to be an undersubscription if all Offer Shares are not subscribed for during the Offer period. Provided that KJK Fund Sicav-SIF, E.Miroglio S.A. and East Capital Baltikum Fund shall subscribe for Offer Shares according to their obligations described in Section 3.1.1, there can not be any undersubscription.

However, if it becomes evident that the total number of shares subscribed for are less than the planned increase of share capital, the Council may extend the Offer Period or cancel Offer Shares which are not subscribed for during the Offer Period. The Council may exercise these rights within fifteen days after the end of the subscription term. In case the Council uses one of the said rights, the Company shall make such an announcement through NASDAQ OMX Tallinn. In case the Council shall prolong the Offer Period, or cancel Offer Shares such an announcement shall also be made public in one daily newspaper circulated throughout Estonia.

The Company shall not cancel the Offering in its entirety. In case the Offer Shares are not subscribed for in total amount of Offer Shares, the undersubscribed Offer Shares shall be cancelled, provided that the Offer Period is not prolonged.

The cancellation shall be announced on the web-site of the Estonian Financial Supervision Authority (www.fi.ee) and through NASDAQ OMX Tallinn.

### 3.2.4 OFFER PRICE

The Offer price will be 0.70 euro per Offer Share.

### 3.2.5 SUBMISSION OF SUBSCRIPTION UNDERTAKINGS

The Company will invite investors to submit Subscription Undertakings during the Offer Period in accordance with these Terms.

***No action has been taken in any jurisdiction by the Company that would permit the public offering of the Offer Shares other than in Estonia, and the Offering is not being made in any jurisdiction in which it would not be permissible to offer the Subscription Rights or the Offer Shares. This Offering is not directed to persons whose involvement in the offer requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law.***

In order to submit a Subscription Undertaking, an investor must have a securities account with the Estonian Central Register of Securities (the "ECRS"). Such a securities account can be opened through any custodian of the ECRS (a "Custodian"). As at the date of this Prospectus the following financial institutions operate as qualifying Custodians: AS Citadele banka Eesti filiaal, AS Eesti Krediidipank, Swedbank AS, AS LHV Pank, Nordea Bank Finland Plc Eesti filiaal, Danske Bank A/S Eesti filiaal, Marfin Pank Eesti AS, AS SEB Pank, Svenska Handelsbanken AB (publ), Branch Operations in Finland, Tallinna Äripanga AS.

An investor wishing to submit a Subscription Undertaking should contact the Custodian operating its ECRS securities account and register a transaction instruction for the purchase of the Offer Shares in the form set out below:

| | |
|---|---|
| Owner of the securities account: | name of the investor |
| Securities account: | number of the investor's securities account |
| Custodian: | name of the investor's Custodian |
| Security: | additional ordinary share of AS Baltika |
| ISIN code: | EE3800046643 |
| Number of securities: | maximum number of Offer Shares which the investor wishes to acquire |
| Price (per share): | 0.70 euro |
| Transaction amount: | maximum number of Offer Shares which the investor wishes to acquire multiplied by the Offer Price |
| Counterparty: | AS Baltika |
| Custodian of the counterparty: | AS LHV Pank |
| Securities account of the counterparty: | 99101637642 |
| Value date of the transaction: | 3 August 2011 |
| Type of transaction: | "PURCHASE" |
| Type of settlement: | "delivery versus payment" |

It is the investor's responsibility to ensure that all information contained in his Subscription Undertaking is correct, complete and readable. The Company shall have the right to reject any Subscription Undertaking which is incomplete, incorrect or unclear. A Subscription Undertaking will be deemed submitted and binding on the investor from the moment the registrar of the ECRS receives a valid transaction instruction from the investor's Custodian. An investor bears all costs and fees charged by the Custodian in connection with the submission of the Subscription Undertaking.

Possible multiple Subscription Undertakings submitted by one investor shall be merged for the purposes of allocation only within each securities account opened with the custodian of the ECRS and not in case of multiple Subscription Undertakings submitted by the investor from different securities accounts opened with the custodian of the ECRS.

By submitting a Subscription Undertaking an investor:

- accepts these Terms and agrees with the Company that these Terms will be applicable to the investor's acquisition of any Offer Shares;
- acknowledges that the Offering does not constitute a legally binding offer on behalf of the Company for the sale of the Offer Shares, and that the submission of a Subscription Undertaking does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of Offer Shares;
- accepts that the number of Offer Shares indicated in the Subscription Undertaking is considered to be the maximum number of Offer Shares which the investor would like to acquire and that the investor may receive less Offer Shares than this maximum amount;
- undertakes to pay for the Offer Shares allocated to them in accordance with the terms and conditions of the present Offering;

- authorises and instructs their Custodian to forward the registered transaction instruction to the registrar of the ECRS;
- authorises the Custodian and the registrar of the ECRS to amend the information contained in the investor's transaction instruction, including (a) changing the value date of the transaction and (b) inserting in the transaction instruction (i) the number of Offer Shares allocated to the investor as the number of securities, (ii) the result of the Offer Price times the number of Offer Shares allocated to the investor as the transaction amount.

### 3.2.6 AMENDMENT OR CANCELLATION OF SUBSCRIPTION UNDERTAKINGS

An investor may amend or cancel their Subscription Undertaking any time before the end of the Offer Period., except KJK Fund Sicav-SIF, E.Miroglio S.A. and East Capital Baltikum Fund to the extent such amendment or cancellation would result in breach of their obligations to subscribe for Offer Shares described in Section 3.1.1. To do so, the investor must contact his/her Custodian through whom the Subscription Undertaking in question was made, and complete all the procedures required by this Custodian for amending or cancelling a Subscription Undertaking. All fees payable in connection with an amendment and/or cancellation of a Subscription Undertaking will be entirely the responsibility of the investor.

Any amendment to or cancellation of the Subscription Undertaking becomes effective at the moment when the transaction instruction of the subject investor has been amended or cancelled at the ECRS on the basis of the respective order received from the investor's Custodian.

### 3.2.7 PAYMENT

By submitting a Subscription Undertaking, an investor authorises and instructs the credit institution operating the investor's cash bank account connected to his/her securities account (which may or may not also be the investor's Custodian) to block the transaction amount on the investor's cash account until the settlement is completed on or about 3 August 2011 or funds are released in accordance with these Terms. The transaction amount to be blocked will be equal to the Offer Price multiplied by the maximum number of Offer Shares. An investor may submit a Subscription Undertaking only when there are sufficient funds to cover the transaction amount on the cash account connected to the investor's ECRS securities account.

### 3.2.8 RELEASE OF FUNDS

If the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Offer Shares applied for, the funds blocked on the investor's cash account, or the part thereof (the amount in excess of payment for the allocated Offer Shares) shall be released by the Custodian within about three banking days after the settlement.

The Company assumes no liability for the release of the investor's funds by the Custodian or for the payment of any interest accrued on the released funds for the time when the funds were blocked.

### 3.2.9 DISTRIBUTION AND ALLOCATION

Only a Subscription Undertaking submitted in full compliance with these Terms will be permitted to participate in the allocation process. The Company reserves the right to reject any Subscription Undertaking that does not comply with these Terms.

Each seven point thirty two (7.32) Subscription Rights will entitle the investors to be allocated one Offer Share at the Offer Price provided that investors have submitted a valid Subscription Undertaking during the Offer Period. Furthermore see "Preferential Allocation".

Each investor will be allocated a full number of Offer Shares without fractions. In case the number of Subscription Rights shall not grant the right to subscribe to a round number of Offer Shares, the number of allocated Offer Shares will be rounded down to the closest round number of Offer Shares and these remaining Offer Shares which cannot be allocated because of the rounding, will be allocated in the course of the Preferential Allocation between the Preferred Allocation Investors ("Preferred Allocation Investor"), who subscribed for more Offer Shares than entitled with respective Subscription Rights, at random.

The allocation of the Offer Shares shall be conducted after the expiry of the Offer Period on or about 3 August 2011.

### 3.2.10 PREFERENTIAL ALLOCATION

The Company's shareholders fixed in the shareholders' list on 11 July 2011 at 23:59 (Estonian time) shall be granted one Subscription Right per each Share held, therefore 31,494,850 Subscription Rights will be issued to the Company's shareholders.

Each 7.32 (seven point thirty two) Subscription Rights will entitle the investors to be allocated one Offer Share at the Offer Price provided that investors have submitted a valid Subscription Undertaking during the Offer Period. The Subscription Rights must be registered on the investor's securities account with a Custodian of the ECRS or the Custodian's securities account with a Custodian of the ECRS on 18 July 2011 at 23:59 at the latest ("Preferred Allocation Investor"). The Preferred Allocation Investor will be entitled to a preferential allocation of Offer Shares (the "Preferential Allocation") in the Offering before other investors.

In case the number of Subscription Rights shall not grant the right to subscribe to a round number of Offer Shares, the number of allocated Offer Shares will be rounded down to the closest round number of Offer Shares.

If a Preferred Allocation Investor subscribes for more Offer Shares than entitled with respective Subscription Rights, they participate in the allocation of the Offer Shares exceeding the Subscription Rights according to the principles of allocation in the general tranche. Regardless of the aforesaid, Rounded Shares are allocated between such Preferred Allocation Investors at random.

All Rights that are not used for the subscription of Offer Shares during the Offer Period will be cancelled on 5 August 2011 without any monetary compensation.

### 3.2.11 GENERAL TRANCHE

The Offer Shares that have not been allocated in the course of the Preferential Allocation (i.e. Remaining Shares) will be divided, in the first order, among Preferred Allocation Investors who subscribed for more Offer Shares than entitled with respective Subscription Rights and, in the second order, among investors who subscribed for Offer Shares without the Subscription Rights. In case all Subscription Rights are used to subscribe for the Offer Shares, there will be no Remaining Shares to allocate in the general tranche. In case KJK Fund Sicav-SIF, E.Miroglio S.A. and East Capital Baltikum Fund fulfil their obligations to subscribe as described in Section 3.1.1., then there will be no Remaining Shares to be allocated in the second order.

In all cases the allocation of the Remaining Shares will be decided by the Company in consultation with the advisers considering that each of the Investors participating in the respective part of the general tranche (i.e. either Preferred Allocation Investors or other investors, as appropriate) shall be allocated Offer Shares proportionally at the rate that the Offer Shares that were subscribed for by such Investor and that were not allocated in the Preferential Allocation relate to the total number of Offer Shares that were subscribed for by all Investors participating in the respective part of the general tranche and that were not allocated in the Preferential Allocation.

### 3.2.12 SETTLEMENT AND TRADING

The Offer Shares allocated to the investors shall be transferred to their securities accounts on or about 3 August 2011 through the "delivery versus payment" method simultaneously with effecting the payment for such Offer Shares.

Possible multiple Subscription Undertakings submitted by the investor shall be merged for the purposes of allocation only within each securities account opened with the custodian of the ECRS and not in case of multiple Subscription Undertakings submitted by the investor from different securities accounts opened with the custodian of ECRS.

The number of Offer Shares to be transferred to each securities account may be rounded down to the closest full number of Offer Shares. If the settlement cannot be completed due to insufficient funds on the investor's cash account, the Subscription Undertaking made via the securities account connected to such cash account will be rejected and the investor will lose all rights to subscribe for Offer Shares pursuant to that Subscription Undertaking.

The Subscription Rights granted to a Company's shareholder fixed in the list of shareholders on 11 July 2011 at 23:59 (Estonian time) shall be transferred to his/her securities accounts by 18 July 2011 at 23:59 (Estonian time) without monetary payment.

Trading in the Offer Shares is expected to commence on NASDAQ OMX Tallinn on or about 19 august 2011.

Trading in the Subscription Rights is expected to commence on NASDAQ OMX Tallinn on 19 July 2011 and is expected to end on 28 July 2011. Subscription Rights will be traded under the same terms and conditions as any other shares traded on NASDAQ OMX Tallinn.

### 3.2.13 KEY DATES

The following are indicative key dates related to the Offering.

| | |
|---|---|
| 27 June 2011 | - the Council decides the issuance of new ordinary shares up to 4,300,000 shares |
| 11 July 2011 at 23:59 | - the list of shareholders is fixed for the use of pre-emptive right to subscribe for the Offer Shares |

| | |
|---|---|
| 18 July 2011 | - starting of the time period when the Subscription Rights are transferred to the securities accounts of the shareholders entitled to subscribe for the Offer Shares |
| 18 July 2011 at 23:59 (Estonian time) | - the time period ends when the Subscription Rights are transferred to the securities accounts of the shareholders entitled to subscribe for the Offer Shares |
| 19 July 2011 | - Offer Period commences for the investors with Subscription Rights and for the investors without the Subscription Rights |
| 28 July 2011 | - the time period ends for the trading with Subscription Rights |
| 2 August 2011 | - Offer Period ends |
| 3 August 2011 | - publication of the results of the Offering |
| 3 August 2011 | - settlement of payment |
| 19 august 2011 | - trading in Offer Shares commences on NASDAQ OMX Tallinn |

### 3.2.14 BACKGROUND AND REASONS FOR THE OFFERING

The purpose of the Offering is to obtain additional equity for financing growth and to support the operations of the Group through improved liquidity.

In the Offering up to 4,300,000 new shares of the Company will be offered. The Offering and the related share capital increase was approved by the Company's Council on 27 June 2011. The decision of the Council has been published on the NASDAQ OMX Tallinn and on the Company's website on 27 June 2011.

### 3.2.15 USE OF PROCEEDS

The aggregate proceeds to the Company from the Offering are estimated to amount to approximately 3,010 thousand euros. This does not exclude the fees and expenses incurred in connection with the Offering and payable by the Company. The fees and expenses incurred in connection with the Offering and payable by the Company are estimated to amount to approximately 200 thousand euros (excluding applicable taxes).

The purpose of the Offering is to obtain additional equity for financing growth and to support the operations of the Group through improved liquidity. The proceeds from the Offering will go to finance further investments. See section “Capitalization and indebtedness”, “Strategic development” and section “Selected consolidated financial information” for additional information concerning financials and strategy.

The company will use 3,010 thousands euros raised from the issue: 1,500 thousands euros to guarantee financing buying of inventory quantities corresponding to increasing sales and additional money, raised from the issue, 1,510 thousands euros for financing development projects, including new store concepts for Monton and Mosaic.

Baltika is co-operating with international creative agency “Dan Pearlman” in developing and renewing its two largest brands, Monton and Mosaic, including new store concepts for both. Based on the new concepts, the company will gradually upgrade existing stores and is planning new store openings.

German agency Dan Pearlman, chosen to be the co-operation partner for the project, has a very strong portfolio in the fashion industry. The agency has done co-operation with brands like Campus by Marc O´Polo, Betty Barclay, Pimkie, 361°, Tally Weijl, Colin´s, Escada, New Yorker, Street One, Adidas, Puma and Reebok.

The Group will also finance its new development projects like Monton e-store, shop-in-shop and franchise concepts.

In case the issue is not fully subscribed, the company will use the money raised from the issue to finance buying of inventory. It also means that there will be fewer resources for funding development projects, which will cause slower growth of the company..

### 3.2.16 DIVIDENDS AND DIVIDEND POLICY

The Offer Shares will be eligible for dividends, if any, declared in respect of the financial year ended 31 December 2011, and for subsequent periods. Once the share capital increase relating to the issue of Offer Shares of the Company has been registered with the Estonian Commercial Register, the newly issued shares will rank equally with the outstanding Shares for any dividends.

The Company lacks long-term policy on distribution of dividends. In 2008, 2009 and 2010 the Company did not pay dividends to ordinary shares. The profits, if any, have been reinvested in the Group. The Company issued preference shares in 2009 which pursuant to the Articles of Association of the Company gave the right to receive for a period of two years a fixed dividend amount (10% of the nominal value of the share). Dividends have been paid to the shareholders of the preference shares in 2009 in the amount of 22 thousand euros and are payable 2011 in the amount of 291 thousand euros

The declaration and payment by the Company of any future dividends and the amount thereof will depend on the Company's results of operations, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Management Board to be relevant at the time. Therefore, dividends paid historically are not representative of dividends to be paid in the future.

Moreover, the Company has entered into a facility agreement with AS Swedbank and dividends can only be paid out with the consent of AS Swedbank.

### 3.2.17 CAPITALIZATION AND INDEBTEDNESS

The table below illustrates the Group’s capitalization and indebtedness as at 31 March 2011.

*The following information of Baltika Group should be read together with the information provided in the section ”Business and financial overview”, Consolidated Financial Statements and financial data presented in other sections of this Prospectus.*

**Capitalization**

| in EUR thousands | **31.03.2011** |
| --- | --- |

| | unaudited |
|---|---|
| Share capital at par value | 20,129 |
| Share premium | 1,366 |
| Reserves | 2,784 |
| Retained earnings | -13,669 |
| Currency translation differences | -614 |
| **Total** | **9,996** |
| | |
| **Non-controlling interest** | **162** |
| **Current borrowings*** | **2,067** |
| **Non-current borrowings*** | **17,819** |
| **Total capitalization** | **30,044** |

*All the borrowings are secured, see section *"Principal resources*".

Source: Consolidated Interim Financial Statements

## Indebtedness

| in EUR thousands | 31.03.2011 unaudited |
|---|---|
| A. Cash and cash equivalents | 262 |
| **B. Liquidity** | **262** |
| | |
| C. Current loans | 93 |
| D. Current portion of long-term bank loans | 1,592 |
| E. Other current financial liabilities | 382 |
| **F. Current borrowings (C) + (D) + (E)** | **2,067** |
| | |
| **G. Net current borrowings (F) - (B)** | **1,805** |
| | |
| H. Non-current bank loans | 17,602 |
| I. Other non-current financial liabilities | 217 |
| **J. Non-current borrowings (H) + (I)** | **17,819** |
| | |
| **K. NET FINANCIAL INDEBTEDNESS (G) + (J)** | **19,624** |

Source: Consolidated Interim Financial Statement

## Working capital

In the opinion of the Issuer, the working capital of the Group is sufficient for its present requirements (12 upcoming months). Historical working capital as at dates of balance sheet together with relevant ratios is presented in the table below.

| in EUR thousands | **31.03.2011** unaudited | **31.03.2010** unaudited | **31.12.2010** unaudited | **31.12.2009** unaudited | **31.12.2008** unaudited |
|---|---|---|---|---|---|
| Working capital | 3,936 | -4,105 | 5,640 | -2,121 | 5,340 |
| Current ratio | 1.41 | 0.80 | 1.62 | 0.88 | 1.27 |
| Quick ratio | 0.35 | 0.22 | 0.43 | 0.22 | 0.34 |

Source: the Company

Working capital = Current assets – current liabilities
Current ratio = Current assets / Current liabilities
Quick ratio = (Current assets – Inventory) / Current liabilities

At the end of the 2010 and at 31 March 2011 the working capital is positive and has improved compared to the year ago (at 31 December 2009 and 31 March 2010 the operating capital of the Group was negative).

Due to the liquidity problems (current financial liabilities were much greater than current receivables) in 2009 and 2010 the main objective was to strengthen the financial position and liquidity.

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 17,100 thousand euros and guarantee limit agreements of 2,936 thousand euros maturing on 31 December 2014 with AS Swedbank and Nordea Bank Finland Plc Estonian Branch.

Another measure implemented in order to strengthen the financial position and working capital was a share issue conducted in June 2010 by which the Group increased share capital by 8,850,000 shares, collecting 6,787 thousand euros of extra resources.

In 2010, the Group divested an industrial property at Ahtme, sold the coat manufacturing operation in Rakvere and divested a manufacturing property in Rakvere and the MasCara and Herold brands.

Seasonality factor has a great impact on the activities of the Group. Due to this, a major shortfall in working capital will come at the beginning of the year – the sale is weaker in the beginning of the year and stronger in the second half and the first half of the year is the time to invest into intake for the autumn and winter season.

### 3.2.18 GENERAL INFORMATION ON BALTIKA SHARES

Baltika has 31,494,850 shares. The share grants its owner the right to participate in the general meeting of shareholders of the Company, in the distribution of profit and, upon dissolution of the Company, in the distribution of the remaining assets, as well as other rights prescribed by law or the Articles of Association. The share grants its owner one (1) vote at the general meeting of shareholders of the Company. The shares have equal voting rights and equal right to receive dividends.

