AS BALTIKA

2008 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

Commercial name	AS BALTIKA
Commercial Registry no	10144415
Legal address	Veerenni 24,Tallinn 10135, Estonia
Phone	+372 630 2731
Fax	+372 630 2814
E-mail	baltika@baltikagroup.com
Internet homepage:	www.baltikagroup.com
Main activities	Retail and wholesale of clothes
Auditor	AS PricewaterhouseCoopers
Beginning and end of financial year	01.01.2008 - 31.12.2008

CONTENTS

Key figures and ratios 3
Management board's confirmation of the management report 5
Management report 6
Corporate governance report 21
Consolated financial statements 25
Management board's confirmation of the consolidated financial statements 25
Consolidated balance sheet 26
Consolidated income statement 27
Consolidated cash flow statement 28
Consolidated statement of shanges in equity 29
Notes to the financial statements 30
NOTE 1 General information and summary of significant accounting policies 30
NOTE 2 Critical accounting estimates, and judgements in applying accounting policies 42
NOTE 3 Financial risks 44
NOTE 4 Cash and bank 49
NOTE 5 Trade and other receivables 49
NOTE 6 Inventories 50
NOTE 7 Deferred income tax 51
NOTE 8 Other non-current assets 51
NOTE 9 Investment property 52
NOTE 10 Property, plant and equipment 53
NOTE 11 Intangible assets 54
NOTE 12 Accounting for leases 55
NOTE 13 Borrowings 56
NOTE 14 Bonds 57
NOTE 15 Trade and other payables 58
NOTE 16 Equity 58
NOTE 17 Segments 59
NOTE 18 Revenue 62
NOTE 19 Cost of goods sold 62
NOTE 20 Distribution costs 63
NOTE 21 Administrative and general expenses 63
NOTE 22 Other operating income 64
NOTE 23 Other operating expenses 64
NOTE 24 Income tax 64
NOTE 25 Earnings per share 65
NOTE 26 Related parties 65
NOTE 27 Subsidiaries and business combinations 66
NOTE 28 Contingent liabilities 66
NOTE 29 Supplementary disclosures on the parent company of the Group 67
Independent auditor's report 72
Profit allocation recommendation 74
Declaration of the management board and supervisiory council 75
AS Baltika supervisory council 76
AS Baltika management board 77
Revenues by EMTAK (the Estonian classification of economic activities) 78

KEY FIGURES AND RATIOS

Baltika Group is a fashion retailer that operates the Monton, Mosaic, Baltman and Ivo Nikkolo retail chains. Baltika uses a vertically integrated business model that combines collection design, manufacturing, supply chain management, logistics and retailing. The Group has 134 stores in seven markets in the Baltics and Central and Eastern Europe. Baltika's shares are listed on the Tallinn Stock Exchange that is part of the NASDAQ OMX Group.

	2004	2005	2006	2007	2008
Operating results, EUR '000					
Revenue	37,189	43,518	57,487	73,596	76,331
Gross profit	17,793	22,438	31,353	40,691	40,509
Operating profit	1,200	4,788	6,211	4,126	-362
Profit before income tax	895	4,536	5,835	3,389	-1,297
Net profit	1,067	4,644	5,584	2,606	-1,211
Balance sheet data, EUR '000					
Total assets	20,272	24,102	38,116	41,949	49,941
Interest-bearing liabilities	7,697	5,933	9,421	11,791	17,410
Shareholders' equity	9,043	13,291	19,444	21,688	19,104
Other data					
Number of stores	78	86	112	128	134
Sales area, sqm	11,668	12,736	19,594	24,290	27,068
Number of employees (31 Dec)	1,704	1,678	1,915	1,983	1,988
Key ratios					
Revenue growth	17.1%	17.0%	32.1%	28.0%	3.7%
Retail sales growth	30.9%	30.1%	34.7%	34.1%	7.3%
Share of retail sales in revenue	72%	80%	82%	86%	89%
Share of exports in revenue	75%	71%	72%	74%	76%
Gross margin	47.8%	51.6%	54.5%	55.3%	53.1%
Operating margin	3.2%	11.0%	10.8%	5.6%	-0.5%
EBT margin	2.4%	10.4%	10.1%	4.6%	-1.7%
Net margin	2.9%	10.7%	9.7%	3.5%	-1.6%
Current ratio	1.5	2.1	1.5	1.6	1.3
Debt to equity ratio	85.1%	44.6%	48.5%	54.4%	91.1%
Net gearing ratio	75.9%	31.3%	44.3%	45.1%	88.2%
Inventory turnover	3.89	4.92	5.38	5.30	4.55
ROE	14.6%	44.1%	35.9%	13.1%	-5.7%
ROA	5.1%	22.2%	18.3%	6.5%	-2.6%
Key share data, EUR					
Number of shares outstanding (31 Dec)	16,901,850	17,468,850	18,644,850	18,644,850	18,644,850
Weighted average number of shares	16,625,163	17,279,850	18,026,350	18,644,850	18,644,850
Share price (31 Dec)	0.62	4.33	7.40	3.90	1.15
Market capitalisation, in millions (31 Dec)	10.48	75.70	137.97	72.71	21.44
Earnings per share (EPS)	0.06	0.27	0.31	0.14	-0.06
Change in EPS, %	125%	319%	15.3%	-54.9%	-146%
P/E	9.7	16.1	23.9	27.9	Neg.
Book value per share	0.53	0.76	1.04	1.16	1.02
P/B	1.2	5.7	7.1	3.4	1.1
Dividend per share (DPS)	0.02	0.04	0.05	0	0[1]
Dividend yield	2.6%	1.0%	0.7%	0%	0%[1]
Dividend payout ratio	26.1%	16.6%	17.1%	0%	0%[1]

[1]Proposal to the general meeting.

Definitions of key ratios

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

[1]Based on 12-month average

MANAGEMENT BOARD’S CONFIRMATION OF THE MANAGEMENT REPORT

The management board confirms that the management report presented on pages 6 to 24 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.

Meelis Milder
Chairman of the Management Board
25 March 2009

Ülle Järv
Member of the Management Board
25 March 2009

Boriss Loifenfeld
Member of the Management Board
25 March 2009

Maire Milder
Member of the Management Board
25 March 2009

Andrew Paterson
Member of the Management Board
25 March 2009

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

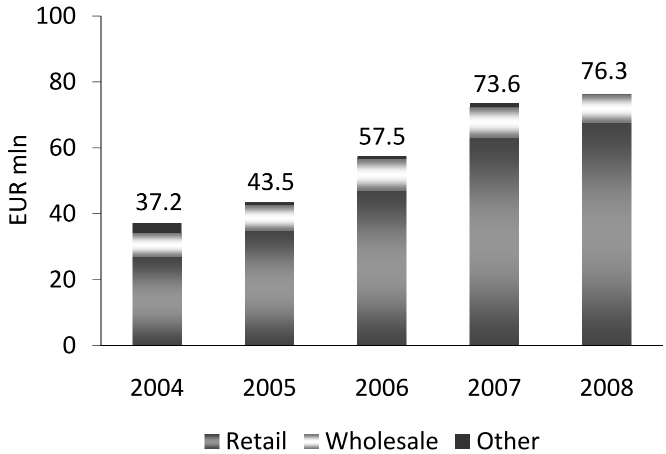
MANAGEMENT REPORT

REVENUE

Revenue by business segment

EUR million	2008	2007	+/-
Retail	67.7	63.1	*7.3%*
Wholesale	8.5	9.3	*-7.9%*
Subcontracting	0	0.9	*-100%*
Other	0.1	0.3	*-57%*
Total	**76.3**	**73.6**	***3.7%***

Revenue growth 2004-2008



RETAIL

Baltika's retail revenue for 2008 was 67.7 million euros, a 7.3% improvement on the prior year. At constant exchange rates, retail revenue grew by 9.0%. Comparable store revenues rose by 2%. Faster growth increased the proportion of retail revenue in the Group's revenue mix to 89% compared with 86% in 2007.

The Group's retail network continued expanding, although at a somewhat slower pace than in the two preceding years. The annual average sales area grew by 11% (2007: 50% and 2006: 30%). The period's focus was on streamlining the store portfolio and enhancing the stores' sales efficiency. Although in the second and third quarters efficiency improved, the average annual sales efficiency (sales per square metre) decreased by 3%. This was caused by two dominant trends that weakened the Group's performance in 2008. On the one hand, emerging economic recession and contracting consumption triggered a downturn in the Group's Baltic sales. On the other hand, the currencies of the Group's Eastern European markets, Russia and Ukraine, weakened against the Estonian kroon. Even though both the Ukrainian and Russian operations posted strong sales growth, including exceptional improvement in comparable store sales, the positive trend was undermined by the devaluation of the Ukrainian and Russian currencies.

STORES AND SALES AREA

At the year-end, Baltika had 134 stores in seven countries and a total sales area of 27,068 square metres. During the year, 17 stores were opened, 11 were closed and five were relocated or enlarged. The net growth of the retail system was six stores and approximately 2,800 square metres, an 11% increase in the sales space operated by Baltika Group.

In terms of markets, the largest number of stores was opened in Ukraine and Lithuania where five and four new stores were launched, respectively. Three stores were opened in Russia and two in Poland. One store was opened in Estonia, Latvia and the Czech Republic each. Store closings took place in all the markets except the Czech Republic.

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Stores by market

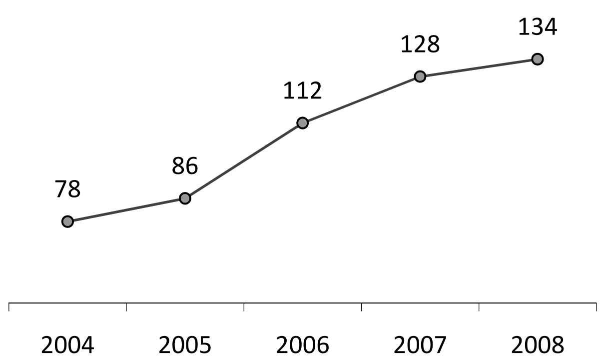
	31 December 2008	31 December 2007
Lithuania	33	30
Estonia	30	30
Ukraine	24	22
Russia	23	24
Latvia	16	16
Poland	6	5
Czech Republic	2	1
Total stores	**134**	**128**
Total sales area, sqm	**27,068**	**24,290**

The largest number of stores was opened under the Monton brand – altogether 11 stores. At the end of 2008, Baltika's retail network included 55 Monton, 53 Mosaic, 15 Baltman, 8 Ivo Nikkolo and 3 factory outlet stores.

Retail network by market and brand at 31 December 2008

	Monton	Mosaic	Baltman	Ivo Nikkolo	Other	Total	m^2
Lithuania	11	12	7	3		**33**	**6,044**
Estonia	6	12	5	4	3	**30**	**4,246**
Ukraine	11	12	1			**24**	**4,693**
Russia	13	10				**23**	**6,117**
Latvia	6	7	2	1		**16**	**3,593**
Poland	6					**6**	**1,449**
Czech Republic	2					**2**	**926**
Total	**55**	**53**	**15**	**8**	**3**	**134**	**27,068**

Number of stores



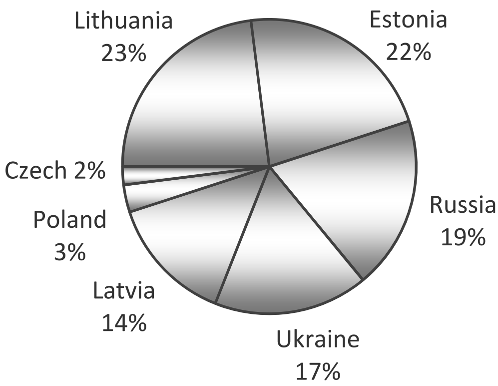
MARKETS

The global financial crisis and its worldwide economic implications have not left Baltika's markets unscathed. In 2008 economic growth in the Baltics continued decelerating – while the Lithuanian economy was still able to sustain growth (+3.1%), the Estonian and Latvian economies contracted by 3.6% and 4.6% respectively (according to preliminary estimates). The Group's other large markets Ukraine and Russia remained in the black, growing by 2.1% and 5.6% respectively (according to preliminary estimates).

The Baltic countries accounted for 59% of the Group's retail revenue (2007: 63%), the Eastern European markets Russia and Ukraine for 36% (2007: 34%) and the Central European markets for 5% (2007: 3%).

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Breakdown of retail sales by market – 2008



Lithuania became Baltika's largest retail market in 2008, dethroning the reigning leader Estonia. As expected, the fastest growth in 2008 was posted by the Czech Republic where the Group entered in the fourth quarter of 2007. The biggest growth was achieved in Ukraine and Russia. In local currencies the growth figures were even larger than in Estonian kroons: 26% for Ukraine and 17% for Russia.

Retail sales by market

EUR million	**2008**	**2007**	+/-
Lithuania	15.5	14.8	*5%*
Estonia	15.3	15.8	*-4%*
Russia	12.5	11.1	*13%*
Ukraine	11.5	10.0	*15%*
Latvia	9.6	9.3	*3%*
Poland	2.2	1.9	*16%*
Czech Republic	1.1	0.2	*537%*
Total	**67.7**	**63.1**	***7%***

Although Baltika did not penetrate any new markets in 2008, it entered new cities in the existing ones: Kaliningrad in Russia, Narva in Estonia, Wroclaw in Poland and Ostrava in the Czech Republic.

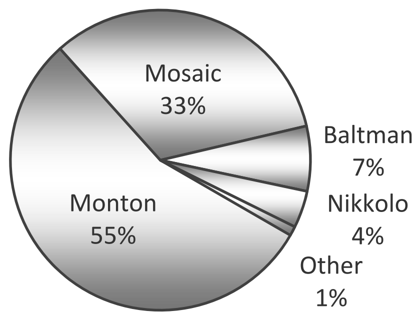
Baltika is not planning to expand to any new retail markets in 2009 either. However, the Group is carefully analysing subsequent expansion opportunities. According to a report by the international real estate development and consulting firm Cushman & Wakefield, in 2008 new trading space in Europe grew by a record 15 million square metres, the largest addition since 1965 when the firm began conducting its surveys. Still, in 2009 the effects of the global financial crisis will spread to the real economies of most European countries, triggering a suspension in ongoing development projects and a deferral of many planned developments into the indefinite future. Above all, leading real estate developers are attempting to complete launched projects in cities that have higher purchasing power and are less vulnerable to the crisis.

One of Baltika's priorities for 2009 is to improve the efficiency of its store portfolio – in a changing economic environment it is essential to measure the performance of the stores and promptly respond to changes in customer numbers and preferences. Although the economic situation in Baltika's main markets is volatile and there is a lot of uncertainty about future developments, it is clear that shopping centres with a clear concept, a strong tenant mix and an excellent location have the best potential. These are also the centres where Baltika would like its brands to be represented.

BRANDS

In terms of brands, the largest revenue contributor is Monton that accounted for 55% of the Group's retail sales for 2008. Other major brands Mosaic and Baltman generated 33% and 7% of retail revenue respectively while Ivo Nikkolo that was acquired in September 2006 contributed 4%. The remainder was earned at factory outlets.

Breakdown of retail sales by brand – 2008



Monton

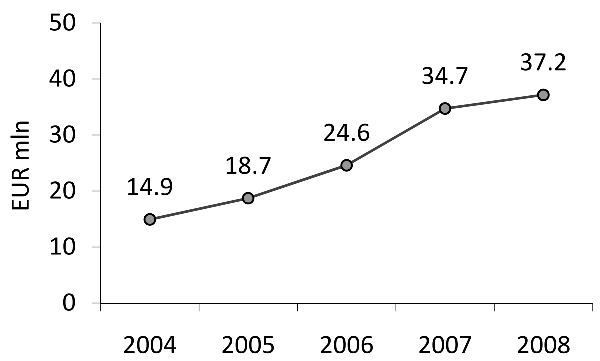
In 2008 retail revenue from Monton totalled 37.2 million euros, a 7% increase compared with the previous year. The brand's retail portfolio was augmented with 11 new stores. Six stores were closed and at the year-end there were 55 Monton stores, reflecting a net growth of five stores.

At Monton, the keynotes of the year were people and processes – all positions were reviewed to determine the consistency of duties and competencies with assigned responsibilities as well as the desired outcomes. Effective streamlining allowed upgrading the efficiency and quality of the product development process. Major improvements were made also to the purchasing and distribution processes. As a result, more attention is paid to the distinguishing features of each retail market, the range of product sizes has been extended, inventories are more easily replenished and the stores of smaller regions are better supplied.