**Information on listed ordinary shares**

NASDAQ OMX symbol: BLT1T

ISIN: EE3100003609

Minimum trading quantity: 1

Number of shares: 31,494,850

Nominal value of shares: 0.70 euro

Voting rights per share: 1 vote

### 3.2.19 PRICE OF SHARE AND TRADING

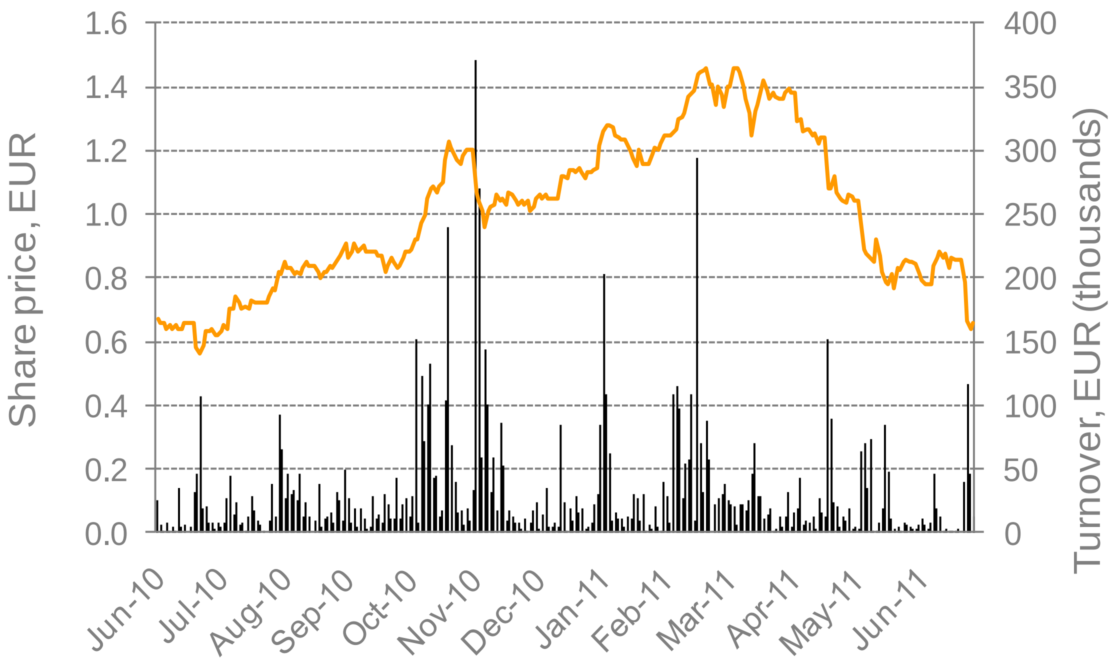
In 2010 the share price increased by 56.0% to 1.139 euros and the market value of the Group was 31,317 thousand euros at the end of 2010. At the same time the general index of NASDAQ OMX Tallinn increased by 72.6%. By the end of June 2011 the share price fell to 0.066 euros.

### 3.2.20 ISSUE OF OFFER SHARES AND DILUTION

In connection with the Offering, the Company will issue up to 4,300,000 new shares. The Offering and the related share capital increase was approved by the Company's Council on 27 June 2011. The decision of the Council has been published on the NASDAQ OMX Tallinn and on the Company's website on 27 June 2011.

The Offer Shares represent 13.7% of the Company's share capital prior to the Offering and approximately 12.0% of the Company's share capital following the Offering assuming that the Offering is exercised in full. In case a Company's existing shareholder will not subscribe for the Offer Shares with all Subscription Rights issued to it, its shareholding will be diluted approximately 12.0% after the completion of the Offering assuming that the Offering is subscribed in full.

**Share price and turnover**




**Share trading history**

| EUR | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| High | 1.519 | 1.230 | 1.270 | 3.950 |
| Low | 0.600 | 0.540 | 0.440 | 0.730 |
| Average | 1.140 | 0.820 | 0.704 | 2.092 |
| Period-end price | 0.656 | 1.139 | 0.730 | 1.150 |
| Change, % | -42.4% | 56.0% | -36.5% | -70.5% |
| Trade volume | 3,330,969 | 9,389,183 | 10,671,279 | 12,572,468 |
| Turnover, in thousands | 3,747 | 7,840 | 7,567 | 23,615 |

[1]Share trading until 30 June 2011.

# 4 INDUSTRY OVERVIEW

**Baltic retail sector overview**

When the economy is strong, employment and incomes rise and extra disposable income becomes available to spend on clothing and footwear. This was the visible situation in the Baltic states – the economies expanded and spending thrived. However, the situation began to unravel when banks became more prudent in lending money, the global credit crisis struck, unemployment rose and the economy cooled down. With increased uncertainty in the future, consumers cut back on spending and one of the worst hit sectors was clothing.

The global economic crises, which commenced in 2008, culminated in 2009 and strongly impacted all Baltika's markets. The Baltic countries accounted for 60% of the Group's retail revenue for 2010, the Eastern European markets Russia and Ukraine for 37% and Poland for 3%. Additionally, Baltika's sales figures were significantly influenced by the currency devaluations performed in Russia and Ukraine as well as in Poland at the end of 2008. As a result of the economic downturn Baltika withdrew from the Czech Republic in 2009 and will pull out of Poland in 2011.

However, the last months of 2010 showed that there are signs of stabilization in the sector. The free fall has ended, and a base has been formed from which a cautious recovery in clothing and footwear spending can take place from 2011. For Baltika for the first time in the past two years the fourth quarter of 2010 ended with year-over-year sales growth that amounted to 7%. The Group's sales continued to improve in the first quarter of 2011: compared with the first quarter of the previous year the Group achieved 8% retail sales growth although the sales area was 8% smaller on average.

Among the three Baltic states, Estonia has led the way in terms of economic recovery and general sentiment among consumers and retailers alike. Moderate growth in consumer spending is expected in the first half of 2011, which should accelerate in the second half. While consumers will remain cautious, a more pent-up spending over the coming year is expected. In Latvia, domestic demand is currently very frail and there is no rapid improvement expected. Declining unemployment and improving consumer confidence are factors that support the recovery, whereas government cutbacks and bubbling inflation act as a headwind. Going forward, Lithuania's economy will increasingly feel the benefits of a recovery in domestic demand. Nonetheless, private consumption is being weighed down by weak wage growth, relatively low levels of employment and tight credit. This will need to change in order for consumption to pick up. The decline in unemployment will support the recovery in private consumption in the future.

**Russia and Ukraine**

Russia is one of the ten largest economies in the world. Additionally, it is one of the EU's largest trading partners and its main hydrocarbons supplier. These factors highlight Russia's strong position from both an economic and political perspective in Europe and beyond. At the end of 2007, when the world economy entered the toughest recession since the Second World War, Russia strongly felt the impact of the recession with a GDP decline of 7.9% in 2009. Thanks to its fiscal prudence and deep reserves of oil, Russia managed to avoid a chronic economic retraction. The Russian economy is now out of recession and, over the short-term, rebounding oil prices and fiscal stimulus should keep the economy looking perky. Recently, the IMF has pointed out that consumption has started to drive Russian economic growth. However, should the country's economy remain relatively undiversified, fears are that growth could decelerate again in 2011. Russian economy is expected to expand around 4-5% in 2011-2012.

Ukraine had one of the worst crises in the world, with a 15% drop in GDP in 2009 and a 50% devaluation in the hryvnia. The Ukrainian economy began to expand slowly in 2010 and registered annual growth for all of 2010 of 4.2%. According to the IMF, although the economy has strengthened and many of its imbalances resolved (the current account deficit has narrowed, the currency has stabilised and inflation has fallen), there continue to be significant fiscal policy challenges that need managing. GDP growth forecasts stand at 4-5% in 2011-2012 for Ukraine.

**Market position**

By the end of 2011, Baltika will be operating on five markets: Estonia, Latvia, Lithuania, Russia and Ukraine. Clothing retail sector is a very fragmented market and therefore it is very complicated to determine market shares of different clothing companies or brands. The Baltic states (Estonia, Latvia, Lithuania) with unified population of around 7,000 thousand can be classified as an extended home market for Baltika and we can present rough picture for these markets. However, Russia with a population of 142,000 thousand and Ukraine with 46,000 thousand inhabitants are markets that are too fragmented in terms of clothing retailers.

In the Baltic states, there are two leading specialised clothing retailers: Baltika and Apranga. Whereas Baltika designs and sells only its own brands, Apranga generates most of its income from the sale of international brands (including through franchise agreements). In terms of the Baltics, the estimated market share of the companies varies by country. Baltika has typically been strongest in its home market, Estonia, while Apranga's stronghold has been its home market, Lithuania.

In terms of brand positioning, the two companies tend to cross over each other and target similar consumer groups. Baltika's Monton directly competes against the likes of Apranga's ZARA. In terms of the pricier end of the market, Apranga's selection of brands compare with Baltika's Baltman and Ivo Nikkolo.

Other competitors within the specialised clothing sector include companies such as Lithuania's Levuo, which operates brands like Gerry Weber, Etam, Celio and ESPRIT, Poland's LPP, which operates the Reserved brand and the Stockmann Group, which operates brands like Lindex and Seppälä. At the same time, there is competition from department stores and for consumers with smaller budgets, from non-specialised stores (such as Maxima) as well as the informal and second hand clothing sector.

For some time the Baltic retail sector has anticipated the arrival of H&M, which would provide direct competition to Monton and ZARA. Before the economy cooled, it had been anticipated that the Swedish company would have moved into the market by 2009. There is little indication of a revised entry timeframe – instead H&M expanded to Turkey in 2010, and is expanding to Croatia, Morocco and Romania in 2011.

In Russia, Baltika is present in nine and in Ukraine in six cities. Most of the brands mentioned above are also present in those countries, however the informal clothing sector tends to have a bigger market share in Russia and Ukraine than in the Baltic states. Although these two countries represent almost 40% of Baltika's retail revenues, its market share is a fraction compared to the size of the retail sector in those markets. This creates potential for future expansion, nonetheless, the company intends to keep the share of these countries at around 20-25% each of its retail revenues in order to mitigate the country risk.

# 5 COMPANY

## 5.1 GENERAL INFORMATION OF THE COMPANY

The Company's business name is Aktsiaselts Baltika. The Company is the limited company established pursuant to the laws and regulations of the Republic of Estonia. The Company is registered at Harju County Court registration department under the registry code 10144415. Please see the Company's website www.baltikagroup.com for more information.

The Company was established on 1 August 1991 and registered with the enterprise register held by the local municipality. After the enforcement of the Estonian Commercial Code, all companies had to register themselves pursuant to the requirements of the new legislation. Baltika was registered at Harju County Court registration department on 9 May 1997. The legal address of the Company is Veerenni 24, Tallinn 10135, Estonia and the phone number is +372 630 2731.

Baltika's share has been listed on the NASDAQ OMX Tallinn stock exchange. The listing dates are as following: 5 June 1997 (Main List), 7 May 1998 (Secondary List) and 17 February 2003 (Main List). NASDAQ OMX Tallinn is a member of the world's largest exchange company NASDAQ OMX Group.

The Company's main activities are design, development, production and sales arrangement of the fashion brands of clothing. Baltika Group is an international fashion retailer operating Monton, Mosaic, Baltman and Ivo Nikkolo retail concepts. As of 31 March 2011 the Group had 116 stores in six markets in the Baltics and Central and Eastern Europe. Baltika employs a vertically integrated business model which means that the Group controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales. The financial year is the calendar year.

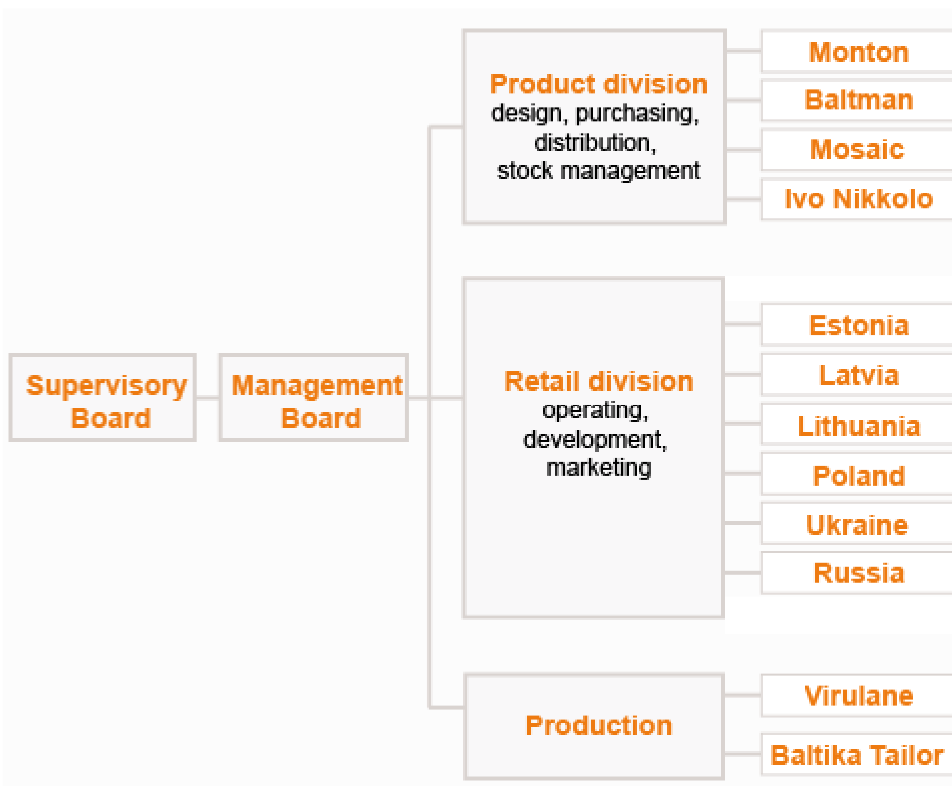
## 5.2 HISTORY OF BALTIKA GROUP

2010 Baltika's renovated office is awarded with Estonian Cultural Endowment Annual Award for architecture and Estonian Society of Interior Architects Annual Award in the category of offices
2010 Sale of the MasCara and Herold brands
2009 Baltika exits the Czech market
2009 Baltika opens novel concept store Moetänav, representing all Baltika´s four brands
2009 Baltika establishes Baltika Quarter to unite design and creative companies
2008 Baltika's wholesales operations to be expanded to Western Europe, the company signs a contract with a leading European department store chain Peek & Cloppenburg
2008 Baltika is recognised for having the best investor relations on the Tallinn Stock Exchange
2008 Baltika celebrates its 80th anniversary
2007 Estonian Association for Personnel Development recognises Baltika's Retail Academy as one of the best personnel projects in Estonia
2007 Monton is the sponsor of Latvian Olympic Committee
2007 First store opened in the Czech Republic (in 2009 Baltika closes the market)
2007 Baltika nominated as finalist in two categories in the European Business Awards
2006 Baltika acquires Estonian well known designer brand Ivo Nikkolo
2006 Baltika opens its 100th store
2006 CHR and Evermen concepts rebranded as Mosaic
2005 Monton becomes the grand sponsor of the Estonian Olympic Committee
2005 Strategic turnaround completed

2005 Exit of a long-term strategic shareholder; management becomes largest single shareholder
2002 Monton brand launched in five markets
2002 Strategic turnaround into vertically integrated fashion retailer begins
2000 First stores opened in Ukraine and Poland
1997 Baltika listed on the Tallinn Stock Exchange that belongs to the NASDAQ OMX Group today
1996 First store opened in Latvia
1995 Evermen collection launched
1994 First store opened in Russia
1993 First store opened in Lithuania
1993 First ladies wear collection, Christine Collection (CHR), launched
1991 First store opened in Estonia
1991 First menswear collection, Baltman, launched
1991 Baltika is privatised
1988 Production of ladies wear begins
1959 Company is restructured and renamed Baltika, producing formal menswear
1928 Gentleman established in Tallinn as producer of raincoats

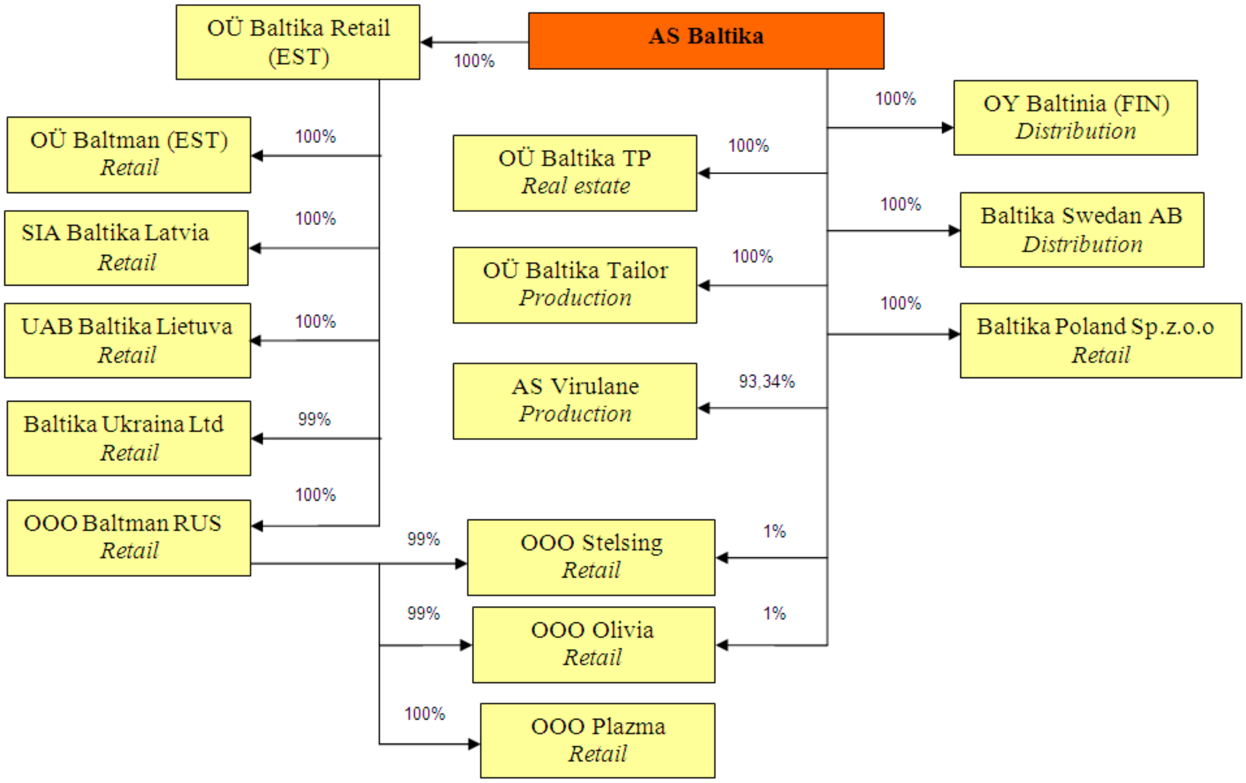
## 5.3 MANAGEMENT STRUCTURE OF BALTIKA GROUP

Baltika employs a vertically integrated business model which means that the Group controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales.



## 5.4 LEGAL STRUCTURE OF BALTIKA GROUP

As at 30.06.2011




In 2011, OÜ Baltika Retail was established and OÜ Baltika Retail is the holding company for the shares of retail operators, OÜ Baltman, SIA Baltika Latvia, UAB Baltika Lietuva, Baltika Ukraine Ltd and OOO Baltman Rus. In Baltika Ukraine Ltd 1 % shareholding was not transferred to OÜ Baltika Retail due to the regulations under Ukrainian laws.

In 2010, the production of AS Virulane and OÜ Baltika Tailor was merged. Baltika Poland Sp.z.o.o. is under liquidation.

## 5.5 COMPETITIVE STRENGTHS

### Learning organisation with high targets

The most important factor in our business in achieving our goals is people, both our customers and our employees. We respect and value our teams and are committed to our common goals. We strive to maintain a highly motivating working environment that supports employees' professional development and the desire for learning. We operate in an open, interactive organisation where every individual is expected to use his or her initiative and produce results. We have high targets and we reward success.

### Flexible, vertically integrated business model

Baltika employs a vertically integrated business model that establishes a flexible structure for our business. We believe that vertical integration is a system that promises the best result, by providing our customers with quality fashion clothing. Vertical integration means that Baltika controls all stages of the fashion process: design, manufacturing, supply chain management, distribution/logistics and retail sales.

**Centralised management with strong retail organisations in markets**

The Baltika business model is effective because we combine centralised brand-based management and support resources with strong retail organizations in our markets. The key centrally managed functions include product design, supply chain and logistics. Our retail market organisations ensure a closer approach to the local customer and provide effective, locally relevant communication and marketing. They make sure that we consistently deliver a first class customer experience, and that our retail network in a specific market is developed properly. Our interactive culture and the sharing of experience is a basic characteristic of our day-to-day operations and a key reason for our success. Our business model is supported by an integrated information system that provides daily operational data from all of our stores and distribution facilities, supporting better decision making throughout the Group

**Brand portfolio covering a broad customer base**

A balanced portfolio of four retail concepts includes:

Monton – an exciting, quality fashion brand for women and men, reflecting global trends in its unique way;

Mosaic – an international brand for women and men, who are practical, responsible and well-organized and have a need for uncomplicated and reliable fashion;

Baltman – a prestigious business wear brand for men, offering stylish, classic and high-quality clothing and personal service;

Ivo Nikkolo – a designer fashion brand for ladies allowing the customer to express her own individuality and complement her lifestyle.

The operation of a portfolio of different brands serves a broad customer base and offers stability in the fast-moving fashion business. Nevertheless, we are looking for new opportunities every day – our collections are continuously evolving, as the design and sourcing teams are engaged in developing exciting new products that increase brand attractiveness and sales efficiency. All of the concepts have a common characteristic: a quality product with fashionable design and unique style offered at competitive prices. Each collection is designed to meet the target customer’s needs and personality. At the same time, every brand is focused to contribute positively to the Group’s bottom line. We see significant growth potential in different sales channels, i.e. development of multichanneling; also increasing efficiency of processes and sales area.

## 5.6 PROPERTY, PLANT AND EQUIPMENT

### 5.6.1 PROPERTY

The Group owns real estate at Veerenni 24 in Tallinn, Estonia. The total area of the plot is 14,302 square metres and it contains three buildings that form a single commercial and administrative complex, the Baltika Quarter. The property includes a renovated four-storey office block and a one-storey courtyard building-workshop with a total area of 2,844 square metres that have been let as office and commercial premises. There is also a new five-storey office building with a total area of 9,815 square metres that was completed in 2009 and was financed with a loan taken from AS Swedbank. The loan is secured with a mortgage on the real estate located at Veerenni 24. Two floors of the new building are used by the Group's head office and the rest of the premises have been let as office and commercial premises.

### 5.6.2 LEASED ASSETS

The Group's leased assets include mostly warehouse and production equipment acquired with a finance lease. As at 31 March 2011, the Group's statement of financial position included leased assets of 1,275 thousand euros at acquisition cost value. The figure comprises production equipment (vacuum equipment, transporters, laying machines, sewing machines and other production equipment) of 594 thousand euros and warehouse equipment, fixtures and machinery (transporters, overhead warehouse space, shelves and similar warehouse equipment and fixtures) of 681 thousand euros. In 2009, the Group used finance lease to acquire furniture of 200 thousand euros for the new office building.

The carrying amounts of finance lease liabilities at 31 March 2011 were 308 thousand euros.

### 5.6.3 BUILDINGS AND STRUCTURES

The Group owns office buildings with a total area of 12,659 square metres at Veerenni 24 in Tallinn, Estonia. The Group's assets also include store equipment and fixtures and the capitalised construction costs of stores located on rented retail premises.

As at 31 March 2011 Baltika had 116 stores with a total sales area of 23,961 square metres.

### 5.6.4 MACHINERY AND EQUIPMENT

The Group's machinery and equipment consist mainly from warehouse equipment and production machinery, it also includes hardware and office printers, fax machines used in retail and production.

A significant proportion of assets is made up of store equipment and fixtures (furniture, lights, furnishings, design elements, etc.). On average, the useful life of equipment and fixtures is 2-7 years. Equipment and fixtures are maintained and replaced on an ongoing basis to ensure that the concept of a store meets the desired contemporary trends and to extend the useful life of equipment and fixtures. When a new store is opened, the Group either buys new equipment and fixtures or uses the equipment and fixtures of a closed store.

### 5.6.5 PROPERTY, PLANT AND EQUIPMENT AT NET BOOK VALUE

| In EUR thousands | **31.03.2011 unaudited** | **31.12.2010** | **31.12.2009** | **31.12.2008** |
|---|---|---|---|---|
| Buildings and structures | 8,379 | 8,602 | 11,740 | 5,190 |
| Machinery and equipment | 1,304 | 1,416 | 1,881 | 2,114 |
| Other property and equipment | 1,836 | 2,071 | 3,169 | 3,941 |
| **Total** | **11,519** | **12,089** | **16,790** | **11,245** |

Source: Consolidated Financial Statements

## 5.7 MATERIAL CONTRACTS

1. In April 2011, Baltika signed the short term loan agreement with E.Miroglio S.A in the amount of 1,000 thousand euros.

2. In November 2010, Baltika signed the final agreements of the package that strengthened the Group's financial position overall and signed loan refinancing agreements of 17,100 thousand euros in total and guarantee limit agreements of 2,900 thousand euros in total with AS Swedbank and Nordea Bank Finland Plc Estonian Branch with the maturity date of 31 December 2014. 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.

3. In May 2010, Baltika concluded a convertible loan agreement with E.Miroglio S.A. in the amount of 2,300 thousand euros. In June 2010, E.Miroglio S.A. paid for 3,000,000 ordinary shares with a non-monetary contribution consisting of a receivable of 2,300 thousand euros arising from that loan agreement.

4. In May 2010, the Group company AS Virulane concluded an agreement with OÜ Mascara Coats for the sale of real estate located in Rakvere Kalda 10a. The transaction price was 453 thousand euros. The management is on the opinion that the transaction was made on ordinary market terms.

5. In March 2010, the Group company OÜ Baltika TP concluded an agreement with OÜ Aquabene for the sale of real estate located in Kohtla-Järve Õpetajate road 5. The transaction price was 1,023 thousand euros. Together with the sales of the real estate the Group received a lease contract for five years for the Group factory to operate on this real estate. The management is on the opinion that the transaction was made on ordinary market terms.

6. In March 2010, the Group company AS Virulane concluded an agreement for the transfer of title of the trademarks MasCara and Herold to OÜ Mascara Coats. The transaction price was 256 thousand euros.

7. In April 2009, according to the agreement Baltika took over the operation of seven stores belonging to its Russian wholesale partner in the Ural region. The purchase consideration amounted to 758 thousand euros which was settled by offsetting the Group's receivables from the seller. As a result of the transaction Baltika acquired 955.3 square metres of sales area.

8. In August 2008, Baltika concluded a cooperation agreement with a wholesaler, who sells the ladies' collection of Baltika's Mosaic brand to the leading European department store chain Peek & Cloppenburg.

## 5.8 STRATEGIC DEVELOPMENT

The goal of Baltika Group is to be a leading fashion retailer in Central and Eastern European region.

With the aim to maximise potential of its retail markets and brands and increase efficiency of Baltika Group business model, the Company involved international consultation firm Roland Berger into strategic planning process. As a result of joint-work the Company's growth strategy for 2010-2014 was prepared.

The strategy foresees the Company's average annual growth at 9% until 2014 and attaining turnover of 72,434 thousand euros by the year 2014.

Increase in sales is planned mainly through organic growth, there will not be any major shop openings or entering into new markets in the nearest future. Sales increase is based on clearly defined levers:

- Market – Closing Poland, focus on Baltics, capitalize Russia and Ukraine (upgrade existing shops)
- Brand – Streamline portfolio based on needs, e.g. close Mosaic children, reduce collection complexity
- IT – Investment in replenishment will improve the overall merchandising management in terms of sell through and markdown
- In-store management – Improve KPI due to professionalization of retail process, store environment and retail presentation
- E-commerce

Sales growth also takes into account historical trends, GDP[1] and CPI[2] growth in different markets as well as overall risky political environment in Russia and Ukraine.

Continually the largest contribution to sales volume comes from Monton and Mosaic, by 2014 their sales turnover grow by 10,929 thousand euros and 6,966 thousand euros respectively.

The global financial downturn caused sales drop due to drastically changed buying behaviour – nearly 66% of consumers stopped buying new clothes during economic crisis. This behaviour has in the main returned to normal, and in most brands spending has returned to more normal patterns, with new collections selling well.

Besides increased spending power and consumption revival the Group brands' stronger focus on the needs of their target client will help to grow sales. In order to improve business model profitability the Company continuously monitors its markets and stores portfolio and develops brands.

The aim is to reach gross margin of 54.9% by the year 2014. Margin growth is supported by stable intake margin and lower mark-downs, which in turn is due to overall recovery of economic situation and better inventory situation.

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 ladies wear 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;

[1]Gross domestic product
[2]Consumerpriceindex

- 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.

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.

# 6 SELECTED CONSOLIDATED FINANCIAL INFORMATION

*The selected consolidated financial information of Baltika Group is derived as at and from the years ended on 31 December 2008, 31 December 2009 and 31 December 2010 as well as for the three months ended 31 March 2010 and 2011.*

*The information as at and for the years ended on 31 December 2008, 31 December 2009 and 31 December 2010 have been extracted from the Annual Consolidated Financial Statements, unless stated otherwise. The information as at and for three months ended on 31 March 2010 and 31 March 2011 has been extracted from the Consolidated Interim Financial Statements.*

*The Annual Consolidated Financial Statements incorporated by reference in this Prospectus, have been audited by AS PricewaterhouseCoopers. The Consolidated Interim Financial Statements, incorporated by reference in this Prospectus, have not been audited nor subject to the auditors review.*

*The following selected consolidated financial information of Baltika Group should be read together with the Consolidated Financial Statements and other financial data included elsewhere in this Prospectus.*

### 6.1 SELECTED DATA FROM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| in EUR thousands | **31.03.2011** | **31.03.2010** | **31.12.2010** | **31.12.2009** | **31.12.2008** |
|---|---|---|---|---|---|
| | unaudited | unaudited | audited | audited | audited |
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and bank | 262 | 229 | 823 | 385 | 554 |
| Trade and other receivables | 3,120 | 4,278 | 3,119 | 3,511 | 6,287 |
| Inventories | 10,209 | 11,757 | 10,804 | 12,026 | 18,434 |
| **Total current assets** | **13,591** | **16,264** | **14,746** | **15,922** | **25,275** |
| **Non-current assets** | | | | | |
| Deferred income tax assets | 838 | 1,054 | 838 | 1,054 | 355 |
| Other non-current asset | 761 | 468 | 780 | 494 | 390 |
| Investment property | 7,069 | 6,602 | 7,069 | 6,602 | 8,570 |
| Property, plant and equipment | 11,539 | 15,307 | 12,121 | 16,819 | 11,541 |
| Intangible assets | 3,838 | 4,073 | 3,898 | 3,971 | 3,809 |
| **Total non-current assets** | **24,045** | **27,504** | **24,706** | **28,940** | **24,665** |
| **TOTAL ASSETS** | **37,636** | **43,768** | **39,452** | **44,862** | **49,940** |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Borrowings | 2,067 | 9,465 | 2,125 | 7,857 | 6,645 |
| Trade and other payables | 7,588 | 10,904 | 6,981 | 10,186 | 13,290 |
| **Total current liabilities** | **9,655** | **20,369** | **9,106** | **18,043** | **19,935** |
| **Non-current liabilities** | | | | | |
| Borrowings | 17,819 | 13,460 | 17,953 | 14,888 | 10,762 |
| Other liabilities | 4 | 13 | 37 | 7 | 0 |
| Deferred income tax liability | 0 | 0 | 0 | 0 | 140 |
| **Total non-current liabilities** | **17,823** | **13,473** | **17,990** | **14,895** | **10,902** |
| **TOTAL LIABILITIES** | **27,478** | **33,842** | **27,096** | **32,938** | **30,837** |
| | | | | | |
| **EQUITY** | | | | | |
| Share capital at par value | 20,129 | 14,473 | 20,129 | 14,473 | 11,916 |
| Share premium | 1,366 | 67 | 1,332 | 67 | 0 |
| Reserves | 2,784 | 2,784 | 2,784 | 2,784 | 1,670 |
| Retained earnings | -11,305 | -4,961 | -4,961 | 5,208 | 6,949 |
| Net loss for the period | -2,364 | -2,042 | -6,344 | -10,169 | -1,211 |
| Currency translation differences | -614 | -572 | -746 | -601 | -458 |
| **Total equity attributable to equity holders of the parent** | **9,996** | **9,749** | **12,194** | **11,762** | **18,866** |
| Non-controlling interest | 162 | 177 | 162 | 162 | 237 |
| **TOTAL EQUITY** | **10,158** | **9,926** | **12,356** | **11,924** | **19,103** |
| **TOTAL LIABILITIES AND EQUITY** | **37,636** | **43,768** | **39,452** | **44,862** | **49,940** |

Source: Consolidated Financial Statements

## 6.2 SELECTED DATA FROM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| In EUR thousands | **3m 2011** unaudited | **3m 2010** unaudited | **2010** audited | **2009** audited | **2008** audited |
|---|---|---|---|---|---|
| Revenue | 11,771 | 11,047 | 52,207 | 56,253 | 76,331 |
| Cost of goods sold | -5,880 | -5,923 | -25,171 | -29,264 | -35,822 |
| **Gross profit** | **5,891** | **5,124** | **27,036** | **26,989** | **40,509** |
| | | | | | |
| Distribution costs | -7,028 | -6,949 | -28,446 | -32,000 | -37,621 |
| Administrative and general expenses | -743 | -706 | -2,928 | -2,841 | -3,228 |
| Other operating income | 6 | 587 | 646 | 35 | 1,201 |
| Other operating expenses | -221 | -60 | -1,027 | -2,109 | -1,223 |
| **Operating loss** | **-2,095** | **-2,004** | **-4,719** | **-9,926** | **-362** |
| | | | | | |
| Finance income | 21 | 210 | 201 | 4 | 26 |
| Finance costs | -287 | -230 | -1,407 | -1,131 | -961 |
| **Loss before income tax** | **-2,361** | **-2,024** | **-5,925** | **-11,053** | **-1,297** |
| | | | | | |
| Income tax expense | -3 | -3 | -407 | 809 | -75 |
| | | | | | |
| **Net loss** | **-2,364** | **-2,027** | **-6,332** | **-10,244** | **-1,372** |
| Loss attributable to: | | | | | |
| Equity holders of the parent company | -2,364 | -2,042 | -6,344 | -10,169 | -1,211 |
| Non-controlling interest | 0 | 15 | 12 | -75 | -161 |
| | | | | | |
| **Other comprehensive income (loss)** | | | | | |
| Currency translation differences | 132 | 29 | -145 | -143 | -1,000 |
| Revaluation of investment property | 0 | 0 | 0 | 1,114 | 0 |
| | | | | | |
| **Total comprehensive income (loss)** | **-2,232** | **-1,998** | **-6,477** | **-9,273** | **-2,372** |
| Comprehensive income (loss) attributable to: | | | | | |
| Equity holders of the parent company | -2,232 | -2,013 | -6,489 | -9,198 | -2,189 |
| Non-controlling interest | 0 | 15 | 12 | -75 | -183 |
| | | | | | |
| Basic earnings per share | -0.09 | -0.11 | -0.27 | -0.54 | -0.06 |
| Diluted earnings per share | -0.09 | -0.11 | -0.27 | -0.54 | -0.06 |

Source: Consolidated Financial Statements

## 6.3 SELECTED DATA FROM CONSOLIDATED STATEMENT OFCASH FLOWS

| in EUR thousands | 3m 2011 unaudited | 3m 2010 unaudited | 2010 audited | 2009 audited | 2008 audited |
|---|---|---|---|---|---|
| Cash generated from operating activities | -343 | -1,598 | -5,000 | -885 | 2,811 |
| Cash used in investing activities | -27 | 1,061 | 1,190 | -6,282 | -9,390 |
| Cash generated from financing activities | -210 | 171 | 4,055 | 7,062 | 5,335 |
| Effect of exchange gains (losses) on cash and cash equivalents | 19 | 210 | 193 | -64 | -216 |
| **Total** | **-561** | **-156** | **438** | **-169** | **-1,460** |

Source: Consolidated Financial Statements

## 6.4 SELECTED DATA FROM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| In EUR thousands | Share capital | Share pre-mium | Reser-ves | Re-tained ear-nings | Currency transla-tion differences | Total attribu-table to parent | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2008** (audited) | **11,916** | **0** | **1,670** | **5,738** | **-458** | **18,866** | **237** | **19,103** |
| | | | | | | | | |
| Total comprehensive income (loss) | 0 | 0 | 1,114 | -10,169 | -143 | -9,198 | -75 | -9,273 |
| Issue of preference shares | 0 | 0 | 0 | -530 | 0 | -530 | 0 | -530 |
| Equity-settled share-based transactions | 0 | 67 | 0 | 0 | 0 | 67 | 0 | 67 |
| Increase of share capital | 2,557 | 0 | 0 | 0 | 0 | 2,557 | 0 | 2,557 |
| Change in non-controlling interest | 0 | 0 | 0 | 0 | 0 | 0 | 0.2 | 0.2 |
| **Balance at 31 December 2009** (audited) | **14,473** | **67** | **2,784** | **-4,961** | **-601** | **11,762** | **162** | **11,924** |
| | | | | | | | | |
| Total comprehensive income (loss) | 0 | 0 | 0 | -6,344 | -145 | -6,489 | 12 | -6,477 |
| Equity-settled share-based transactions | 0 | 134 | 0 | 0 | 0 | 134 | 0 | 134 |
| Increase of share capital | 5,656 | 1,131 | 0 | 0 | 0 | 6,787 | 0 | 6,787 |
| Change in non-controlling interest | 0 | 0 | 0 | 0 | 0 | 0 | -12 | -12 |
| **Balance at 31 December 2010** (audited) | **20,129** | **1,332** | **2,784** | **-11,305** | **-746** | **12,194** | **162** | **12,356** |
| | | | | | | | | |
| Total comprehensive income (loss) | 0 | 0 | 0 | -2,364 | 132 | -2,232 | 0 | -2,232 |
| Equity-settled share-based transactions | 0 | 34 | 0 | 0 | 0 | 34 | 0 | 34 |
| **Balance at 31 March 2011** (unaudited) | **20,129** | **1,366** | **2,784** | **-13,669** | **-614** | **9,996** | **162** | **10,158** |

Source: Consolidated Financial Statements

## 6.5 KEY FIGURES AND RATIOS

| | 31.12.2010 | 31.12.2009 | 31.12.2008 |
|---|---|---|---|
| **Balance sheet data** in EUR thousands | | | |
| Total assets | 39,452 | 44,862 | 49,941 |
| Interest-bearing liabilities | 19,821 | 22,214 | 17,410 |
| Shareholders' equity | 12,356 | 11,924 | 19,104 |
| | | | |
| **Other data** | | | |
| Number of stores | 120 | 133 | 134 |
| Sales area, sqm | 24,424 | 26,900 | 27,068 |
| Number of employees (31 Dec) | 1,419 | 1,697 | 1,988 |

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Operating results** in EUR thousands | | | |
| Revenue | 52,207 | 56,253 | 76,331 |
| Gross profit | 27,036 | 26,989 | 40,509 |
| Operating profit | -4,719 | -9,926 | -362 |
| Profit before income tax | -5,925 | -11,053 | -1,297 |
| Net profit | -6,344 | -10,169 | -1,211 |
| | | | |
| **Key ratios**(unaudited) | | | |
| Revenue growth | -7.2% | -26.3% | 3.7% |
| Retail sales growth | -5.9% | -23.6% | 7.3% |
| Share of retail sales in revenue | 93% | 92% | 89% |
| Share of exports in revenue | 73% | 75% | 76% |
| | | | |
| Gross margin | 51.8% | 48.0% | 53.1% |
| Operating margin | -9.0% | -17.6% | -0.5% |
| EBT margin | -11.3% | -19.6% | -1.7% |
| Net margin | -12.2% | -18.1% | -1.6% |
| | | | |
| Current ratio | 1.6 | 0.9 | 1.3 |
| Debt to equity ratio | 160.4% | 186.3% | 91.1% |
| Net gearing ratio | 153.8% | 183.1% | 88.2% |
| Inventory turnover | 4.74 | 3.77 | 4.55 |
| | | | |
| Return on equity | -52.6% | -73.8% | -5.7% |
| Return on assets | -14.9% | -21.2% | -2.6% |
| | | | |
| **Key share data**(EUR) | | | |
| Number of shares outstanding (31 Dec) | 27,494,850 | 18,644,850 | 18,644,850 |
| Weighted average number of shares | 23,348,686 | 18,644,850 | 18,644,850 |
| Share price (31 Dec) | 1.14 | 0.73 | 1.15 |
| Market capitalisation, in thousands (31 Dec) | 31,317 | 13,611 | 21,442 |
| Earnings per share (EPS) | -0.27 | -0.54 | -0.06 |
| Change in EPS, % | 50% | -737% | -146% |
| P/E | Neg. | Neg. | Neg. |
| Book value per share | 0.45 | 0.64 | 1.02 |
| P/B | 2.5 | 1.1 | 1.1 |
| Dividend per share (DPS) | 0 | 0 | 0 |

| | | | |
|---|---|---|---|
| Dividend yield | 0% | 0% | 0% |
| Dividend payout ratio | 0% | 0% | 0% |

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

Source: the Company

**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[a]
Return on equity = Net profit (attributable to parent)/Average equity[a]
Return on assets = Net profit (attributable to parent)/Average total assets[a]
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)

[a]Based on 12-month average

# 7 BUSINESS AND FINANCIAL OVERVIEW

## 7.1 OVERVIEW OF THE PRINCIPAL ACTIVITIES AND RESULTS

The Group's business activities are divided into operating segments which are retail (Baltic Region, Eastern Europe and Central Europe), wholesale and real estate management.