For Monton, the year was exciting and innovative, spinning off new ideas and projects also for the future. The highlight of the summer was the Beijing Olympic Games where both the Estonian and Latvian Olympic delegations wore ceremonial and recreational outfits created by Monton. In October Monton stores launched *Monton Fusion*, a special ladieswear collection created by Anu Samarüütel-Long, a fashion designer with an international background and training. In Lithuania the brand gained recognition with the project "Think green, think fashion" that promoted ecological thinking in partnership with the local Moteris magazine. Textile bags with the slogan became a real sales hit. In Russia, another Monton newsletter was published. The issue describes current and coming trends and discusses fashion with the local celebrities. In Estonia, for the second consecutive year, cooperation continued with the Tallinn Black Nights Film Festival. In the framework of the project, a special festival shirt was created and a fashion films programme presented to fashion lovers.

In 2009 Monton will focus on implementing a faster and more flexible product development process, improving margins by tighter cooperation with the supply base and designing a development plan for the brand.

Retail sales – Monton



Mosaic

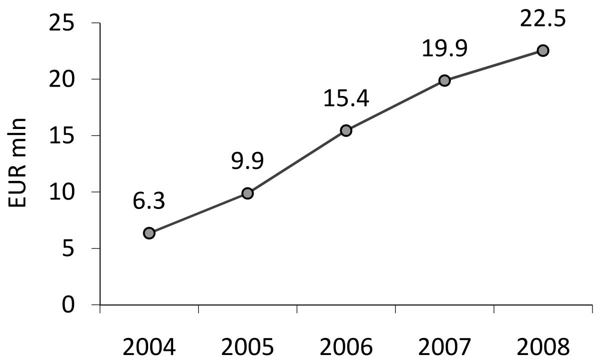
The repositioning and collection development efforts made in 2007 yielded excellent Mosaic sales in 2008 in all retail markets – Estonia, Latvia, Lithuania, Ukraine and Russia. In 2008, retail revenue from Mosaic grew by 13% to 22.5 million euros. The growth is all the more notable because it was mainly generated by existing stores and continued even when the Baltic markets were hit by the consequences of the global economic crisis.

For Mosaic, 2008 was a year of achieving new quality. Only four new stores were opened, the most important one complete with a new retail concept in the Panorama Centre in Vilnius, Lithuania. Thanks to the brand's rapid development over the past few years it became necessary to create a suitable shopping environment that would correspond to the customer's needs and expectations. The new store environment allows visually discerning the collections aimed at men, women and children, creating a relaxed and convenient atmosphere.

A significant accomplishment for Mosaic was the commencement of the wholesale of its ladieswear collection to one of the leading European fashion department store chains Peek&Cloppenburg. To start with, the Mosaic collection will be offered in five countries and 13 department stores. The first orders were dispatched in November but a larger assortment was made available at the Peek&Cloppenburg department stores in January 2009. The year was one of qualitative improvement also for the Mosaic childrenswear collection launched in 2007: the product range was extended and both sales and profit figures improved.

In 2009 Mosaic will pursue its signature style – a collection aimed at the needs of the target customer should ensure both sales and profit growth. Another priority for 2009 is enhancing relations with suppliers. In connection with expansion to the wholesale markets of Western Europe, extra attention has to be paid to the products' conformity with the relevant EU certificates.

Retail sales – Mosaic



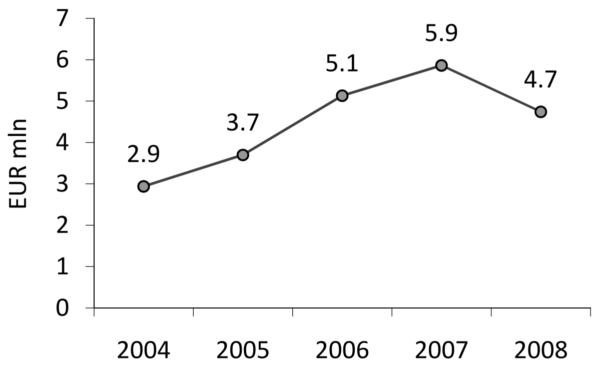
Baltman

Baltman is Baltika's oldest brand that aims to offer men a wide range of quality business attire along with personal service. Since 2008 the focus of the brand has been on Baltika's home market, i.e. the three Baltic countries Estonia, Latvia and Lithuania.

In 2008 Baltman continued adjusting its suits to different types of figure and extending the range for the younger customer. The well-received *Travel* and *Klimeo* lines that are distinguished by their innovative fabric and finishing were significantly expanded.

The period's retail revenue from Baltman amounted to 4.7 million euros, a 19% decrease compared with 2007. The decline in sales is attributable to the fact that Baltman is an upmarket Baltic-based menswear brand that was hit hardest by the onset of the recession. In addition, the number of Baltman stores decreased by one to 15 at the year-end.

Retail sales – Baltman



Ivo Nikkolo

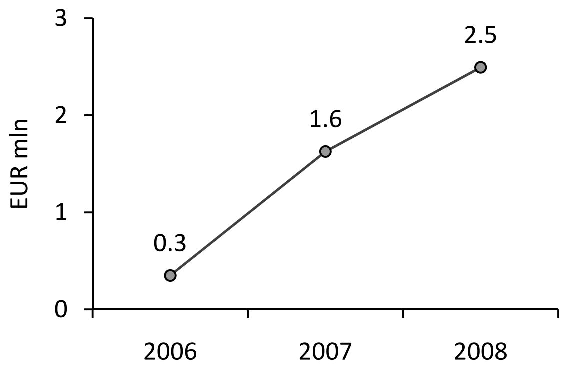
In 2008 the youngest member of Baltika's brand portfolio expanded to Latvia and is now represented in all three Baltic countries. Thanks to the international clout of its collection, retail revenue from Ivo Nikkolo grew by 53% to 2.5 million euros, rendering Ivo Nikkolo the Group's fastest-growing brand in the face of adverse economic conditions across the Baltics.

In the reporting period, Baltika opened two new Ivo Nikkolo stores – one in Vilnius and one in Riga – increasing the total number of Ivo Nikkolo stores to eight. The first Ivo Nikkolo store opened in the Latvian capital Riga in autumn 2008 was well received by the customers. Since establishing a presence in the Lithuanian market in 2007, the brand has also gained loyal customers among Lithuanian businesswomen. Strong results indicate that the Ivo Nikkolo brand has found its focus – meticulous investment in quality and fit translate into strong sales figures.

In 2008 Ivo Nikkolo enhanced its premium image by offering designer jewellery in partnership with recognised Estonian jewellers. In the framework of the charity project "Estonian Women for Ivo Nikkolo" the First Lady of the Republic of Estonia, Evelin Ilves, designed a dress for Ivo Nikkolo.

In 2009 when the brand celebrates its 15th anniversary it will focus on sustaining expansion in the Baltics.

Retail sales – Ivo Nikkolo



WHOLESALE

Wholesale of Baltika's collections accounted for 11% of the Group's consolidated revenue for 2008, generating 8.5 million euros, a 7.9% decrease compared with the previous year. The decline in wholesale revenue was planned, stemming from the application of more conservative sales policies in Russia. The main wholesale markets were the Baltic countries, Russia and Finland.

In the wholesale business, cooperation with the Western European partners is a strategic priority. A significant milestone in this area was the wholesale contract signed with one of the leading European department store chains Peek&Cloppenburg. Peek&Cloppenburg owns over 80 department stores in Germany and more than 100 department stores throughout Europe. Peek&Cloppenburg will carry the Mosaic ladieswear collection whose design was considered suitable for the product mix of the quality fashion department store. The year 2009 will be a trial period during which the sales success of the collection and product and supply quality will be carefully monitored. During the trial period the Mosaic collection will be offered in five countries and 13 department stores.

EARNINGS AND MARGINS

In 2008 the Group remained focused on improving the efficiency of its retail system. This was accompanied by streamlining the store portfolio. Fewer new stores were opened and the sales area grew by 11%. An increase in sales efficiency was achieved in the second and third quarters. The rise was supported by positive developments in the Eastern European markets where the gradual start-up of new stores was combined with strong growth in comparable store sales. Although the Baltics exerted counter-pressure – the economic recession and decline in consumer spending that emerged in the second half of 2007 escalated in 2008, the Group ended the second and third quarters in a profit.

However, in the fourth quarter the local currencies of Russia and Ukraine that contribute 36% of the Group's retail revenue were steeply devalued. According to the daily exchange rates of the Estonian Central Bank, in the fourth quarter the Ukrainian hryvnia and the Russian rouble weakened against the Estonian kroon by 34% and 12% respectively. The developments had an adverse impact on both the Group's sales and its assets and liabilities. In annual terms, the Group's average sales efficiency (sales per square metre) decreased by 3% and the year ended in a loss, triggered by the consequences of the economic downturn and currency devaluations. Exchange losses on recognising the impairment of assets and liabilities totalled 1.2 million euros. In addition, movements in exchange rates affected consolidated revenue and gross profit through negative translation differences of 0.9 million euros. Owing to a decline in sales, year-end inventories were written down by 0.3 million euros. In addition, due to increased business risks in the Russian market, euro-denominated receivables from a wholesale partner were written down by 0.3 million euros.

The Group's gross margin for 2008 was 53.1% (2007: 55.3%) and consolidated gross profit amounted to 40.5 million euros remaining almost stable compared with a year ago.

Administrative and general expenses for the year decreased by 17.1% yoy. Distribution costs grew by 12.6% on account of expansion in retail space.

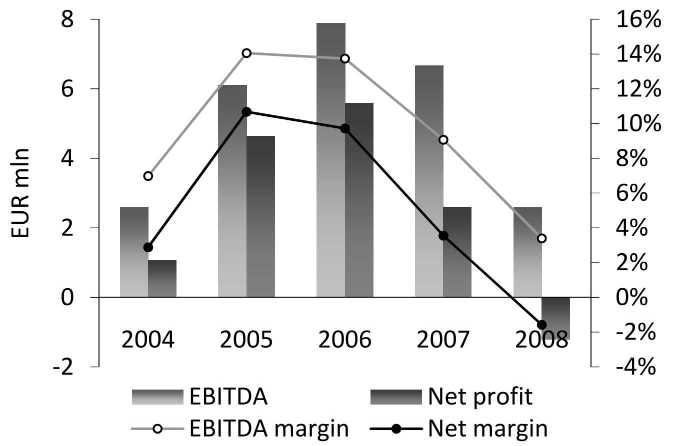
Baltika's operating loss for the full year was 0.4 million euros. In 2007 the Group earned operating profit of 4.1 million euros.

Operating loss for 2008 includes gain of 1.1 million euros on fair value adjustments to investment property, recognised in other operating income. In 2007 gains on the sale of non-current assets and the revaluation of investment property totalled 1.6 million euros.

The Group's financial expenses for 2008 were 0.9 million euros, a 26.9% increase yoy. The largest financial expense item was interest expense (0.7 million euros) that grew by 25.8% yoy. The growth in financial expenses is also attributable to a rise in foreign exchange losses.

Baltika ended 2008 with a consolidated net loss of 1.2 million euros. In 2007 the Group earned a net profit of 2.6 million euros.

EBITDA and net profit



BALANCE SHEET

At 31 December 2008, Baltika's consolidated assets amounted to 49.9 million euros, a 19% increase yoy.

Trade receivables decreased by 1.4 million euros yoy to 3.1 million euros. The decline results from a decrease in wholesale operations.

At the year-end, inventories totalled 18.4 million euros, up 4.3 million euros or 31% yoy. Inventory balances increased due to growth in sales space, larger purchases of the spring/summer merchandise and higher year-end levels of the autumn/winter merchandise. In connection with the rise in inventories, trade payables grew by 4.9 million euros to 9.7 million euros. The Group has also been able to agree longer settlement terms with suppliers.

The Group's year-end borrowings totalled 17.4 million euros, including bank loans of 16.8 million euros and finance lease liabilities of 0.6 million euros. Compared with the previous year-end, the Group's debt burden has increased by 5.6 million euros. Borrowings have grown mainly on account of the construction of a new office building that is being financed with a bank loan. At the end of 2008, construction-related borrowings totalled 4.5 million euros.

The construction loan has increased the Group's net debt (interest-bearing liabilities less cash and bank balances), which at 31 December 2008 stood at 16.9 million euros. The net debt to equity ratio was 88.2% (31 December 2007: 45.1%).

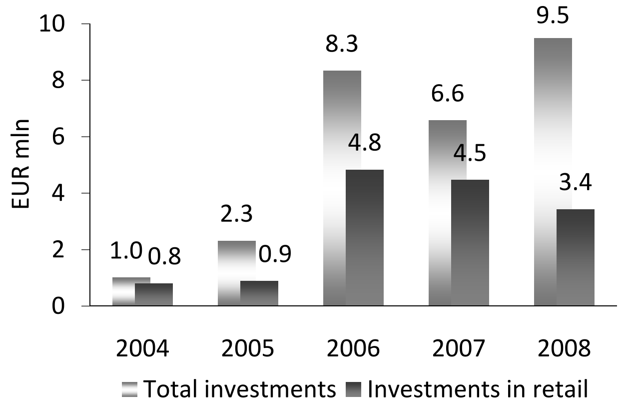
In 2008, Baltika's equity decreased by 2.6 million euros to 19.1 million euros. This was caused by the loss incurred, unfavourable movements in exchange rates, and a decrease in minority interest.

INVESTMENT

In 2008, the Group's investments totalled 9.5 million euros. The corresponding figure for 2007 was 6.6 million euros.

Investments in the retail system and information technology amounted to 3.4 million euros and 0.7 million euros respectively while investments in manufacturing totalled 0.3 million euros. Investments in real estate development (phase I of the Baltika Quarter) amounted to 5.1 million euros.

Investment



CASH FLOWS

In 2008, the Group's net operating cash flow decreased by 0.6 million euros to 2.8 million euros. The main working capital changes resulted from an increase in inventories and trade payables.

Net cash used in investing activities grew significantly, amounting to 9.4 million euros. In addition to investments made in the retail system, investing cash flows were considerably expanded by a non-recurring real estate project, phase I of which entails completion of Baltika's new office building. In 2007, net cash used in investing activities amounted to 2.9 million euros.

To finance business operations, Baltika increased its bank loans and used overdraft facilities; the construction of the new office building is being financed solely with a bank loan. Loan repayments totalled 1.6 million euros. Net cash from financing activities amounted to 5.3 million euros against 0.9 million euros for 2007.

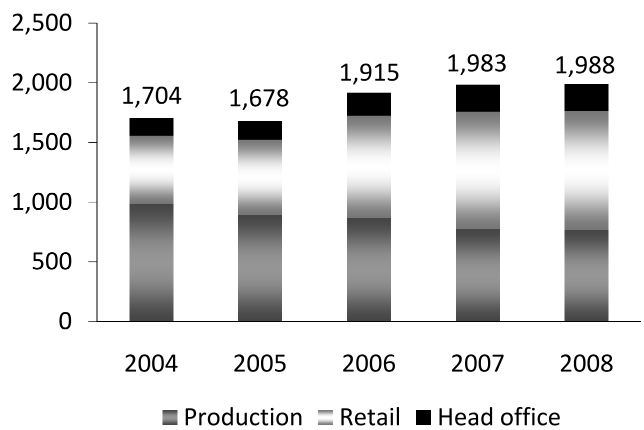
During the year, the Group's cash and cash equivalents decreased by 1.5 million euros compared with an increase of 1.2 million euros in 2007.

PEOPLE

At the end of 2008 Baltika Group employed 1,988 (31 December 2007: 1,983) people, including 994 (986) in the retail system, 771 (773) in manufacturing and 223 (224) at the head office. During the year, the number of employees grew by five. The number of staff increased in the retail system; in manufacturing and at the head office the figures remained stable. The Group's annual average number of employees was 1,950 (2007: 1,982).

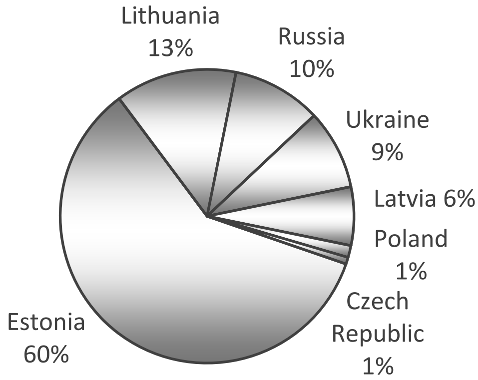
The Group's employee remuneration expenses for 2008 totalled 15.3 million euros (2007: 12.8 million euros). The remuneration of members of the supervisory council and management board amounted to 0.3 million euros (2007: 0.3 million euros).

Number of employees



At the end of 2008, 40% of the Group's employees were working outside Estonia. The proportion of people employed in Estonia is higher because the head office and manufacturing facilities are located here.

Breakdown of personnel by country – 31 December 2008



One of the main people management goals of the 2006-2008 strategy period was the implementation of various development and training activities. The in-house training program and lecture cycle Retail Academy, which was launched in 2007 and competed successfully for the title of the Best People Management Project 2007 awarded by the Estonian Association for Personnel Development, continued in 2008 at a larger scale and for a larger number of target groups. The staff could attend three programs – fashion management, self-management and team management. The fashion management program provided an overview of the fashion industry, retailing and relevant processes at Baltika. The self-management program discussed time and stress management, work capacity, health and wholesome nutrition. The greatest importance, however, was attached to the team management program aimed at developing the management competencies of technical staff that have moved on to managerial positions. Management will remain in focus also in 2009 when a six-month middle manager development program will link management to corporate performance.

In all markets the retail personnel could participate in service and sales development courses conducted by Baltika's own in-house trainers. In rapidly growing markets personnel selection and recruitment programs were arranged. And, as a new theme, style training courses were organised for the store personnel in order to provide the customers with even better fashion and style advice.

ENVIRONMENT

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

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

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

SUMMARY OF CORPORATE STRATEGY FOR 2006-2008

The implementation of Baltika's strategy for 2006-2008 was expected to ensure swift and profitable growth for 2008. At the beginning of 2006 the following targets were set for 2008:

- a two-fold increase on the sales of 2005, i.e. revenue of 87 million euros;
- 160 stores;
- a gross margin of at least 52%;
- at least a 30% return on equity.

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

In the light of the economic climate of the last year of the strategy period, revenue growth was satisfactory – in 2008 Baltika's consolidated revenue reached 76 million euros. The same can be said about the sales area – although at the end of 2008 the Group had 134 stores, the retail space target was achieved thanks to the opening of stores with a larger format. The gross margin target was also achieved – the desired level was attained in 2006 (54.5%) and improved in 2007 (55.3%). The gross margin for 2008 was 53.1%.

In terms of the operating and net margins, however, the Group's profitability remained below target and hence the targeted return on equity was not achieved. This resulted from several inter-related factors. First, in Russia and Ukraine, where the Group expanded vigorously during the strategy period, the start-up periods of stores proved longer than expected. Secondly, profitability was adversely impacted by the onset of the economic slump in the Baltics and the weakening of national currencies in Eastern Europe. In 2006 the current developments in global economy could not be foreseen.

OUTLOOK AND GOALS FOR 2009

Although in the summer of 2008 Baltika began preparing for its next four-year strategy cycle (2009-2012), in the present economic environment it is more reasonable to continue on a year-at-a-time basis.

The keywords for 2009 will be adjustment and preparing for a new rise. In terms of half-years or seasons, this will mean that 2009/1 will be a season of determining new sales levels and corresponding sales and management expense and inventory levels. Since many of the preliminary plans for 2009/1 that were made in autumn 2008 have had to be significantly revised (for example, the initial sales plan has been reduced by approximately 20% and expenditures on new stores have been cut more than two-fold), the main targets will be lowering inventory levels, raising financing for purchases and reducing operating expenses in the light of the new sales forecast. The cost cutting programme foresees a more than 3.8-million euro cut in both management and operating expenses during the season. All business processes will be streamlined. Opening of new stores will continue at a smaller scale (14 openings have been planned). By the end of the season, the Group will have 137 stores and will be operating retail space of 29,000 square metres.

According to action plans, by 2009/2 the Group will have adjusted and its operation should be ordinary. No investments will be made in the growth of the retail system and operating expenses and inventory levels will correspond to sales levels that are lower than before. The target will be reinforcing the Group's market positions by well-balanced collections, proactive sales offerings and a dedicated sales process.

As preparation of accurate long-term sales plans is currently extremely complicated, Baltika forecasts for 2009 revenue of 69-72 million euros including 63-65 million euros generated by the retail business and 5.8-6.4 million euros generated by the wholesale business. Until the end of 2009, the number of stores and the sales area should remain at the level of 2009/1.

As a single non-recurring project, in May 2009 a new office building will be completed as part of phase I of the Baltika Quarter. The new building and the old office building that will be vacated after Baltika's relocation to new premises will have more than 11,000 square metres of office and trading space that can be let. The anchor tenant of the new building will be Baltika Group with its head office and brand stores (over 5,500 square metres). Expenditures on phase I of the Baltika Quarter will total around 9.3 million euros.

REPORTING CALENDAR IN 2009

In 2009, the consolidated financial results of Baltika will be published on the following dates:

2009 Q1 results	April 28
2009 Q2 results	July 29
2009 Q3 results	October 28

In addition, in the beginning of every month the sales results of the preceding month will be published.

BALTIKA SHARE

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

Baltika does not have an official market maker for its shares. In January 2009 no companies listed on the Tallinn Stock Exchange had market maker agreements. The rules enforced in 2005 require newly listed companies to sign a relevant agreement for a certain period. For shares that have been listed for a longer time, it has not been necessary to enter into or extend such agreements.

All Baltika shares are ordinary shares which carry equal voting and dividend rights.

Information on the shares

NASDAQ OMX symbol: BLT1T
ISIN number: EE3100003609
Minimum number of shares to trade: 1
Number of shares: 18,644,850
Nominal value of a share: 0.64 euros
Votes per share: 1

Key share data

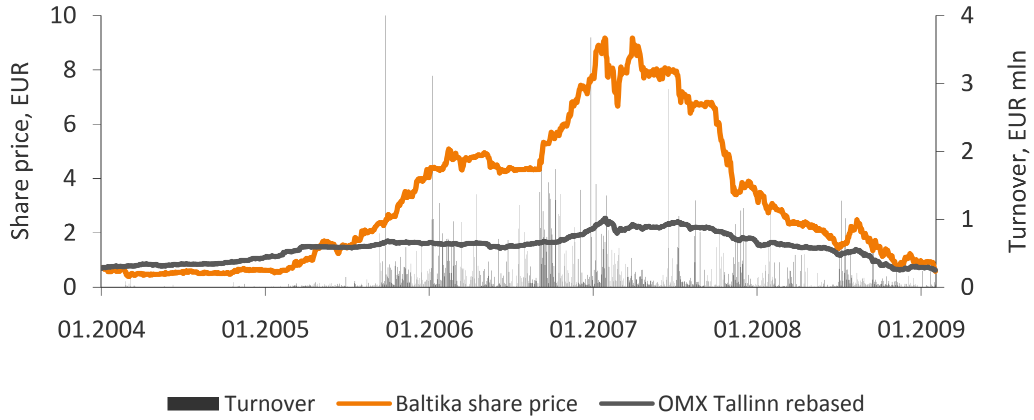
EUR	**2004**	**2005**	**2006**	**2007**	**2008**
Number of shares outstanding (31 Dec)	16,901,850	17,468,850	18,644,850	18,644,850	18,644,850
Weighted average number of shares	16,625,163	17,279,850	18,026,350	18,644,850	18,644,850
Share price (31 Dec)	0.62	4.33	7.40	3.90	1.15
Market capitalisation, in millions (31 Dec)	10.48	75.70	137.97	72.71	21.44
Earnings per share (EPS)	0.06	0.27	0.31	0.14	-0.06
P/E	9.7	16.1	23.9	27.9	Neg.
Book value per share	0.53	0.76	1.04	1.16	1.02
P/B	1.2	5.7	7.1	3.4	1.1
Dividend per share (DPS)	0.02	0.04	0.05	0	0[1]
Dividend yield	2.6%	1.0%	0.7%	0%	0%[1]
Dividend payout ratio	26.1%	16.6%	17.1%	0%	0%[1]

[1]Proposal to the general meeting.

SHARE PRICE AND TRADING

The global credit crunch along with its economic implications and the global stock market slump have had their impact also on the Baltic region. In 2008 the price of the Baltika share decreased by 70.5% to 1.15 euros and the Group's year-end market capitalisation slid to 21 million euros. During the same period, the OMX Tallinn All-Share Index fell by 63.0%.

Share price and turnover



In 2008 trading with Baltika's shares increased - the traded volume grew from 8.4 million in 2007 to 12.6 million. At the same time the number of shareholders increased by 62%.

Trading history

EUR	2004	2005	2006	2007	2008
High	0.70	4.33	7.47	9.57	3.95
Low	0.39	0.53	3.97	3.35	0.73
Year-end price	0.62	4.33	7.40	3.90	1.15
Change, %	-11.4%	598.9%	70.8%	-47.3%	-70.5%
Traded volume	2,000,751	13,209,708[1]	14,726,412	8,384,256	12,572,468
Turnover, in millions	1.03	31.08[1]	72.75	53.55	23.62

[1]Includes the sale of Baltic Republics Fund's shareholding of 6.0 million shares for 13.8 million euros.

INDICES

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

In January 2009, the Baltika share was part of the following indices:

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

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

SHAREHOLDER STRUCTURE

At the end of 2008, Baltika had 1,859 shareholders. The number of shareholders increased by 62% over the year.

The largest shareholder is OÜ BMIG, a company owned by Baltika's management board members, which at 31 December 2008 held 25.48% of Baltika's share capital. At the same date, the management board members' direct and indirect holdings accounted for 32.52% of Baltika's share capital.

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

Major shareholders at 31 December 2008

	Number of shares	Holding
BMIG OÜ	4,750,033	25.48%
Svenska Handelsbanken Clients	1,912,000	10.25%
Central Securities Depository of Lithuania	1,538,974	8.25%
Meelis Milder	730,336	3.92%
Clearstream Banking Luxembourg S.A. Clients	723,758	3.88%
Skandinaviska Enskilda Banken Ab Clients	609,023	3.27%
State Street Bank and Trust Omnibus Account	527,859	2.83%
Tõnis Kotkas	459,500	2.46%
Hansabankas Clients	417,709	2.24%
AS Hansapank	295,811	1.59%
Other	6,679,847	35.83%
Total	**18,644,850**	**100%**

Other major shareholders include international investment funds who usually keep their investments in foreign banks' client accounts. Individuals hold approximately 22% of the shares. Slightly more than 60% of Baltika's shareholders are local. The remainder are mainly from European countries.

Shareholder structure by shareholder type at 31 December 2008

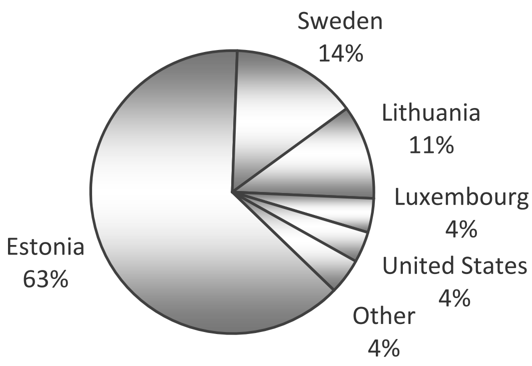
	Number of shares	Holding
Management board members	6,063,188	32.52%
Legal persons, thereof	8,571,568	45.97%
Investment funds and banks' client accounts	4,994,394	26.79%
Other legal persons	3,577,174	19.18%
Individuals	4,010,094	21.51%
Total	**18,644,850**	**100%**

Shareholder structure by size of holding at 31 December 2008

Holding	Number of shareholders	Percentage of all shareholders	Number of shares	Percentage of votes held
> 10%	2	0.11%	6,662,033	35.73%
1.0 - 10.0%	12	0.65%	6,217,487	33.35%
0.1 - 1.0%	59	3.17%	2,905,776	15.58%
< 0.1%	1,786	96.07%	2,859,554	15.34%
Total	**1,859**	**100%**	**18,644,850**	**100%**

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Shareholder structure by country at 31 December 2008



SHARE CAPITAL

According to the Articles of Association, the company's maximum share capital is 25.6 million euros. For a share issue to be approved, at least two thirds of the votes represented at the general meeting have to be in favour.

The company has an effective convertible bonds program for its executive management, however, the management board has decided to make a proposal to the annual general meeting to cancel the subscription of bonds. Altogether 62,000 F bonds have been issued. Each bond entitles the holder to subscribe for three shares in the company. As a result of the subscription, Baltika's share capital may be increased by a maximum of 186,000 new shares (1.0% of the current number of shares outstanding).

The terms and conditions of the convertible bonds are provided in the resolutions of the annual general meetings of 2007 and 2008. Further information on the bonds can be found in note 26 to the consolidated financial statements.

Changes in share capital

Date	Issue type	Issue price EUR	Number of shares issued	Total number of shares	Share capital at par value EUR '000	Share premium EUR '000
31.12.2003				**5,499,450**	**3,515**	**2,716**
15.07.2004	Conversion of A-bonds into shares	1.60	88,000	5,587,450	3,571	2,800
16.12.2004	Conversion of A-bonds into shares	1.60	46,500	5,633,950	3,601	2,845
31.12.2004				**5,633,950**	**3,601**	**2,845**
17.05.2005	Conversion of B-bonds into shares	2.18	189,000	5,822,950	3,722	3,136
31.12.2005				**5,822,950**	**3,722**	**3,176**
30.03.2006	Conversion of C-bonds into shares	2.40	192,000	6,014,950	3,844	3,534
5.10.2006	Conversion of D-bonds into shares	1.85	82,400	6,097,350	3,897	3,634
8.12.2006	Conversion of D-bonds into shares	1.85	117,600	6,214,950	3,972	3,776
31.12.2006				**6,214,950**	**3,972**	**3,776**
11.06.2007	Bonus issue	n/a	12,429,900	18,644,850	11,916	0
31.12.2007				**18,644,850**	**11,916**	**0**
31.12.2008				**18,644,850**	**11,916**	**0**

DIVIDENDS

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

Baltika ended 2008 with a consolidated net loss of 1.2 million euros. The management board proposes that profits be retained and no dividends distributed. In 2008 the company did not distribute any dividends either.

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

CORPORATE GOVERNANCE REPORT

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

Baltika adheres to all applicable laws and regulations. As a public company, Baltika also observes the rules of the Tallinn Stock Exchange and the requirement to treat investors and shareholders equally. Accordingly, Baltika complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, our corporate governance report contains information on the annual general meeting of 2008, the supervisory council, the management board and explains Baltika’s governance structure and processes.

CGC Article 1.3.3.

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

Since Baltika does not have the required technical equipment and acquisition of such equipment would be costly, currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 2.2.1.

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

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

CGC Article 2.2.7.

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

The remuneration and other benefits provided to members of the management board are set out in their employment contracts. Owing to the confidentiality of the contracts, Baltika does not disclose the remuneration and benefits provided to each member of the management board. However, Baltika discloses the total amount of remuneration provided to members of the supervisory council and management board in the management report section of its interim and annual reports. In 2008, the figure amounted to 0.3 million euros. The contractual severance benefits of members of the management board range from 6- to 12-fold monthly remuneration.

Members of the management board, like other employees, are eligible to performance pay in accordance with the company’s bonus scheme, which is based on the performance of profit centres. The maximum bonus level for the chairman of the management board/CEO is 1.5% of the company’s net profit for the financial year although the actual disbursement may not exceed the chairman’s one annual salary. The bonuses of other members of the management board/directors are linked to the performance of their respective profit centres but the actual disbursements may not exceed one half to two thirds of their annual salary. Annual bonuses are paid in three portions. Two payments are made in advance and the final one is calculated and made after the financial statements have been audited. The bonus of the chairman of the management board/CEO is determined by the supervisory council. The bonuses of members of the management board are determined by the chairman of the supervisory council based on a proposal made by the chairman of the management board.

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

In 2008, members of the management board participated in a convertible bond program designed for the company's top and middle management, which was approved by the annual general meeting in 2007 and the amount of which was reduced by the annual general meeting in 2008. The terms and conditions of the bonds are provided in the resolutions of the respective annual general meetings. Changes in management board members' interests in the company are disclosed in the company's share register, which is available on the website of the Estonian Central Securities Depository (www.e-register.ee), as well as in the company's interim and annual reports.

CGC Article 2.3.2.

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

In 2008 no such transactions were performed.

CGC Article 3.2.5.

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

The annual general meeting of 2006 passed the motion that the emoluments of members of the supervisory council should remain the same as decided by the extraordinary general meeting of 8 December 2004. The remuneration of the chairman of the supervisory council amounts to 639 euros per month and the remuneration of a member of the supervisory council to 383 euros per month. A member of the supervisory council is not eligible to severance compensation or any other monetary benefits.

CGC Article 3.3.2.

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

In 2008 no conflicts of interests occurred.

CGC Article 5.6.

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

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

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

CGC Article 6.2.