In total, Baltika Group ended the first quarter of 2011 with revenue of 11,771 thousand euros, a 7% increase year-over-year.

**Revenue by segment**

| in EUR thousands | **Q1 2011** unaudited | **Q1 2010** unaudited | **2010** audited | **2009** audited | **2008** audited |
|---|---|---|---|---|---|
| Sale of goods | 10,755 | 9,927 | 48,649 | 51,710 | 67,677 |
| Wholesale | 845 | 1,028 | 3,001 | 4,358 | 8,511 |
| Real estate management | 110 | 85 | 385 | 138 | 39 |
| Sale of sewing services | 54 | 0 | 127 | 28 | 0 |
| Other | 7 | 7 | 45 | 19 | 104 |
| **Total** | **11,771** | **11,047** | **52,207** | **56,253** | **76,331** |

Source: Consolidated Financial Statements

The biggest portion - 91% of the Group's revenues is generated by retail. The Group's sales revenues and profitability of its retail system continued to improve in the first quarter of 2011. After a period of two years, this was the second consecutive quarter of revenue growth: compared with the first quarter of the previous year the Group achieved 8% retail sales growth although the sales area was 8% smaller on average. Strong sales growth coupled with increased efficiency and an improved gross margin allowed to end the first quarter of 2011 with a 15% larger gross profit (5,891 thousand euros).

The gross margin for the first quarter of 2011 was 50.0% (Q1 2010: 46.4%), which is attributed to the recovery of consumer spending and better inventory and discount management.

The Group's sales per square metre (sales efficiency) grew by 18%. The indicator improved in all of the Group's retail markets, particularly in Lithuania (+23%) and Latvia and Ukraine (+21%). At the level of the stores, the Group's retail system generated a profit of 312 thousand euros compared with a loss of 63 thousand euros incurred in the first quarter of the previous year.

Baltika ended the first quarter of 2011 with a net loss of 2,364 thousand euros. Although the net loss for the first quarter of 2010 was 2,027 thousand euros, on a comparative basis the result for the first quarter of 2011 is 22% better. The figure for the previous year was improved by the divestment of the MasCara and Herold brands of AS Virulane and the sale of some items of property, plant and equipment that yielded 256 thousand euros. Moreover, in 2010 movements in foreign exchange rates had a positive impact: in the first quarter of 2010 Baltika earned a foreign exchange gain of 514 thousand euros in contrast to a foreign exchange loss of 169 thousand euros incurred in the first quarter of 2011.

## 7.2 OVERVIEW OF BRANDS

In terms of brands, the largest proportion of Baltika's retail revenue is generated by Monton whose retail sales for the first quarter of 2011 accounted for 52% of the Group's total retail revenue. Mosaic contributed 32%, and Baltman and Ivo Nikkolo 8% each.

**Retail sales by brand in Q1 2011**

| in EUR thousands, unaudited | **Sales** | **vs. LY %** | **Area** | **vs. LY %** | **Sales per sqm vs. LY** | **LFL** |
|---|---|---|---|---|---|---|
| Monton | 5,641 | 8% | 13,896 | -7% | 17% | 14% |
| Mosaic | 3,417 | 2% | 7,865 | -9% | 12% | 9% |
| Ivo Nikkolo | 882 | 43% | 1,136 | -1% | 45% | 27% |
| Baltman | 810 | 18% | 1,146 | -15% | 39% | 19% |
| Other | 5 | -89% | 0 | 0% | | |
| **Total** | **10,755** | **8%** | **24,043** | **-8%** | **18%** | **14%** |

Source: the Company

The brands' sales results and efficiency indicators have improved significantly, affirming that the economic environment and consumer sentiment have stabilised and the improvements made to the Group's collection development process and management of the retail system have been effective. The brands' marketing activities have been reinforced with a strong focus on enhancing both visual and customer communication by creating more attractive window displays, being more active in using different communication channels, etc.

### Monton

Monton (www.montonfashion.com) is an exciting, quality fashion brand reflecting global trends in its unique way. Monton is characterized by easy-to-shop environment and innovative communication.

In the first quarter of 2011, retail sales of Monton totalled 5,641 thousand euros. Compared with the same period in 2010, sales grew by 8% while the sales area contracted by 7%.

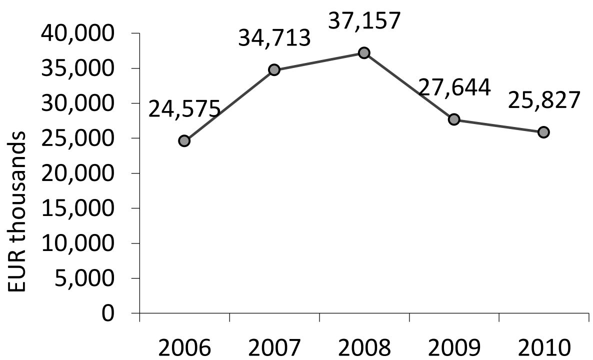
In 2010 retail sales of Monton totalled 25,827 thousand euros. Compared to 2009, sales declined by 5% while the retail area decreased by 8%.

In 2010 and in the first three months of 2011 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. 2010 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. In Q1 2011, like-for-like sales (comparable store sales) growth was 14%, which shows that Monton offers remarkably stronger product with better first price sell through. The next target is to significantly increase sales per option, in other words more precise forecast of high volume best-sellers, continue improving first price sell-through and reduce markdown.

Monton retail indicators such as how many people from those who enter the shop buy, average purchase and pieces per purchase have also shown strong improvement.

In 2010 sales revenue increased in all of Monton's markets except for Lithuania where sales decreased compared to 2009 due to the sales space decrease by 18%. 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**




Source: the Company

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. In addition to expanding through multichanneling Monton is constantly looking for opportunities to open more shops. For example in the second half of 2011, the brand will open two multibrand stores (Monton and Mosaic together) in Riga and Kiev.

**Mosaic**

Mosaic (www.mosaic-fashion.com) is an international brand for women and men, who are practical, responsible and well-organized, and have a need for uncomplicated and reliable fashion.

More professional collection planning gave its first results already in the first quarter of 2011. The offer was integral and understandable for a client and the sales rate of the new collection was bigger than in the same period of 2010. However, Mosaic client is still price sensitive and prefers to purchase new wardrobe during promotional campaigns. On a positive side, depth of markdowns has significantly decreased in Q1 2011 and Mosaic sales efficiency has grown compared to the same period in 2010 due to considerable change in men's collection offer in markets, focusing offer based on client and sales potential of a concrete store. The most notable sales result was achieved by Latvia and Estonia.

Although Mosaic's target customer group has shown a slower recovery from the crisis, Mosaic's sales and efficiency indicators have improved – retail sales for the first quarter of 2011 amounted to 3,417 thousand euros, a 2% increase year-over-year while the sales area shrank by 9%.

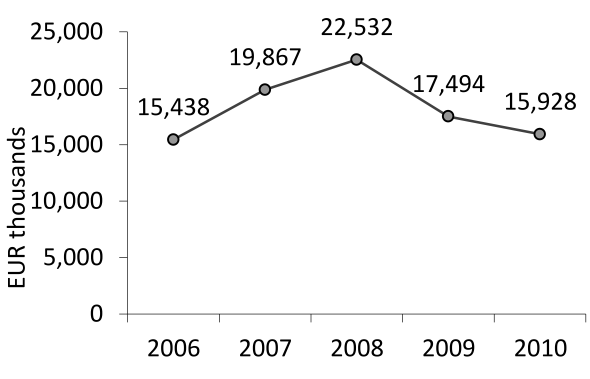
Mosaic's retail sales for 2010 amounted to 15,928 thousand euros, a 9% decrease compared with the previous year. The decline in retail sales is attributable to the shrinkage of the sales area – during 2010 the brand's sales area decreased by 12%. In addition last year the sales result was connected with 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.

In 2010 as well as in 2011 one of Mosaic's main goals is to improve retail sales efficiency. In the first quarter of 2011 the sales per square metre grew by 12% and in 2010 the efficiency rose by 4%. In 2010 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 Baltika's wholesale operations. In the first quarter of 2011 it contributed 69% to the Group's total wholesale revenue. The continuously increasing pre-orders of Peek & Cloppenburg, one of the largest European department store chains, have transformed Mosaic into an international European clothing brand. In addition to Mosaic's brand stores in Estonia, Latvia, Lithuania, Ukraine and Russia, the brand is on sale in 29 cities in ten European countries. The Mosaic collection is carried by eleven Peek & Cloppenburg department stores in Germany, ten in Austria, eight in Poland, three in Slovakia, two in Slovenia and Croatia, and one in the Netherlands, the Czech Republic, Hungary and Romania each.

**Retail sales – Mosaic**




Source: the Company

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 ladies wear and menswear collections. Thus, beginning from 2011 development of the childrens wear collection, whose expansion opportunities are limited, was 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**

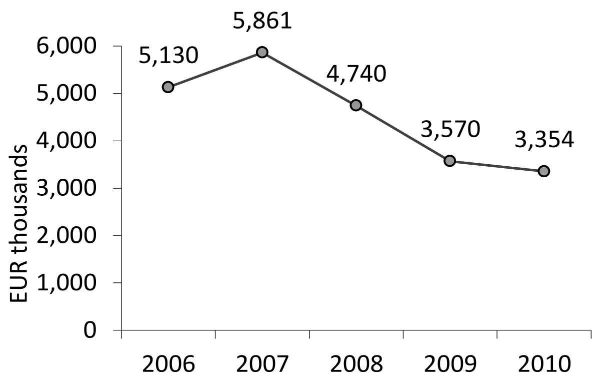
Baltman (www.baltman.eu) is a prestigious lifestyle brand for men, offering stylish and classic high quality clothing, personal advisory service and comfortable shopping environment.

Baltman's retail revenue for the first quarter of 2011 was 810 thousand euros, 18% up year-over-year, achieved on a sales area that was 15% smaller than a year ago. Baltman's sales efficiency has improved by 39%, reflecting recovery of demand for men's fashion and more efficient management of the retail business. The collection rejuvenation process that started last year is yielding good results. As during the regression period the brand was forced to use massive price promotions then step-by-step these have been replaced by imago-building promotions, based on core values such as excellent quality of product and good service on shop level. Baltman brand customer has recovered and also world trends are supporting wearing smarter wardrobe and suit is making strong come-back.

Retail sales of Baltman totalled 3,354 thousand euros 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. 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 LoroPiana, which allows offering the customers an excellent quality-price ratio.

**Retail sales – Baltman**




Source: the Company

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. One tactical step is renewing Baltman`s store concept.

**Ivo Nikkolo**

Ivo Nikkolo (www.ivonikkolo.com) is an international fashion brand with unique designer handwriting offering the pleasure by valuing every customer´s personality and lifestyle.

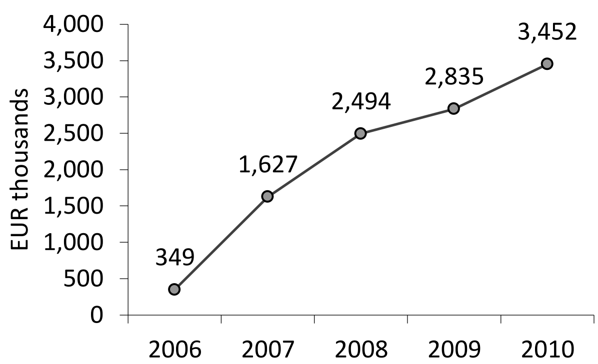
Ivo Nikkolo sustained steady performance throughout the economic downturn, posting strong growth also in the first quarter of 2011. The brand's retail revenue rose to 882 thousand euros, a 43% improvement year-over-year, while the sales area contracted by 1%.

The brand's sales for 2010 totalled 3,452 thousand euros, increasing 35% compared to previous year. Sales area increased at the same time by 26%.

In 2010, Ivo Nikkolo further expanded and strengthened its position in the Baltics: in March its second brand store was opened in the GalerijaCentrs 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 and 2011 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.

**Retail sales – Ivo Nikkolo**




Source: the Company

Number of objectives for the new strategic period 2011-2014 that should allow sustaining profitable growth of the brand was 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.

### 7.2.1 RETAIL

Retail revenue for the first quarter of 2011 amounted to 10,755 thousand euros, an 8% increase year-over-year, growing for the second consecutive quarter (Q4 2010: +7%). 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 2010 fourth quarter ended with year-over-year sales growth that amounted to 7%.

**Retail sales by market in Q1 2011**

| in EUR thousands, unaudited | Sales | vs. LY % | Area | vs. LY % | Sales per sqm vs. LY | LFL |
|---|---|---|---|---|---|---|
| Estonia | 2,808 | 14% | 5,748 | 1% | 13% | 16% |
| Russia | 2,543 | 14% | 5,119 | 2% | 12% | 12% |
| Lithuania | 2,118 | 0% | 5,616 | -19% | 23% | 14% |
| Ukraine | 1,494 | -6% | 3,265 | -22% | 20% | 19% |
| Latvia | 1,490 | 25% | 3,281 | 3% | 21% | 14% |
| Poland | 302 | -12% | 1,014 | -16% | 5% | -1% |
| **Total** | **10,755** | **8%** | **24,043** | **-8%** | **18%** | **14%** |

Source: the Company

In the first quarter of 2011 retail revenue grew in Latvia (+25%), Estonia and Russia (+14%). In Lithuania, retail revenue remained stable compared with the same period in 2010 and in Ukraine and Poland retail revenues decreased somewhat. The latter developments are attributable to substantial cutbacks in the sales area: due to the restructuring of the store network the sales area has decreased by around 20% in both Lithuania and Ukraine and roughly 16% in Poland.

Retail revenue for 2010 totalled 48,649 thousand euros, 6% down from 2009. In 2010 the Group achieved retail sales growth in two markets: in Estonia, by 6%, and in Russia by 3%.

If in the first half of the year 2010 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.

Retail revenue was also influenced by the ongoing decrease of the retail system that resulted from the closure of inefficient stores. The entire revenue for 2010 was earned on a sales area that was on average 9% smaller than in year 2009.

### 7.2.2 STORES AND SALES AREA

At the end of the first quarter of 2011, Baltika had 116 stores in six countries with a total sales area of 23,961 square metres. During the year 2010, 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 2010 year 5 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. Expenses related to these closures were recognised in 2010.

**Stores by market**

| | 31.03.2011 | 31.03.2010 | 31.12.2010 | 31.12.2009 | 31.12.2008 |
|---|---|---|---|---|---|
| Estonia | 30 | 32 | 30 | 30 | 30 |
| Lithuania | 29 | 36 | 31 | 36 | 33 |
| Russia | 22 | 23 | 23 | 25 | 23 |
| Ukraine | 16 | 20 | 17 | 23 | 24 |
| Latvia | 15 | 15 | 15 | 14 | 16 |
| Poland | 4 | 5 | 4 | 5 | 6 |
| Czech Republic | 0 | 0 | 0 | 0 | 2 |
| **Total stores** | **116** | **131** | **120** | **133** | **134** |
| **Total sales area, sqm** | **23,961** | **26,178** | **24,424** | **26,900** | **27,068** |

Source: the Company

**Retail network by market and brand at 31 March 2011**

| | Monton | Mosaic | Baltman | Ivo Nikkolo | Other | Total | sqm |
|---|---|---|---|---|---|---|---|
| Lithuania | 10 | 11 | 6 | 2 | | **29** | **5,576** |
| Estonia | 7 | 11 | 5 | 5 | 2 | **30** | **5,775** |
| Russia | 16 | 6 | | | | **22** | **5,091** |
| Ukraine | 9 | 7 | | | | **16** | **3,224** |
| Latvia | 6 | 6 | 1 | 2 | | **15** | **3,281** |
| Poland | 4 | | | | | **4** | **1,014** |
| **Total** | **52** | **41** | **12** | **9** | **2** | **116** | **23,961** |

Source: the Company

**Retail network by market and brand at 31 December 2010**

| | Monton | Mosaic | Baltman | Ivo Nikkolo | Other | Total | sqm |
|---|---|---|---|---|---|---|---|
| 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** |

Source: the Company

## 7.3 OVERVIEW OF THE MARKETS AND SEGMENTS

The global economic crises, which commenced in 2008, culminated in 2009 and strongly impacted all Baltika's markets. The overall economic downturn began stabilising in the last months of 2010 and for the first time in the past two years the fourth quarter of 2010 ended with year-over-year sales growth that amounted to 7%, the sales growth of the first quarter of 2011 amounted to 8%. The Baltic markets contributed 59%, the Eastern European markets 38% and the Central European markets 3% of the Group's retail revenue during the first quarter of 2011.

**Retail sales by market**

| in EUR thousands, unaudited | Q1 2011 | Q1 2010 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Estonia | 2,808 | 2,463 | 13,045 | 12,297 | 15,246 |
| Russia | 2,543 | 2,225 | 10,632 | 10,343 | 12,533 |
| Lithuania | 2,118 | 2,121 | 9,853 | 11,988 | 15,535 |
| Ukraine | 1,494 | 1,583 | 7,162 | 7,662 | 11,489 |
| Latvia | 1,490 | 1,192 | 6,449 | 6,666 | 9,567 |
| Poland | 302 | 343 | 1,508 | 1,916 | 2,206 |
| Czech Republic | 0 | 0 | 0 | 838 | 1,100 |
| **Total** | **10,755** | **9,927** | **48,649** | **51,710** | **67,677** |

Source: the Company

Retail operations are 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 Polish market will be closed in 2011).

**The segment information for the period ended at 31 March 2011 and at 31 March 2010 is as follows** (unaudited):

| in EUR thousands | Retail Baltic region | Retail Eastern Europe | Retail Central Europe | Whole-sale[1] | Real estate manage-ment | Total |
|---|---|---|---|---|---|---|
| **3m 2011 and at 31 March 2011** | | | | | | |
| Revenue (from external customers) | 6,416 | 4,037 | 302 | 906 | 110 | 11,771 |
| Segment profit (loss)[2] | 266 | -343 | -114 | 207 | 99 | 115 |
| Incl. depreciation and amortisation | -266 | -189 | -28 | -59 | 0 | -542 |
| Inventories of segments | 3,136 | 1,845 | 138 | 0 | 0 | 5,119 |
| **3m 2010 and at 31 March 2010** | | | | | | |
| Revenue (from external customers) | 5,776 | 3,808 | 343 | 1,035 | 85 | 11,047 |
| Segment profit (loss)[2] | -76 | -242 | -165 | 167 | 45 | -271 |
| Incl. depreciation and amortisation | -315 | -212 | -36 | -13 | 0 | -576 |
| Inventories of segments | 3,333 | 2,072 | 169 | 176 | 0 | 5,750 |

[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.

Source: Interim Consolidated Financial Statements

**Reconciliation of segment profit to consolidated operating profit** (unaudited)

| in EUR thousands | **3m 2011** | **3m 2010** |
|---|---|---|
| Total profit for reportable segments | 115 | -271 |
| Unallocated expenses[1]: | | |
| Distribution costs | -1,252 | -1,553 |
| Administrative and general expenses | -743 | -706 |
| Other operating income (expenses), net | -215 | 526 |
| **Operating profit (loss)** | **-2,095** | **-2,004** |

Source: Interim Consolidated Financial Statements

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

**The segment information for the year ended at 31 December 2010 and at 31 December 2009** (audited)

| in EUR thousands | **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) | 29,341 | 17,794 | 1,508 | 3,179 | 385 | 52,207 |
| Segment operating profit (loss)[2] | 3,863 | 908 | -550 | 706 | 312 | 5,239 |
| Incl. depreciation and amortisation | -1,231 | -853 | -122 | -18 | 0 | -2,224 |
| Inventories of segments | 2,957 | 1,931 | 155 | 0 | 0 | 5,043 |
| **2009 and at 31 December 2009** | | | | | | |
| Revenue (from external customers) | 30,957 | 17,999 | 2,754 | 4,405 | 138 | 56,253 |
| Segment operating profit (loss)[2] | 2,147 | -1,197 | -1,384 | 645 | 74 | 285 |
| Incl. depreciation and amortisation | -1,269 | -885 | -274 | -64 | 0 | -2,492 |
| Inventories of segments | 3,522 | 2,466 | 186 | 233 | 0 | 6,405 |

[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.

Source: Annual Consolidated Financial Statements

**Reconciliation of segment operating profit to consolidated operating profit** (audited)

| in EUR thousands | **2010** | **2009** |
|---|---|---|
| Total segment profit | 5,239 | 285 |
| Unallocated expenses[1]: | | |
| Distribution costs | -6,649 | -5,296 |
| Administrative and general expenses | -2,928 | -2,842 |
| Other operating income (expenses), net | -381 | -2,074 |

| | | |
|---|---|---|
| **Operating loss** | **-4,719** | **-9,926** |

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

Source: Annual Consolidated Financial Statements

## 7.4 WHOLESALE

Baltika's wholesale revenue for the first quarter of 2011 amounted to 845 thousand euros, an 18% decrease from the first quarter of 2010. On the other hand, wholesale revenue from sales to comparable customers grew by 39%. In the first quarter of 2010, 41% of the Group's wholesale revenue was generated by the sale of the products of AS Virulane; the brands of AS Virulane have been divested in the first quarter of 2010.

The Group's wholesale revenue for 2010 amounted to 3,007 thousand euros, decreasing by 31% compared to the year 2009. Comparable wholesale revenue from the Group's own brands only decreased by 6% year-over-year.

The most notable sales growth was achieved in the Western and Eastern European markets in connection with the acceptance of the Group's products to an increasing number of Peek & Cloppenburg department stores. If in the first quarter of 2010 Mosaic was represented at 30 Peek & Cloppenburg department stores, to date the brand has penetrated a further 10 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.

Wholesale growth has also been supported by the opening of Stockmann's new stores in the Russian market (particularly the flagship store in St Petersburg).

## 7.5 INVESTMENT PROPERTY AND BALTIKA QUARTER

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

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

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

The architectural solution of the complex was prepared by the architects of the internationally recognised practices 3+1 and Studio 3. For their contemporary solution that successfully integrates the exterior and interior of the building, they received the Interior Architecture Award of the National Endowment for Architecture. The Group's investments of Baltika Quarter totalled approximately 9,267 thousand euros. The real estate project was funded by bank borrowings.

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.

## 7.6 FINANCIAL PERFORMANCE

### Operating expenses

Operating expenses will remain under careful scrutiny also in 2011 but the Group does not expect further cost savings. Economic recovery in Baltika's target markets has triggered a rise in lease and labour expenses and preparations for a new growth cycle require additional expenditures and investments. Distribution expenses grew by 1% to 7,028 thousand euros in Q1 2011 as compared with last year same period. In the retail system, lease expenses remained at the same level as in the previous year but charges per square metre increased. In 2010 many leases entailed temporary crisis-induced discounts which to date have ended.

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 3,553 thousand euros and amounted to 28,446 thousand euros in 2010. In the retail system, the stores' rental expenses per square metre dropped by 4% on average while retail personnel expenses remained on the level of 2009.In manufacturing, production volumes were reduced, which resulted in a decline in headcount. During the year 2010, termination benefits of 99 thousand euros were paid to the production staff. Manufacturing personnel expenses decreased by 26% year-over-year in 2010.

### Earnings and margins

In the first quarter of 2011, Baltika earned a gross profit of 5,891 thousand euros, a 15% increase year-over-year on a sales area that was 8% smaller on average. The vigorous growth may be attributed to a significantly improved gross margin.

Better inventory management and discount planning helped improving the gross margins in 2011 and 2010. The Group's gross margin for the first quarter of 2011 was 50.0% (Q1 2010: 46.4) and for 2010 51.8% (2009: 48.0%). Gross profit for the year 2010 was 27,036 thousand euros; in light of a 7% decrease in sales gross profit remained roughly at the level of the previous year.

Q1 2011 operating loss from the core business was 2,095 thousand euros against 2,004 thousand euros for the first quarter of 2010. The figure for the previous year was improved by the divestment of the MasCara and Herold brands of AS Virulane and the sale of some items of property, plant and equipment that yielded 256 thousand euros. In addition, in the first quarter of 2010 movements in foreign exchange rates had a positive impact and Baltika earned foreign exchange gain of 304 thousand euros in contrast to a foreign exchange loss of 189 thousand euros incurred in the first quarter of 2011. Comparative operating loss (excluding the effects of a non-recurring sales transaction and movements in foreign exchange rates) for the first quarter of 2011 was 658 thousand euros, i.e. 26% smaller than a year ago.

The Group's finance costs for the first quarter of 2011 were 287 thousand euros, 25% up year-over-year. The largest finance cost item was interest expense. At the end of the first quarter of 2011, the weighted average loan interest rate for the Group's loan portfolio was 6.13% (Q1 2010: 5.39%).

Baltika Group ended the first quarter of 2011 with a net loss of 2,364 thousand euros. The net loss for the first quarter of 2010 was 2,024 thousand euros. Comparative net loss for the first quarter of 2011 (excluding the effect of a non-recurring sales transaction and movements in foreign exchange rates) was 602 thousand euros, i.e. 22% smaller than a year ago.

The Group ended 2010 with a net loss of 6,332 thousand euros. In 2009 the net loss was 10,244 thousand euros.

No significant changes in the Group's financial position and operations have incurred since the end of the year 2010 until to date this Prospectus has been prepared.

## 7.7 INVESTMENTS

The Company's investment activities comprise mainly four areas: retail, information technology, manufacturing and real estate development. The volume of the investments depends on strategic decisions and financing opportunities.

**Investments 2008-2010**

*2008*

- Investments in the real estate amounted to 5,081 thousand euros, comprising the reconstruction of the office building located at Veerenni 24, Tallinn, Estonia.
- Investments in manufacturing totalled 330 thousand euros, thereof investments in purchasing new machinery amounted to of 227 thousand euros and investments in improving the production buildings and working environment amounted to 103 thousand euros.
- Investments in the retail system amounted to 3,450 thousand euros (construction of new stores, furniture and equipment of new stores).
- Investments in business software Navision (development and licenses) and hardware amounted to 645 thousand euros.

*2009*

- Investments in real estate amounted to 4,685 thousand euros and comprised the office building located at Veerenni 24, Tallinn, Estonia (Baltika Quarter).
- Acquisition of an additional stake in the subsidiary SIA Baltika Latvija in the amount of 152 thousand euros as a result of which Baltika increased its ownership to 100%.
- Investments in the property, plant, equipment and intangible assets totalled 1,837 thousand euros, thereof investments in retail system amounted to 1,581 thousand euros (construction, furniture and equipment of new stores), investments in information technology amounted to 107 thousand euros and other investments amounted to 253 thousand euros

*2010*

- Investments in retail system totalled 340 thousand euros, investments in information technology amounted to 116 thousand euros and other investments totalled 2 thousand euros.

*2011*

- Baltika did not make any major investments in 2011.

**Volume of investments**

| in EUR thousands, unaudited | 2010 | 2009 | 2008 |
|---|---|---|---|
| Retail outlets | 340 | 1,581 | 3,450 |
| Information technology | 116 | 107 | 646 |
| Production | 0 | 3 | 330 |
| Investment property | 0 | 4,685 | 5,017 |
| Other investments | 2 | 253 | 53 |
| **Total** | **458** | **6,629** | **9,496** |

Source: the Company

**Investments by country**

| in EUR thousands, unaudited | 2010 | 2009 | 2008 |
|---|---|---|---|
| Estonia | 201 | 4,941 | 6,045 |
| Other countries | 257 | 1,688 | 3,451 |
| **Total** | **458** | **6,629** | **9,496** |

Source: the Company

## 7.8 FINANCIAL POSITION AND LIQUIDITY

### Financial position

At 31 March 2011, Baltika Group had total assets of 37,636 thousand euros, a 5% decrease compared with 31 December 2010.

Trade and other receivables remained stable compared with the previous year-end, totalling 3,120 thousand euros at the end of the first quarter of 2011. Trade receivables decreased by 2% to 1,280 thousand euros. The net amount of trade receivables includes the allowance for doubtful receivables of 34 thousand euros.

At the end of the first quarter of 2011, inventories totalled 10,209 thousand euros, a decrease of 595 thousand euros, i.e. 6% compared with the previous year-end.

Trade payables as at the end of the first quarter of 2011 stood at 4,994 thousand euros, a 640 thousand euro increase on the 2010 year-end figure.

At the end of the first quarter of 2011, the Group’s net debt (interest-bearing liabilities less cash and bank balances) was 19,333 thousand euros. The year-end net debt to equity ratio was 190%. The Group’s equity as at 31 March 2011 amounted to 10,158 thousand euros.

### Cash flow and capital resources

The Company’s financing sources have consisted of the cash generated from operating activities, interest bearing liabilities and the alternative financing opportunities like resources from the sale of the assets not related to principal business activities and resources from the additional issue of shares over the past three years. In 2009 and 2010 the main objective was to strengthen the financial position and liquidity in order to guarantee the fulfilment of the Company's liabilities to banks and vendors. The capital and its structure needed to be strengthened as well.

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 17,100 thousand euros and guarantee limit agreements of 2,936 thousand euros 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%.

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 6,787 thousand euros of extra resources.

In 2010, to strengthen the financial position, the Group divested an industrial property at Ahtme, sold the coat manufacturing operation in Rakvere and divested a manufacturing property in Rakvere and the MasCara and Herold brands.

Due to the cyclical nature of the retail business, the Group's liquidity position is at the lowest level during the first part of the year, and as at 31 March 2011 it totalled 262 thousands euros. In addition, the liquidity position is influenced by more unstable supplier environment: due to the economic crisis and market instability the supplier payment conditions are becoming tougher. The company deems its liquidity position not enough sufficient to support the increased intake as the retail sector is undergoing the growth period.

### 7.8.1 DEBT TO EQUITY RATIOS OF THE GROUP

| In EUR thousands | **31.03.2011** unaudited | **31.03.2010** unaudited | **31.12.2010** audited | **31.12.2009** audited | **31.12.2008** audited |
|---|---|---|---|---|---|
| Total borrowings | 19,595 | 22,385 | 19,821 | 22,214 | 17,406 |
| Cash and bank | -262 | -229 | -823 | -385 | -554 |
| Net debt | 19,333 | 22,156 | 18,998 | 21,829 | 16,852 |
| Total equity | 10,158 | 9,926 | 12,356 | 11,924 | 19,104 |
| Total capital | 29,491 | 32,082 | 31,354 | 33,753 | 35,956 |
| **Debt-equity ratio** | **66%** | **69%** | **61%** | **65%** | **47%** |

Source: Consolidated Financial Statements, the Company

### 7.8.2 FINANCIAL LIABILITIES

**Financial liabilities by maturity at 31 March 2011** (unaudited)

| in EUR thousands | **Carrying amount** | **1-9 months[1,2]** | **1-5 years[1]** | **Total[1]** |
|---|---|---|---|---|
| Bank borrowings | 19,287 | 2,250 | 20,187 | 22,437 |
| Finance lease liabilities | 308 | 190 | 152 | 342 |
| Trade payables | 4,994 | 4,994 | 0 | 4,994 |
| Other financial liabilities | 254 | 254 | 0 | 254 |
| **Total** | **24,843** | **7,688** | **20,339** | **28,027** |

[1]Undiscounted cash flows
[2]Financial liabilities due in current financial year.

Source: the Company

**Financial liabilities by maturity at 31 December 2010** (audited)

| In EUR thousands | Carrying amount | 1-12 months[1] | 1-5 years[1] | Total[1] |
|---|---|---|---|---|
| Bank borrowings | 19,444 | 2,798 | 20,149 | 22,947 |
| Finance lease liabilities | 377 | 251 | 152 | 403 |
| Trade payables | 4,355 | 4,355 | 0 | 4,355 |
| Other financial liabilities | 300 | 300 | 0 | 300 |
| **Total** | **24,476** | **7,704** | **20,301** | **28,005** |

[1]Undiscounted cash flows
Source: Annual Consolidated Financial Statements

**Financial liabilities by maturity at 31 December 2009** (audited)

| in EUR thousands | Carrying amount | 1-12 months[1] | 1-5 years[1] | Over 5 years[1] | Total[1] |
|---|---|---|---|---|---|
| Bank borrowings | 21,632 | 7,957 | 9,121 | 7,906 | 24,984 |
| Finance lease liabilities | 582 | 267 | 358 | 0 | 625 |
| Trade payables | 7,104 | 7,104 | 0 | 0 | 7,104 |
| Other financial liabilities | 599 | 516 | 128 | 0 | 644 |
| **Total** | **29,917** | **15,844** | **9,607** | **7,906** | **33,357** |

[1]Undiscounted cash flows
Source: Annual Consolidated Financial Statements

**Financial liabilities by maturity at 31 December 2008** (audited)

| in EUR thousands | Carrying amount | 1-12 months[1] | 1-5 years[1] | Over 5 years[1] | Total[1] |
|---|---|---|---|---|---|
| Bank borrowings | 16,759 | 7,216 | 7,993 | 5,699 | 20,908 |
| Finance lease liabilities | 648 | 220 | 470 | 0 | 690 |
| Trade payables | 9,711 | 9,711 | 0 | 0 | 9,711 |
| Other financial liabilities | 181 | 181 | 0 | 0 | 181 |
| **Total** | **27,298** | **17,328** | **8,463** | **5,699** | **31,490** |

[1]Undiscounted cash flows
Source: Annual Consolidated Financial Statements

## 7.9 PRINCIPAL RESOURCES

The Company is funding its activities mainly with help of cash generated from operating activities and bank borrowings.

*The following financial information is derived as at and from the years ending on 31 December 2008, 31 December 2009 and 31 December 2010 and as at and from the period ending on 31 March 2011.*

*The Annual Consolidated Financial Statements incorporated by reference in this Prospectus, have been audited by PricewaterhouseCoopers. The Consolidated Interim Financial Statements, incorporated by reference in this Prospectus, have not been audited nor subject to the auditors review.*

*The following selected consolidated financial information of Baltika Group should be read together with the Consolidated Financial Statements and other financial data included elsewhere in this Prospectus.*

### Borrowings

| in EUR thousands | **31.03.2011** unaudited | **31.12.2010** | **31.12.2009** | **31.12.2008** |
|---|---|---|---|---|
| **Current borrowings** | | | | |
| Current portion of long-term bank loans | 1,592 | 1,697 | 2,228 | 1,332 |
| Current bank loans | 93 | 0 | 5,036 | 5,116 |
| Current finance lease liabilities | 185 | 233 | 243 | 197 |
| Liability component of preference shares | 197 | 195 | 350 | 0 |
| **Total** | **2,067** | **2,125** | **7,857** | **6,645** |
| | | | | |
| **Non-current borrowings** | | | | |
| Non-current bank loans | 17,602 | 17,747 | 14,368 | 10,310 |
| Non-current finance lease liabilities | 123 | 144 | 339 | 452 |
| Convertible bonds and liability component of preference shares | 94 | 62 | 181 | 0 |
| **Total** | **17,819** | **17,953** | **14,888** | **10,762** |
| | | | | |
| **Total borrowings** | **19,886** | **20,078** | **22,745** | **17,407** |

Source: Consolidated Financial Statements

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 March 2011** (unaudited)

| | **Carrying amount in EUR thousands** | **Average risk premium** |
|---|---|---|
| Borrowings at floating interest rate (based on 6-month Euribor) | 19,287 | 4.58% |
| Liability component of preference shares | 197 | 10.00% |
| **Total** | **19,484** | |

Source: Interim Consolidated Financial Statements

**Bank loans and the liability component of preference shares of the Group at 31 December 2010** (audited)

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

Source: Annual Consolidated Financial Statements

**Bank loans and the liability component of preference shares of the Group at 31 December 2009** (audited)

| | Balance, in thousands EUR | Average risk premium |
|---|---|---|
| Borrowings at floating interest rate (based on 1-month Euribor) | 500 | 2.50% |
| Borrowings at floating interest rate (based on 3-month Euribor) | 240 | 1.00% |
| Borrowings at floating interest rate (based on 6-month Euribor) | 18,085 | 3.48% |
| Borrowings at fixed interest rate (overdraft) | 2,807 | 7.55% |
| Liability component of preference shares | 469 | 10.00% |
| **Total** | **22,102** | |

**Bank loans and the liability component of preference shares of the Group at 31 December 2008** (audited)

| | Balance, in thousands EUR | Average risk premium |
|---|---|---|
| Borrowings at floating interest rate (based on 1-month Euribor) | 500 | 1.50% |
| Borrowings at floating interest rate (based on 3-month Euribor) | 427 | 1.25% |
| Borrowings at floating interest rate (based on 6-month Euribor) | 11,216 | 1.58% |
| Borrowings at floating interest rate (based on 1-month Libor) | 25 | 1.60% |
| Borrowings at fixed interest rate (overdraft) | 4,591 | 6.20% |
| **Total** | **16,759** | |

Source: Annual Consolidated Financial Statements

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 at 31 December 2010, there could have emerged a conflict with the levels established for certain financial ratios, but before 31 December 2010 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:
- mortgages to real estate located at Veerenni 24, Tallinn, Estonia;
- commercial pledges to movables of the Company and of the subsidiaries;
- pledge of some of the trademarks;
- pledge of shares of the subsidiaries;
- pledge over Group account and some other bank accounts.

The carrying amount of assets pledged at 31 December 2010 amounted to 29,784 thousand euros, including inventories in the amount of 10,131 thousand euros, property, plant and equipment in the amount of 11,301 thousand euros, intangible assets in the amount of 966 thousand euros and investment property in the amount of 7,069 thousand euros. As at 31 December 2009 carrying amount of assets pledged was 23,472 thousand euros, including inventories in the amount of 5,694 thousand euros, property, plant and equipment in the amount of 10,391 thousand euros, intangible assets in the amount of 785 thousand euros and investment property in the amount of 6,602 thousand euros.

During 2010, the Group made loan repayments in the amount of 2,797 thousand euros. Interest expense amounted to 1,406 thousand euros in 2010, thereof the interests on bank loans were 1,153 thousand euros.

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

# 8 MANAGEMENT AND EMPLOYEES

Pursuant to the provisions of the Estonian Commercial Code and the Company's Articles of Association, the control and management of the Company is divided among the General Meeting of Shareholders, the Supervisory Council (the “Council”) and the Management Board (the “Management Board”).

### 8.1 COUNCIL

The Council is responsible for planning the business activities of the Company, organising the management of the Company and supervising the activities of the Management Board. The Council reports to the General Meeting of Shareholders.

According to the Company's Articles of Association, the Council comprises of three (3) to seven (7) members. Members of the Council shall be elected by the General Meeting for three (3) years. The members of the Council shall elect a chairman from among themselves who shall organise the activities of the Council. Meetings of the Council shall be held when necessary but not less frequently than once every three (3) months.

According to the Company's Articles of Association, the Council has the competence to:

(1) determine the agenda of the General Meeting;

(2) review the annual report and prepare a report concerning it which shall be presented to the General Meeting of Shareholders;

(3) review, once every four months, the overview of the economic activity and economic situation of the Company presented by the Management Board;

(4) deliver to the General Meeting of Shareholders a proposal in respect of each item on the agenda;

(5) elect and recall members of the Management Board;

(6) determine the amount and procedure for the payment of remuneration to the members of the Management Board;

(7) appoint and remove a procurator;

(8) approve the annual budget of the Company;

(9) decide on the conclusion of a transaction between the Company and a member of the Management Board of the Company, determine the terms and conditions of this transaction and decide on having legal disputes with Management Board members and appoint a representative of the Company in such transaction or legal dispute.

A meeting of the Council shall have a quorum if more than one half of the members of the Council participate. A resolution of the Council shall be adopted if more than one half of the members of the Council who participate in the meeting vote in favour. Each member of the Council shall have one vote. In 2010 there were six (6) Council meetings and the majority of Council members was present on each meeting.

## 8.2 MEMBERS OF THE COUNCIL

The Council of Baltika has been elected by the ordinary general meetings of shareholders in 2009 and 2010 and it comprises of seven (7) members.