Election of the auditor and auditing of the annual accounts

In accordance with the company's Articles of Association, the auditor(s) is (are) appointed by the general meeting for the performance of a single audit or for a specific term. The annual general meeting which convened on 18 June 2008, appointed AS PricewaterhouseCoopers as the auditor of the company's annual financial statements for 2008. According to the audit agreement, the engagement partner is Ago Vilu and the engagement manager Eva Jansen. The company ensures the auditor's independence by rotating the engagement partner and engagement manager every five years.

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

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

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

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

General meeting

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

The annual general meeting of 2008 was held on 18 June at 24 Veerenni in Tallinn, Estonia. A total of 10,211,579 shares were represented (54.77% of the voting stock). The meeting approved the company's annual report and profit allocation proposal for 2007 and re-appointed AS PricewaterhouseCoopers as the company's auditor. In addition, the general meeting declared the subscription for half of the bonds (Series E bonds) which were approved by the annual general meeting in 2007 unsuccessful and decided that any prepayments made in connection with the subscription should be returned. The chairman of the management board informed shareholders about Baltika's plans and prospects for 2008.

Supervisory council

The supervisory council plans the activities of the company, organises the management of the company and supervises the activities of the management board. The supervisory council meets according to need but not less frequently than once every three months. A meeting of the supervisory council has a quorum when more than half of the members participate. A resolution of the supervisory council is adopted when more than half of the members of the supervisory council who participate in the meeting vote in favour. Each member of the supervisory council has one vote. In 2008, the supervisory council met five times. All members of the supervisory council attended all or most of the meetings of the supervisory council.

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

According to the Articles of Association, Baltika's supervisory council has three to five members. The members are elected by the general meeting for a period of three years. The current council was elected by the annual general meeting in 2006 and it has five members.

The present members of the supervisory council are Tiina Mõis (chairman), Reet Saks, Gert Tiivas, Allan Remmelkoor and Andres Erm. Mrs Mõis is the director of the investment firm AS Genteel and a member of the councils of several Estonian companies. Mrs Saks is an attorney with Law Office Raidla Lejins & Norcous, a long-term partner of Baltika. Mrs Saks has been a member of Baltika's supervisory council since 1997. Mr Tiivas is the chief executive of East Capital Explorer, a Swedish listed company, and represents East Capital, a leading asset management company with a focus on East European markets and one of Baltika's shareholders. Allan Remmelkoor, the chief executive of AS Kristiine Kaubanduskeskus which operates the Kristiine Centre in Tallinn, Estonia, contributes valuable retail expertise. Andres Erm has extensive experience with emerging markets in Eastern Europe which are also targeted by Baltika. Andres Erm is the only council member that owns shares in the company (108,000 shares or 0.58% of share capital as at the end of 2008).

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

Management board

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

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

Baltika's management board has five members: Meelis Milder (chairman), Ülle Järv, Maire Milder, Boriss Loifenfeld and Andrew Paterson. The latter was appointed to Baltika's management board by the meeting of the supervisory council that convened on 24 November 2008. Other members of the management board perform their duties under the resolution of the supervisory council of 28 August 2006 that extended the board members' terms of office for another three years.

The Chairman of the Management Board Meelis Milder is the Group's CEO, Ülle Järv the CFO, Maire Milder the Director of the Retail Division and Boriss Loifenfeld the Director of Wholesale and CIS Projects. These members of the management board have been with the company from 9 to 24 years. The new member of the management board, Andrew Paterson is the Director of Merchandising, Sourcing and Supply Chain. Andrew Paterson advised Baltika on merchandise management also during the period 2003-2006, when Baltika underwent a turnaround into a vertically integrated fashion retailer, and started working with the company again at the end of 2007.

Management board members are Baltika's largest shareholders through the holding company OÜ BMIG, which at the end of 2008 held 25.48% of Baltika's share capital. In addition, management board members have their individual shareholdings. Consequently, through their direct and indirect holdings, at the end of 2008 management board members controlled 32.52% of the company's share capital.

Shareholdings of members of the management board at 31 December 2008

	Number of shares	Holding
OÜ BMIG	4,750,033	25.48%
Meelis Milder	730,336	3.92%
Maire Milder	316,083	1.69%
Boriss Loifenfeld	200,366	1.07%
Ülle Järv	55,370	0.30%
Andrew Paterson	11,000	0.06%
Total OÜ BMIG and management board members	**6,063,188**	**32.52%**
Baltika's share capital	**18,644,850**	**100%**

CONSOLATED FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The management board confirms the correctness and completeness of AS Baltika's 2008 consolidated financial statements as presented on pages 26 to 71.

The management board confirms that:

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

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

3. all Group companies are going concerns.

Meelis Milder
Chairman of the Management Board
25 March 2009

Ülle Järv
Member of the Management Board
25 March 2009

Boriss Loifenfeld
Member of the Management Board
25 March 2009

Maire Milder
Member of the Management Board
25 March 2009

Andrew Paterson
Member of the Management Board
25 March 2009

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED BALANCE SHEET

	Note	31.12.2008	31.12.2007
ASSETS			
Current assets			
Cash and bank	4	554	2,013
Trade and other receivables	5	6,287	7,258
Inventories	6	18,434	14,105
Non-current assets held for sale	10	0	32
Total current assets		**25,275**	**23,408**
Non-current assets			
Deferred income tax asset	7	355	377
Other non-current assets	8	390	732
Investment property	9	8,570	719
Property, plant and equipment	10	11,541	12,980
Intangible assets	11	3,809	3,733
Total non-current assets		**24,666**	**18,541**
TOTAL ASSETS		**49,941**	**41,949**
EQUITY AND LIABILITIES			
Current liabilities			
Borrowings	13	6,645	6,402
Trade and other payables	15	13,290	8,268
Total current liabilities		**19,935**	**14,670**
Non-current liabilities			
Borrowings	13	10,762	5,389
Other liabilities	15	0	69
Deferred income tax liability	7	140	133
Total non-current liabilities		**10,902**	**5,591**
TOTAL LIABILITIES		**30,837**	**20,261**
EQUITY			
Share capital at par value		11,916	11,916
Reserves		1,670	1,670
Retained earnings		6,949	4,343
Net profit (loss) for the period		-1,211	2,606
Currency translation differences		-458	520
Total equity attributable to equity holders of the parent		**18,866**	**21,055**
Minority interest		237	633
TOTAL EQUITY	16	**19,104**	**21,688**
TOTAL LIABILITIES AND EQUITY		**49,941**	**41,949**

The Notes to the financial statements presented on pages 30-71 are an integral part of the Annual Report.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED INCOME STATEMENT

	Note	2008	2007
Revenue	17,18	76,331	73,596
Cost of goods sold	19	-35,822	-32,904
Gross profit		**40,509**	**40,691**
Distribution costs	20	-37,621	-33,402
Administrative and general expenses	21	-3,228	-3,893
Other operating income	22	1,201	1,612
Other operating expenses	23	-1,223	-883
Operating profit (loss)		**-362**	**4,126**
Financial income (expenses)		**-935**	**-736**
Interest expenses, net		-728	-578
Foreign exchange losses, net		-228	-153
Other financial income (expenses), net		21	-5
Profit (loss) before income tax		**-1,297**	**3,389**
Income tax	24	-75	-587
Net profit (loss)		**-1,372**	**2,802**
Net profit (loss) attributable to equity holders of the parent company		**-1,211**	**2,606**
Net profit (loss) attributable to minority shareholders		-161	196
Basic earnings (loss) per share, EUR	25	-0.06	0.14
Diluted earnings (loss) per share, EUR	25	-0.06	0.14

The Notes to the financial statements presented on pages 30-71 are an integral part of the Annual Report.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2008	2007
Operating activities			
Operating profit (loss)		-362	4,126
Adjustments:			
Depreciation, amortisation and impairment of PPE and intangibles	10,11	2,952	2,546
Loss (gain) from disposal of PPE and investment property		100	-882
Loss (gain) from revaluation of investment property	9	-1,134	-568
Other non-monetary expenses[1]		97	452
Changes in working capital:			
Change in trade and other receivables	5	1,392	429
Change in inventories	6	-4,329	-1,278
Change in trade and other payables	15	5,242	-650
Interest paid		-749	-479
Income tax paid		-397	-261
Net cash generated from operating activities		**2,811**	**3,434**
Investing activities			
Acquisition of property, plant and equipment, intangibles, thereof	10,11	-9,492	-6,516
Under the finance lease terms	12	270	421
Through business combinations	27	0	297
Proceeds from disposal of property, plant and equipment	10	41	3,225
Investments in subsidiaries	27	-213	-364
Interest received		4	12
Net cash used in investing activities		**-9,390**	**-2,924**
Financing activities			
Received borrowings	13	7,630	3,236
Repayments of borrowings	13	-1,616	-1,643
Change in bank overdraft	13	1,448	992
Repayments of finance lease and other liabilities	12,15	-210	-589
Dividend paid	16	0	-953
Proceeds from issue of bonds	14	0	1,823
Redemption of bonds	14	-1,917	-2,013
Net cash generated from financing activities		**5,335**	**852**
Effect of exchange gains (losses) on cash and cash equivalents		-216	-153
Total cash flows		**-1,459**	**1,209**
Cash and cash equivalents at the beginning of the period	4	**2,013**	**804**
Cash and cash equivalents at the end of the period	4	**554**	**2,013**
Change in cash and cash equivalents		**-1,459**	**1,209**

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

The Notes to the financial statements presented on pages 30-71 are an integral part of the Annual Report.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

CONSOLIDATED STATEMENT OF SHANGES IN EQUITY

	Share capital	Share pre-mium	Reser-ves	Re-tained ear-nings	Currency transla-tion diffe-rences	Total attribu-table to parent	Mino-rity interest	Total
Balance at 31 December 2006	**3,972**	**3,776**	**621**	**10,283**	**276**	**18,929**	**515**	**19,445**
Currency translation differences	0	0	0	0	244	244	1	244
Net income (expense) recognised directly in equity	0	0	0	0	244	244	1	244
Net profit for the period	0	0	0	2,606	0	2,606	196	2,802
Total recognised income (expense)	**0**	**0**	**0**	**2,606**	**244**	**2,850**	**197**	**3,047**
Dividends paid	0	0	0	-953	0	-953	0	-953
Transfers to statutory reserve capital	0	0	819	-819	0	0	0	0
Increase of share capital	7,944	-3,776	0	-4,168	0	0	0	0
Acquisition of minority interest	0	0	0	0	0	0	-79	-79
Revaluation of investment property	0	0	229	0	0	229	0	229
Balance at 31 December 2007	**11,916**	**0**	**1,670**	**6,949**	**520**	**21,055**	**633**	**21,688**
Balance at 31 December.2007	**11,916**	**0**	**1,670**	**6,949**	**520**	**21,055**	**633**	**21,688**
Currency translation differences	0	0	0	0	-978	-978	-22	-1,000
Net income (expense) recognised directly in equity	0	0	0	0	-978	-978	-22	-1,000
Net loss for the period	0	0	0	-1,211	0	-1,211	-161	-1,372
Total recognised income (expense)	**0**	**0**	**0**	**-1,211**	**-978**	**-2,189**	**-183**	**-2,372**
Acquisition of minority interest (Note 27)	0	0	0	0	0	0	-213	-213
Balance at 31 December 2008	**11,916**	**0**	**1,670**	**5,738**	**-458**	**18,866**	**237**	**19,104**

Additional information on share capital and changes in equity is provided in Note 16.

The Notes to the financial statements presented on pages 30-71 are an integral part of the Annual Report.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 General information and summary of significant accounting policies

General information

The Baltika Group, with the parent company AS Baltika, is an international fashion retailer operating four concepts: Monton, Mosaic, Baltman and Ivo Nikkolo. The Group employs a vertically integrated business model which means that it controls all stages of the fashion process: design, manufacturing, supply chain management, logistics and retailing. As of the end of 2008, there were 134 Baltika stores on seven markets in the Baltics and Central and Eastern Europe. The Group also sells its collections wholesale. At 31 December 2008, the Baltika Group employed 1,988 people (31 December 2007: 1,983).

AS Baltika's shares are listed on the Tallinn Stock Exchange. The largest shareholder (Note 16) of AS Baltika is OÜ BMIG controlled by the members of the management board of the company.

AS Baltika (the Parent company) (registration number: 10144415, address: Veerenni 24, Tallinn, Estonia) is a company registered in the Republic of Estonia and operating in Estonia, Latvia, Lithuania, Russia, Ukraine, Poland and the Czech Republic. The consolidated financial statements prepared for the financial year ended at 31 December 2008 include the financial information of the Parent company and its subsidiaries (together referred to as the Group): OÜ Baltman, SIA Baltika Latvija, UAB Baltika Lietuva, OOO Kompania "Baltman RUS", Baltika Ukraina Ltd, Baltika Poland Sp.z.o.o., Baltika Retail Czech Republic s.r.o., OY Baltinia AB, Baltika Sweden AB, OÜ Baltika Tailor, AS Virulane and OÜ Baltika TP.

The management board of AS Baltika authorised these consolidated financial statements at 25 March 2009. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the supervisory council of the Parent company and the general meeting of shareholders.

Basis of preparation

The Group's 2008 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared under the historical cost convention, as modified by the revaluations of investment property, as disclosed in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. See also section "Comparability" below.

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

Comparability

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

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

a) Standards, amendments to published standards and interpretations mandatory for the Group's accounting periods beginning on or after 1 January 2008

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation contains guidelines on the following issues: applying IFRS 2 "Share-based Payment" for transactions of payment with shares which are entered into by two or more related entities; and adopting an accounting approach in the following instances: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. This interpretation does not have an impact on the Group's financial statements.

Reclassification of Financial Assets – Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The Group has not elected to make any of the optional reclassifications during the period; as such, this amendment has no impact on the Group's financial statements.

Standards and amendments early adopted by the Group

IAS 40, Investment Property (and consequential amendments to IAS 16). Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which the fair value becomes reliably measurable. The Group amended its accounting policies accordingly in financial statements of 2008. The Group has adopted current amendment from 1 January 2008. This amendment does have an impact on the Group's financial statements of 2008 in the amount of 703 thousand euros (Note 9).

b) New accounting pronouncements issued but not yet effective

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

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

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 supersedes IAS 14, Segment Reporting. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Group is currently assessing the impact of the standard on segment disclosures in the consolidated financial statements.

IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 23, Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The amended standard will not have an impact on the Group's financial statements as this accounting policy is used for previous periods reporting by the Group.

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009; the amendment has not been adopted by the European Union). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 includes guidance on the accounting treatment of transactions resulting from loyalty programmes implemented by an entity for its customers, such as loyalty cards or awarding of “points”. In particular, IFRIC 13 indicates the correct accounting for the entity’s obligation to provide free or discounted goods or services if and when the customers redeem the points. The Group operates currently certain customer loyalty programmes. However, as the current conditions of the introduced programmes are of different nature, the IFRIC interpretation does not have any impact on the Group’s consolidated financial statements.

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

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

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

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008; the interpretation as adopted by the European Union is effective for annual periods beginning after 31 December 2008, early adoption permitted), provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group does not expect the interpretation to affect its consolidated financial statements as the Group has no qualifying assets.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

IFRIC 15, Agreements for Construction of Real Estates (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations as all of the Group's construction relates to property developed for the Group to hold as investment property, rather than with a view to sale.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. IFRIC 16 allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group's financial statements.

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group has early adopted amendment to IAS 40, see section "Standards and amendments early adopted by the Group". The Group does not expect the other amendments to have any material effect on its financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; the amended standard has not been adopted by the European Union). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

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

Principles of consolidation, accounting for business combinations and subsidiaries

A subsidiary is an entity in which the Group, directly or indirectly, has interest of more than one half of the voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. All subsidiaries have been consolidated in the Group's financial statements. An associate is an entity, in which the Group owns between 20% and 50% of shares with voting rights and over which the Group has significant influence. As at the balance sheet date, the Group had no associates.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date on which control ceases. The purchase method of accounting is used to account for the acquisition of a subsidiary. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. Under the purchase method, acquired and separately identifiable assets and liabilities as well as contingent liabilities of the acquired subsidiary are recognised at their fair values at the acquisition date.

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

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

Minority interest

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

Transactions with minority interest

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

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is the local currency. The functional currency of the Parent company and subsidiaries located in Estonia is Estonian kroon.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

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

Financial statements of foreign operations

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

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

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

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

Foreign currency transactions and balances

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

Gains and losses arising from trade receivables and payables denominated in foreign currencies are recognised net under “Other operating income (expenses)” (Notes 22 and 23). Gains and losses arising from cash, cash equivalents and borrowings are recognised net under financial expenses.