At the date of this Prospectus the members of the Council are:

**TIINA MÕIS**

Chairman of the Council since 07.06.2006, Member of the Council since 03.05.2006
Term of office expires on 18.06.2012
AS Genteel, Member of the Management Board
Born 1957
Degree in Economical Engineering, Tallinn University of Technology
Participation in other managing bodies:
AS Nordecon International, Member of the Council,
AS Rocca al Mare Kool and AS Rocca al Mare Koolimaja, Member of the Council,
Rocca al Mare Kooli Sihtasutus, Member of the Council;
AS Haabersti Jäähall, Member of the Council,
AS LHV Pank and AS LHV Group, Member of the Council,
HTB Investeeringute AS, Member of the Council,
AS Martinson Trigon, Member of the Council,
Eesti Kaubandus-Tööstuskoda (*Estonian Chamber of Commerce and Industry*), Member of the Board of Directors,
SA TallinnaTehnikaülikooli Arengufond, Member of the Council,
Tallinna Tehnikaülikooli Vilistlaskogu, Member of the Board of Directors,
Member of Eesti Raamatupidamise Toimkond (*Estonian Accounting Standards Board*).
Baltika's shares 30.06.2011: 977,837 shares – 3.1% from the share capital (AS Genteel)

**REET SAKS**

Member of the Council since 25.03.1997
Term of office expires on 18.06.2012
Advokaadibüroo Raidla Lejins & Norcous (*Raidla Lejins & Norcous Law Office*), attorney
Born 1962
Degree in Law, University of Tartu
Participation in other managing bodies:
MTÜ Intellektuaalomandi Kaitse Rahvusvahelise Assotsiatsiooni (AIPPI) Eesti Rahvuslik Töörühm (*International Association for the Protection of Intellectual Property (AIPPI) Estonian National Group*), Member of the Management Board
Baltika's shares 30.06.2011: 0

**ALLAN REMMELKOOR**

Member of the Council since 03.05.2006
Term of office expires on 18.06.2012
AS Pro Kapital Grupp, Member of the Management Board
Born 1971
Degree in Business Administration, Tallinn University of Technology
Participation in other managing bodies:

AS Pro Kapital Eesti, Member of the Management Board,
AS Tondi Kvartal, Member of the Management Board,
AS Ilmarise Kvartal, Member of the Management Board,
AS Kristiine Kaubanduskeskus, Member of the Management Board,
AS Tallinna Moekombinaat, Member of the Management Board,
Pro Halduse AS, Member of the Management Board,
AS Hypermarket, Member of the Management Board,
SIA Pro Kapital Latvia, Member of the Management Board,
SIA Kliversala Re, Member of the Management Board,
SIA PK Investments, Member of the Management Board,
Eesti Boule Liit, Member of the Management Board,
Spordiklubi Schnelli, Member of the Management Board.
Baltika's shares 30.06.2011: 0

**ANDRES ERM**

Member of the Council since 03.05.2006
Term of office expires on 18.06.2012
OÜ HT Project Management, managing director
Born 1960
Degree in Economics, Tallinn University of Technology
Participation in other managing bodies:
AS Anter Holding, Member of the Council,
AS Pandion Fish, Member of the Council,
OÜ Eurocon, Member of the Council.
Baltika's shares 30.06.2011: 0

**LAURI KUSTAA ÄIMÄ**

Member of the Council since 18.06.2009
Term of office expires on 18.06.2012
KJK Capital Oy, managing director
Born 1971
Master of Science (economics), Helsinki University
Participation in other managing bodies:
AS Tallink Grupp, Member of the Council,
Oy Tallink Silja Ab, Member of the Board of Directors,
Salva Kindlustuse AS, Member of the Council,
AS Premia Foods, Member of the Council,
Premia Tallinna Külmhoone AS, Member of the Council,
AS PKL, Member of the Council,
AAS BAN, Member of the Council,
UAB Litagra, Member of the Board of Directors,
Amber Trust Management SA, vice-chairman of the Board of Directors,
Amber Trust II Management SA, chairman of the Board of Directors,
KJK Fund SICAV-SIF, Chairman of the Management Board,
KJK Management SA, Chairman of the Management Board,
KJK Capital Oy, Chairman of the Management Board,
Kaima Capital Oy, Chairman of the Board of Directors;

Cumulant Capital Fund Management Oy, Member of the Board of Directors,
AB Snaige, Member of the Board of Directors,
AB Sanitas, Member of the audit committee,
Kitron ASA, Member of the committee of nominations to the office;
Kaima Capital Eesti OÜ, Member of the Management Board,
Manage Trade OÜ, Member of the Management Board.
Baltika's shares 30.06.2011: 0

**JAAKKO SAKARI MIKAEL SALMELIN**

Member of the Council from 21.06.2010
Term of office expires on 21.06.2013
KJK Capital Oy, partner
Born 1980
Master of Science in Finance, Helsinki School of Economics
Participation in other managing bodies:
KJK Fund SICAV-SIF, Member of the Management Board,
KJK Management SA, Member of the Board,
KJK Capital Oy, Member of the Board,
Snaige AB, Member of the Board
Baltika's shares 30.06.2011: 0

**EDOARDO MIROGLIO**

Member of the Council from 21.06.2010
Term of office until 21.06.2013
Miroglio S.P.A., Member of the Management Board
Born 1958
Participation in other managing bodies:
Interpred, Member of the Management Board.
Baltika's shares 30.06.2011: 3,000,000 shares – 9.53% from the share capital (through E.MIROGLIO S.A)

The information in this Prospectus regarding the members of the Council and Management Board is an indication of the principal activities performed by them outside the Company where these are significant with respect to the Company.

## 8.3 MANAGEMENT BOARD

The Management Board manages the Company's daily business operations. According to the Company's Articles of Association, the Management Board is the management body of the Company which represents and directs everyday activities of the Company. The Board shall adopt all resolutions concerning activities of the Company and shall independently execute all transactions which are not placed within the competence of the General Meeting of Shareholders or the Council by the law and Articles of Association. The Management Board shall consist of three (3) up to seven (7) members who shall be elected by the Council for three (3) years. The members of the Management Board shall elect a chairman of the Management Board from among themselves. The chairman of the Management Board shall organise work of the Board and direct everyday activities of the Company pursuant to law and according to the requirements of the Articles of Association.

## 8.4 MEMBERS OF THE MANAGEMENT BOARD

The Management Board of Baltika has been elected by the Council in 2009 and 2011 and it comprises of five (5) members. As at the date of this Prospectus, the Chairman of the Management Board is Meelis Milder, whose last term of office commenced on 14 September 2009. The members of the Management Board are Maire Milder, Boriss Loifenfeld and Andrew James David Paterson, whose term of office commenced on 14 September 2009. Starting from 30 March 2011, Maigi Pärnik-Pernik was elected to the Management Board.

**At the date of this Prospectus the members of the Management Board are:**

**MEELIS MILDER**

Chairman of the Management Board since 1991, in the Group since 1984
Term of office expires on 14.09.2012
Born 1958
Degree in Economic Cybernetics, University of Tartu
Participation in other managing bodies:
OÜ Baltika Retail, Member of the Management Board,
BMIG OÜ, Member of the Management Board,
UAB Baltika Lietuva, Member of the Management Board,
SIA Baltika Latvija, Member of the Management Board,
BML Invest OÜ, Member of the Management Board,
OÜ Kodreste, Member of the Management Board,
OÜ LVM Projekt, Member of the Management Board,
OÜ Maisan, Member of the Management Board,
AS Nordecon International, Member of the Council,
Tallinna Kaubamaja AS, Member of the Council,
AS Virulane, Member of the Council,
OÜ Baltika Tailor, Member of the Council,
OÜ Baltman, Member of the Council,
Eesti Kaubandus-Tööstuskoda (Estonian Chamber of Commerce and Industry), Member of the Board of Directors,
Baltika's shares 30.06.2011: 726,336 ordinary shares* - 2.31% from the share capital

**MAIGI PÄRNIK-PERNIK**

Member of the Management Board since 2011, in the Group since 2011,
Chief Financial Officer
Term of office expires on 30.03.2014
Born 1974
Degree in Economics, Tallinn University of Technology
Master of Business Administration, Concordia International University
Participation in other managing bodies:
AS Virulane, Member of the Council,
OÜ Baltika Tailor, Member of the Council,
OÜ Baltman, Member of the Council
Baltika's shares 30.06.2011: 0

**MAIRE MILDER**

Member of the Management Board since 2000, in the Group since 1999,
Retail and Concepts Development Director
Term of office expires on 14.09.2012
Born 1958
Degree in Biology and Geography, University of Tartu
Participation in other managing bodies:
OÜ Maisan, member of the Management Board,
OÜ Baltman, member of the Council
Baltika's shares 30.06.2011: 316,083 ordinary shares* - 1.01% of the share capital (30,000 shares through OÜ Maisan)

**BORISS LOIFENFELD**

Member of the Management Board since 2000, in the Group since 1990,
Director of Wholesale and CIS Market Projects
Term of office expires on 14.09.2012
Born 1960
Degree in Textiles and Clothing, St Petersburg State University of Technology and Design
Participation in other managing bodies:
OY Baltinia AB, substitute Member of the Management Board,
UAB Baltika Lietuva, Member of the Management Board,
SIA Baltika Latvija, Member of the Management Board,
Baltika Sweden AB, Member of the Management Board,
OÜ Ellips Invest, Member of the Management Board,
MTÜ Pihlamarja Vesi, Member of the Management Board.
Baltika's shares 30.06.2011: 200,366 ordinary shares* - 0.64 % of the share capital

**ANDREW J. D. PATERSON**

Member of the Management Board since 2008, in the Group since 2003,
Director of Merchandising, Sourcing and Supply Chain
Term of office expires on 14.09.2012
Born 1969
Baltika's shares 30.06.2011: 11,000 ordinary shares – 0.03% of the share capital

*Management Board members hold additionally the shares of Baltika through the holding company OÜ BMIG (see the section "Shares and shareholders").

## 8.5 REMUNERATION OF COUNCIL AND MANAGEMENT BOARD

**Total amount of remuneration of Council and Management Board members**

| Thousands | **Q1 2011 unaudited** | **Q1 2010 unaudited** | **2010** | **2009** | **2008** |
|---|---|---|---|---|---|
| Total amount of remuneration of Council and Management Board members | 80 | 80 | 309 | 312 | 297 |

Source: Consolidated Financial Statements

The general meeting of shareholders on 18 June 2009 decided to continue the remuneration of the Council members as decided by the extraordinary general meeting of shareholders of Baltika on 7 December 2004. The remuneration of the Council is determined from 1 December 2004 and has remained unchanged. The monthly remuneration of the chairman of the Council is EUR 639 and the other members of the Council EUR 383. The decisions of the general meeting of shareholders on 7 December 2004 and 18 June 2009 are available in the announcements made to NASDAQ OMX Tallinn and are available on the website www.nasdaqomxbaltic.com. The Council members do not get any severance compensations when they are recalled from the Council.

The Management Board members Boriss Loifenfeld, Maire Milder and Maigi Pärnik-Pernik are employed by the Company. The Chairman of the Management Board has entered into the service agreement with the Company in 2011. Andrew Paterson has a service agreement with the Company and he provides services under the service agreement with his company Keel Consulting Associates Ltd.

The agreements entered into with the members of the Management Board set forth the severance payments of 6-12 months, except for the Chairman of the Management Board. The Chairman of the Management Board shall receive compensation in the amount of six (6) monthly remunerations for each period of the term of office, but not more than eighteen (18) monthly remunerations.

The Company does not have any pension plans, arrangements or executive schemes.

As at the date of this Prospectus there are no outstanding loans, guarantees or other collaterals issued or provided by the Group companies to the members of the Council or the Management Board or other key executives.

Apart from their rights as shareholders, no member of the Council has any effective options as at the date of this Prospectus to purchase or sell Company's shares, or rights to subscribe for Company's shares or shares in any other company within the Group. The Management Board members together with some other key executives hold convertible bonds to be exchanged into the ordinary shares of the Company within July-December 2012. See Section 11 for more details on the Terms and conditions of the convertible bonds.

The existing shareholders of the Company and the members of its Management, Council or administrative bodies may participate in the Offering subject to the conditions of the Offering as set forth in this Prospectus. OÜ BMIG has informed the Company that OÜ BMIG is not going to participate in the Offering. The Company is not aware whether any other existing shareholder or members of the Management or Council intend to participate in the Offering except for KJK Fund Sicav-SIF, E.Miroglio S.A. and East Capital Baltikum Fund as described in Section 3.1.1.

## 8.6 ADDITIONAL INFORMATION ON MEMBERS OF COUNCIL AND MANAGEMENT BOARD

The members of the Council and Management Board are not having any family relationship between any of those persons, except for Meelis Milder and Maire Milder, who are married.

No member of the Council or the Management Board has had any interest in transactions effected by the Company or its subsidiaries, which are unusual in their nature or which contain unusual terms or conditions, during the financial years ended on 31 December 2008, 2009 and 2010. The Company is not aware of any potential conflicts of interest between the duties of the above mentioned persons to the Company and their private interests or other duties.

The Company is not aware of any convictions in relation to fraudulent offences or any official public incrimination and/or sanctions with respect to the members of its Council or Management Board or other key executives.

The Company is not aware of any bankruptcy proceedings initiated against the members of its Council or Management Board. Related to the closure of operations in the Czech Republic, Meelis Milder acted in 2010 as a liquidator to the daughter company in the Czech Republic, Baltika Retail Czech Republic s.r.o. Related to the closure of operations in Poland, Meelis Milder is currently acting as a liquidator to the daughter company in Poland, Baltika Poland Sp.z.o.o.

The Council member Reet Saks is the head of the bankruptcy committee of OÜ Centurio Arendus (in bankruptcy) and AS FjordFresh Holding (in bankruptcy) and a member of the bankruptcy committee of Landlord Holdings OÜ (in bankruptcy).

No member of the Council or Management Board has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of the Company or from acting in the management or conduct of the affairs of any other company.

## 8.7 AUDIT COMMITEE

To ensure conformance with the Auditors Activities Act, on 16 August 2010 the 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 Council and its members are appointed and removed by the 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. The members of the audit committee are all elected amongst the members of the Council. See section 9.2. Members of the Council for more details on these individuals.

The audit committee is authorized to:

- monitor and analyse the processing of financial information of the Company;
- monitor and analyse the efficiency of the risk management and internal control of the Company;
- monitor and analyse the process of auditing the consolidated financial reports of the Company;
- give recommendations for making proposals to the general meeting of shareholders of the Company and make proposals for election or recalling of an auditor of the Company;
- monitor and analyse independence of an auditor elected as the auditor of the Company and of an attorney at law in the capacity of legal representative of the company of auditors, as well as conformity of their actions with the requirements of the Authorised Public Accountants Act;
- determine the remuneration system for the management;
- give the Council recommendations and make proposals concerning avoiding or eliminating problems and/or inefficiency discovered in the course of performing its duties;
- give the Council recommendations and make proposals for bringing the inconsistencies with any legal acts and best practices of professional activity discovered in the course of performance of its duties into line with legal acts and requirements of the best practices of the professional activity;

- fulfil other functions related to the duties of the committee at the request of the Council.

Upon performance of its duties, the committee cooperates with the Council, the Management Board, the auditor of the Company and, if necessary, with other persons. The committee is accountable for its actions to the Council. No remuneration shall be paid to the members of the audit committee. The audit committee meets when necessary. Until the date of the Prospectus, the audit committee has had four (4) meetings.

## 8.8 COMPLIANCE WITH THE CORPORATE GOVERNANCE REGIME

The Corporate Governance Recommendations of the NASDAQ OMX Tallinn stock exchange is a set of rules and principles which is designed, above all, for listed companies. Since the provisions of Corporate Governance Recommendations 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 NASDAQ OMX Tallinn stock exchange and the requirement to treat investors and shareholders equally. Accordingly, Baltika complies, in all material respects, with the provisions of the Corporate Governance Recommendations.

The reports on the compliance with the Corporate Governance Recommendations of NASDAQ OMX Tallinn for years 2006-2010 are available on the Company's website www.baltikagroup.com.

## 8.9 SHAREHOLDING OF THE MANAGEMENT BOARD MEMBERS

The members of the Management Board hold as of 30 June 2011 the ordinary shares of the Company with voting rights as follows:

| | **Number of shares** | **Share holding** |
|---|---:|---:|
| BMIG OÜ | 4,770,533 | 15.15% |
| E.MIROGLIO S.A.[1] | 3,000,000 | 9.53% |
| AS GENTEEL[2] | 977,837 | 3.10% |
| Juhatuse ja nõukogu liikmed ning nende lähikondsed | | 0.00% |
| Meelis Milder | 726,336 | 2.31% |
| Maire Milder | 286,083 | 0.91% |
| Boriss Loifenfeld | 200,366 | 0.64% |
| Andrew Paterson | 11,000 | 0.03% |
| OÜ Maisan[3] | 30,000 | 0.10% |
| **Total** | **10,002,155** | **31.76%** |

[1]E.MIROGLIO S.A. is under control of Edoardo Miroglio
[2]AS GENTEEL is under control of Tiina Mõis
[3]OÜ Maisan is under control of Maire Milder

Source: the Company

See section 4.1.3 *Changes in voting rights* the change in the shareholding of BMIG.

## 8.10 EMPLOYEES

As at 30 June 2011 the Group employed a total of 1,420 people: 801 in the retail system, 433 in manufacturing and 184 at the head office and logistics centre. During the year 2010, the number of employees decreased by 278. The Group's annual average number of staff was 1,527 (2009: 1,832).

### The structure of personnel by country and activity

| | 31.03.2011 | 30.12.2010 | 31.12.2009 | 31.12.2008 |
|---|---|---|---|---|
| **BALTIKA AS (Estonia) – head office and logistics centre** | 184 | 178 | 188 | 223 |
| **Manufacturing (Estonia)** | **433** | **442** | **580** | **771** |
| Baltika Tailor OÜ | 433 | 442 | 350 | 499 |
| Virulane AS | 0 | 0 | 230 | 272 |
| **Retail** | **801** | **799** | **929** | **994** |
| Estonia | 189 | 185 | 201 | 189 |
| Lithuania | 186 | 192 | 234 | 266 |
| Ukraine | 151 | 137 | 168 | 175 |
| Poland | 24 | 25 | 27 | 26 |
| Latvia | 86 | 90 | 99 | 128 |
| Russia | 165 | 170 | 199 | 195 |
| Czech Republic | 0 | 0 | 1 | 15 |
| **Total** | **1,418** | **1,419** | **1,697** | **1,988** |

Source: the Company

# 9 SHARE CAPITAL AND OWNERSHIP STRUCTURE

## 9.1 CHANGES IN THE SHARE CAPITAL

In 2010 the share capital of Baltika was increased by 5,656,181 euros and amounted to 20,128,878 euros by the end of the year. The share capital was increased by the issue of 8,850,000 ordinary shares to the targeted investors as follows:

| | | |
|---|---|---|
| 1. DCF Fund (II) Baltic States | ordinary shares | 3,250,000 |
| 2. E.Miroglio S.A. | ordinary shares | 3,000,000 |
| 3.East Capital Baltikum Fund | ordinary shares | 2,600,000 |
| **Total** | | **8,850,000** |

After this issue Baltika had a total of 31,494,850 shares, 27,494,850 of which were ordinary shares and 4,000,000 preference shares. The ordinary general meeting of shareholders decided on 11 May 2011 to cancel the preference shares and to issue instead 4,000,000 ordinary shares to the same investors.

The ordinary general meeting of shareholders decided on 11 May 2011 also to convert the share capital of the Company from Estonian kroons into euros and therefore the share capital was increased from the equity without any monetary payments (fund emission) by 1,917,518 euros. The new amount of the share capital of the Company is 22,046,395 euros. Concurrently with the conversion of the share capital of the Company into euros, also the conversion of the present nominal value of 10 (ten) kroons of the shares of the Company was made into euros and the nominal value of the shares was increased by 0.06 euro for each share. The new nominal value of the shares of the Company is 0.70 (zero point seventy) euro.

The ordinary general meeting of shareholders decided on 11 May 2011 to increase the share capital with the issuance of up to 3,150,000 shares through a public offering. This issue was undersubscribed and therefore declared cancelled.

The Council decided on 27 June 2011 to increase the share capital with the issuance of up to 4,300,000 shares through a public offering. The share capital of Baltika will be increased by 3,010,000 euros and the new amount of share capital of Baltika will be 25,056,395 euros. If the Offered Shares are subscribed for in total, the new amount of ordinary shares will be 35,794,850.

The ordinary general meeting of shareholders decided on 18 June 2009 to issue convertible bonds (G-bonds).Convertible bonds are subscribed by the management in the amount of 1,842,500. Each bond gives its holder the right to subscribe one share of the Company. The subscription period of the shares commences on 1 July and expires on 31 December 2012. The ordinary general meeting of shareholders decided on 11 May 2011 the conversion of share subscription price into euros and upon the conversion of all bonds into shares, the share capital of Baltika may increase by 1,295,000 euros, which is 5.9% of the current shares. The convertible bonds may be exchanged to 1,850,000 ordinary shares.

Pursuant to the Articles of Association approved by the ordinary general meeting of shareholders of 11 May 2011 the maximum share capital of the Company may be 40,000,000 euros.

The Council of the Company has the right within three years as of the date the amendments to the Articles of Association made by the general meeting of shareholders on 18 June 2009 became effective, to increase the share capital to an amount prescribed in the Articles of Association, but not more than one half of the share capital, which existed at the time the Council received the right to increase the share capital by making contributions, deciding on payment for shares by monetary or non-monetary contributions.

**Changes in share capital**

| Date | Issue | Issue price, EUR | Number of shares issued | Number of shares | Share capital at par value (in thousands EUR) | Share premium |
|---|---|---|---|---|---|---|
| **31.12.2004** | | | | **5,633,950** | **3,601** | **2,845** |
| 17.05.2005 | Conversion of B-bonds into shares | 2.18 | 189,000 | 5,822,950 | 3,722 | 3,136 |
| **31.12.2005** | | | | **5,822,950** | **3,722** | **3,176** |
| 30.03.2006 | Conversion of C-bonds into shares | 2.40 | 192,000 | 6,014,950 | 3,844 | 3,534 |
| 5.10.2006 | Conversion of D-bonds into shares | 1.85 | 82,400 | 6,097,350 | 3,897 | 3,634 |
| 8.12.2006 | Conversion of D-bonds into shares | 1.85 | 117,600 | 6,214,950 | 3,972 | 3,776 |
| **31.12.2006** | | | | **6,214,950** | **3,972** | **3,776** |
| 11.06.2007 | Bonus issue | - | 12,429,900 | 18,644,850 | 11,916 | 0 |
| **31.12.2007** | | | | **18,644,850** | **11,916** | **0** |
| **31.12.2008** | | | | **18,644,850** | **11,916** | **0** |
| 10.07.2009 | Preference share issue | 0.64 | 4,000,000 | 22,644,850 | 14,473 | 0 |
| **31.12.2009** | | | | **22,644,850** | **14,473** | **0** |
| 21.06.2010 | Ordinary share issue | 0.77 | 8,850,000 | 31,494,850 | 20,129 | 1,131 |
| **31.12.2010** | | | | **31,494,850** | **20,129** | **1,132** |
| 31.03.2011 | | | | 31,494,850 | 20,129 | 1,366 |
| 11.05.2011 | Conversion of preference shares into ordinary shares | | | 31,494,850 | 20,129 | 1,377 |
| 11.05.2011 | Conversion of share capital into euros | | | 31,494,850 | 22,046 | 0 |
| 27.06.2011 | Ordinary share issue* | 0.70 | 4,300,000 | 35,794,850 | 25,056 | 11 |

*Future transaction

Source: the Company

**Convertible bonds**

The ordinary general meeting held on 18 June 2009 decided the issuance of 1,850,000 convertible bonds (G-bonds) with a par value of 0.006 euro within the framework of the Group's management incentive program. Each bond entitles its holder to subscribe for one share of the Company with a nominal value of 0.70 euro. The ordinary general meeting of shareholders on 11 May 2011 decided the conversion of share subscription price into euros.

The entire issue (100%) of G-bonds were, with deviation from the shareholders' pre-emptive rights to subscription, offered for subscription to management of Baltika Group. The persons who were offered to subscribe for the bonds were approved by the Council. The issuance of G-bonds forms a part of the motivation program for executive management. The bonds shall constitute direct, unconditional and (subject to the terms and conditions of the bonds) unsecured obligation of the Company and (subject to the terms and conditions of the bonds) shall rank the same with all other outstanding unsecured and unsubordinated obligations of the Company and the bonds shall expire at the share subscription. The bonds shall not bear any interest until the maturity date. The holders of the G-bonds are entitled to require from the Company that the G-bonds be exchanged against the shares of the Company whereas for each bond the holders of the G-bonds have the right to demand one (1) share of the Company. Each

G-bond entitles its holder to subscribe for one (1) share of the Company with a nominal value of 0.70 euro. As a result of the subscriptions the share capital of Baltika may be increased by a maximum of 1,850,000 new shares, i.e. by a maximum of 1,295,000 euros.

The share subscription period for G-bonds shall be from 1 July 2012 until 31 December 2012. The share subscription price is 0.77 euro. Should a holder of the G-bond cease to be employed by or be in the service of a Group company before the share subscription period starts for the share to be exchanged against the G-bond for any other reason than retirement or death, the holder of the G-bond shall have no right to request the conversion of the bond into the share and the amount paid for bonds shall be returned on the day of termination of employment or service. The holder of the G-bond has the right during the share subscription period to choose either to receive his/her money or to subscribe for the shares or to transfer the bond to the third parties. The shares can be subscribed for only by the holders of the bonds. The bonds are freely transferable after the share subscription period has started provided that the bond holder has opened his/her securities account. The bonds subscribed for by the Management Board of Baltika were freely transferable in the amount of 25% (twenty five percent) after the issuance of G-bonds**.** Shares subscribed for by the holders of the G-bonds shall entitle the holder to all shareholder rights starting from the date the increase of the share capital has been duly registered with the Commercial Register.

In total 1,842,500 bonds were subscribed. The cash consideration received in the amount of 12 thousand euros is recognised under “Borrowings” of the non-current liabilities. The accounting policies described in IFRS 2 have been applied to account for the G-bonds. During the second half-year of 2009, 67 thousand euros as the fair value of employee services received under the share options programme were recognised as payroll expenses and a respective increase of share premium in owner’s equity, in 2010 correspondingly 134 thousand euros.

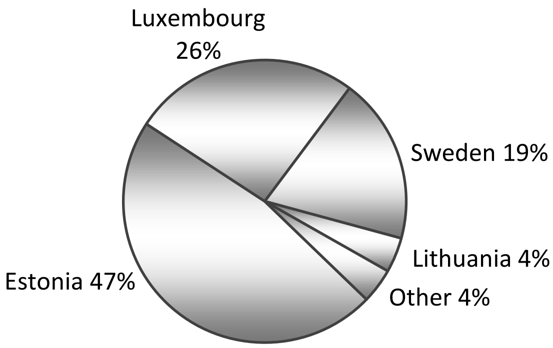
The fair value of the services (employee contribution) acquired by the entity from the employees in exchange for the shares was determined by reference to the fair value of the convertible bonds granted and was valued by an independent expert at 0.26 euro per one convertible bond. The Black-Scholes option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

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

## 9.2 SHAREHOLDERS

At the end of 2010, Baltika had 2,029 shareholders. The number of shareholders decreased by 9% over the year.

**Shareholder structure by country at 31 December 2010**




As of the end of the year 2010, the biggest shareholder of Baltika was the company controlled by the current and previous members of the Management Board, OÜ BMIG. As of the end of 2010 OÜ BMIG held 16.82% of ordinary shares of Baltika and 3.13% of the preference shares of Baltika. OÜ BMIG is owned and controlled by the current and previous Management Board members directly or through the companies under their control as follows: Meelis Milder holds 32.3%, Maire Milder 32.3%, Ülle Järv 9.1%, Boriss Loifenfeld 10.4% and LVM Projekt OÜ (a company controlled by Meelis Milder) 15.9%. As of the end of 2010 the members of the Management Board controlled directly or through the companies under their control 21.42% of ordinary shares of Baltika. As at 31 March 2011 the members of the Management Board controlled directly or through the companies under their control 21.38% of ordinary shares of Baltika. As at 30 June 2011 the members of the Management Board controlled directly or through the companies under their control 19.13% of ordinary shares of Baltika.

OÜ BMIG has pledged its shares of Baltika in favour of AS Swedbank. Baltika has not secured any way the loan of OÜ BMIG or any other obligation of OÜ BMIG. Pursuant to the agreement with the bank the transfer of title to these shares is restricted during the loan period until December 2012. OÜ BMIG may not transfer the shares of Baltika without the consent of the bank.

**Major shareholders at 30 June 2011**

| | **Number of shares** | **Share holding** |
|---|---|---|
| ING LUXEMBOURG S.A.[b] | 5,596,990 | 17.77% |
| BMIG OÜ | 4,770,533 | 15.15% |
| Skandinaviska Enskilda Banken Ab Clients[c] | 3,261,033 | 10.35% |
| E.MIROGLIO S.A. | 3,000,000 | 9.53% |
| SVENSKA HANDELSBANKEN CLIENTS ACCOUNT | 1,910,000 | 6.06% |
| Clearstream Banking Luxembourg S.A. Clients | 1,462,489 | 4.64% |
| AS GENTEEL | 977,837 | 3.10% |
| Central Securities Depository of Lithuania | 760,707 | 2.42% |
| MEELIS MILDER | 726,336 | 2.31% |

[b] a Custodian for KJK Fund Sicav-SIF

[c] a Custodian for East Capital Baltikum Fund in the amount of 3,243,438 shares as of 11.05.2011

| | | |
|---|---|---|
| TÕNIS KOTKAS | 444,500 | 1.41% |
| STATE STREET BANK AND TRUST OMNIBUS ACCOUNT A FUND NO OM01 | 410,500 | 1.30% |
| OÜ RENUM INVEST | 400,000 | 1.27% |
| Swedbank AB Clients | 342,959 | 1.09% |
| MAIRE MILDER | 286,083 | 0.91% |
| Other shareholders | 7,144,883 | 22.69% |
| **Total** | **31,494,850** | **100.00%** |

Source: the ECRS

## 9.3 ISSUE OF THE OFFERED SHARES

In connection with the Offering, the Company will issue up to 4,300,000 Offer Shares. The Council approved the issuance of Offer Shares on 27 June 2011. The information was made public through the NASDAQ OMX Tallinn on 27 June 2011.

The Offer Shares represent approximately 13.7% of the Company's share capital immediately prior to the Offering and approximately 12.0% of the Company's share capital following the completion of the Offering assuming that the Offering is exercised in full.

In case a Company's existing shareholder will not subscribe for the Offer Shares with all Subscription Rights issued to it, its shareholding will be diluted approximately 9% after the completion of the Offering assuming that the Offering is subscribed in full.

## 9.4 RIGHTS ATTACHED TO THE SHARES

Pursuant to the Estonian Commercial Code, shareholders exercise their power to decide on corporate matters at general meetings of shareholders. A general meeting is competent to:

1) amend the articles of association;
2) increase and reduce share capital;
3) issue convertible bonds;
4) elect and remove members of the supervisory board;
5) elect an auditor;
6) designate a special audit;
7) approve the annual report and distribute profit;
8) decide on dissolution, merger, division or transformation of the public limited company;
9) decide on conclusion and terms and conditions of transactions with the members of the council, decide on the conduct of legal disputes with the members of the management board or Council, and appointment of the representative of the public limited company in such transactions and disputes;
10) decide on other matters placed in the competence of the general meeting by law.

A general meeting may adopt resolutions on other matters related to the activities of the public limited company on the demand of the management board or council. The shareholders shall be jointly liable in the same manner as members of the management board or council for damage caused by resolutions adopted under such conditions.

The following general overview of regulation is provided with respect to the listed companies.

Pursuant to Article 291 of the Commercial Code, the ordinary general meeting of shareholders must be held within six months after the end of the financial year. The management board can convene an extraordinary general meeting of shareholders when needed. The management board must convene an extraordinary meeting pursuant to Article 292 of the Commercial Code, if the net assets of the public limited company are less than one-half of the share capital or less than the amount of share capital specified in § 222 of the Commercial Code or other minimum amount of share capital provided by law or if required by the council, auditor or shareholder, representing at least 1/20 of the share capital of the company or if it is clearly necessary in the interests of the company. If the management board fails to convene the extraordinary general meeting of shareholders within one month of the receipt of the request, the persons who requested the meeting are entitled to convene an extraordinary general meeting themselves.

Pursuant to Article 294 of the Commercial Code, notices to convene the ordinary general meeting of shareholders or an extraordinary general meeting of shareholders must be given no later than three weeks prior to the meeting. Notices to convene a general meeting of shareholders must be sent to shareholders by registered mail to their registered addresses (being the address of the shareholder entered in the shareholders' register of the company as maintained in the ECRS). If the company is aware or should be aware that the address of a shareholder is different from the one entered in the share register, the notice must be sent also to such address. Notices may be sent via regular mail, fax or e-mail, in case it is provided that the letter, fax or e-mail is accompanied by a notice requesting the recipient to immediately confirm the receipt to the management board. However, if the company has more than 50 shareholders, there is no need to send the notice to shareholders and respective notice may be published in at least one national daily newspaper in Estonia. Furthermore, a listed company is obliged to publish the respective notices in the manner that allows quick access by using means of communication and the aforementioned can presumably be deemed to be effective to publish information within the European Union. A listed company must also publish the notice on its Internet homepage. Pursuant to Article 294 of the Commercial Code, the notice shall include, inter alia, the place and time of the general meeting, the agenda for the same general meeting and the place where it is possible to access documents submitted to the general meeting of shareholders. Pursuant to Article 295 of the Commercial Code, a general meeting shall be held at the seat of the public limited company unless the articles of association prescribe otherwise.

The council of the company determines the agenda for the general meeting of shareholders. If, however, the shareholders or the auditor call a general meeting of shareholders, they also set the agenda for it. The management board or one or more shareholders whose shares represent at least 1/20 of the share capital of the company is entitled to request items be included on the agenda for the ordinary general meeting of shareholders. An issue which is initially not on the agenda of a general meeting may be included on the agenda with the consent of at least 9/10 of the shareholders who participate in the general meeting if their shares represent at least 2/3 of the share capital. Pursuant to Article 296 of the Commercial Code, if the requirements of law or of the articles of association for calling a general meeting are materially violated, the general meeting shall not have the right to adopt resolutions except if all the shareholders participate in or all the shareholders are represented at the general meeting. Decisions made at such meeting are void unless the shareholders with respect to whom the procedure for calling the meeting was violated approve of the decisions.

The organ or person, on whose initiative the general meeting was convened, must provide the draft decision for each item in the agenda for such general meeting.

In order to have the right to attend and vote with respect to listed company's general meeting of shareholders, a shareholder has to be on the shareholders list on the cut-off date, which is the same date as the date of the general meeting, if so determined in the articles of association. The Company’s articles of association list the cut-off date, which is the same date as the date of the general meeting. In general the shareholders entitled to take part in a general meeting shall be determined as at seven days before the date of the general meeting. A shareholder may appoint his representative, whose authorisation to participate at a general meeting must be documented in writing. Notwithstanding the aforesaid, the participation of a representative shall not deprive the shareholder of the right to participate in the general meeting. Voting rights may not be exercised by a shareholder whose shares are registered in the name of a nominee unless the nominee account holder has given a power of attorney to the shareholder.

A general meeting of shareholders is capable of passing resolutions in case more than half of the votes represented by shares held by shareholders are present at the meeting, unless higher threshold is set forth with the articles of association the company has not set higher threshold for the quorum. If the meeting has no quorum, the management board must call a new general meeting of shareholders which shall take place within three weeks but not earlier than seven days after the previous meeting, and the next meeting shall be subject to no quorum requirements.

**Voting rights**

The Company has one class of ordinary shares with the nominal value of 0.70 euros. Each share shall entitle the shareholder to one vote. At a general meeting of shareholders the resolutions require the approval of a majority of the votes represented at the meeting. However, certain resolutions, such as amending the articles of association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger, division, reorganisation or liquidation of the company, require a majority of 2/3 of the votes represented at the general meeting of shareholders. Any issuance of new shares with waiving the existing shareholders' pre-emptive subscription rights requires a majority of at least 3/4 of the votes represented at the meeting. According to Article 235 of the Commercial Code, the rights attached to any class of shares may be amended only by a decision of the general meeting of shareholders which is supported by a qualified majority of 4/5 of all votes attaching to the shares of the company and at least 9/10 of the shareholders whose shares belong to such class of which the rights are amended. Pursuant to Article 237 of the Commercial Code, the consent of all holders of preference shares is required to adopt a resolution on cancellation or amendment of the preference of preference shares, or on cancellation of preference shares. Upon cancellation of the preferential right, the holders of preference shares shall acquire the right to vote.

**Rights to dividends**

Under the Estonian Commercial Code, a general meeting of shareholders may authorise the payment of dividends on the terms and conditions set out in the profit distribution proposal presented by the management board. The council has the right to make changes to the proposal of the management board before submission to the general meeting. Dividends, if any, should be paid in cash. Upon the consent of the shareholders, dividends may also be paid in other property.

The shareholders decide annually the dividend amount and procedure of payment on the basis of the approved annual report. As a general rule, no interim dividends may be paid in respect of a financial period for which an annual report (together with the audited financial statements) has not yet been approved by the general meeting. However, the articles of association may provide that the management board has the right, upon the consent of the council, to make advance payments to the shareholders on account of the estimated profit after the end of a financial year but before the approval of the annual report, provided that such advance payments do not exceed one-half of the amount that may be distributed among shareholders. Currently the Company's Articles of Association provide for such right of the Management Board.

Dividends may only be paid out from net profit or undistributed profit from previous financial years, and from which uncovered losses from previous years have been deducted. Dividends may not be paid to the shareholders if the net assets of the company, as recorded in the approved annual report of the previous financial year, are less than or would be less than the total of share capital and reserves, which, pursuant to applicable law may not be distributed to the shareholders.

Dividends of companies listed on the NASDAQ OMX Tallinn are paid only to those shareholders (or their nominees) who are entered on the list of shareholders (shareholders' register) as maintained in the ECRS on the respective record date. The NASDAQ OMX Tallinn Rules provide that a listed company is required to disclose information about closing the list of shareholders (fixing the record date) at least nine trading days before the record date. If a general meeting of shareholders adopts a resolution that relates to rights attached to the shares (for example, the declaration of payment of dividends), the record date may not be fixed at an earlier date than ten trading days after the date of the relevant general meeting.

**Pre-empty right to subscribe for new shares**

All existing shares and, once the increase of share capital relating to this issue is registered with the Estonian Commercial Register, the Offer Shares shall have equal rights attached to the shares. Pursuant to Article 345 of the Commercial Code, a shareholder has a pre-emptive right to subscribe for the new shares in proportion to the sum of the nominal values of the shareholder’s shares.

Pursuant to Article 283 of the Commercial Code, a Company is entitled to acquire its own shares only if the following conditions are met:

(i) the acquisition occurs within five years after the adoption of a resolution of the general meeting which specifies the conditions and term for the acquisition and the minimum and maximum price to be paid for the shares;
(ii) the sum of the nominal value of the shares held or taken as security by the company does not exceed one-tenth of its share capital; and
(iii) the acquisition of the shares does not cause the net assets to become less than the total of share capital and reserves which pursuant to law or the articles of association shall not be paid out to shareholders.

However, a company may acquire its shares by a resolution of the council without requiring a resolution of the general meeting if the acquisition of the shares is necessary to prevent significant damage to the company. The shareholders must be informed of the details of the acquisition of the company's own shares at the next general meeting of shareholders. A public limited company may acquire its own shares without any restrictions provided above in this section if the shares are acquired by succession. Company's own shares do not grant the company any rights of a shareholder. In case, a company acquires or takes as security its own shares illegally, the shares shall be transferred or the taking as security shall be terminated within one year after the acquisition or taking as security. If the event the shares are not transferred or the taking as security is not terminated during one year, the shares shall be cancelled and the share capital reduced accordingly.

The rules regarding acquisition of a company's own shares are also applied to the acquisition of a parent company's shares by the subsidiaries. In case a subsidiary acquires the shares of its parent company, the parent company shall be regarded as the acquiring party.

The company’s ordinary share may be pledged. A share encumbrance transaction must be in writing.

The company’s ordinary shares are freely transferable. Upon transfer of shares to third parties the shareholders have no right of pre-emption.

Pursuant to Article 287 of the Commercial Code, the shareholder has the right to receive information on the activities of the public limited company from the management board at the general meeting of shareholders. The management board may refuse to give information if there is a basis to presume that this may cause significant damage to the interests of the public limited company. If the management board refuses to give information, the shareholder may demand that the general meeting of shareholders decides on the legality of the shareholder's request or file, within two weeks after the general meeting of shareholders, a petition to a court by way of proceedings on petition in order to obligate the management board to give information.

# 10 TRANSACTIONS WITH RELATED PARTIES

The Company entered into and intends to enter into transactions in the future with related parties within the meaning of IAS 24 “Related Party Disclosures” (annex to Commission Regulation (EC) No. 1126/2008 of November 3, 2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council) amended by Commission Regulation (EC) No. 1274/2008 of 17 December 2008 amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 1).

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.

**Transactions with related parties**

| in EUR thousands | **Q1 2011** unaudited | **Q1 2010** unaudited | **2010** audited | **2009** audited | **2008** audited |
|---|---|---|---|---|---|
| Purchases of goods | 120 | 0 | 297 | 0 | 0 |
| Purchases of services | 55 | 45 | 224 | 191 | 0 |
| **Total** | **175** | **45** | **521** | **191** | **0** |

Source: Consolidated Financial Statements

AS Baltika has purchased materials (fabrics) for production and management services from the parties related with members of the Management Board and Council.

**Balances with related parties**

| In EUR thousands | **31.03.2011** unaudited | **31.03.2010** unaudited | **31.12.2010** audited | **31.12.2009** audited | **31.12.2008** audited |
|---|---|---|---|---|---|
| Trade payables | 154 | 25 | 86 | 30 | 0 |

Source: consolidated Financial Statements

In 2010, two additional members joined the Council. The information on the Management Board and Council is provided in section 9.

# 11 LEGAL MATTERS

There has not been initiated against the Company any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during a period covering the previous 12 months which may have, or have had in the recent past significant effects on the Company and/or Group's financial position or profitability, or provide an appropriate negative statement.

Certain legal matters will be passed upon for the Company by Raidla Lejins & Norcous, Roosikrantsi 2, Tallinn 10119, Estonia.