Cash and cash equivalents

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

Financial assets

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

Depending on the purpose for which financial assets were acquired as well as management’s intentions, financial assets are classified into the following categories at initial recognition:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

At 31 December 2008 (and 31 December 2007) the Group had no other classes of financial assets than those classified under the category loans and receivables.

Loans and receivables

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.k.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

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

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

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

Renegotiated trade receivables

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

Inventories

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

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

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

Investment property

Real estate properties (land, buildings) that the entity owns or leases under finance lease terms to earn lease income or for capital appreciation, or both, and which are not occupied by the Group are recorded under investment property. From 1 January 2008 by early adopting amendment to IAS 40 made within annual improvements 2008, property under construction or development, as investment property is recorded under investment property as well. An investment property is initially recognised at its acquisition cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. It is subsequently re-measured at its fair value which is based on the market value determined annually by external valuers and the management’s judgement based on the comparable transactions at the same location. Earned lease income is recorded in profit or loss within revenue. Gains and losses resulting from changes in the fair value of investment property are recognised under “Other operating income (expenses)”.

If non-current assets used in operating activities are reclassified as investment property, the difference between the carrying amount and the fair value is recognised as revaluation surplus under reserves in equity. If property under construction is reclassified as investment property, the gains and losses resulting from changes in the fair value of investment property are recognised under “Other operating income (expenses)”. Should the difference arising from revaluation reverse an impairment loss recorded in previous periods, the change in fair value is recognised directly in the income statement to the extent it reverses the previous impairment loss. The revaluation surplus included in equity is transferred to retained earnings on the subsequent disposal of investment property.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

Property, plant and equipment

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

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

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

- buildings and structures 5-40 years;
- machinery and equipment 2-7 years;
- other fixtures 2-7 years.

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

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

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

Non-current assets held for sale

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

Intangible assets (excluding goodwill)

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

Trademarks and licenses

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

Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.k.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

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

Goodwill

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

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

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

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

Impairment of non-current assets

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

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

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

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

Finance and operating leases

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

The Group is the lessee

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

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

The future minimum lease payments under non-cancellable operating leases are calculated based on the non-cancellable periods of the leases taking into account the following criteria:

- agreements without term are expected to be valid for five years;
- should the termination of the agreement require a mutual agreement, lease payments for the six-month period are taken into consideration;
- should the termination of the agreement require an advance notice, lease payments due within the advance notice period are taken into consideration.

The Group is the lessor

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

Payables to employees

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

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

Provisions and contingent liabilities

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

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

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

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

Financial liabilities

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

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

Offsetting

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

Share capital

Shares are classified in equity. The Group does not have any preference shares. The costs directly related to the issuance of shares are recognised as a reduction of the equity item “Share premium”.

Reserves

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

Statutory reserve

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

Revaluation surplus

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

Share-based payments

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

Revenue recognition

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

Retail sales

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

Wholesale

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

Other

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

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

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

Interest income and expenses

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

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

Segment reporting

The primary format of segment reporting of the Group is the geographical segment by the area of location of customers and the secondary format of segment reporting is the business segment which distinguishes retail, wholesale, production, real estate development and other activities.

The geographical regions are defined as separate geographical segments, each region generating significantly different risks and returns and each region forming a significant enough part from the Group’s scale of operations.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The allocation of the Group’s subsidiaries and business units into segments is based on the structure of the internal management reporting.

Segment results include revenues and expenses directly attributable to the segment and the relevant part that can be allocated to the particular segment either from external or internal transactions. Unallocated items result from utilisation or disposal of unallocated assets and liabilities as well from administrative costs taken by the Parent company.

Segment assets and liabilities include those operating assets and liabilities directly attributable to the segment or those that can be allocated to the particular segment. Financial assets, interest bearing borrowings and the administrative facilities of the Parent company are disclosed as unallocated assets and liabilities.

Current and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is from 1 January 2009 subject to income tax of 21/79 (until 31 December 2008: 21/79 and until 31 December 2007: 22/78) of the amount paid out as dividends from which income tax paid before 1 January 2000 can be deducted using a respective coefficient. The corporate income tax arising from the payment of dividends is accounted for

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which dividends are paid.

Corporate income tax in other countries

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

Corporate income tax rates

	2009	2008	2007
Latvia	15%	15%	15%
Lithuania	19%	15%	15%
Poland	19%	19%	19%
Czech Republic	20%	21%	24%
Ukraine	25%	25%	25%
Russia	20%	24%	24%

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

Earnings per share

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

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

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

Inventory valuation (Note 6)

Upon valuation of inventories, the management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered (carrying amount of 14,664 thousand euros at 31 December 2008 and 10,362 thousand euros at 31 December 2007), upon valuation of raw materials, their potential as a source of finished goods and generating income is considered (carrying amount of 3,079 thousand euros at 31 December 2008 and 3,035 thousand euros at 31 December 2007); upon valuation of work in progress, their stage of completion that can reliably be measured is considered (carrying amount of 304 thousand euros at 31 December 2008 and 282 thousand euros at 31 December 2007).

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

Deferred income tax (Note 7)

Deferred income tax asset has mostly arisen through tax loss carry-forwards from subsidiaries operating in foreign markets and is recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future the management makes judgements and applies estimation based on the future development of the market and its outcomes to evaluate future expected revenue. The profit assumption is based on the attainment of the Group's strategic goals. The carrying amount of net deferred income tax asset recognised in the balance sheet amounts to 215 thousand euros at 31 December 2008 and 244 thousand euros at 31 December 2007.

Valuation of investment property (Note 9)

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

Because of the recent volatility of global financial markets the quoted prices in real estate market are not always reliable. For evaluating investment property the management used also other techniques to support the sales comparison method. The management used for evaluation a discount rate of 11.5% and capitalisation rate of 9.0% which are comparable to the average indicators used by real estate operating companies in Estonia. The fair value calculations use detailed cash flow projections covering a five-year period – five years of rental income according to rental contracts and profit from sale of investment property at the price of value-in-use at the end of the fifth year. Cash flow projections comprise factors that depend on the state of the global financial markets and that affect future cash flows, such as vacancy rate, loan interest rate, growth of costs and revenues. The management's estimate concerning the land and building under construction located at Veerenni 24, Tallinn, Estonia (carrying amount of 1,153 thousand euros and 7,417 thousand euros at 31 December 2008 respectively) fell in the range provided by two independent experts. Land is recorded at market value based on the sales comparison method. The building was valued as a finished construction and the costs to complete were deducted from the value of a finished construction to arrive at the fair value of the building under construction. The gain from revaluation of investment property in 2008 was 1,134 thousand euros and it is recognised under "Other operating income" in the income statement.

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

The management has evaluated the economic lives of production equipment and other non-current assets related to production depending on their estimated useful lives. The estimation of economic lives is based on historical experience and takes into consideration production capacity and conditions. The estimation of economic lives of non-current assets used in retail trade is based on the period over which the asset is expected to participate in the generation of revenue as well as the guaranteed duration of lease agreements. The economic life of assets with unlimited use (land) is assessed as infinite. The total carrying amount of property, plant and equipment with a limited useful life is 11,406 thousand euros at 31 December 2008 and 12,845 thousand euros at 31 December 2007. The total carrying amount of land is 135 thousand euros at 31 December 2008 and 135 thousand euros at 31 December 2007.

Valuation of goodwill (Note 11)

Goodwill is the excess of the cost of the acquisition over the fair value of the acquired net assets, reflecting the part of cost that was paid for the acquisition of such assets that cannot be separately identified and recognised. Goodwill as an intangible asset with an indefinite useful life is not amortised but is tested for impairment at least once a year. The management has performed an impairment test for goodwill that arose on the acquisition of the subsidiary OOO Kompania "Baltman RUS" (carrying amount of 1,094 thousand euros at 31 December 2008 and 1,258 thousand euros at 31 December 2007) and the subsidiary OÜ Baltika Tailor (carrying amount of 355 thousand euros at 31 December 2008 and 355 thousand euros at 31 December 2007). Future expected cash flows based on the budgeted sales and production volumes respectively have been taken into consideration in determining the recoverable amount of the investments. The future expected cash flows have been discounted using the expected rate of return in the particular market within the similar industry. If the recoverable amount of goodwill is lower than its carrying amount, an impairment loss is recognised.

The impact of the global financial and economic crisis

The ongoing global liquidity crisis which commenced in the middle of 2007 from USA mortgage market has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. The currencies of many countries have been devaluated as well.

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

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

NOTE 3 Financial risks

In its daily activities, the Group is exposed to different types of risk management, which is an important and integral part of the business activities of the company. The company's ability to identify, measure and control different risks is a key variable for the Group's profitability. The Group's management defines risk as a potential negative deviation from the expected financial results. The main risk factors are market (including currency risk, interest rate risk and price risk), credit, liquidity and operational risks. Due to the global economic and financial crisis the management of the Group's Parent company considers all the risks as significant risks for the Group.

The basis for risk management at the Group are the requirements set by the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, adherence to generally accepted accounting principles, as well as the company's internal regulations and risk policies. Overall risk management includes identification, measurement and control of risks. The management of the Parent company plays a major role in managing risks and approving risk procedures. The supervisory council of the Group's Parent company monitors the management's risk management activities.

Market risk

Foreign exchange risk

Sales in foreign currencies constitute 76% of the revenues of the Group and are denominated in LVL (Latvian lat), LTL (Lithuanian lit), RUR (Russian rouble), UAH (Ukrainian hryvnia), PLN (Polish zloty), CZK (Czech koruna) for the foreign subsidiaries of the Group and in EUR (euro) for the Parent company and the subsidiaries located in Estonia. The majority of raw materials used in production is acquired from countries located outside of the European Union. The major currencies for purchases are EUR (euro) and USD (US dollar).

Trading with the counterparties in countries belonging to the European Monetary Union is handled only in euros. Estonian kroon is pegged to the euro thus no foreign exchange gains (losses) arise on the transactions in euro. As the Group's main revenues arise from retail sales, the prices of goods in the markets are fixed in a local currency and consequently, changes in foreign currency exchange rates directly affect the Group's revenue through the pricing of goods at the stores in those markets. In addition, a change in the economic environment and relative appreciation/depreciation of a local currency may greatly affect the purchasing power of customers in the market of the respective segment.

The weakening of the US dollar against the euro poses liquidity risk, which affects the Group's collectible amounts from the countries whose currencies are most affected by the changes in the dollar's exchange rate (Ukraine, Russia and Poland). On the other hand, the weakening of the dollar has a positive impact on importing from the countries with which accounts are settled in dollars (China, Japan and Korea).

The effect of the annual differences in the 12-months average foreign currency rates against the Estonian kroon in the reporting period of 2008 and 2007 were the following: Latvian lat -0.35% (2007: -0.55%), Russian rouble -3.78% (2007: -2.53%), Ukrainian hryvnia -9.27% (2007: -8.10%), Polish zloty +8.04% (2007: +2.96%) and

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Czech koruna +11.32% (2007: +2.08%). The Lithuanian lit and Estonian kroon are pegged to the euro. The change in average rate of the US dollar in the reporting period was -6.52% (2007: -8.24%). The Group's foreign exchange risk has increased significantly as a result of the devaluation of the Russian rouble and the steep weakening of the Ukrainian hryvnia against the Estonian kroon in the fourth quarter of 2008. During the last three months of 2008 the Ukrainian hryvnia and the Russian rouble weakened against the Estonian kroon by 34% and 12% respectively. If the currency exchange rates of the Ukrainian hryvnia, Russian rouble, Polish zloty and Czech koruna had remained the same as in 2007, the revenue for 2008 would have been higher by 1,413 thousand euros and operating expenses would have been higher by 726 thousand euros compared to 2007. The translation of intra-group balances arising from the Group's internal trade and translation of the Group's net investment in the markets most affected by the foreign exchange risk also affect the Group's operating profit and equity. If exchange rates of the Ukrainian hryvnia and Russian rouble had not changed in the last quarter of 2008, the Group's operating profit would have been higher by 994 thousand euros and the negative reserve of currency translation differences in equity would have been more positive by 1,371 thousand euros.

Foreign exchange risk arises from cash and cash equivalents (Note 4), trade receivables (Note 5) and trade payables (Note 15) denominated in foreign currencies.

Foreign exchange risk arises from cash and cash equivalents, trade receivables and trade payables denominated in Russian rouble, Ukrainian hryvnia, Polish zloty, Czech koruna and US dollar. If the foreign exchange rates in relation to the Estonian kroon as at 31 December 2008 had been 0.5%-45.0% higher (lower), the impact on the net loss for the year would have been +/-111 thousand euros (2007: 32 thousand euros). The assessment of foreign exchange rate sensitivity to the 2008 result is based on the assumptions that the reasonably possible fluctuations in foreign currency exchange rates of the main trading currencies of the Group are the following: Russian rouble, Ukrainian hryvnia do not exceed +/-27% and +/-45% respectively, Polish zloty, Czech koruna and US dollar do not exceed +/-5.0% and that the exchange rates of the Latvian lat and other currencies are not expected to fluctuate more than 0.5% and 2.0% respectively. The assessment of foreign exchange rate sensitivity to the 2007 profit is based on the assumptions that the fluctuations in foreign currency exchange rates of the main trading currencies of the Group (Russian rouble, Ukrainian hryvnia, Lithuanian lit, Polish zloty, Czech koruna and US dollar), do not exceed +/-5.0% and that the exchange rates of the Latvian lat and other currencies are not expected to fluctuate more than 0.5% and 2.0% respectively. As the Estonian kroon and Lithuanian lit are pegged to the euro, there is no foreign exchange risk arising from cash and cash equivalents, trade receivables and trade payables denominated in those currencies.

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

	Impact 2008	Impact 2007
Cash and bank	68	51
Trade and other receivables	55	20
Trade and other payables	-234	-103
Total	**-111**	**-32**

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

No instruments were used to hedge foreign currency risks in 2008 and 2007. Based on the management's assessment, the effect of losses resulting from changes in foreign currencies does not exceed the risk tolerance determined by the Group, except in the case when the currencies are devaluated in the countries where AS Baltika has subsidiaries. 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.

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

primarily caused by the potential fluctuations of Euribor and the changing of the average interest rates of banks. The Group's risk margins have not changed significantly and correspond to market conditions.

All non-current borrowings at 31 December 2008 and 2007 were subject to a floating interest rate based on Euribor, which is fixed every three or six months (Note 13). The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

At 31 December 2008, if floating interest rates on borrowings had been one percentage point lower (higher) with all other variables held constant, post-tax loss for the year would have been 75 thousand euros (2007: 56 thousand euros) lower (higher).

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

Price risk

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

Credit risk

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

Cash and cash equivalents

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

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

	31.12.2008	31.12.2007
A	258	1,054
B	153	463
Other banks	0	276
Total	**411**	**1,794**

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

Trade receivables

The most significant credit risk concentration to the Group arises from the wholesale activities in Eastern Europe (Note 5). For the wholesale customers, their financial position, past experience and other factors are taken into consideration as the basis for credit control. According to the Group's credit policy, no collaterals to secure the trade receivables are required from counterparties (with the exception of new customers from Eastern Europe) but instead, deliveries, outstanding credit amount and adherence to agreed dates are monitored continuously.

At 31 December 2008 the maximum exposure to credit risk from trade receivables (Note 5) amounted to 3,128 thousand euros (2007: 4,547 thousand euros) on a net basis after the allowances. The trade receivables from Eastern European clients amounted to 2,593 thousand euros (the gross amount of the trade receivables from Eastern European clients amounted to 3,077 thousand euros before allowances), including balances with the Eastern European wholesale partners of 2,434 thousand euros (2007: 3,902 thousand euros) and balances with retail customers for bank card payments of 159 thousand euros (2007: 169 thousand euros).

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

	31.12.2008	31.12.2007
Not due, thereof	2,593	3,108
Renegotiated	1,106	1,825
Past due 6 months and more, gross[1]	484	963
Total	**3,077**	**4,070**

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

[1]Trade receivables past due six months and more were partially impaired thus the difference between the carrying value and recoverable amount was recognised as an impairment loss (Notes 5 and 20).

Sales to retail customers are settled in cash or using major credit cards, thus no credit risk is involved except the risk arising from financial institutions selected as approved counterparties. Credit risks arising from the Group's seasonal production and sales cycle are temporary.

Liquidity risk

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

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

Financial liabilities by maturity at 31 December 2008

		Undiscounted cash flows[2]				
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Bank borrowings (Note 13)[1]	16,759	932	6,284	7,993	5,699	20,908
Finance lease liabilities (Note 13)	649	100	120	470	0	690
Trade payables (Note 15)	9,711	9,711	0	0	0	9,711
Other payables (Note 15)	3,555	3,556	0	0	0	3,556
Total	**30,673**	**14,299**	**6,403**	**8,463**	**5,699**	**34,865**

Financial liabilities by maturity at 31 December 2007

		Undiscounted cash flows[2]				
	Carrying amount	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Bank borrowings (Note 13)[1]	9,297	3,346	1,281	4,637	1,023	10,288
Finance lease liabilities (Note 13)	596	45	131	487	0	663
Bonds (Note 14)	1,898	1,917	0	0	0	1,917
Trade payables (Note 15)	4,624	4,624	0	0	0	4,624
Other payables (Note 15)	3,643	3,575	4	23	41	3,644
Total	**20,058**	**13,507**	**1,416**	**5,148**	**1,064**	**21,135**

[1]Overdraft facilities are shown under bank borrowings payable within 1-3 months in the amount of maximum exposure available for the Group.
[2]For interest bearing borrowings carrying floating interest rate based on Euribor, the spot rate has been used.

Operational risk

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

To manage the risks, the Group attempts to increase the flexibility of its operations: the sales volumes and the activities of competitors are also being monitored and if necessary, the Group makes adjustments in price levels, marketing activities and collections offered. In addition to central gathering and assessment of information, an important role in analysing and planning actions is played by a market organisation in each target market enabling the Group to obtain fast and direct feedback on market developments on the one hand and adequately consider local conditions on the other.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

As improvement of flexibility plays an important role in increasing the Group’s competitiveness, continuous efforts are being made to shorten the cycles of business processes and minimise potential deviations. This also helps to improve the relative level and structure of inventories and the fashion collections’ meeting consumer expectations.

The most important operating risk arises from the Group’s inability to produce collections which would meet customer expectations and the goods that cannot be sold when expected and as budgeted. Another important risk is that the Group’s information technology system is unable to ensure sufficiently fast and accurate transmission of information for decision-making purposes.

To ensure good collections, the Group employs a strong team of designers who monitor and are aware of fashion trends by using internationally acclaimed channels. Such a structure, procedures and information systems have been set up at the Group which help daily monitoring of sales and balance of inventories and using the information in subsequent activities. In order to avoid supply problems, cooperation with the world’s leading procurement intermediaries as well as fabric manufacturers has been expanded.

The unavoidable risk factor in selling clothes is the weather. Collections are created and sales volumes as well as timing of sales is planned under the assumption that regular weather conditions prevail in the target markets – in case weather conditions differ significantly from normal conditions, the actual sales results may significantly differ from the budget.

Capital risk management

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

Consistent with industry practice, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated balance sheet and net debt. During 2007 the Group’s strategy was to maintain the gearing ratio within the range of 30% to 35%. At 31 December 2008 the gearing ratio increasid to 47%. The Groups’s net debt increased due to the loan taken to finance construction of a new office building; postive cash flow from rental income is generated starting from the second half of 2009.

Gearing ratios of the Group

	31.12.2008	**31.12.2007**
Total borrowings (Note 13)	17,407	11,791
Cash and bank (Note 4)	-554	-2,013
Net debt	16,852	9,778
Total equity	19,104	21,688
Total capital	35,956	31,466
Gearing ratio	**47%**	**31%**

Fair value

The Group estimates that the fair values of the assets (Notes 4-5) and liabilities (Notes 13-15) denominated in the balance sheet at amortised cost do not differ significantly from their carrying amounts presented in the Group’s consolidated balance sheet at 31 December 2008 and 31 December 2007. The carrying amount less an impairment provision of trade receivables and payables is estimated by management to approximate their fair values as trade receivables and payables are short-term. As the Group’s long-term borrowings have a floating interest rate that changes along with the changes in market interest rates, the discount rates used in the discounted cash flow model are applied to calculate the fair value of borrowings. The Group’s risk margins have not changed considerably and are reflecting the market conditions. Based on that, the management estimates that the fair value of long-term borrowings does not significantly differ from their carrying amounts. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

NOTE 4 Cash and bank

	31.12.2008	31.12.2007
Cash in hand	143	219
Cash at bank	355	1,222
Short-term deposits	56	572
Total	**554**	**2,013**

At 31 December 2008, the Group had 56 thousand euros (2007: 572 thousand euros) in overnight deposit. The interest rates of overnight deposits by currency were as follows: 0.25% for LVL.

Cash and bank by currency

	31.12.2008	31.12.2007
CZK (Czech koruna)	154	151
UAH (Ukrainian hryvnia)	90	177
LVL (Latvian lat)	88	150
EEK (Estonian kroon)	70	386
RUB (Russian rouble)	70	402
LTL (Lithuanian lit)	59	105
PLN (Polish zloty)	19	132
EUR (euro)	3	372
USD (US dollar)	2	137
Total	**554**	**2,013**

NOTE 5 Trade and other receivables

	31.12.2008	31.12.2007
Trade receivables, net	3,128	4,547
Other prepaid expenses[1]	1,560	1,458
Tax prepayments and tax reclaims, thereof	1,332	1,000
Value added tax	1,171	990
Prepaid income tax	9	6
Other taxes	152	4
Other current receivables[2]	267	253
Total	**6,287**	**7,258**

[1]Other prepaid expenses include prepaid lease expense of the stores and insurance expenses, prepayment for information technology services and other expenses of similar nature.
[2]Other current receivables consist of receivables from the banks for credit card sales and short-term deposits.

For further information on income taxes see Notes 7 and 24.

Trade receivables

	31.12.2008	31.12.2007
Trade receivables, gross	3,628	4,716
Allowance for impairment of trade receivables (Note 20)	-499	-169
Trade receivables, net	**3,128**	**4,547**

Trade receivables (net) by region (client location)

	31.12.2008	31.12.2007
Eastern European region (Note 3)	2,582	3,902
Baltic region	530	636
Other regions	16	10
Total	**3,128**	**4,547**

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Trade receivables (net) by due date

	31.12.2008	31.12.2007
Not due[1]	2,517	3,670
Up to 1 month past due	504	37
1-3 months past due	107	44
3-6 months past due	0	2
Over 6 months past due	0	794
Total	**3,128**	**4,547**

[1]Trade receivables classified as not due at 31 December 2008 include receivables from the wholesale partner from Eastern European region in the amount of 1,106 thousand euros (31 December 2007: 1,825 thousand euros) for which the due date has been renegotiated. Should the initial due dates remain unchanged, the carrying amount of those receivables had been classified under receivables over six months past due. Payments received from the wholesale partner in accordance with the renegotiated terms after the balance sheet date amount to 362 thousand euros in the first three months of 2009.

A significant risk concentration exists regarding the wholesale partner from Eastern European region (Note 3). During 2008, an impairment loss in the amount of 315 thousand euros (2007: 85 thousand euros) (Note 20) has been recognised for trade receivables from an Eastern European counterparty. The impairment loss has been calculated considering the cash flow of the trade payables to the same counterparties that can be used in offsetting the receivables. Impairment losses were recognised under “Distribution costs”.

Trade receivables (net) by denominating currency

	31.12.2008	31.12.2007
EUR (euro)	2,537	3,559
EEK (Estonian kroon)	298	281
UAH (Ukrainian hryvnia)	80	231
LVL (Latvian lat)	74	153
RUB (Russian rouble)	68	162
LTL (Lithuanian lit)	59	161
PLN (Polish zloty)	8	0
CZK (Czech koruna)	4	0
Total	**3,128**	**4,547**

NOTE 6 Inventories

	31.12.2008	31.12.2007
Fabrics and accessories	3,092	3,048
Allowance for impairment of fabrics and accessories (Note 19)	-13	-13
Work-in-progress	304	282
Finished goods and goods purchased for resale	15,086	10,464
Allowance for impairment of finished goods and goods purchased for resale (Note 19)	-422	-102
Prepayments to suppliers	386	427
Total	**18,434**	**14,105**

At 31 December 2008, inventories of the Group with a carrying amount of 180 thousand euros (31 December 2007: 89 thousand euros) were in the custody of third parties.

The allowance for impairment for finished goods at 31 December 2008 compared to previous balance sheet date has increased due to higher stock of old seasons.

Movable properties of the Group in the amount of 9,102 thousand euros have been pledged to secure the bank borrowings (Note 13).

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

NOTE 7 Deferred income tax

Deferred income tax at 31 December 2008

	Baltic region	Eastern European region	Central European region	Total
Deferred income tax liability				
On property, plant and equipment	140	0	0	140
Deferred income tax asset				
On property, plant and equipment	0	98	34	132
On tax loss carry-forwards	59	91	73	223
Total	**59**	**189**	**107**	**355**
Deferred income tax asset, net, thereof	**-81**	**189**	**107**	**215**
Non-current portion	-81	189	107	215
Deferred income tax expense (income) (Note 24)	**-51**	**49**	**32**	**30**

Deferred income tax at 31 December 2007

	Baltic region	Eastern European region	Central European region	Total
Deferred income tax liability				
On property, plant and equipment	133	0	0	133
Deferred income tax asset				
On property, plant and equipment	0	73	22	95
On tax loss carry-forwards	0	164	118	282
Total	**0**	**237**	**139**	**377**
Deferred income tax asset, net, thereof	**-133**	**237**	**139**	**244**
Current portion (recovered within 12 months)	-44	23	49	28
Non-current portion	-89	215	90	216
Deferred income tax expense (income) (Note 24)	**152**	**-132**	**21**	**41**

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

For deferred income tax assets carried off-balance sheet and contingent income tax liability see Notes 24 and 28 respectively.

NOTE 8 Other non-current assets

	31.12.2008	31.12.2007
Non-current portion of lease prepayments	390	732

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

NOTE 9 Investment property

Balance at 31 December 2006	**1,507**
Reclassification from property, plant and equipment	58
Revaluation (Note 16, 22)	798
Reclassification to property, plant and equipment	-1,643
Balance at 31 December 2007	**719**
Reclassification from property, plant and equipment (Note 10)	1,702
Additions	5,015
Revaluation (Note 22), thereof	1,134
Land	431
Building under construction	703
Balance at 31 December 2008	**8,570**

	2008	**2007**
Lease revenue from investment properties	0	53
Direct operating expenses from investment properties	0	-53
Net lease revenue from investment properties	**0**	**105**

At 31 December 2008, investment property consisted of the building under construction and land located at Veerenni 24, Tallinn, Estonia carried at fair value of 7,417 thousand euros and 1,153 thousand euros respectively. According to changes of IAS 40 adopted early the building under construction was reclassified from fixed assets' construction in progress to investment property. The gain from revaluation in fair value amounted to 703 thousand euros for building and 431 thousand euros for land was recognised in the income statement under "Other operating income" (Note 22). The borrowing costs related to investment property are capitalised as part of the investment property in the amount of 115 thousand euros.

The market for many types of real estate has been severely affected by the recent volatility in global financial markets. As such the carrying value of land and buildings measured at fair value in accordance with IAS 40 has been updated to reflect market conditions at the reporting date. In the absence of reliable market data, the management used also other techniques to support the sales comparison method in evaluating the investment property. The management used for evaluation a discount rate of 11.5% and capitalization rate of 9.0%, which are comparable to the average indicators used by real estate operating companies in Estonia. The fair value calculations use detailed cash flow projections covering a five-year period – five years of rental income according to rental contracts and profit from sale of investment property at the price of value-in-use at the end of the fifth year. The management's estimate concerning the land and building under construction fell in the range provided by two independent experts.

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

NOTE 10 Property, plant and equipment

	Land and construction rights	Buildings and structures	Machinery and equipment	Other fixtures	Construc-tion in progress	Pre-payments	Total
At 31 December 2006							
Acquisition cost	**701**	**7,460**	**5,048**	**6,018**	**103**	**99**	**19,427**
Accumulated depreciation	0	-2,024	-4,403	-2,362	0	0	-8,790
Net book amount	**701**	**5,435**	**644**	**3,655**	**103**	**99**	**10,638**
Additions	0	1,887	1,267	2,267	59	7	5,487
Acquired through business combinations	0	0	274	0	0	14	288
Disposals	-509	-2,107	-1	0	-12	0	-2,629
Reclassifications from investment property	0	0	0	0	1,643	0	1,643
Reclassifications to investment property	-57	-1	0	0	0	0	-58
Reclassifications to non-current assets held for sale	0	-116	0	0	0	0	-116
Reclassification	0	552	-34	-417	-73	-28	0
Depreciation (Note 19-21)	0	-773	-343	-997	0	0	-2,113
Currency translation differences	0	-40	-12	-101	-3	-5	-159
At 31 December 2007							
Acquisition cost	**135**	**7,249**	**6,291**	**7,459**	**1,718**	**87**	**22,938**
Accumulated depreciation	0	-2,412	-4,495	-3,050	0	0	-9,958
Net book amount	**135**	**4,837**	**1,796**	**4,407**	**1,718**	**87**	**12,980**
Additions	0	1,622	845	1,189	168	0	3,823
Disposals	0	-7	-20	-100	-6	0	-133
Reclassifications to invest-ment property (Note 9)	0	0	0	0	-1,702	0	-1,702
Reclassification	0	6	68	68	-5	-70	68
Depreciation (Note 19-21)	0	-939	-469	-1,233	0	0	-2,641
Currency translation differences	0	-330	-105	-391	-21	-6	-854
At 31 December 2008							
Acquisition cost	**135**	**7,867**	**6,838**	**7,493**	**151**	**11**	**22,496**
Accumulated depreciation	0	-2,678	-4,724	-3,552	0	0	-10,955
Net book amount	**135**	**5,190**	**2,114**	**3,941**	**151**	**11**	**11,541**

The facility located at Veerenni 24, Tallinn, Estonia was reclassified from construction in progress to investment property according to IAS 40 change (Note 9).

Assets acquired under finance lease terms and recognised under property, plant and equipment amounted to 270 thousand euros (2007: 421 thousand euros) at acquisition cost. The total net book amount of assets acquired through finance lease at 31 December 2008 amounts to 885 thousand euros (31 December 2007: 744 thousand euros). See Note 12 for additional information on finance leases.

Non-current assets of the Group in the amount of 9,439 thousand euros have been pledged to secure the bank borrowings (Note 13).

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 24.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

NOTE 11 Intangible assets

	Licenses, software and other	Trade-marks	Pre-payments	Goodwill	Total
At 31 December 2006					
Acquisition cost	**1,989**	**643**	**93**	**1,305**	**4,029**
Accumulated amortisation	-890	-3	0	0	-893
Net book amount	**1,098**	**640**	**93**	**1,305**	**3,136**
Additions	732	0	0	0	732
Acquired through business combinations	9	0	0	355	364
Disposals	-17	0	0	0	-17
Reclassification	4	0	-4	0	0
Amortisation (Note 19-21)	-393	-40	0	0	-433
Currency translation differences	1	0	-3	-48	-50
At 31 December 2007					
Acquisition cost	**2,080**	**643**	**86**	**1,613**	**4,422**
Accumulated amortisation	-646	-43	0	0	-689
Net book amount	**1,434**	**600**	**86**	**1,613**	**3,733**
Additions	512	0	74	0	586
Disposals	-8	0	0	0	-8
Amortisation (Note 19-21)	-276	-32	0	0	-308
Currency translation differences	-6	0	-22	-164	-193
At 31 December 2008					
Acquisition cost	**2,572**	**643**	**137**	**1,449**	**4,801**
Accumulated amortisation	-916	-75	0	0	-991
Net book amount	**1,656**	**568**	**137**	**1,449**	**3,809**

Borrowing costs have been capitalised as part of the cost of the asset in 2008 in the amount of 33 thousand euros (2007: 0).

Impairment tests for goodwill

Goodwill, carried at 1,449 thousand euros (2007: 1,613 thousand euros) is tested for impairment at each balance sheet date. The carrying amount of goodwill applicable to CGUs (cash generating units) of Baltman RUS and Baltika Tailor (Note 27) was tested for impairment at 31 December 2008. The recoverable amount of CGU is determined based on value-in-use calculations. The value-in-use calculations use detailed pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

Key assumptions used for value-in-use calculations

	Baltika Tailor CGU		Baltman RUS CGU	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Carrying amount of goodwill	355	355	1,094	1,258
Growth in revenue[1]	7.63%	20.79%[5]	6.54%[6]	11.38%[6]
Growth in revenue[2]	4.21%	4.65%	3.25%	3.63%
Growth rate[3]	0%	0%	0%	0%
Discount rate[4]	9.57%	9.15%	14.98%	10.73%[7]
Difference between recoverable and carrying amount	121	126	3,859	2,507

[1]Management determined average annual growth in revenue and sales efficiency per square metre (decreasing growth trend over the period of cash flow projections) for the five-year period.
[2]Average growth rate used to extrapolate cash flows beyond the year 2013.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

[3]Growth rate used to extrapolate cash flows beyond the year 2021.
[4]Pre-tax discount rate applied to the cash flow projections (WACC).
[5]The growth in 2008 revenue was determined taking into consideration the improved efficiency in production achieved during the year 2008 resulting from new production facilities taken into use in late 2007.
[6]The assumptions used for determining the growth in revenue at 31 December 2008 have changed along with the improved knowledge of assessing the growth trends for an extensively expanding market.
[7]The change in discount rates results from changes in industry indicators for the specific region.