# 12 INDEPENDENT AUDITORS

Pursuant to the Estonian Commercial Code, the general meeting of shareholders elects the auditors. The general meeting of shareholders of 11 May 2011 elected AS PricewaterhouseCoopers, Pärnu mnt 15, Tallinn, Estonia, as the auditor of the Company for the financial year ending on 31 December 2011.

The Consolidated Annual Financial Statements of the Group incorporated by reference into this Prospectus were audited by AS PricewaterhouseCoopers.

AS PricewaterhouseCoopers with its registered office in Tallinn (Pärnu mnt 15, 10141 Tallinn) issued an unqualified auditor’s opinion on the aforementioned financial statements.

AS PricewaterhouseCoopers is a member of the Estonian Auditing Board.

In the period covered by the Consolidated Financial Statements included in this Prospectus, there were no events of resignation or dismissal of an auditor appointed to audit the financial statements of the Company or the Group.

# 13 ESTONIAN SECURITIES MARKET INTRODUCTION

Under Estonian law, limited liability companies are divided into two main categories: (i) a private limited company (osaühing, abbreviated as OÜ) and (ii) a public limited company (aktsiaselts, abbreviated as AS). Shareholders of limited liability companies are generally not personally liable for the obligations of the companies. The two company forms mainly differ in their requirements for capital and management structures.

Public limited companies have to register their shares with the Estonian Central Register of Securities (Eesti Väärtpaberite Keskregister) ("ECRS"). ECRS maintains the share registers of companies and records all the share transactions. The share ledgers of the listed companies are publicly available in the ECRS electronic database.

### The NASDAQ OMX Tallinn and the Estonian securities market

NASDAQ OMX Tallinn stock exchange ("NASDAQ OMX Tallinn") and the Estonian Central Securities Depository (AS Eesti Väärtpaberikeskus) ("ECSD") are the leading securities market infrastructure operators in Estonia. Herein is a summary of the information concerning the Estonian regulated securities market and certain provisions of Estonian law and current securities market regulations in effect on the date of this Prospectus. The summary is based on Estonian laws and securities market regulations and publicly available information on NASDAQ OMX Nordic OY, the sole shareholder of the company operating the NASDAQ OMX Tallinn.

### NASDAQ OMX Tallinn

The NASDAQ OMX Tallinn is the single stock exchange operating in Estonia. It is operated by NASDAQ OMX Tallinn AS, a public limited company whose principal shareholder is NASDAQ OMX Nordic OY, a company controlled by NASDAQ Stock Market Inc. which is the world's largest exchange company.

The NASDAQ OMX Tallinn is a self-regulated organisation, issuing and enforcing its own rules and regulations consistent with standard exchange operating procedures, but is licensed and supervised by the Estonian Financial Supervision Authority ("EFSA"). The Rules of NASDAQ OMX Tallinn are established by NASDAQ OMX Tallinn AS, the operator of the NASDAQ OMX Tallinn, in order to ensure the regular and lawful operation of the stock exchange. The operator may unilaterally amend the NASDAQ OMX Tallinn Rules, though the EFSA must approve such amendments. The rules and regulations of the NASDAQ OMX Tallinn regulate the listing of securities and trading in them on the NASDAQ OMX Tallinn and the performance of the obligations arising from securities transactions performed on the NASDAQ OMX Tallinn. The NASDAQ OMX Tallinn Rules are established by the management board of the NASDAQ OMX Tallinn. The Rules are binding on the members of the NASDAQ OMX Tallinn and the issuers whose securities are listed or admitted to trading on the Main List or the Secondary List which is a separate market also regulated by the NASDAQ OMX Tallinn.

The activities of, and trading on, the NASDAQ OMX Tallinn are subject to two tiers of regulation. Laws and government regulations comprise the basic regulatory framework, which is then supplemented by the NASDAQ OMX Tallinn Rules. The principal laws governing the activities of, and trading on, the NASDAQ OMX Tallinn are the Estonian Securities Market Act and the Estonian Central Register of Securities Act.

**Estonian Central Register of Securities and registration of shares**

The ECRS is a public register established, inter alia for the registration and maintenance of shares, debt obligations and other securities stipulated in the Estonian Central Register of Securities Act, and transactions executed with such securities (including pledges). The ECRS is operated by the ECSD. The ECSD is organised as a public limited company, and all of its shares are fully owned by the NASDAQ OMX Tallinn's operator NASDAQ OMX Tallinn AS. The ECSD's primary functions include clearing and settling securities transactions, maintaining records of share ownership and pledges, and providing securities-related services to issuers and investors. The only securities settlement system ("SSS") in Estonia is the ECSD which is the responsible body for stock trades, including over-the-counter trades. The Estonian Central Bank acts as a settlement bank of the netted cash position of the participants in the SSS.

All shares listed and traded on the NASDAQ OMX Tallinn must be registered in the ECRS or another register of securities if it is approved by the NASDAQ OMX Tallinn. No share certificates are issued with respect to the registered shares. Shares are registered in the ECRS in book-entry form and are held in dematerialised form in the respective shareholders' electronic securities accounts opened in the ECRS. Therefore, all transactions involving shares listed on the NASDAQ OMX Tallinn must be recorded on the ECRS' electronic database by account operators and are cleared and settled through the ECSD. The rights attached to the shares are presumed to belong to the persons who are registered as the shareholders in the share register of the issuer maintained by the ECRS

The public has access to certain basic information, and has the right to obtain extracts and transcripts of documents from the ECRS, concerning the issuer (its name, seat and registry code) and the securities (the type, nominal value and amount of securities) registered with the ECRS. If shares are quoted on the stock exchange, the information concerning the shareholders is also accessible for the public. The Estonian Central Register of Securities Act stipulates further circumstances when additional information registered with the ECRS is accessible for third parties.

A securities account can be opened in the ECRS by any Estonian or non-residents. The opening of the account takes place through an account administrator (custodian). Account administrators are institutions that qualify under Estonian law as professional participants in the securities market, such as credit institutions and investment firms, and other persons specified by law. Foreign companies that hold an activity license of a professional securities market participant and are registered in a Member State of the EU, or with which the Republic of Estonia has a respective treaty may also qualify as account administrators.

Professional participants in the Estonian securities market and foreign legal entities meeting certain criteria are entitled to open a nominee account in the ECRS. A notation is made and maintained in the ECRS indicating the nominee status of the relevant account. Shares held in the nominee account are deemed to be the client's shares, and not the shares of the account owner, and thus cannot be brought into the bankruptcy estate of the owner of the nominee account. In the exercise of voting rights and other rights arising from a share, the owner of a nominee account must follow the instructions of the client. At the request of the client, the owner of a nominee account must grant authorisation in the required format to the client so that the client can represent the owner of the nominee account in the exercise of rights arising from the shares.

**Listing on the NASDAQ OMX Tallinn**

Bearing in mind that Company's shares are listed on the Main List of NASDAQ OMX Tallinn, an application has been made to list the Offer Shares on the main list. In addition, an application has been made to list the Subscription Rights.

In order to list shares on the Main List of the NASDAQ OMX Tallinn, among other requirements, a sufficient number of such shares must be held by the public. As a general rule, this condition is fulfilled if at least 25% of the share capital represented by the shares to be listed is held by the public, or taking into consideration the number of shares and their distribution among the public, the market would also operate properly at a lower percentage of shares held by the public, or such level of distribution is expected to be achieved shortly after listing. The NASDAQ OMX Tallinn Rules set out certain specific criteria as to determining whether shares are held by the public.

**Trading on the NASDAQ OMX Tallinn**

The trading system of the NASDAQ OMX Tallinn is open for trading to its members. Trading on the NASDAQ OMX Tallinn takes place on each business day from 10:00 a.m. to 3:55 p.m. (Estonian time). From 3:55 p.m. to 4:00 p.m. on the NASDAQ OMX Tallinn, the pre post-market trading is carried out. From 4:00 p.m. to 4:30 p.m. the NASDAQ OMX Tallinn carries out post-market trading. The NASDAQ OMX Tallinn uses the trading system INET, which in addition to Estonia is used by exchanges in Sweden, Finland, Denmark, Iceland, Latvia, Lithuania, and by exchanges of NASDAQ Group in the United States of America. The official trading currency of the NASDAQ OMX Tallinn trading system is euro.

Transactions can be concluded on the NASDAQ OMX Tallinn either through automatic matching or through manual trades. In the case of automatic matching, the buy and sell orders are matched by the trading system automatically according to price and time priorities. Automatically matched transactions are settled on the third day after the transaction (T+3), unless agreed otherwise. Manual trades are negotiated between stock exchange members outside the system and brokers must enter the deal in the trading system as soon as possible, but not later than three minutes after its conclusion. Manual trades may have a settlement day between T+1 (inclusive) and T+6 (inclusive). Generally, member firms may agree on a different settlement date of the transaction than the one provided in the previous sentence only on the consent of the NASDAQ OMX Tallinn.

The operator of the NASDAQ OMX Tallinn is required to ensure constant access on its website to information on the securities traded on the market, including the acquisition and transfer prices of the securities, recent prices, price changes, the highest and lowest prices and the volume and number of transactions. According to the Estonian Securities Market Act such information must be accurate, clear, precise and complete. The NASDAQ OMX Tallinn operates an electronic trading system that provides real time stock quotes, distributes issuer announcements and displays information regarding executed transactions, statistics and other such data. The operator of the NASDAQ OMX Tallinn must record at least the following regarding transactions concluded on the exchange: (i) the time at which the transaction is concluded; (ii) information regarding the market participant who concluded the transaction; (iii) the securities which served as the object of the transaction; and (iv) their number, nominal value and price. In accordance with the NASDAQ OMX Tallinn Rules, the operator of the NASDAQ OMX Tallinn has the right to request additional information regarding a transaction for the purposes of recording the transaction.

The Listing and Surveillance Committee of the NASDAQ OMX Tallinn has the right, for the purpose of ensuring sufficient liquidity of a security, to demand that the issuer concludes a market-making agreement with a member of the NASDAQ OMX Tallinn with respect to the securities to be listed.

**Supervision of the NASDAQ OMX Tallinn**

Activities of the NASDAQ OMX Tallinn are supervised by the EFSA, which is a body carrying out the supervision of all Estonian financial institutions including banks, insurance companies, investment and pension funds and the securities market. Compliance with the NASDAQ OMX Tallinn Rules by its members is monitored by the Listing and Surveillance Committee of the NASDAQ OMX Tallinn. The operator of the NASDAQ OMX Tallinn exercises supervision over the exchange with respect to the prices of securities traded on the exchange and the conduct and execution of transactions for the purpose of detecting and reducing transactions conducted on the basis of inside information, market manipulation and other violations of the law. The operator of the NASDAQ OMX Tallinn also supervises the disclosure of adequate information to the investors, protection of the interests of the investors as well as their fair and equal treatment. The operator of the NASDAQ OMX Tallinn can apply contractual penalties, full or partial suspensions of up to 30 days, suspension of the listing of or trading with the security of up to 30 days, termination of membership of the exchange, or permanent termination of the listing or trading with the security. The operator is under an obligation to notify the EFSA immediately of any violation of law. The FSA also has specific supervisory obligations for monitoring transactions concluded on the exchange.

**Disclosure of transactions and ownership**

A person who has acquired, either directly or indirectly, individually or together with persons operating in concert, a qualifying holding in a public limited company, and thus acquires or increases the number of votes owned thereby to more than 5, 10, 15, 20, 25 and 50 per cent or one-third or two-thirds of all votes represented by the shares of the public limited company, must immediately, but not later than within four business days, notify the public limited company and the EFSA and notify the number of votes owned by such person. The same notification requirements also apply in case the holding falls below the prescribed levels. The EFSA has the right to make exemptions from such notification requirements in certain circumstances. In the case of a company whose shares are listed on the NASDAQ OMX Tallinn, the disclosure obligations described above also apply in the case of the acquisition or reduction of a holding of five per cent. The issuer is also required to ensure that shareholders holding more than five per cent of the shares of the issuer disclose, through the issuer, all the significant provisions of all the agreements made with other shareholders or third parties which are aimed at restricting the free transferability of the shares or which may have a significant effect on the price of the shares.

In order to ensure that disclosure obligations established by law are also fulfilled in respect of shareholdings held by nominee accounts, the operator of a nominee account is required to enter into written agreements with the clients on whose behalf the operator holds securities. These agreements must, inter alia, require the client to notify the issuer and/or the competent supervisory body (the exact person to whom the notification must be submitted may vary depending on a particular transaction) if a holding in a company exceeds the threshold established by law or to obtain the permission of the competent supervisory body for the holding to exceed the threshold established by law (such permission is required, for example, in the case of the acquisition of a holding above a certain level in financial institutions, or in the case of an acquisition subject to concentration control by competition authorities). The NASDAQ OMX Tallinn Rules also regulate the disclosure of the issuer’s dealings in its own shares.

**Market abuse**

Estonian law prohibits market abuse, which, within the meaning of the Estonian Securities Market Act, is misuse of inside information and market manipulation. The same act also requires all persons providing investment services as a permanent activity to immediately notify the EFSA of a reasonable suspicion of market abuse.

Restrictions established for the misuse of inside information apply to all financial instruments admitted for trading on the market of Estonia or in a member state of the EEA, but also to instruments not admitted for trading, but the value of which depends on a financial instrument that are admitted to trading in Estonia or in an EEA Member State. Inside information is precise information which has not been made public, relating directly or indirectly to the financial instrument or its issuer and which, if it were made public, would probably have a significant effect on the price of the financial instrument or on the price of related derivative financial instruments. The law establishes additional conditions under which information may qualify as inside information.

An insider is considered to be a person who possesses inside information by virtue of being a partner or member of the management or supervisory bodies of the issuer, or by virtue of his shareholding in the issuer, or by virtue of having access to the information through the exercise of his employment, profession or duties, or by virtue of his criminal activities. Third parties who possess inside information are also treated as insiders if they knew or should have known that the information is inside information. The NASDAQ OMX Tallinn Rules stipulate that, among other persons, persons who hold or control at least 10 per cent of shares in an issuer, the subsidiaries of the issuer and certain officials of such shareholders and subsidiaries and persons associated with them are deemed to be insiders for the purpose of the NASDAQ OMX Tallinn Rules. Misuse of inside information comprises, inter alia actions, the trading on the basis of inside information, unauthorised disclosure of inside information, and the making of recommendations on the basis of inside information for the acquisition or disposal of financial instruments to which that information relates. Misuse of inside information is a subject of criminal offence, and may result in fines or imprisonment up to three years. The Securities Market Act also provides under set circumstances the right to demand from the issuer of the financial instrument traded on the Estonian market compensation of damages arising from the failure to disclose the information directly.

Issuers of publicly-traded securities and other individuals or entities that have regular access to inside information are required to establish internal rules and procedures to monitor access to inside information and prevent the disclosure of such information.

The Estonian Securities Market Act contains a non-exhaustive list of actions including price fixing, dissemination of rumours and false news and other methods that are deemed to constitute market manipulation. Credit institutions, investment firms and others providing investment recommendations must disclose any conflicts of interest they may have when providing investment advice. Under Estonian Penal Code, certain actions of market manipulation are subject to fines or imprisonment up to three years.

The NASDAQ OMX Tallinn Rules also restrict transactions involving an issuer's securities by certain officials of the issuer and by persons connected with such officials, to avoid profiting from short-term price fluctuations of the issuer's securities and during restricted periods (in particular, after the end of a financial period but when the financial results of the issuer have not yet been made public). The Listing and Supervisory Committee of the NASDAQ OMX Tallinn has the right to make exemptions from the requirement to abstain from trading during a restricted period if the Committee is of the opinion that the transaction will not be executed on the basis of confidential information.

**Mandatory takeover bid**

A person who has gained dominant influence over the target issuer, either directly or together with other persons acting in concert, is required within twenty days as of gaining that dominant influence to make a takeover bid for all the remaining shares of the target issuer with a minimum duration of twenty-eight days. This does not apply if a takeover bid has been done before gaining the dominant influence.

For the purposes of the mandatory takeover bid, a "dominant influence" is a situation where a person: (i) holds the majority of votes represented by the issuer's shares or holds the majority of the votes as a general partner or limited partner; or (ii) person who is the general or limited partner of the company and has the right to appoint or remove the majority of the members of the supervisory council or management board of the company; or (iii) person being a shareholder or general or limited partner of the company controls alone the majority of the votes pursuant to an agreement with other partners or shareholders. Pursuant to the Securities Market Act the offeror must obtain approval for the takeover bid from the EFSA, and that the purchase price in a takeover bid must be fair and in proportion to the rights and obligations deriving from the shares being acquired. A fair price is deemed to be the highest price paid for this share within the last six months before the takeover bid by the offeror or persons acting in concert.

After the EFSA has approved the takeover bid, a target person or other person connected with the takeover bid, may not demand cancellation of the takeover bid or modification of the conditions thereof.

If the offeror has acquired at least nine-tenths of the share capital of the target issuer through a takeover bid, then upon the application of the offeror, the general meeting of shareholders of the target issuer may decide to take over the rest of the shares belonging to the target persons for a fair price. The general meeting of shareholders of the target issuer may decide this within three months since the due date of the takeover period. The quorum for this decision is nine-tenths of the votes represented by shares.

Those target offerees who did not make a bid to the offeror for the transfer of their shares in the course of the takeover bid have the sell-out right if the offeror owns at least 90 per cent of the target issuer's voting stock and the general meeting of the target issuer has not adopted a resolution for the squeeze-out described above.

# 14 TAXATION

*The following summary is based on the tax laws of Estonia in effect as of the date of this Prospectus and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is in no way exhaustive and does not take into account or discuss the tax laws of any jurisdiction other than Estonia. Investors are encouraged to seek specialist advice as to the Estonian and other tax consequences of the listing and the purchase, ownership and disposition of the Shares. Prospective investors who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.*

**Corporate income taxation**

Estonia operates a corporate income tax system that differs considerably from the traditional systems of corporate taxation. The corporate income tax system currently in force is a unique system that shifts the point of corporate taxation from the moment of earning the profits to the moment of their distribution. Flat-rate corporate income tax is charged on dividends and hidden profit distributions (such as fringe benefits, gifts and donations, transfer pricing adjustments and expenditures not related to the business activities of the company). No tax is levied on retained earnings.

The above distributions are taxed at the rate of 21/79 on the net amount of the profit distribution, corresponding to a tax rate of 21% on the gross amount (the sum of the distribution and the tax thereon) of the distribution. The tax is deemed a deferred corporate income tax and not a tax on shareholders hence no relief is available under tax treaties or EU directives.

Departing from the general rule described above, some profit distributions are exempted from the distribution tax. In particular, an Estonian resident company is not subject to the distribution tax for a redistribution of dividends received from a company that resides in an EEA ("European Economic Area ") member state or Switzerland and is a taxable person there (it is not required that income tax has actually been paid), provided that the Estonian company owned at least 10% of the share capital or votes in the distributing company at the point of receiving the dividends. The exemption applies for dividends from non-EEA or non-Swiss companies if the company was either subject to income tax on its profits or the dividends it distributed were subject to withholding tax.

**Taxation of dividends**

Except for the corporate income tax described above, dividends are not subject to any additional withholding tax in Estonia.

**Taxation of capital gains from sale and exchange of shares**

Income tax at a rate of 21% is charged on capital gains realised by Estonian resident individuals upon the sale or exchange of shares. Earnings of resident legal persons (corporate bodies), including capital gains, are taxed only upon distribution.

In general, capital gains realised by a non-resident shareholder on the sale or exchange of shares in an Estonian resident company are not taxable in Estonia. The gains are taxable only if the sale concerns shares in a company that has over 50% of its assets at the time of the sale, or any period during the two years preceding the sale, directly or indirectly made up of immovable property located in Estonia and in which the non-resident shareholder had a holding of at least 10% at the time of the sale. At the date of publishing the Prospectus the Company does not meet the conditions of being qualified as a ''real estate company''.

If the income tax on capital gains described above is charged, the taxable amount is considered to be the difference between the acquisition cost and the sale price or exchange value of the shares. Certified expenses directly related to the sale or exchange of shares can be deducted from the shareholder's gain.

**Taxation of liquidation proceeds and payments upon the reduction of share capital or redemption of shares**

Liquidation proceeds and payments upon the reduction of share capital or redemption of shares are taxed as profit distributions taxable at the rate of 21/79 at the level of the Company to the extent that these payments exceed the contributions made to the equity capital of the Company.

Liquidation proceeds and payments upon the reduction of share capital or redemption of shares, received by Estonian resident individuals and non-residents, not exceeding the contributions made to the equity capital of the Company, are taxable at the rate of 21% at the level of the recipient if they exceed the acquisition cost of the shares.

**Stamp duty and other transfer taxes**

Currently there are no stamp duties or transfer taxes payable upon the transfer of Shares, except for the service fees of the custodians and/or the ECRS which maintains the stock register.

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