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

The tests resulted in recoverable value exceeding the carrying amount of the goodwill and consequently no impairment losses have been recognised. If the average annual growth in sales was 4.12% and 5.51% or the discount rate 21.54% and 10.88% for Baltman RUS and Baltika Tailor respectively the recoverable amount would be equal to the carrying amount.

If the revenue growth increased by 0.95 times and the discount rate increased by 1.05 times at the same time, the difference between the recoverable amount and the carrying amount of the CGU of Baltman RUS would be 225 thousand euros (31 December 2007: -1,257 thousand euros) and the difference between the recoverable amount and the carrying amount of the CGU of Baltika Tailor would be -2,207 thousand euros (31 December 2007: -1,106 thousand euros).

NOTE 12 Accounting for leases

Operating lease – the Group as the lessee

Future minimum lease payments under non-cancellable operating leases

	31.12.2008	31.12.2007
Up to 1 year	9,522	10,834
1-5 years	13,406	19,020
Over 5 years	5,317	7,975
Total	**28,246**	**37,829**

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

The lease agreements concluded with a term are subject to renewal on market conditions. The Group has signed a number of contingent lease agreements which stipulate the increase in lease payments within the lease term based on changes in consumer price index or inflation. In 2008, operating lease payments amounted to 14,975 thousand euros (2007: 13,669 thousand euros).

Operating lease – the Group as the lessor

Future minimum lease receivables from non-cancellable subleases

	31.12.2008	31.12.2007
Up to 1 year	117	9

In 2008, the Group earned operating lease income in the amount of 39 thousand euros (2007: 121 thousand euros) from assets (business premises) leased to third parties under operating lease agreements. Direct expenses attributable to lease income amounted to 13 thousand euros (2007: 52 thousand euros).

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Finance lease – the Group as the lessee

	Machinery and equipment	Passenger cars and equipment	Total
At 31 December 2007			
Acquisition cost	**792**	**44**	**836**
Accumulated depreciation	-69	-23	-92
Net book amount	**723**	**21**	**744**
At 31 December 2008			
Acquisition cost	**1,038**	**39**	**1,077**
Accumulated depreciation	-182	-10	-192
Net book amount	**855**	**30**	**885**

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

For the year ended at 31 December 2008, the Group settled finance lease payments in the amount of 209 thousand euros (2007: 158 thousand euros).

NOTE 13 Borrowings

	31.12.2008	31.12.2007
Current borrowings		
Current portion of long-term bank loans (Note 3)	1,332	1,325
Current bank loans (Note 3)	5,116	3,032
Current finance lease liabilities (Note 3)	197	147
Bonds (Note 3, 14)	0	1,898
Total	**6,645**	**6,402**
Non-current borrowings		
Non-current bank loans (Note 3)	10,310	4,940
Non-current finance lease liabilities (Note 3)	452	449
Total	**10,762**	**5,389**

Interest bearing borrowings at nominal value by currency at 31 December 2008

	Balance	Less than 1 year	Between 1 and 5 years	Over 5 years
EUR (euro)	13,637	3,326	4,707	5,604
EEK (Estonian kroon)	3,739	3,291	448	0
Other currencies	31	28	4	0
Total	**17,407**	**6,645**	**5,158**	**5,604**

Interest bearing borrowings at nominal value by currency at 31 December 2007

	Balance	Less than 1 year	Between 1 and 5 years	Over 5 years
EUR (euro)	6,265	1,325	3,981	959
EEK (Estonian kroon)	5,506	5,068	438	0
Other currencies	20	9	11	0
Total	**11,791**	**6,402**	**4,430**	**959**

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Bank loans of the Group at 31 December 2008

	Balance	Average risk premium
Borrowings at floating interest rate (based on 1-month Euribor)	500	1.50%
Borrowings at floating interest rate (based on 3-month Euribor)	427	1.25%
Borrowings at floating interest rate (based on 6-month Euribor)	11,216	1.58%
Borrowings at floating interest rate (based on 1-month Libor)	26	1.60%
Borrowings at fixed interest rate (overdraft)	4,591	6.20%
Total	**16,759**	

Bank loans of the Group at 31 December 2007

	Balance	Average risk premium
Borrowings at floating interest rate (based on 3-month Euribor)	640	1.75%
Borrowings at floating interest rate (based on 6-month Euribor)	5,625	1.81%
Borrowings at fixed interest rate (overdraft)	3,032	4.60%
Total	**9,297**	

The maximum exposure of the Group's overdraft facilities with the banks at 31 December 2008 amounted to 4,480 thousand euros (31 December 2007: 2,956 thousand euros).

The loan contracts of Baltika Group include covenants that may require early repayment of loans if the loanee does not fulfil the terms specified in the contract:

- fixed equity rate;
- limited rights for incurring additional liabilities.

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

Type of collateral	Specification and location of collateral	Collateral value at 31.12.2008	Collateral value at 31.12.2007
Commercial pledge	Movables of the Parent company	6,749	4,453
Commercial pledge	Movables of the subsidiary company	971	971
Mortgage	Real estate located at Veerenni 24, Tallinn, Estonia	19,653	6,871
Mortgage	Real estate located at Kalda 10A, Rakvere, Estonia	473	473
Mortgage	Real estate located at Õpetajate 5, Ahtme, Estonia	767	767
Total		**28,613**	**13,535**

During the reporting period, the Group made loan repayments in the amount of 1,616 thousand euros (2007: 1,643 thousand euros). Interest expense of the reporting period amounted to 732 thousand euros (2007: 445 thousand euros). Interest expenses have been recognised net with interest income under interest expenses.

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

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

NOTE 14 Bonds

On 15 March 2007, AS Baltika issued 3,000 bonds with the nominal value of 639.12 euros and price of 608.28 euros per bond. The total amount of the closed bond issue was 1,917 thousand euros. The redemption date of the bonds was 14 March 2008. The difference between the nominal value and issue price yields an interest of 5.00% per annum. The bonds were redeemed at the redemption date.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

NOTE 15 Trade and other payables

	31.12.2008	31.12.2007
Trade payables	9,711	4,624
Tax liabilities, thereof	2,008	2,113
Personal income tax	383	330
Social security tax and unemployment insurance premium	786	676
Value added tax	749	787
Corporate income tax liability	0	255
Other taxes	90	66
Payables to employees and other accrued expenses[1]	1,548	1,461
Customer prepayments	20	70
Other current payables (convertible bonds) (Note 26)	4	0.1
Deferred income	0	69
Total	**13,290**	**8,337**

[1]Payables to employees consist of accrued wages and salaries and vacation accrual in the amount of 1,367 thousand euros (31 December 2007: 1,416 thousand euros). Accrued expenses consist of dividend payable in the amount of 1 thousand euros (31 December 2007: 1 thousand euros), interest payable in the amount of 15 thousand euros (31 December 2007: 2 thousand euros) and other accrued expenses in the amount of 166 thousand euros (31 December 2007: 42 thousand euros).

Trade payables by denominating currency

	31.12.2008	31.12.2007
EEK (Estonian kroon)	3,310	1,138
EUR (euro)	2,864	1,303
USD (US dollar)	2,735	1,029
RUB (Russian rouble)	309	787
LTL (Lithuanian lit)	163	76
CZK (Czech koruna)	138	207
PLN (Polish zloty)	101	0
LVL (Latvian lat)	54	0
Other currencies	37	83
Total	**9,711**	**4,624**

NOTE 16 Equity

Share capital

	31.12.2008	31.12.2007
Share capital	11,916	11,916
Number of shares (pcs)	18,644,850	18,644,850
Nominal value of shares (EUR)	0.64	0.64

Change in the number of shares

	Issue	Number of shares
Number of shares at 31 December 2006		**6,214,950**
Issued at 11 June 2007	Bonus issue	12,429,900
Number of shares at 31 December 2007		**18,644,850**
Number of shares at 31 December 2008		**18,644,850**

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Reserves

	31.12.2008	Change	31.12.2007	Change	31.12.2006
Statutory reserve	1,192	0	1,192	819	372
Revaluation surplus	478	0	479	229	249
Total	**1,670**	**0**	**1,670**	**1,049**	**621**

Shareholders at 31 December 2008

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

Shareholders at 31 December 2007

	Number of shares	Holding
1. BMIG OÜ	4,261,120	22.85%
2. Morgan Stanley + CO Incorporated Equity Client Account	1,545,000	8.29%
3. Svenska Handelsbanken Clients	1,160,500	6.22%
4. Members of management and supervisory boards and persons related to them		
Meelis Milder	741,549	3.98%
Maire Milder	316,083	1.69%
Boriss Loifenfeld	150,366	0.81%
Andres Erm	108,000	0.58%
Ülle Järv	57,570	0.31%
5. Other shareholders	10,304,662	55.27%
Total	**18,644,850**	**100.00%**

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

NOTE 17 Segments

Geographical segment by client's location – primary segment for the year ended at 31 December 2008

	Baltic region[1]	Eastern European region[2]	Central European region[3]	Other regions[4]	Elimi-nations	Total
External revenue	43,901	27,754	3,304	1,372	0	76,331
Inter-segment revenue	16,385	10,770	1,576	0	-28,731	0
Total revenue (Note 18)	**60,286**	**38,524**	**4,880**	**1,372**	**-28,731**	**76,331**
Segment operating profit (loss)	3,164	-91	-675	134	0	2,533
Unallocated operating income (expenses)						-2,895
Total operating profit						**-362**
Other financial income (expenses)						-935
Corporate income tax (Note 24)						-75
Net profit before minority interest						-1,372
Minority interest						-161
Net profit						**-1,211**
Assets	26,298	20,329	3,673	15	-14,493	35,823
Group's unallocated assets, thereof						14,118
Assets used in production						4,298
Assets used for administration						399
Other unallocated assets[5]						458
Total assets						**49,941**
Liabilities	8,389	11,656	2,826	0	-18,338	4,533
Group's unallocated liabilities, thereof						26,304
Liabilities related to production						7,879
Other unallocated liabilities[6]						18,425
Total liabilities						**30,837**
Additions to PPE (Note 10,11), thereof	**1,733**	**1,263**	**1,068**	**0**	**0**	**4,409**
Unallocated						346
Depreciation, amortisation (Note 10,11), thereof	**1,431**	**971**	**223**	**0**	**0**	**2,950**
Unallocated						325

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Geographical segment by client's location – primary segment for the year ended at 31 December 2007

	Baltic region[1]	Eastern European region[2]	Central European region[3]	Other regions[4]	Elimi-nations	Total
External revenue	43,946	25,552	2,079	2,019	0	73,596
Inter-segment revenue	14,053	7,864	1,008	0	-22,926	0
Total revenue (Note 18)	**57,999**	**33,416**	**3,087**	**2,019**	**-22,926**	**73,596**
Segment operating profit (loss)	7,292	-66	-5	277	0	7,497
Unallocated operating income (expenses)						-3,371
Total operating profit						**4,126**
Other financial income (expenses)						-736
Corporate income tax (Note 24)						-587
Net profit before minority interest						2,802
Minority interest						196
Net profit						**2,606**
Assets	22,759	21,491	1,639	2	-11,539	34,353
Group's unallocated assets, thereof						7,596
Assets used in production						4,167
Assets used for administration						551
Other unallocated assets[5]						383
Total assets						**41,949**
Liabilities	5,968	13,573	760	0	-16,145	4,155
Group's unallocated liabilities, thereof						16,105
Liabilities related to production						3,887
Other unallocated liabilities[6]						12,218
Total liabilities						**20,261**
Additions to PPE (Note 10,11), thereof	**3,258**	**1,346**	**510**	**0**	**0**	**6,870**
Unallocated						1,755
Depreciation, amortisation (Note 10,11), thereof	**1,353**	**831**	**102**	**0**	**0**	**2,546**
Unallocated						260

[1]Baltic region consists of operations in Estonia, Latvia and Lithuania.
[2]Eastern European region consists of operations in Russia and Ukraine.
[3]Central European region consists of operations in Poland and the Czech Republic.
[4]Other regions consist of operations in countries (Finland, Sweden, etc.) having insignificant impact on the Group's results and strategy.
[5]Other unallocated assets consist of company income tax.
[6]Other unallocated liabilities consist of borrowings and tax liabilities.

According to the Parent company's management's estimate, the inter-segment transactions have been carried out at arm's length and the conditions applied do not differ materially as compared to the transactions with third parties.

Business segment by area of operations – secondary segment

In 2008 and 2007, the Group operated in the following areas, generating significantly different risks and returns compared to each other and each activity being material enough to form a separate segment:

- retail and managing of retail store chains in the markets;
- wholesale and other services;
- production;

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

- real estate development.

Other areas of operations are of lower strategic importance and less material compared to the core activities and consequently do not form a separate segment.

The Group's assets and investments that relate to more than one business segment and cannot be allocated are recognised as unallocated assets and investments in property, plant and equipment.

Financial information by area of operations

	Revenue		**Assets**		**Additions to property, plant and equipment**	
	2008	**2007**	**31.12.2008**	**31.12.2007**	**2008**	**2007**
Retail	67,675	63,100	20,560	19,954	3,644	4,763
Wholesale	8,513	9,248	2,450	3,546	0	0
Production	0	920	4,298	4,167	332	1,471
Real estate development	8	3	8,962	2,494	14	73
Unallocated	135	325	13,670	11,788	419	564
Total	**76,331**	**73,596**	**49,941**	**41,949**	**4,409**	**6,870**

NOTE 18 Revenue

	2008	**2007**
Sale of goods	76,188	72,348
Sale of sewing services	0	920
Lease revenue (Note 12)	39	121
Other	104	206
Total	**76,331**	**73,596**

NOTE 19 Cost of goods sold

	2008	**2007**
Materials and supplies	28,237	27,199
Payroll costs in production	5,820	4,667
Operating lease expenses (Note 12)	687	257
Other production costs	604	641
Depreciation of assets used in production (Note 10,11)	290	209
Change in inventories	-136	28
Change in allowance for inventories (Note 6)	321	-98
Total	**35,822**	**32,904**

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

NOTE 20 Distribution costs

	2008	2007
Operating lease expenses (Note 12)	13,893	12,932
Payroll costs	13,029	11,377
Depreciation and amortisation (Note 10,11)	2,541	1,994
Advertising expenses	2,476	2,067
Fuel, heating and electricity costs	598	451
Municipal services and security expenses	570	469
Fees for card payments	513	444
Freight costs	414	336
Impairment of trade receivables (Note 5)	331	85
Travel expenses	327	341
Communication expenses	241	228
Information technology expenses	230	195
Bank fees	163	194
Expenses for uniforms	143	134
Renovation expenses of retail outlets	121	198
Packaging costs	120	93
Training expenses	119	205
Auditing and accounting expenses	91	46
Other sales expenses[1]	1,704	1,614
Total	**37,621**	**33,402**

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

NOTE 21 Administrative and general expenses

	2008	2007
Payroll costs	1,602	1,638
Information technology expenses	321	319
Operating lease expenses (Note 12)	261	480
Depreciation and amortisation (Note 10,11)	122	342
Fuel, heating and electricity costs	108	83
Bank fees	81	65
Sponsorship	78	68
Training expenses	56	59
Communication expenses	49	52
Municipal services and security expenses	37	109
Travel expenses	9	24
Management and consulting fees	6	12
Move into new facilities	0	244
Other administrative expenses[1]	497	399
Total	**3,228**	**3,893**

[1]Other administrative expenses consist of insurance and office expenses and fees connected to auditing, accounting and other services.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

NOTE 22 Other operating income

	2008	2007
Gain from revaluation of investment property (Note 9)	1,134	568
Profit from sale of non-current assets	0	982
Other operating income	67	62
Total	**1,201**	**1,612**

NOTE 23 Other operating expenses

	2008	2007
Foreign exchange losses	813	636
Fines, penalties and tax interest	61	94
Representation costs	31	35
Loss from sale of non-current assets	8	0
Impairment of non-current assets held for sale (Note 10)	0	84
Other operating expenses	310	34
Total	**1,223**	**883**

NOTE 24 Income tax

	2008	2007
Income tax expense	45	546
Deferred income tax expense (income) (Note 7)	30	41
Total income tax expense (income)	**75**	**587**

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

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

	Baltic region	Eastern European region	Central European region	Total
Profit (loss) before tax	1,375	-1,837	-834	-1,297
Average nominal tax rate	0-21%	24-25%	19-21%	15-21%
Tax calculated from profit (loss) at the nominal tax rate	-85	-449	-176	-709
Expenses not deductible for tax purposes	72	277	16	365
Expenses decreasing the profit for tax purposes	-101	-115	-23	-239
Utilisation of tax losses carried forward	0	0	-4	-4
Changes in recognised and off balance sheet deferred tax assets	65	498	214	777
Changes in currency rates	-1	-117	5	-114
Income tax expense	**0**	**45**	**0**	**45**
Deferred income tax expense (income) (Note 7)	**-51**	**49**	**32**	**30**

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Income tax by regions for the year ended at 31 December 2007

		Eastern European region	Central European region	Total
Profit (loss) before tax	7,236	-3,775	-72	3,389
Average nominal tax rate	0-28%	24-25%	19-24%	15-28%
Tax calculated from profit (loss) at the nominal tax rate	285	-911	-24	-650
Income tax on dividends (Note 16)	215	0	0	215
Expenses not deductible for tax purposes	70	351	11	432
Expenses decreasing the profit for tax purposes	-156	-171	-12	-339
Utilisation of tax losses carried forward	-58	0	-20	-78
Changes in recognised and off balance sheet deferred tax assets	151	778	69	998
Changes in currency rates	0	12	-4	9
Income tax expense	**355**	**191**	**0**	**546**
Deferred income tax expense (income) (Note 7)	**152**	**-132**	**21**	**41**

Deferred income tax assets were recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of 30 thousand euros (2007: 1,109 thousand euros) in respect of losses amounting to 121 thousand euros (2007: 4,528 thousand euros) that can be carried forward against future taxable income. Losses amounting to 121 thousand euros expire within the following nine years after the balance sheet date.

Information about contingent income tax liability is disclosed in Note 28.

NOTE 25 Earnings per share

Basic earnings per share

		2008	2007
Weighted average number of shares	pcs	18,644,850	18,644,850
Net profit (loss) attributable to equity holders of the parent	EUR ‘000	-1,211	2,606
Basic earnings (loss) per share	**EUR**	**-0.06**	**0.14**

Diluted earnings per share

		2008	2007
Weighted average number of shares	pcs	18,644,850	18,644,850
Net profit (loss) attributable to equity holders of the parent	EUR ‘000	-1,211	2,606
Diluted earnings (loss) per share	**EUR**	**-0.06**	**0.14**

The average price (arithmetic average based on daily closing prices) of AS Baltika share on the Tallinn Stock Exchange in 2008 was 2.09 euros (2007: 7.03 euros).

NOTE 26 Related parties

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

For the reporting purposes in consolidated annual statements of the Group, the following entities have been considered related parties:

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

- owners, that have either significant influence or control, generally implying an ownership interest of 20% or more (Note 16);
- members of the management, the management board and the supervisory council;
- close family members of the persons stated above;
- entities under the control or significant influence of the members of the management board and supervisory council.

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

	2008	2007
Salaries, remuneration of the members of the supervisory board	297	304

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

Convertible bonds

The annual general meeting of Baltika's shareholders which convened on 18 June 2008 declared the subscription for Series E bonds unsuccessful in connection with the withdrawal of the bond subscribers from the agreement and decided that any prepayments made in connection with the subscription should be returned.

F bonds were subscribed for during the period of 02.06.-13.06.2008 and the share subscription period for F bonds will be during the period of 01.06.-31.12.2009. Each bond entitles the holder to subscribe for three shares in the company. According to the convertible bonds conditions the share subscription price is the weighted average price of the traded shares of AS Baltika on the Tallinn Stock Exchange on the first day of the bond subscription period. The subscription price for Series F bonds was determined based on the share price of 2 June 2008 which was 2.12 euros.

Management has decided to make a proposal to the annual general meeting to cancel the subscription of F bonds and reimburse the paid in funds to the bond subscribers in the amount of 4 thousand euros.

NOTE 27 Subsidiaries and business combinations

During the first quarter of 2008, AS Baltika acquired an additional stake of 10.67% of the share capital of its subsidiary AS Virulane. The purchase consideration amounted to 232 thousand euros. As a result, Baltika's ownership in AS Virulane increased to 93.33% at 25 March 2008. The core business of AS Virulane is apparel manufacturing. The transaction does not have significant impact on the financial results of AS Baltika.

Subsidiary	Location	Activity	Holding at 31.12.2008	Holding at 31.12.2007
OÜ Baltman	Estonia	Retail	100%	100%
SIA Baltika Latvia	Latvia	Retail	75%	75%
UAB Baltika Lietuva	Lithuania	Retail	100%	100%
Baltika Ukraina Ltd	Ukraine	Retail	99%	99%
OOO Kompania "Baltman RUS"	Russia	Retail	100%	100%
Baltika Poland Sp.z.o.o.	Poland	Retail	100%	100%
Baltika Retail Czech Republic s.r.o.	Czech Republic	Retail	100%	0%
OY Baltinia AB	Finland	Distribution	100%	100%
Baltika Sweden AB	Sweden	Distribution	100%	100%
OÜ Baltika Tailor	Estonia	Production	100%	50%
AS Virulane	Estonia	Production	93.33%	82.66%
OÜ Baltika TP	Estonia	Real estate management	100%	100%

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

NOTE 28 Contingent liabilities

Contingent income tax liability

The retained earnings of AS Baltika at 31 December 2008 amounted to 5,738 thousand euros (31 December 2007: 6,949 thousand euros). The income tax rate applicable to the net profit distributable as dividends is 21/79 from 1 January 2008. Thus, the retained earnings payable as dividends to the shareholders would amount to 4,533 thousand euros at 31 December 2008 (31 December 2007: 5,489 thousand euros) and the corresponding income tax to 1,205 thousand euros (31 December 2007: 1,460 thousand euros).

NOTE 29 Supplementary disclosures on the parent company of the Group

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

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Balance sheet of the parent company

	31.12.2008	31.12.2007
ASSETS		
Current assets		
Cash and bank	12	511
Trade and other receivables	14,159	18,581
Inventories	9,483	7,394
Total current assets	**23,654**	**26,486**
Non-current assets		
Investments in subsidiaries	4,929	4,797
Other non-current assets	5,336	4,032
Property, plant and equipment	555	542
Intangible assets	1,707	1,503
Total non-current assets	**12,526**	**10,873**
TOTAL ASSETS	**36,180**	**37,359**
EQUITY AND LIABILITIES		
Current liabilities		
Borrowings	6,330	6,030
Trade and other payables	14,757	8,067
Total current liabilities	**21,087**	**14,097**
Non-current liabilities		
Borrowings	6,006	4,839
Total non-current liabilities	**6,006**	**4,839**
TOTAL LIABILITIES	**27,092**	**18,935**
EQUITY		
Share capital at par value	11,916	11,916
Statutory reserve	1,192	1,192
Other reserves	479	479
Retained earnings (losses)	-4,498	4,837
TOTAL EQUITY	**9,088**	**18,423**
TOTAL LIABILITIES AND EQUITY	**36,180**	**37,359**

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Income statement of the parent company

	2008	2007
Revenue	45,544	40,939
Cost of goods sold	36,831	30,837
Gross profit	**8,713**	**10,103**
Distribution costs	-6,028	-5,168
Administrative and general expenses	-3,069	-2,955
Other operating income	190	1,298
Other operating expenses	-282	-1,009
Operating profit (loss)	**-477**	**2,269**
Impairment of investments	-1,185	296
Interest expenses, net	-761	-314
Foreign exchange loss, net	-172	-48
Other financial expenses, net	19	-4
Income tax	0	-215
Net profit (loss) for the financial year	**-2,576**	**1,984**

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 24.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Cash flow statement of the parent company

	2008	2007
Operating activities		
Operating profit (loss)	-485	2,269
Depreciation, amortisation and impairment losses	333	541
Gain from disposal of non-current assets	-7	-1,143
Gains from revaluation of investment property	0	-137
Other non-monetary expenses	596	836
Changes in trade and other receivables and payables	-2,528	-5,607
Changes in inventories	-2,090	-1,074
Interest paid	-826	-424
Income tax paid	0	-170
Net cash generated from operating activities	**-5,007**	**-4,909**
Investing activities		
Acquisition of non-current assets and investment property, thereof	-553	-513
Under the finance lease terms	44	117
Proceeds from disposal of non-current assets	9	19
Investments in subsidiaries	-213	-437
Interest received	4	52
Loans granted	-375	-1,442
Repayments of loans granted	1,120	1,844
Net cash used in investing activities	**36**	**-360**
Financing activities		
Received borrowings	5,973	7,871
Repayments of borrowings	-1,200	-1,436
Change in bank overdraft	1,691	992
Repayments od finance lease	-75	-491
Dividend paid	0	-953
Proceeds from issue of bonds	0	1,823
Redemption of bonds	-1,917	-2,013
Net cash generated from financing activities	**4,471**	**5,793**
Effect of exchange gains (losses) on cash and cash equivalents	0	-48
Total cash flows	**-499**	**476**
Cash and cash equivalents at beginning of year	**511**	**35**
Cash and cash equivalents at end of year	**12**	**511**

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Statement of changes in equity of the parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2006	**3,972**	**3,776**	**621**	**8,793**	**17,163**
Dividends paid	0	0	0	-953	-953
Transfers to statutory reserve	0	0	819	-819	0
Increase of share capital	7,944	-3,776	0	-4,168	0
Revaluation of investment property	0	0	229	0	229
Net profit for the period (adjusted)	0	0	0	1,984	1,984
Balance at 31 December 2007	**11,916**	**0**	**1,670**	**4,837**	**18,423**
Book value of holdings under control or significant influence					-3,969
Value of holdings under control or significant influence, calculated under equity method					6,600
Adjusted unconsolidated equity at 31 December 2007					**21,055**
Net profit for the period (adjusted)	0	0	0	-2,576	-2,576
Balance at 31 December 2008	**11,916**	**0**	**1,670**	**2,261**	**15,847**
Book value of holdings under control or significant influence					-3,036
Value of holdings under control or significant influence, calculated under equity method					6,054
Adjusted unconsolidated equity at 31 December 2008					**18,866**

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials V.K.
Kuupäev/date 27.03.09
PricewaterhouseCoopers, Tallinn

PRICEWATERHOUSECOOPERS

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia

Telephone +372 614 1800
Facsimile +372 614 1900
www.pwc.ee

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Baltika

We have audited the accompanying consolidated financial statements of AS Baltika and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ago Vilu
AS PricewaterhouseCoopers

Eva Jansen
Authorised Auditor

27 March 2009

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

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

PROFIT ALLOCATION RECOMMENDATION

The management board of AS Baltika recommends the net loss for the year ended at 31 December 2008 in the amount of 1,211 thousand euros to be transferred to the retained earnings.

Retained earnings from previous periods at 31 December 2008	6,949
Net loss for the year 2008	-1,211
Total retained earnings at 31 December 2008	**5,738**

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISIORY COUNCIL

The management board has prepared the management report and the consolidated financial statements of AS Baltika for the year ended at 31 December 2008.

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

Meelis Milder Chairman of the Management Board 30 March 2009	Tiina Mõis Chairman of the Supervisory Council 30 March 2009
Ülle Järv Member of the Management Board 30 March 2009	Gert Tiivas Member of the Supervisory Council 30 March 2009
Maire Milder Member of the Management Board 30 March 2009	Reet Saks Member of the Supervisory Council 30 March 2009
Boriss Loifenfeld Member of the Management Board 30 March 2009	Allan Remmelkoor Member of the Supervisory Council 30 March 2009
Andrew Paterson Member of the Management Board 30 March 2009	Andres Erm Member of the Supervisory Council 30 March 2009

AS BALTIKA SUPERVISORY COUNCIL

TIINA MÕIS
Chairman of the Council since 07.06.2006, Member of the Council since 03.05.2006
Chairman of the Management Board of AS Genteel
Born in 1957
Degree in Economical Engineering, Tallinn University of Technology
Other assignments:
 Member of the Council of AS Eesti Ehitus
 Member of the Council of AS Alexela Terminal
 Member of the Councils of AS Rocca al Mare Kool and AS Rocca al Mare Koolimaja
 Member of the Council of AS Haabersti Jäähall
 Member of the Councils of AS LHV and AS LHV Group
 Member of the Board of Estonian Chamber of Commerce and Industry
 Member of Estonian Accounting Standards Board
Baltika shares held on 31.12.2008: 0

REET SAKS
Member of the Council since 25.03.1997
Attorney at Raidla Lejins & Norcous Law Office
Born in 1962
Degree in Law, University of Tartu
Baltika shares held on 31.12.2008: 0

ALLAN REMMELKOOR
Member of the Council since 03.05.2006
Member of the Management Board of AS Pro Kapital Grupp, Member of the Management Board and Managing Director of AS Kristiine Kaubanduskeskus
Born in 1971
Degree in Business Administration, Tallinn University of Technology
Other assignments:
 Member of the Management Board of AS Pro Kapital Eesti
 Member of the Management Board of AS Tondi Kvartal
 Member of the Management Board of AS Ilmarise Kvartal
 Member of the Management Board of AS Tallinna Moekombinaat
 Member of the Management Board of SIA Pro Kapital Latvia
 Member of the Management Board of SIA Kliversala Re
 Member of the Management Board of SIA PK Investments
 Chairman of the Management Board of AS Hypermarket
Baltika shares held on 31.12.2008: 0

ANDRES ERM
Member of the Council since 03.05.2006
Director of OÜ HT Project Management
Born in 1960
Degree in Economics, Tallinn University of Technology
Baltika shares held on 31.12.2008: 108,000

GERT TIIVAS
Member of the Council since 03.05.2006
Managing Director of East Capital Explorer AB
Born in 1973
Master of International Affairs, George Washington University
Other assignments:
 Member of the Council of East Capital Real Estate AS
 Member of the Council of East Capital Baltic Property Fund AB
 Member of the Council of East Capital Explorer Investments AB
 Member of the Council of East Capital Power Utilities Fund AB
 Member of the Council of East Capital Russian Property Fund AB
Baltika shares held on 31.12.2008: 0

AS BALTIKA MANAGEMENT BOARD

MEELIS MILDER
Chairman of the Management Board, Group CEO
Chairman of the Board since 1991, in the Group since 1984
Born in 1958
Degree in Economic Cybernetics, University of Tartu
Baltika shares held on 31.12.2008: 730,336[1]

ÜLLE JÄRV
Member of the Management Board, Chief Financial Officer
Member of the Board since 1997, in the Group since 1994
Born in 1958
Degree in Economics, Tallinn University of Technology
Baltika shares held on 31.12.2008: 55,370[1]

MAIRE MILDER
Member of the Management Board, Director of Retail Division
Member of the Board since 2000, in the Group since 1999
Born in 1958
Degree in Biology and Geography, University of Tartu
Baltika shares held on 31.12.2008: 316,083[1]

BORISS LOIFENFELD
Member of the Management Board, Director of Wholesale and CIS Market Projects
Member of the Board since 2000, in the Group since 1990
Born in 1960
Degree in Textiles and Clothing, St. Petersburg State University of Technology and Design
Baltika shares held on 31.12.2008: 150,366[1]

ANDREW J. D. PATERSON
Member of the Management Board, Director of Merchandising, Sourcing and Supply Chain
Member of the Board since 2008, in the Group since 2003
Born in 1969
Baltika shares held on 31.12.2008: 11,000

[1]The members of the Management Board of AS Baltika also own shares through the holding company OÜ BMIG. As of 31.12.2008, OÜ BMIG held 25.48% of the share capital of AS Baltika making it the largest shareholder of Baltika. Both directly and through companies controlled by them, the members of the Management Board owned 32.25% of AS Baltika as of the end of 2008.

AS Baltika 2008 Consolidated Annual Report (in thousands of euros)

Revenues by EMTAK (the Estonian classification of economic activities)

Code	**Definition**	**2008**	**2007**
4641	Wholesale of textiles	159	345
4642	Wholesale of clothing and footwear	45,104	40,042
4771	Retail sales of clothing in specialised stores	104	135
6820	Renting and operating of own or leased real estate	177	417
Total		**45,544**	**40,939**